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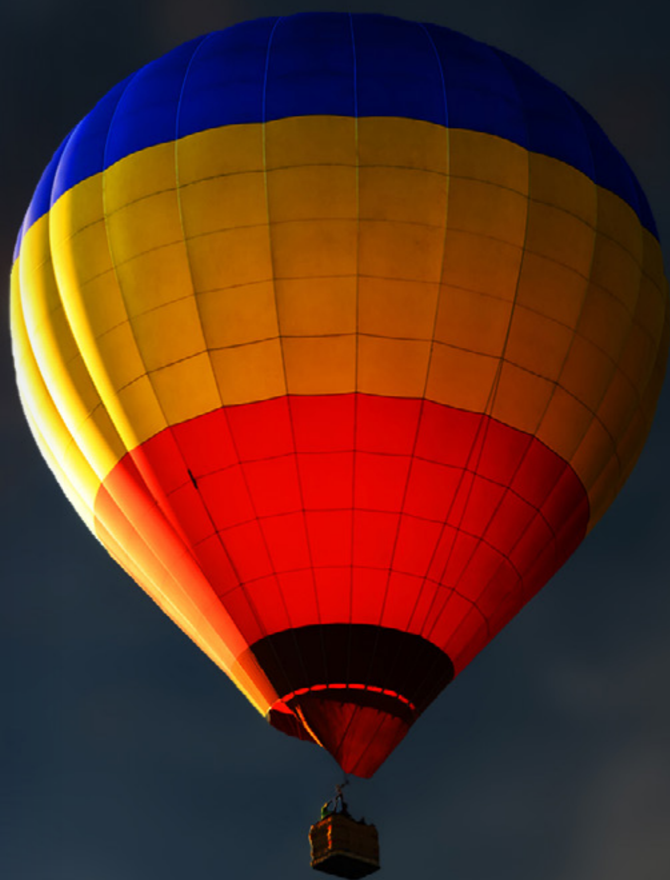
Demand on the rise



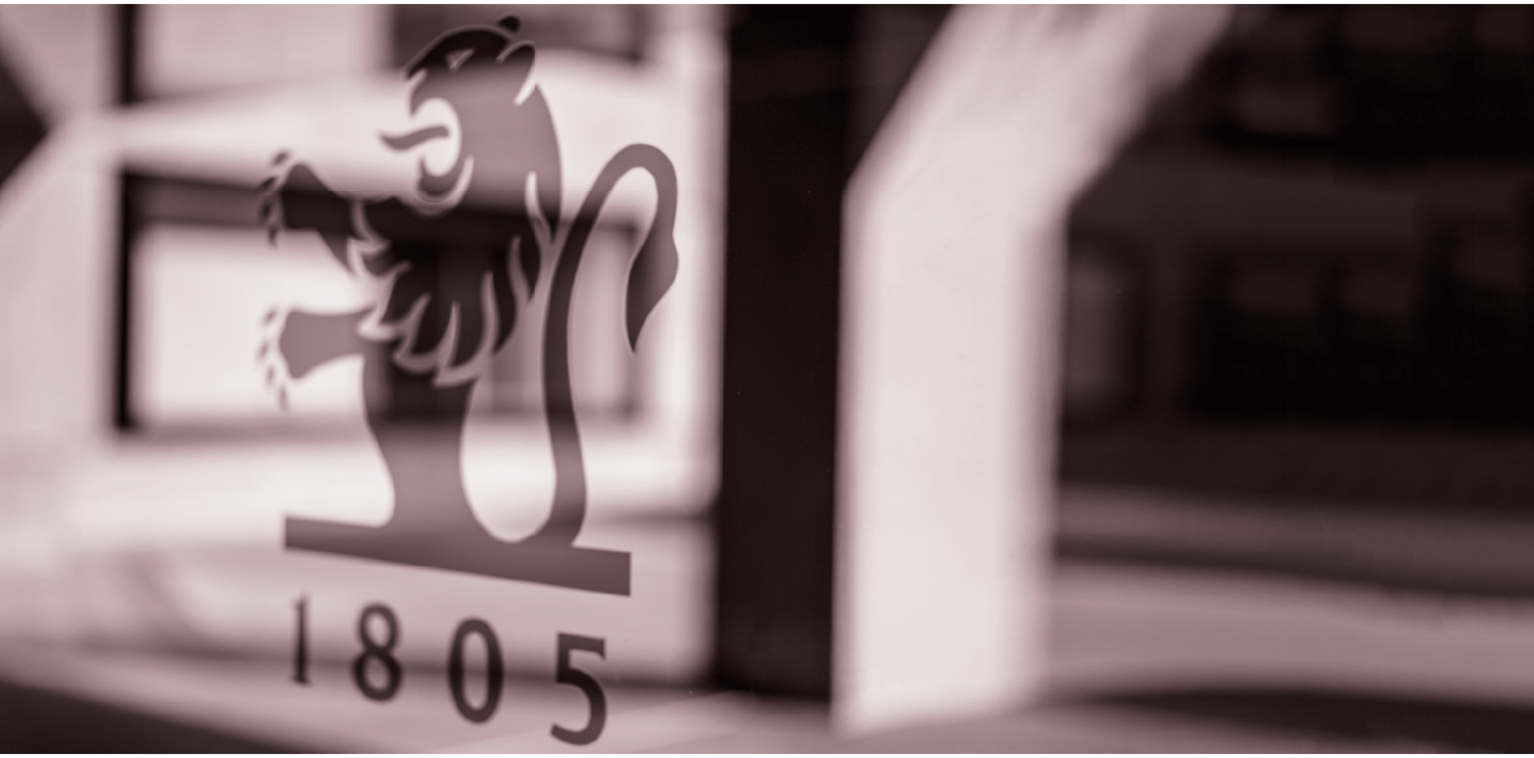
Against a backdrop of volatility, corporate actions are becoming riskier and higher in demand

Nordics Focus

Technological advancements are top of the agenda in the Nordics

CSDR Update

CSDR settlement discipline regime expected to be delayed until February 2022



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HSBC to utilise IHS Markit's private loan administration services for securities services clients

HSBC is set to leverage the IHS Markit Wall Street Office (WSO) platform to provide private loan administration services for clients of its securities services business.

This will allow the bank to provide a much broader, more efficient and highly-automated service for investors in bilateral and private syndicated loans, such as pension funds, insurance companies, fund managers and sponsors.

According to HSBC, private debt investors, who are increasingly debt originators as well, will also benefit from the connectivity to HSBC's global banking services through its loan agency product.

The announcement comes as HSBC's Securities Services business is increasing its focus on the private assets sector following the creation in June last year of a division dedicated to growing its client service in this area.

Investors have been increasingly keen to invest in private assets to pick up yield in a low and declining global interest rate environment, HSBC explained.

IHS Markit will perform the loan administration and reconciliation process, which will integrate into HSBC's fund accounting platform, giving clients a clear picture of activities such as when interest and principal are paid.

The service will provide clients with real-time access to loan portfolio reporting to make informed investment decisions in the complex asset class.

Tony McDonnell, global head of private assets in HSBC's Securities Services business, said: "Private debt has been an extremely important asset class for both our asset owner and manager clients."

"This new capability will allow us to provide the most efficient service across the entire post-trade value chain for investors and managers."

"The WSO solution has global capabilities but is also very strong in Asia which is important for us as a bank that is growing its client capabilities in the region," added McDonnell.

Elsewhere, HSBC Securities Services recently announced that it is set to launch Data Mesh, a new data platform that will allow clients to select specific trade data.

Citi bolsters carrying broker services in B3 futures markets

Citi has expanded its service offering for institutional clients of its US-based Futures Commission Merchant (FCM) carrying broker services for trading in the Brazilian futures market at B3S.A., the Brazil Stock Exchange and over-the-counter market. Through its FCM, Citi provides an efficient, capital effective way for clients to access the Brazilian market.

The FCM relies on Citi's network of local affiliates throughout the clearing, settlement and loading of clients' positions.

Meanwhile, local brokerage Citigroup Global Markets Brasil CCTVM and local custodian Citibank DTVM are the members of B3 that will service in the administrative and operational management of futures contracts as well as managing clients' collaterals.

Jerome Kemp, global head of futures, clearing and foreign exchange prime brokerage at Citi, said: "In providing solutions that facilitate cross-border trading, we underscore our commitment to meeting our clients' clearing, settlement, administrative and operational management requirements across international markets. Our clients place a high value on our ability to leverage our understanding of local market practices and procedures and to provide them with access to significant growth markets such as Brazil."

Northern Trust expands insurance sector offering

Northern Trust has been awarded three new mandates from European insurers, expanding its asset servicing solutions across the reinsurance, motoring and medical sectors.

Onboarded in late June, reinsurer firm Hannover Re will be provided with collateral management services for its longevity risk transfer business, and global custody services for the security and administration of assets.

Northern Trust will also provide the UK business of AND-E, a European subsidiary of Japanese insurance group MS&AD, with global custody and related asset servicing solutions.

Additionally, the Medical & Dental Defence Union of Scotland (MDDUS), which administers access to indemnity, assistance and support for UK healthcare professionals, and its Guernsey-based subsidiary, will utilise Northern Trust's global custody services.

Mark Austin, head of UK, institutional investor group at Northern Trust, explained: "Northern Trust continues to actively grow its insurance and reinsurance client base across the globe. Our history of financial stability, expertise and continuous investment in technology strongly aligns with insurance companies' requirements for heightened efficiency, transparency and risk management across their investments."

"These appointments, which add to our significant relationships with many of the world's leading insurance organisations, highlight our experience of the industry and how we work with insurers to help them execute their business strategies."

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James Parker, finance director at MDDUS, added: "Northern Trust's commitment to the UK insurance market and understanding of the industry is apparent."

"As our members carry out their vital work, this appointment supports our mission to help them manage their professional risks, providing them with access to high-quality, personalised indemnity and support at a reasonable cost."

EC mulls adoption of a time-limited equivalence decision for UK CCPs

The European Commission (EC) has said it is considering the adoption of a time-limited equivalence decision for UK central counterparties (CCPs) in order to address the possible risks to financial stability.

This was confirmed in the EC's new document "Getting ready for changes: communication on readiness at the end of the transition period between the European Union and the United Kingdom".

It was explained that such a time-limited decision would allow EU-based CCPs to develop further their capacity to clear relevant trades in the short and medium term.

Additionally, it would allow EU clearing members to take and implement the necessary steps, including by reducing their systemic exposure to UK market infrastructures.

"In order to enhance the supervision and regulation of clearing activities that are of systemic importance for the union, the EU is currently implementing the European Market Infrastructure Regulation 2.2 Regulation," the EC highlighted.

As such, the commission noted it is adopting the implementing measures that will determine the degree of systemic risk of third-country CCPs and the necessary measures to strengthen the supervision of such CCPs, as well as the possible need for further measures to mitigate those risks.

Following the publication of the EC's communication on readiness at the end of the transition period, Oliver Moullin, managing director at Association for Financial Markets in Europe (AFME), said: "We welcome the confirmation that the European Commission is considering the adoption of a time-limited equivalence decision for UK CCPs."

According to Moullin, this is essential to address a very important financial stability risk, and it is important that the equivalence and recognition are in place before the end of September to ensure that UK CCPs do not have to start the process of off-boarding clients.

"We hope that progress will be made in the negotiations and completing equivalence assessments in other areas. We also encourage the regulators to continue to work together to address remaining issues and minimise potential disruption at the end of the transition period," he commented.

SS&C Technologies and Canoe partner to streamline alternative investment workflows

Canoe Intelligence has partnered with SS&C Technologies over the Black Diamond wealth platform to improve alternative investment processes.

SS&C's Black Diamond solution is used to access data required to track alternative investments.

Within the partnership, Canoe will provide technology to automatically convert PDF format data into a Black Diamond-compatible format, rather than wealth managers and institutional investors performing this manually.

Canoe leverages advanced artificial intelligence and machine learning functions to remove operational inefficiencies that are currently an issue in alternative investments. Its technology receives multi-source reporting documents, which are systematically categorised to extract and validate the necessary data.

Steve Leivent, senior vice president and co-head of SS&C Advent, commented: "Partnering with Canoe Intelligence provides our clients another differentiated way to stay ahead of their competition, and in control of their business growth. By automating the extraction and formatting of alternative investment data, clients can ensure greater accuracy as they focus on building long-lasting client relationships."

Michael Muniz, partner and chief revenue officer at Canoe Intelligence, said: "Working with SS&C, our focus remains on improving efficiency and helping firms scale. This partnership will empower many investment professionals with the tools and tactics to manage a growing book of alternative investments while optimising time and resources."

AdvicePeriod has already implemented Canoe's technology on the Black Diamond platform to manage their alternative investment workflow more efficiently.

Matthew Woodward, head of operations at AdvicePeriod, added: "By leveraging an integrated solution with complete flexibility, our team spends less time with operational duties surrounding alternative investments and more

IHS Markit launches Data Lake platform

IHS Markit has launched the Data Lake platform to administer data assets into a centralised catalogued platform.

The cloud-based platform will store, catalogue, and govern access to over 1,000 structured, unstructured, and proprietary data assets.

The IHS Markit Data Lake Catalogue also provides search and exploration functions through a standardised taxonomy across data sets from the financial services, transportation, and energy sectors.

Data Lake is expected to improve the organisation and efficiency of data and value extraction and analysis.

Yaacov Mutnikas, chief technology officer and chief data scientists at IHS Markit, explained: "Our Data Lake breaks down siloes by providing quick and efficient access to a vast data universe enabling much faster analysis across a large number of datasets. The cloud-based platform provides the highest level of data governance at scale and a robust access control framework for data protection."

Lance Uggla, chairman and CEO of IHS Markit, added: "Proportionately many users are spending far too much time on the search and setup of disparate datasets and therefore less time on testing and acting on meaningful insights."

"The Data Lake will create efficiencies for our customers by expediting the deployment of data, accelerating organisation and reducing the time to market with actionable intelligence and decisions."

time supporting our partner advisors in building their business."

Canoe will also provide integration opportunities for Advent Portfolio Exchange (APX), Axys and Geneva users.

EC's work on integrating sustainability considerations is 'essential', says EFAMA

The European Commission's work on integrating sustainability considerations is an "essential milestone" that will further encourage the availability of environmental, social and governance (ESG) products to European investors, according to the European Fund and Asset Management Association (EFAMA).

The comments were made in response to the EC's consultations on delegated acts that seek to integrate sustainability risks and sustainability factors into UCITS, Alternative Investment Fund Managers Directive (AIFMD) and the Markets in Financial Instruments Directive (MiFID).

In its response, EFAMA said it has always firmly supported the creation of a robust framework for sustainable investing which facilitates the transition to a more sustainable European economy.

EFAMA highlighted that MiFID II, UCITS and AIFMD Delegated Acts should ensure that sustainable investing becomes mainstream, but the commission's proposals in their current state will not achieve this goal.

Consequently, EFAMA has insisted that the commission follows several essential adjustments. One of these adjustments would mean that

MiFID must be fully aligned with the Sustainable Finance Disclosures Regulation (SFDR).

This must be with a clear distinction between Article 8 products (products promoting environmental and social characteristics) and Article 9 products (products pursuing sustainability investments), the association outlined.

Only the latter should be required to invest in sustainable investments, the association noted.

EFAMA added: "One must avoid a situation in which a client who expresses sustainability preferences cannot be offered an Article 8 product while the very same product can be marketed as promoting environmental or social characteristics under SFDR."

Further to this, it was stipulated that MiFID must not go beyond the existing SFDR requirements regarding principal adverse impact (PAI).

According to EFAMA, the proposed delegated acts are significantly extending the scope of PAI at product-level that was previously agreed by European co-legislators.

Meanwhile, the association also expressed its support for the integration of sustainability risks as part of the risk management policy at fund level in UCITS and AIFMD.

However, it also highlighted that it sees no reason to introduce this specific risk in the context of provisions related to general organisational due diligence or conflict of interest requirements, which by nature are not risks-related.

Additionally, EFAMA explained the specific requirements for sustainability risk management underscore the need for such risk management to be based on reliable information.

EFAMA said it hopes that changes to the Non-Financial Reporting Directive (NFRD) will improve the availability and reliability of ESG data, however, the directive will not be in place in time for these UCITS and AIFMD amended rules to take effect.

Until at least 2023 to 2024, disclosures by issuers will be completed on a non-standardised 'comply and explain' basis.

As well as this, until the revised NFRD is in place, EFAMA insisted that asset managers should be allowed to assess sustainability risks also on a qualitative basis when firms set up their risk management frameworks.

Tanguy van de Werve, EFAMA director general, commented: "The question European policy makers are now faced with is whether to create a standardised tick-the-box system — putting sustainability in a niche — or to opt for a flexible approach promoting dynamic developments in sustainable investing. We would definitely advise for the latter as a flexible approach will foster a sustainable European economy."

HSBC Securities Services unveils new data platform

HSBC Securities Services is set to launch Data Mesh, a new data platform that will allow clients to select specific trade data.

HSBC Securities Services' data strategy is focused on 'data as a service', which provides data on-demand to clients. Within this service, there is a key component called the 'Data Mesh'.

Data Mesh is an analytical data design based on data lake technology. Data sets are grouped into common business domains, like a Service Mesh, and then it is stored within a Data Lake, thus combining the two structures. This allows HSBC to store massive amounts of data, including terabytes and petabytes.

Currently, the data is stored in internal cloud but the bank is looking to move it to external cloud providers in each of the different regions of operation.

Duncan Cooper, head of data product for HSBC Securities Services, explained that this concept is known as 'sharding'.

According to Cooper, there are multiple advantages of the cloud but the first and foremost one for HSBC is the ability to react to business needs quickly.

Additionally, the cloud takes away the dependence of storage allowing availability to store huge amounts of data.

Cooper noted that HSBC plans to bring up all of the HSBC Securities Services data into one-layered data as a service. Data Mesh will produce that data and expose it out to clients.

In terms of use cases, Cooper highlighted that HSBC has multiple accounting systems and when operated, a net asset value (NAV) is produced.

NAVs exist in different formats and different data structures, but when brought into Data Mesh, HSBC consolidates it into a standardised formated NAV and then exposes it out to clients.

Clients will be able to receive data from their NAV regardless of the underlying technology that it is pulled from.

Cooper also affirmed that transfer agency data is high on HSBC's priorities right now with two of

BNY Mellon and Deutsche Bank to improve custody FX for restricted EM currencies

BNY Mellon and Deutsche Bank have partnered to develop a new application programming interface (API)-enabled foreign exchange (FX) solution for restricted emerging market currency trades. The digital solution, which is initially being applied to custody FX transactions in Korean Won, aims to reduce the pre-trade lifecycle to seconds from hours, helping to minimise the operational burden and manual intervention that can be prevalent in emerging market custody FX.

The solution is already live in Korea, with the Indonesian Rupiah and the Indian Rupee targeted next.

Deutsche Bank noted that it will be progressively rolled out to a broad range of restricted currencies, which are linked to investors' underlying equity or fixed-income transactions.

Meanwhile, by leveraging existing bots between the two banks for instantaneous communication to help eliminate market frictions, the solution also aims to bring trade remediation closer to the time of execution.

According to Deutsche Bank, digital innovation in FX markets is accelerating in emerging markets, particularly in Asia.

It was noted that securities denominated in those currencies are increasingly being included, or more heavily weighted, in emerging market indices and exchange-traded funds (ETFs).

Jason Vitale, global head of FX at BNY Mellon, said: "We are constantly looking at ways to introduce cutting-edge technology for the benefit of our clients."

"With this partnership, we are not only seizing an opportunity to alter back-office processing in restricted markets, but more importantly, we are providing front-office users with faster execution and enhanced workflow transparency."

David Lynne, APAC head of fixed income and currencies, and corporate bank, at Deutsche Bank, added: "This is a milestone in solving a long-standing challenge in emerging markets, with broad application for the industry and our clients. This demonstrates our commitment to market leading execution, at a time when investor participation and focus on costs in these markets are increasing."

"The collaboration between the two organisations leverages our strengths and expertise in emerging markets, custodial FX, as well as digital work-flow and innovation."

its three transfer agency systems now onboard, with the aim to have the last one onboarded by the end of the year.

Also in the pipeline in this space, HSBC Securities Services plans to implement 'Amazon-style data', which means that when clients consume data, such as NAV validation data, HSBC Securities Services will recommend other data sets that they can take with it.

"Instead of expecting clients to understand what they need to consume, we are giving them the option to take additional data sets that they might not realise we produce," Cooper said.

Commenting on the importance of data, he added: "The current pandemic has accelerated the pressures that were already there. Everybody knows they need more data and they need to know more about that data. We are a digital-first business; everything we consume is data and everything we produce is digital data. But we also need to think about the data on the data: how much, how often, and how quickly we produce it."

"We also need to think about the insights of that data that we can look at. The great advantage of the Data Mesh is that the data continues to grow without having to delete anything. That drive to get that information in the past three months has grown significantly."

Calypso and AcadiaSoft partner over UMR compliance

Calypso Technology has partnered with AcadiaSoft to provide an interface to Initial Margin Exposure Manager (IMEM), its initial margin calculator and reconciliation platform.

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AcadiaSoft's IMEM will operate within Calypso's Uncleared Margin Rules (UMR) solution, which when completed will offer a fully integrated UMR system allowing phase 5 and 6 firms to minimise operational risk and reduce total cost of ownership.

IMEM is an end-to-end solution for calculation and reconciliation of regulatory initial margin and is utilised by all in-scope firms in phases 1 to 4.

The UMR initial margin 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 2021 or phase 6 on 1 September 2022.

Mayank Shah, chief of strategy and alliances at Calypso, commented: "Calypso is aware of the pressure facing financial institutions from the constantly changing regulatory requirements – a pressure that has been further exacerbated for firms coming in-scope in phases 5 and 6 of UMR by the current COVID-19 pandemic."

"We are fully committed to helping these firms to meet compliance requirements. With this agreement, we are adding an interface to the AcadiaSoft IMEM market-standard reconciliation platform that will enable firms to standardise the margin calculation and verification process and resolve disputes, while maximising straight-through processing."

Fred Dassori, chief product officer at AcadiaSoft, added, "Industry collaboration is paramount as we move towards the final UMR phases. Our continued partnership with Calypso will give phase 5 and 6 firms that are Calypso clients direct access to IMEM, providing an end-to-end solution for UMR compliance that minimises cost and reduces operational risk."

At the start of June, AcadiaSoft carried out an industry-wide soft launch to help phase 5 firms stay on track for UMR compliance ahead of the extended 2021 deadline. AcadiaSoft's programme was designed to enable phase 5 firms to continue on their current development timelines for IM exposure calculation and testing.

W: www.assetservicingtimes.com
T: @ASTimes_

Editor: Becky Bellamy
beckybutcher@blackknightmedialtd.com
+44 (0)208 075 0927

Reporter: Maddie Saghir
maddiesaghir@blackknightmedialtd.com
+44 (0)208 075 0925

Contributor: Maria Ward-Brennan
mariawardbrennan@blackknightmedialtd.com

Contributor: Rebecca Delaney
rebeccadelaney@blackknightmedialtd.com

Designer: James Hickman
jameshickman@blackknightmedialtd.com
+44 (0)208 075 0930

Publisher: Justin Lawson
justinlawson@blackknightmedialtd.com
+44 (0)208 075 0929

Office Manager: Chelsea Bowles
accounts@blackknightmedialtd.com

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Expect delays

Maddie Saghir reports

With the expectation that the CSDR settlement discipline regime could be delayed until February 2022, the feeling is bittersweet: although it could mean more time to prepare, concerns remain

After already being delayed from September this year until February 2021, it is understood that the European Commission is in advanced discussions to further delay the Central Securities Depositories Regulation (CSDR) settlement discipline regime (SDR) by one year, taking the deadline to 1 February 2022.

Speculation about a further one-year delay emerged when Euroclear sent out a client memo on 20 July, which said the European Securities and Markets Authority (ESMA) is set to publish an amendment after the summer holiday period proposing a further delay to the current February 2021 deadline.

However, with the slow lull of summer, clarification from ESMA could take up to three months or more. At this point, the industry is quite possibly left with more questions than answers.

The drive for an additional delay follows persistent lobbying efforts by industry groups that have repeatedly voiced concerns that the mandatory buy-in regime, which comes as part of the regime's framework, would significantly damage market liquidity as well as the participants it is meant to protect.

The spotlight further intensified on the flaws within the regime in June when the UK confirmed it would not on-shore CSDR after the Brexit transition period, which ends on 31 December.

One industry expert, Neil Vernon, CTO at Gresham Technologies, said that the UK's exclusion of CSDR's SDR as part of its adoption of EU regulations post Brexit will "undoubtedly create new challenges for firms in the UK".

The already extended deadline was pushed back due to "technical impossibilities" around the implementation of IT solutions of industry stakeholders, and the fact that an essential ISO update due from SWIFT would not be in place until its annual November update.

The Euroclear memo explained that the new postponement will be subject to the legislative processes at the EU level which involves the commission, parliament and council, and could take "some months to complete".

Tony Freeman, consultant for post trade and middle office, indicates that the process of creating EU law is complicated.

Freeman says: "This is particularly true of financial legislation, which is hugely important for some member states (the UK, Ireland, Luxembourg) but much less prominent for others. Some member states without any significant financial sector will occasionally barter their votes for agreement in completely unrelated sectors, such as fish for financial services. France and Germany, which have a much lower dependency on financial services than the UK both aspire to replace the UK as the EU financial capital. So, they're also heavily involved."

The wildcard

Although a year's delay would most likely be welcomed by the majority of industry participants, it could expose industry stakeholders to the prospect of having to commit to several more months of dedicated work to meet the February deadline only to be given additional bandwidth in the final quarter.

The buy-in process is something that is continuing to cause confusion within the industry, with conversations still ongoing all over the globe as to how it would be triggered

Weighing in on this, Freeman highlights that at first glance this sounds like positive news, but it provides mixed messages.

The decision making of the EU is "complex" with the commission, council and parliament all having to sign-off. Freeman says: "It looks as if the commission (and ESMA) are happy to move forward with a further delay but the council is very unlikely to have a view."

He suggests parliament is a possible wildcard with them often taking a political – rather than technocratic – perspective so their views can be "unpredictable". Additionally, Freeman says "parliament can be very ambivalent about input from the industry".

For example, looking at the formulation of the SDR in 2013/14, Freeman explains: "It was probably the political influence of the parliament that caused the highly contentious aspects of the SDR to be mandated in the Level 1 legislation. Nobody can explain how or why this happened and we are all still living with the consequences."

There should be no assumptions made around parliament falling into line. Freeman highlights the possibility that the failed trade penalty regime may go ahead on 1 February 2021, with only the mandatory buy-in regime receiving a one-year delay.

The buy-in process is something that is continuing to cause confusion within the industry, with conversations still ongoing all over the globe as to how it would be triggered.

In a recent interview with Asset Servicing Times, Brown Brothers Harrimans' Derek Coyle explained that 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 in 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, according to Coyle.

Meanwhile, Freeman suggests that arguments presented by the industry have persuaded ESMA to make changes.

He says: "This is because the feedback has three compelling factors: it is data driven, it has been presented from trade associations across Europe and, crucially, it has come from all sides of the industry including the buy side."

"The inclusion of mandatory buy-ins was intended to protect the buy-side. But, tellingly, the buy-side doesn't want it."

Reflecting on the past, Freeman observes that there are lots of lessons we can learn from.

He explains: "Perhaps the biggest is that the industry has to live with the Level 1 text. Once the Level 1 text, which is EU law, comes into force ESMA has to implement it. It cannot pick and choose which parts of a Level 1 text it implements. Influencing the trialogue participants is crucial. It's much better to prevent the torpedo being launched than trying to evade it when it's in the water."

ESMA understands that implementation would be more risky now than in a year's time. It would be much better to put it in a year's delay than force the issue right now

Suspicious minds

Another particular challenge is the involvement of parliament and the suspicions they may have on the input from the market. Additionally, parliament is the least predictable of the three elements because they are politicians, not technocrats. Freeman points out that if you reflect on the origins of this, the inclusion of the content of the SDR of Level 1 which makes it law was probably done at the insistence of the politicians involved in the discussions, rather than the commission or the council.

He says: "The member state government very rarely gets involved in the detailed level but when they resolve Level 1 they go through a process called trialogue."

At this point, the process becomes opaque, meaning it is not a public process at all and there are no experts in the room with no trade associations, industry bodies or lobbyists in the room who could provide detailed technical advice.

The big issue with parts of SDR stems from that trialogue process, such as the issues with buy-ins not being protected.

"Indeed, what we can take from previous results, is that if there is something horrible in the Level 1 text then ESMA has no choice but to implement it. They are obligated to execute it because it is the law and this is where the difficulty comes from."

Further to this, politicians are sometimes very suspicious about the input they are given from the market. Freeman observes that they can think the market frequently complains about processes being too complicated. As such, parliament may believe the market has a negative impact. However, Freeman outlines that the market is protecting itself and doesn't want to spend the money or become even more transparent.

"[Parliament] is possibly rightfully suspicious about some of the input they get from the market. In this case, the input was correct in that mandatory buy-ins will have a very negative impact on liquidity especially in the bond market," he adds.

Possible extension

With the extension still unconfirmed and many unanswered questions, the delay is understood to represent an acknowledgement by EU regulators that the SDR is not optimal in its current form. The delay is also aimed at giving industry stakeholders and lawmakers the necessary time to re-open the CSDR rulebook in the context of a highly-disrupted regulatory implementation timeline caused by the ongoing COVID-19 pandemic.

The market still has a long way to go in terms of being ready for the buy-in regime. Freeman notes: "ESMA understands that implementation would be more risky now than in a year's time. It would be much better to put it in a year's delay than force the issue right now.""

Amid the ongoing challenges around COVID-19, Freeman asserts that within the financial services industry, the apocryphal evidence is that processes are working well and trade volumes have been quite high. However, he highlights that we do not know how the longer-term impact of the enforced working from home will affect new initiatives and projects.

Freeman concludes that keeping the lights on is the mantra for everybody, particularly the market infrastructures.

He adds: "Keeping the systems processing and ensuring reliability is important but it is far too early to access the longer-term impacts as of yet."

All change

CGI's Andy Schmidt discusses what the next-generation of central banking architecture looks like

As banking continues to move towards instant payments, mainly through account-to-account transfers, and market upheavals like the current pandemic impact banking activities, the entire payments value chain is radically evolving. Tremendous change already has happened in retail banking across many countries, with new developments announced every day. For example, Saudi Arabia recently became the latest country to announce the use of instant payments at point-of-sale by scanning QR codes from a mobile device. Instant payments also have triggered a massive migration to the latest ISO 20022 payment message formats.

Within central banking, change also is happening. Central banks systematically manage the liquidity, clearing and settlement of payments, small and large, through core payment systems such as real-time gross settlement (RTGS) systems. However, many of these systems run on platforms that are between 20 and 30 years old. Further, they use bespoke message formats and are becoming increasingly costly to support and change. As a result, many central banks are launching modernisation programmes to replace and future proof this part of their core IT infrastructure.

Central banking systems are vital to every country and region. If an RTGS system goes down, for example, or participants are unable to connect to it, the ability of entire markets to function is at risk. Further, when payments have errors or a settlement cycle fails, it can cause serious consequences for all parties involved. Therefore, when replacing these core systems, central banks typically are very cautious. However, at the same time, they often are very ambitious.

With all this in mind, what does the next-generation central banking architecture look like?

Migrating to a common messaging standard

The single most important aspect of a next-generation architecture for central banks is the migration of all messages to a common standard, specifically ISO 20022, which is the industry standard for payment messages. This is hugely important, as it not only establishes a common payment language but also supports the transfer of enriched data within payment messages, enabling central banks to analyse the data for routing and accounting purposes, as well as security and fraud control. A common messaging standard also leads to a better understanding of traffic and data flows through systems and networks.

With the previous generation of central banking systems, processing speed and reliability were more valued than the ability to process additional data. Now that processing power is relatively inexpensive (and systems are better able to leverage data), enriched data has become significantly more important and easier to process.

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Achieving interoperability

Along with the introduction of ISO 20022, it is important for next-generation platforms to be flexible enough to process multiple payment types and support multiple payment schemes, all within a single environment. While many central banks manage multiple environments to ensure robustness and resiliency, the ability to run different schemes within the same environment provides greater reliability.

The concept is that, once all of the systems in a country or region use the same format and standards (ISO 20022 in this case), the central bank could then deploy a single flexible platform capable of clearing instant low-value payment messages in the same way as high-value critical payments are processed through the RTGS channel.

Likewise, with flexible, high-powered processing platforms, central banks can process transaction batches received from automated clearinghouses in a standard way. They can open up and "debulk" the batches, process each message individually, and then monitor the messages at the end of each batch to ensure proper processing.

Sharing liquidity across multiple schemes

Operating multiple payment schemes within the same environment could potentially mean big savings for participants in terms of liquidity. Sharing liquidity across multiple schemes enables the creation of a liquidity pool with automation possibilities. It also would provide central banks with a view of liquidity across multiple channels, helping to ensure close regulatory control.

Integrating security

The legacy architectures operated by many central banks today require additional security layers over time as new challenges and new types of fraud emerge. This "bolted on" security approach is cumbersome and time-consuming, as well as reactive, which means that vulnerabilities may still exist after the work is completed. In contrast, with modern platforms, security is "baked" into systems as they are developed. This means that protecting systems and data and ensuring service continuation is much easier. In this environment, central banks can develop new fraud controls and processes more quickly as threats emerge and deploy them in real time. The use of artificial intelligence also strengthens real-time protection from increasingly sophisticated threats, while reducing the ongoing maintenance needs of core platforms.

Conclusion

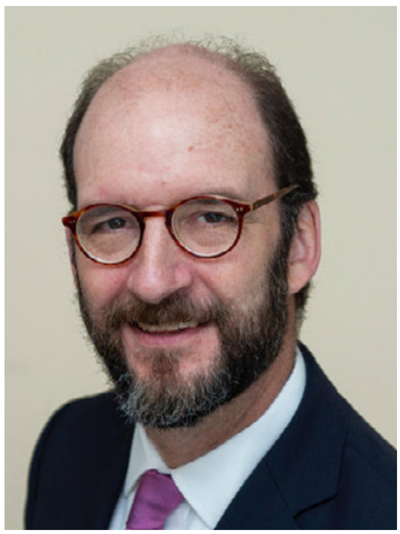
By deploying a modern universal platform capable of supporting multiple payment schemes and many different payment types, central banks can add a completely new layer of flexibility to their payment infrastructures. This will enable them to respond to new payment concepts, schemes and opportunities much more quickly and achieve greater value.

Central banks also can integrate emerging payment schemes to the platforms as required, without the cost of deploying additional technology. In addition, platform reliability also will increase through more advanced security, while also reducing ongoing costs and improving liquidity usage.

Perhaps the most significant benefit will be the ability of central banks to process more rich and comprehensive data.

The additional data contained in ISO 20022 messages will enable them to more effectively monitor systems, spot anomalies in processing patterns, deliver enhanced fraud and security controls, streamline back-end accounting, and provide regulators with greater information for compliance purposes.

Andy Schmidt
Global industry lead for banking
CGI



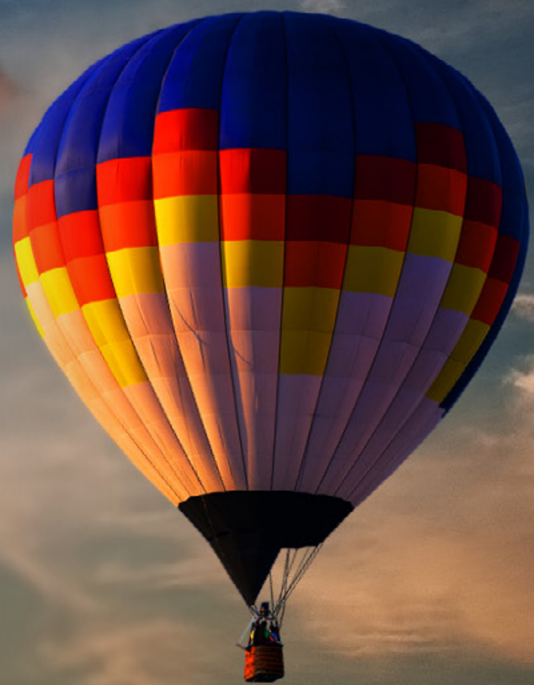
Demand on the rise

Against a backdrop of volatility, corporate actions are becoming riskier and higher in demand

Maddie Saghir reports

All over the globe, people are dealing with the disruption caused by the ongoing COVID-19 pandemic.

In the financial services industry, the pandemic has led to high levels of unprecedented volatility and uncertainty. Corporate actions is just one area of the financial services industry that has been greatly affected by the pandemic but it is an important one. While shareholders meetings and dividends are being cancelled and changed, the demand for corporate actions has increased. This is because companies that were due to pay a dividend that had already been announced are now cancelling those dividends. Amid all this, industry participants are seeing an increase in buybacks and delayed mergers.



For example, Philip Taliaferro, general manager, asset servicing, Broadridge, says banks in the UK were asked to defer their scheduled dividend payments. However, COVID-19 has increased the degree to which investors are concerned about the two key issues of corporate actions: governance and capital.

"Firstly, investors want to ensure that matters they deem critical; proper stewardship, responsible management, growth/investment discipline and of course environmental, social and governance, are being adhered to by management," Taliaferro explains.

He notes that the governance side of this equation, often referred to as proxy voting, is becoming ever more critical in the eyes of investors, particularly during a period of great economic uncertainty.

Elsewhere, on the capital side, Taliaferro expects that issuers will be faced with complex decisions about how to restructure debt, convert debt to equity and adjust dividend pay-outs.

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"Investors will be keenly interested in these issues and institutional investors, in particular, will be seeking to maximise investment return and arbitrage opportunities resulting from changes in capital return," Taliaferro notes.

Additionally, while the number of events may have decreased, for those events going ahead the recent market volatility has increased changes in ownership which are exacerbating underlying operational or technical issues, particularly as ownership changes over the course of ex date, record date and payment date, according to Taliaferro.

Adam Brill, vice president, product management, master data services, FIS, explains that COVID-19 has increased the volume of corporate actions.

Brill says: "Companies that were due to pay a dividend that had already been announced are now cancelling those dividends. Some companies pay dividends every quarter, and they may now start sending out dividend notifications saying that the June dividends are not going to ahead, for example, which is happening increasingly as a result of COVID-19. Unfortunately, over the next few months I think we will see a lot more bankruptcies coming across but that's the nature of the beast. COVID-19 has played a major part in corporate actions and it will continue to do so over the next few months."

Challenging times

Looking at further challenges in the corporate actions space, specifically for custodians, Ankush Zutshi, head of product management, securities processing and corporate actions, IHS Markit, affirms that the biggest challenges for custodians in the corporate actions space emanate from the fact that even with continuous margin compression for both custodians and their clients, the costs and risks in the corporate actions space are increasing due to volumes increases, new regulations and market infrastructure changes.

According to Zutshi, these factors coupled with the lack of standardisation and manual processes built around legacy technology architectures further exacerbate the risk of errors and financial losses.

Discussing the increase in volumes, as noted earlier, Zutshi explains that there has been a significant increase in the volumes and complexity of corporate events as capital markets find new and innovative ways to raise investment, and governments and local tax authorities seek to recover taxation from investments via the introduction of new tax legislation.

> *"We are seeing newer regulations such as SRD II increasing transparency around corporate governance and setting performance parameters by which intermediaries must pass on corporate event notifications to clients"*

In addition to these challenges, Zutshi highlights that there has also been the introduction of several new regulations as regulators look to protect investors and maintain confidence in market integrity.

He comments: "We are seeing newer regulations such as the second Shareholder Rights Directive (SRD II) increasing transparency around corporate governance and setting performance parameters by which intermediaries must pass on corporate event notifications to clients."

Meanwhile, Gerard Bermingham, managing director sales/business development, financial markets, IHS Markit, cites: "Market infrastructures around the world are also evolving. DTCC in the US is completing the reengineering of corporate actions processing to move to the latest

Corporate actions processing is an area of significant risk and one of the most manual, complex and challenging parts of back-office operations

ISO20022 standard. Various European market infrastructures, driven by T2S harmonisation efforts are following suit and the ones in Asia Pacific are not far behind."

Indeed, weighing in on this, DTCC said they believe that automation – use of application programming interfaces (APIs) and real-time messaging – can have a positive impact on the entire industry, from central security depository to custodian/broker-dealer, to asset manager to beneficial holder and even to the various agents that aid in facilitating processing.

A standardised approach

In terms of tackling these challenges, industry experts decipher that increased standardisation can help pave the way for a more accurate and efficient corporate actions process.

Bermingham highlights that changes to the corporate actions process require continuous product and technology change investments. He says: "With the growing demand from clients to provide accurate data and information on a real-time basis through modern open platforms and APIs, helping them optimise the investment decision process comes at a much higher cost to the custodians, especially the ones which are still using legacy technology architectures and that too at a time when margins in the industry have continued to be compressed."

"Whilst progress has been achieved by custodians in tackling these challenges through adoption of technology, the ability to fully optimise this investment is restrained due to other weaknesses in the investment chain who do not or cannot comply with industry reporting standards," Bermingham stipulates.

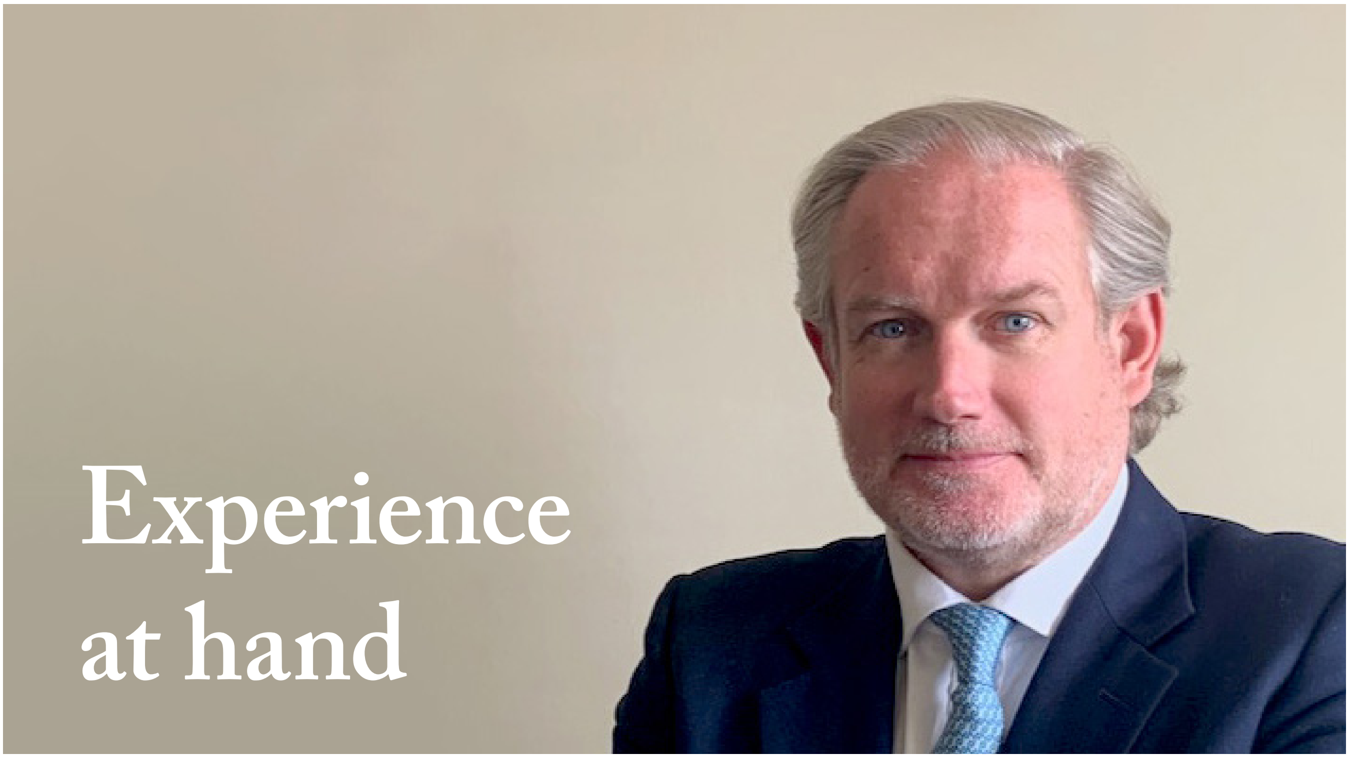
Fabian Nelissen, head of global asset services at Clearstream, also agrees that the biggest challenges probably remain: lack of standardisation, constant tendency towards more complex offers, issuer's persistence in reaching back to paper forms and tight deadlines.

"Corporate actions processing is an area of significant risk and one of the most manual, complex and challenging parts of back-office operations. Clarifying incomplete, conflicting or confusing information puts pressure on the timely delivery of corporate action events down the custody chain," Nelissen says.

Nelissen continues: "The volume of events depends on major factors in the financial markets which makes it volatile and difficult to predict, hence turning the allocation of the right level of resources a challenge. An increasing number of deals are customised to the needs of the issuer, which eliminates scalability within the corporate actions processing to a great extent. The necessary skills and expertise needed to effectively handle the events require a significant and growing investment both in staff and system."

DTCC concludes that the use of standardised, modernised, real-time technology can provide the industry with accuracy and efficiencies that will allow firms and individuals to make sound investment decisions and maximize their investment returns.

To discover more on corporate actions, please see issue 240 for more insights.



Experience at hand

Maddie Saghir reports

Tim Wood discusses the recent launch of Cooper Wood & Associates, a new consultancy practice supporting the needs of the asset servicing industry

What inspired you to launch Cooper Wood & Associates?

Rod Cooper, partner at Cooper Wood & Associates, and I have known each other for many years, and we initially met when I was working as head of operations for a fund manager and Cooper was the account manager for relationship at an industry publication. Collectively we have worked for a number of top asset management and asset servicing firms and we have complimentary backgrounds, Cooper from a sales and relationship management and mine from operations and client management.

With our combined direct and first-hand experience of working at the nexus between client and supplier, our partnership is able to offer our clients a compelling proposition to help them quickly and efficiently in a wide range of services.

We decided to launch Cooper Wood & Associates for two main reasons; firstly that we have both worked for asset managers and asset servicing firms, and so we can offer a unique insight into how the buy side and sel side work. We know how to optimise the relationship between the two on both a value and efficiency level.

Secondly, we realised that while there are already consultants working in this sector, few of them have the 'in the field' first-hand experience that we do. Between us, we know literally hundreds of firms across the buy and sell side, and our strong knowledge of the market participants will help clients.

Therefore, we thought that given the pressure facing the industry, Cooper Wood & Associates will be able to provide a 'hit the ground running' experience to our clients based on our track record for delivery and results.

Our overarching aim is to help business managers address issues impacting their financial targets

What will Cooper Wood & Associates consult on and how will your industry experience help with this?

Our overarching aim is to help business managers address issues impacting their financial targets. To do this we will be assisting companies on a range of services, including operational and supplier efficiencies, revenue protection, and new business growth.

To give a couple of examples, we know that client relationship models are under pressure, particularly with so many people working from home and not being able to have the face to face contact they were used to. This means that the way firms deal with clients has changed and there is an opportunity to drive better value from your providers and to generate increased business from your clients. Many firms will need to adapt to this or risk losing valuable opportunities to drive value and business levels.

Another example is that whatever firms are paying their asset servicing provider, there is almost certainly an opportunity to reduce their costs, while also gaining better service and value from them. Similarly, asset servicing firms are often losing out on vital revenue by having over complicated fee tariffs that do not optimise the value of the services they provide and missing out on charges altogether in some cases.

We have seen several examples of this and many more, from having had direct experience on both sides we know of the various 'quick wins' that firms can implement, and it is this direct experience that we think will enable us to help our clients.

What are your main responsibilities at Cooper Wood & Associates and what do you hope to achieve there?

We have been working closely together for a while now and we work extremely well as a team. We know the challenges that firms face and we are well positioned to help them solve them, improve performance and deliver efficiencies – more quickly and more effectively than firms themselves might be able to, if they have to use existing resources that may have other priorities and demands, and without the knowhow to understand where to look for the solution.

Because of our experience and background, we also know a large number of subject matter experts who are able to consult on particular pockets of technical specialism if required.

We hope to achieve a reputation as a firm that enables companies to recognise and optimise the opportunities that exist for them to increase revenue, reduce cost and improve efficiency.

Since our recent launch, we have been overwhelmed by the positive response and by the number of enquiries we have had from both asset managers and asset servicing firms, who are attracted by our track record of direct experience, delivery and results.

Where do you see the current challenges in the asset servicing industry at the moment, what kinds of things are clients struggling with?

It is clear that everyone is having to do more with less, while still increasing revenues. Cost pressures are forcing firms to look for more ways of saving money beyond the traditional headcount cuts. I think the opportunities fall within 'three Ps' of people, process and premises which are all closely linked together.

People reductions are a quick and significant way to cut costs. However, many firms have already been doing this and are running out of places to look. However, there are still lots of activities and functions that we are aware of that could be leveraged to still deliver substantial headcount saves without harming the effectiveness of the business.

When it comes to process optimisation, done properly, this can have a dramatic effect on costs by reducing or changing processes, activities and functions, and governance. We find that this is often overlooked as an opportunity to save costs and needs to be looked at much more carefully. This might be a forensic review of specific operational processes to reduce wasted activity. More broadly, many firms are using an operating model that was designed and implemented many years ago that may no longer offer an optimal way of operating. They might also be using out of date governance models that may not reflect the current situation nor provide best value.

The cost of suppliers, whether that is asset servicing provided to asset managers or sub-custody providers to global custodians or other service suppliers, is still a significant opportunity to renegotiate those costs and deliver better value, without harming the overall relationship. In short, whatever you are paying, it is probably too much.

As for premises, how many firms still have hundreds or even thousands of people in city centre locations, even before COVID-19? This has become more obvious since COVID-19 that the unnecessary cost of premises is causing firms to rush to revisit their near-shore and off-shore plans - and rightly so. This should be a priority and we have lots of experience in managing these kinds of changes.

What regulations do you think are causing the biggest struggles/worries for clients?

While most firms have generally adapted well to the continuous increase of regulation, the main challenge for firms will continue to be the ability to meet the cost of this regulatory compliance, while simultaneously operating in an environment of falling fees.

As regulation is likely to increase in complexity as well as volume, the struggle for clients is how to manage it effectively, while not having a detrimental impact on the speed and efficiency their businesses need to operate at.

Also, an ability to monitor and gain a deep understanding of new regulations, especially as clients move into more sophisticated investments, will continue to challenge firms. If you think about how long it took many firms to take the UK's Client Assets Sourcebook (CASS) regulations seriously enough, it was only after some eye-watering fines that firms started putting the right people, and enough people, into managing those regulations.

“*While most firms have generally adapted well to the continuous increase of regulation, the main challenge for firms will continue to be the ability to meet the cost of this regulatory compliance, while simultaneously operating in an environment of falling fees*”

Therefore with new regulations and the impact of Brexit on the funds industry (as we await the final funds passporting rules), it is imperative that firms plan well ahead and invest appropriately to ensure they are in compliance and without it restricting their ability to operate effectively.

Don't forget, the cost of non-compliance is far greater than the cost of getting it right.

How has the COVID-19 pandemic affected the industry? Do you think it will take a long time to recover?

In light of COVID-19, the obvious thing that has changed is that people have managed to work from home far more successfully than anyone thought possible. This, in turn, questions the need for large offices in city centres going forward. Many firms have already told their staff to continue working five days a week from home for the rest of the year. Others have said that

COVID-19 has shown that video conferencing and other ways of working remotely, can finally be used as part of the 'new normal' and not as the exception

they will not be able to manage more than 20 percent capacity in the office, partly due to lift capacity and social distancing with desk space. The idea of hot-desking is far less fashionable than it was last year.

The effect of this will be a new way of working, a new way of managing clients, a new way of managing staff and teams, and a new way of originating new business.

As the rules relax over time, there will certainly be a staged return to work for some towards the end of 2020, but the majority will probably never return to doing five days a week in the office and the commute that goes with it. COVID-19 has shown that video conferencing and other ways of working remotely, can finally be used as part of the 'new normal' and not as the exception.

It is also worth remembering that working from home does not suit everyone and so there will be some who will form part of the groups that will return to their offices.

Another side effect has been the realisation that many activities, meetings and processes are not required which has come to light from remote working practices.

These will be under the spotlight going forward as, although many firms have said that they will not be making headcount reductions during COVID-19, it is naive to think that there won't just be twice as many in 2021 instead as the increased cost pressures really begin to impact firms.

What are the biggest opportunities right now for those in the industry?

We will be helping both asset management and asset servicing firms overcome their immediate challenges (including COVID-19), help them design and plan for the future, and using our experience, provide ways of driving value and efficiency from within their organisations, and from their supplier network.

In the particular area of vendor selection, for those firms that understand the inflection point between pricing and client relationship, then there will continue to be great business development opportunities.

However there are many examples where firms have bid low fees only to lose out to a higher bidder, and this is an area where we can help as we understand the balance required between the measurable and the abstract when it comes to the appointment of the right business partner.

The time is right for firms to put their 'house in order' and Cooper Wood & Associates is well positioned to help them do that.

Looking to the future, how do you see the asset servicing evolving over the next few years?

Over the next few years, asset servicing will be tested on several levels. It will be tested on the resilience of the operating models in use, it will be tested on how they retain and increase revenues, how effectively they can manage regulation and compliance with it, it will be tested on understanding and mitigating the risk of the products and services they offer and their profitability and above all, it will be expected to provide a better quality, better value, more efficient service to clients in a cost-effective way.

This will mean clients, providers and suppliers will need to work closely together more than ever, to better understand the need for each other to be successful, in order for both to thrive.

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Maddie Saghir reports

Experts explain how the industry is looking to implement the latest technology and automation amid the evolution of collateral management

Collateral has been used for centuries providing security against the possibility of payment default by the opposing party in a trade. Fast forward to now, in 2020, and collateral management is evolving to keep up with the latest technology.

Broadridge Financial Solutions' Martin Walker, head of product for securities finance and collateral management, explains there are many ways in which emerging technologies are improving collateral management processes.

Examples include full collateral management activity integration across business lines, and ensuring collateral processes related to cleared trades are as streamlined as the processes themselves and providing the tools to optimise the selection of collateral assets.

Walker explains: "However, ongoing technology advancements around artificial intelligence (AI) are leading the way. machine learning has helped advance exception management/based processing."

"AI is being used for completing automatic detection, reading unstructured data (emails, letters etc.) and breach straight-through processing (STP) which all will allow the operations staff to review the machine's analysis, saving time and resources," Walker adds.

SmartStream's Trevor Negus, global product manager, TLM collateral management, explains that collateral management solutions have needed to move to an exception-based approach.

"The phasing in of Uncleared Margin Regulations (UMR), has pushed volumes up, and the recent volatility has seen daily margin call volumes spike to record levels," says Negus.

As such, it is no longer possible to process calls manually, as firms need their users only involved when there is an exception.

Additionally, David White, chief commercial officer, CloudMargin, affirms that technology has played a dramatic role in improving just about every aspect of the collateral management process.

Technological opportunities

In terms of further opportunities that technology can provide in this space, Eoin Ó Ceallacháin, head of product marketing at Murex, notes that interoperability between market infrastructure and collateral management systems enables more optimal placement of collateral and reduces process friction.

"While in theory the global securities pool is a shared enterprise resource, it is often fragmented across different business lines, locations and systems, and significant business opportunity is lost as a result. Technology interoperability investments that expose settlement awareness and constraints upstream to the trading layer can unlock considerable new business opportunities," Ó Ceallacháin says.

Meanwhile, CloudMargin's White argues there is significant interest in centralisation and the ability to connect via a single platform to meet a client's needs. CloudMargin has been working toward this goal for several years, with out-of-the-box connections to a wide range of premier technology and market infrastructure providers.

Last year, CloudMargin partnered with AcadiaSoft to power its collateral management solution, establishing the industry's first platform to offer a full end-to-end UMR solution.

"Clients can calculate initial margin (IM) via schedule or International Swaps and Derivatives Association's Standard Initial Margin Model (SIMM), agree margin calls electronically, physically move collateral via third parties and resolve disputes – all via one contract, login and user interface. We believe this partnership has a significant opportunity to not only solve the challenges that phase 5 and 6 IM rules present but also to drive efficiency across the industry more broadly," says White.

Additionally, efficient global inventory management is key, and SmartStream's Negus highlights that technology is able to provide this in real time.

"We have seen a squeeze in collateral over the last three months with firms needing to look at alternative collateral outside of what they usually post or accept. This has meant looking at a firm's overall inventory, rather than siloed by business line," he comments.

Negus continues: "That collateral needs to be accessible, and the system needs to know who is incurring the collateral cost in order to correctly charge back. Furthermore, running optimisation against the portfolio, allows the cheapest and most optimal collateral to be posted on the correct credit support annexes (CSA)."

However, Negus points out that one of the issues in the market is large firm's not accessing new functionality sufficiently quickly. He explains that the way to achieve this is to allow banks to upgrade individual components of the collateral system separately. According to Negus, if there is a change to one part, that part can be redeployed and upgraded, leaving everything around it static.

"The cost is low, and the benefits are immediate," he highlights.

Emerging trends

Looking at some of the emerging collateral management trends, the industry is certainly moving to the digitalisation of processes, while trying to keep costs down. Over at Broadridge, Walker observes three major trends and none of which are truly feasible without enhanced technology.

According to Walker, regulation and the search for yield are driving collateral and liquidity management together.

"No one simply looks at inventory or cash positions in isolation. As collateral management takes more consideration of the profit and loss impact of decisions related to collateral selection, we will see greater convergence between collateral management and collateralised trading such as repo and securities lending. Finally, standardisation of processes across all the variations of collateral management is highly dependent on innovative technology," cites Walker.

Joakim Strömberg, product manager at CME TriOptima, comments: "The uncleared over-the-counter (OTC) derivatives market is a prime example of where technology is a huge opportunity, but also a great challenge. Unlike the cleared world, uncleared OTC trades are non-standardised."

"The goal for all market participants is to make the bilateral uncleared margin call process as cost efficient as possible. To help detect potential dispute drivers proactively across OTC markets, there is an increasing shift towards automation and machine learning."

Meanwhile, White observes that clients continue to face their ongoing regulatory requirements. He explains: "Many have a decreased appetite for risk while needing to address increased collateral obligations as the IM requirements continue to phase in."

According to White, these challenges are compounded by a difficult macro operating environment where margins have been squeezed.

"However, many firms, particularly the largest ones, have siloed technology and manual processes. The industry as a whole is starting to realise that addressing these two issues is no longer a 'nice to have' but a necessity. Smart collateral functions that remove legacy installed technology, move to exception-based processing and optimise collateral across all asset classes are looking not only to lower firms' risk but also positively impact profit and loss," he adds.

From a cost reduction perspective, Ó Ceallacháin notes that the simplification of operational and technology layers to manage enterprise-wide collateral processes across business lines must be up towards the top of the list. "Though not a quick-win it drives the biggest long-term cost reductions, while opening up new business opportunities at the same time," he says.

Future developments

Amid current technological developments in this space, industry participants are already moving to develop solutions further in the years to come.

Strömberg observes there is already a move towards firms looking at new ways to reduce and eliminate disputes by automating their margin calls.

He cites: "With market volatility increasing margin disputes, there is now an immediate need to streamline processes in order to help proactively resolve these issues."

"Expect firms that currently have siloed margin operations to start consolidating their collateral processes across different product types to increase efficiencies."

Meanwhile, Murex's Ó Ceallacháin believes that more and more interoperability between collateral management, securities lending and repo systems and processes will drive further efficiency in collateral processing, placement and transformation. "Integrating well with tri-party agents in both directions can enable even more optimal use of collateral," he adds.

Weighing on this, Negus notes that firms are striving for as much automation as possible and this can be achieved through AI and machine learning – collateral management is a candidate here.

"To achieve this firms need data, and lots of it, and increasing volumes will only help that. Decisions made when sending calls, responding to calls, choosing and booking collateral can be learnt and this will allow firms to move toward full automation," explains Negus.

From White's perspective, there is a huge amount of potential for significant efficiency gains.

White says: "We [CloudMargin] believe technology and common reference are the enablers so a centralised place for all collateral participants – buy side, sell side, custodians, technology and other service providers – underpinned by cutting-edge microservices technology, would be a real game-changer for all involved and the wider derivatives industry."

Walker concludes: "Ultimately, we see collateral management emerging into a largely automated component of the trading and balance sheet management process as opposed to a series of separate semi-manual operational processes - just as the majority of trading in many asset classes has been automated and algorithm driven over the last decade."


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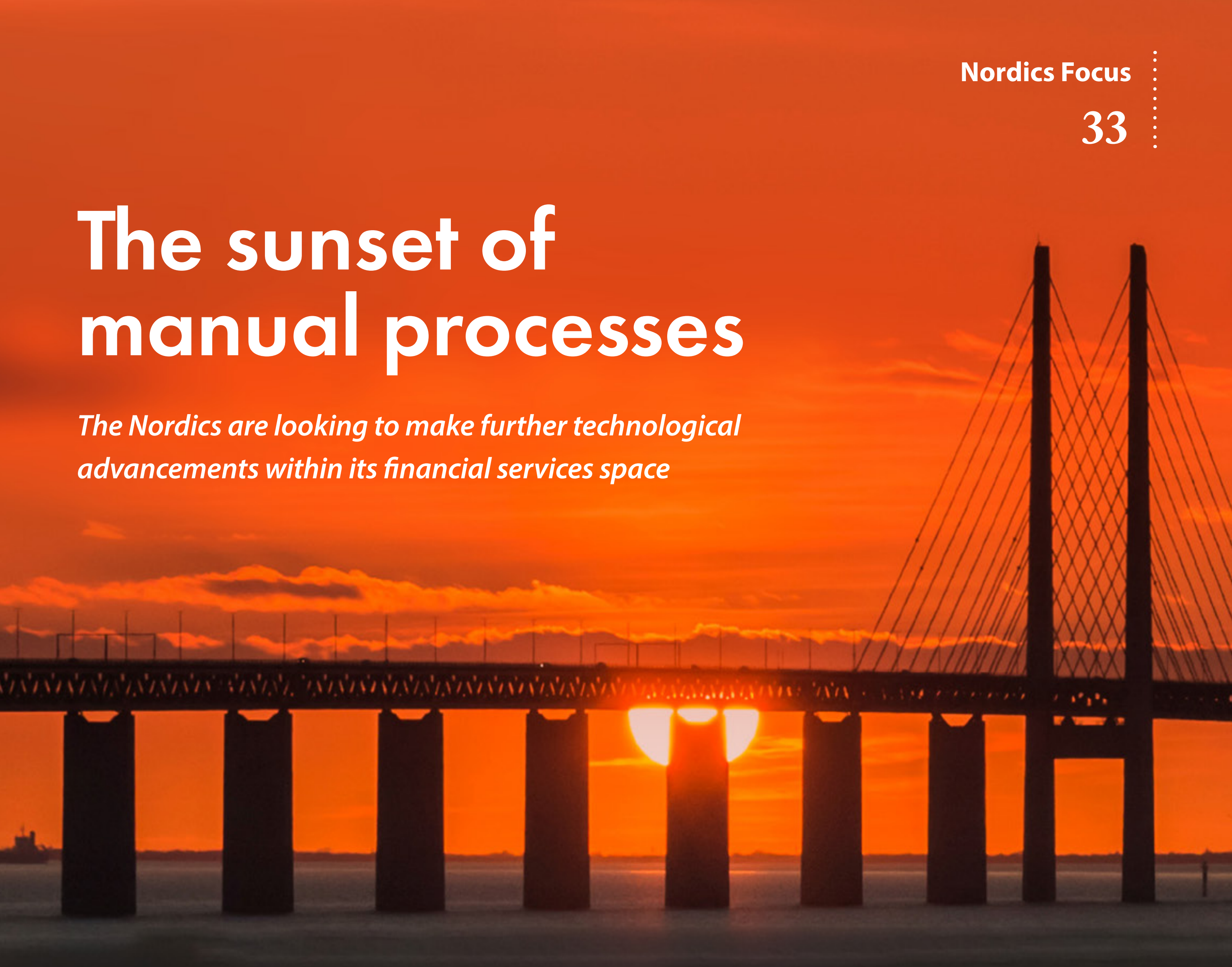


The sunset of manual processes

The Nordics are looking to make further technological advancements within its financial services space

Maddie Saghir reports

Consisting of Denmark, Norway, Sweden, Finland, and Iceland, as well as the Faroe Islands, Greenland, and Åland, the Nordic region has made its place on the financial services map. Denmark, Sweden, Norway and Finland have long been identified collectively as a single destination but they do remain four completely separate markets.

The financial crisis of 2008 altered the Nordics region, along with what was experienced globally. Ann Magnusson, head of investor services at SEB, says that a lesson learned from the financial crisis was the importance of maintaining confidence in the banking system, to avoid large scale bank defaults with huge long term negative impacts.

"Three countries (Sweden, Finland and Norway) established crisis resolution agencies to manage public support and restructuring of the banking system. The Nordic banks, as well as control functions, have learned from the past and grown strong over the years to secure capital buffers in the banking system," Magnusson says.

"The enormous trading volumes on the cash equity trading during the crises highlighted the need for a central counterparty in the Nordic markets and it was introduced in 2010. It also resulted in further efficiencies in the use of IT as well as an improved and more efficient way of working," she adds.

Also looking at how the financial crisis affected the Nordics, Michael McPolin, business transformation manager, corporate actions, IHS Markit, notes in respect of asset servicing there were significant volume fluctuations with an increase in bankruptcies and complex debt restructures.

images by kimson/shutterstock.com

However, moving away from manual processes and towards more enhanced technology is one opportunity that is shining on the Nordics' horizon.

Deja Vu?

It took a little while for the Nordics to shake off the effects of the financial crisis of 2008 but it has since embraced new European trading regulations and made way for new market expansion. The crisis also prompted the move to the TARGET2-Securities (T2S) platform. However, the pandemic is presenting the Nordics with very similar impacts that were caused by the financial crisis, especially in terms of extreme trading volumes and volatility.

According to Magnusson, the difference, however, is mainly related to the need to have split operations and work from home.

"The infrastructure and the banks have not been negatively affected by the situation as the banking system per se is not part of the problem, as it was during the financial crisis. However, the focus from governments and other bodies to support society and mitigate the risk of financial collapse are obvious," she says.

From a securities services perspective, Magnusson notes that the implications have been limited, if any, foremost related to volatility on the stock exchanges, de-risking impacting derivative clearing and collateral management.

She continues: "Some very quick changes of corporate law have been implemented in Sweden and Finland in order to allow remote voting at annual general meetings (AGMs). We have also seen a few funds deciding to close down. Similar to the financial crisis, this pandemic crisis has pushed the digitisation and need for technology, and thereby a new and improved way of working. After the initial focus on crisis management, the establishment of split operations etc we have experienced more of a new normal."

Also discussing the similarities and differences between the pandemic and the financial crisis, Richard Wilson, product management director, corporate actions, IHS Markit, highlights that actually the recent global market volatility, as a result of the pandemic, has been more severe than the crash of 2008 and has continued over an elongated period with economic impacts still evolving and impacting investor confidence.

Wilson affirms: "The market volatility and trading spikes, plus the challenges of cancelled income and redemption events, conflicting market event information, more complex bankruptcies and debt restructures, were all prevalent in 2008. However, the major difference is that the period of uncertainty and economic impact is ongoing, with a three to four-month delay on CA events and a shift in the 'busy' season."

Unlike 2008, however, he explains that the scale of impact this time is not ring-fenced to financial services. It has instead impacted multiple industries and sectors.

Governments and regulators were quick to step in having learnt lessons from the past to take some control of the situation. He says: "The Ministry of Finance Norway led the pack to recommend restrictions on payouts and distributions after COVID-19 was declared a pandemic by the World Health Organisation, well before any recommendations from European Council, Bank of England or the US Federal Reserve."

Another consideration, Wilson suggests, is that the current regulatory environment is more demanding now, as much of the current regulation was introduced as a result of the 2008 crash.

Challenges

Amid the turmoil of the pandemic, custodians in the Nordics are also facing challenges elsewhere.

Magnusson explains that the main challenges have nothing to do with the pandemic crisis. She highlights that the focus is still very much on the regulatory environment and implementation of Central Securities Depository Regulation, Shareholder Rights Directive II and Securities Financing Transactions Regulation.

"The new and tighter tax legislation is also something that impacts the way we operate making sure we and our clients stay compliant. Custodians are also facing increasing cost due to the regulatory driver. Infrastructure has also been increasing cost towards the participants," she says.

Additionally, she observes that custodians are seeing a continuous need to develop services to support the client base. "We see an increasing demand for investments into alternative assets, more markets and support around corporate events like voting services," she adds.

McPolin affirms that the challenges for custodians in the Nordics are consistent with global market challenges and emanate from the fact that even with continuous margin compression for both custodians and their clients, the costs and risks in the corporate actions space are escalating due to volumes increases, new regulations, regional variances and market infrastructure changes.

"These factors coupled with the lack of standardisation and manual processes built around legacy technology architectures, further exacerbate the risk of errors and financial losses. This environment is a catalyst for change, with custodians needing to review operating models and adopt new technology to reduce risk and increase efficiency," McPolin comments.

Meanwhile, while progress has been achieved by custodians in tackling these challenges through adoption of technology, McPolin notes that the ability to fully optimise this investment is restrained due to other weaknesses in the investment chain who do not, or cannot, comply with industry reporting standards.

Opportunities and beyond

Amid the challenges, there are opportunities on the horizon too, such as technological developments.

Magnusson comments: "We see great opportunities in the growth of the savings industry. There is an increased interest in alternative assets as well as services around environmental, social and governance. We also expect a need to manage assets in a more digitised form, tokenised assets will be of growing interest."

"We also see growth in the interest of our client to outsource different services. How we use new technology to interact with our clients will be very important. To become more agile and bring additional value to our clients will be crucial going forward," she adds.

Similarly, McPolin also sees technology as an area of opportunity for the Nordics. He says: "Custodians are leveraging cloud to lower total cost of ownership (TCO) and simplify implementation and maintenance of solutions compared to the traditional model of on-premises deployment and upfront licensing costs."

He continues: "Application programming interface (API) adoption is increasing at a rapid pace and their adoption can improve the efficiency, not only around client communication but also interactions with the street including counterparties, market infrastructures and solution providers."

McPolin also affirms that given the reliance on manual touchpoints and processes, developments in new technologies such as robotic process automation can help increase operational efficiencies by automating the basic repetitive tasks without impacting the technology infrastructure.

Elsewhere, looking at how the Nordics could develop over the next 12 months, Wilson explains that the purchase of the VP in Denmark by VPS Norway will mean that both central securities depositories (CSDs) are owned by Euronext, and it is felt that they will look to achieve operational synergies.

"Additionally, with the Swedish and Finish CSDs being owned by Euroclear, there is a stated intention by the Nordic CSDs to focus upon market harmonisation, in line with European wide standards and practices," Wilson comments.

He identifies that operating models will need to evolve in response to the pandemic with all financial institutions looking to introduce remote working on either a permanent or rotational basis, all four Nordic CSDs have confirmed this is their intention.

As part of this revised operating model, there will be greater use of communication channels like Zoom and Teams by the industry to support client, team and industry engagement which should result in cost savings to the industry on travel and entertainment, according to Wilson.

"Focus upon achieving risk reduction, process efficiency and enhancing the client experience will be a key element of the operational model review with clients looking to technology and outsourcing for options for solutions. The pandemic could also be the catalyst for market change with efforts being made to sunset manual processes and adopt digital solutions. It was also highlighted that tax changes, driven from enhanced scrutiny, could result in fundamental changes to how local tax reclaim are handled across the Nordic region," he concludes.

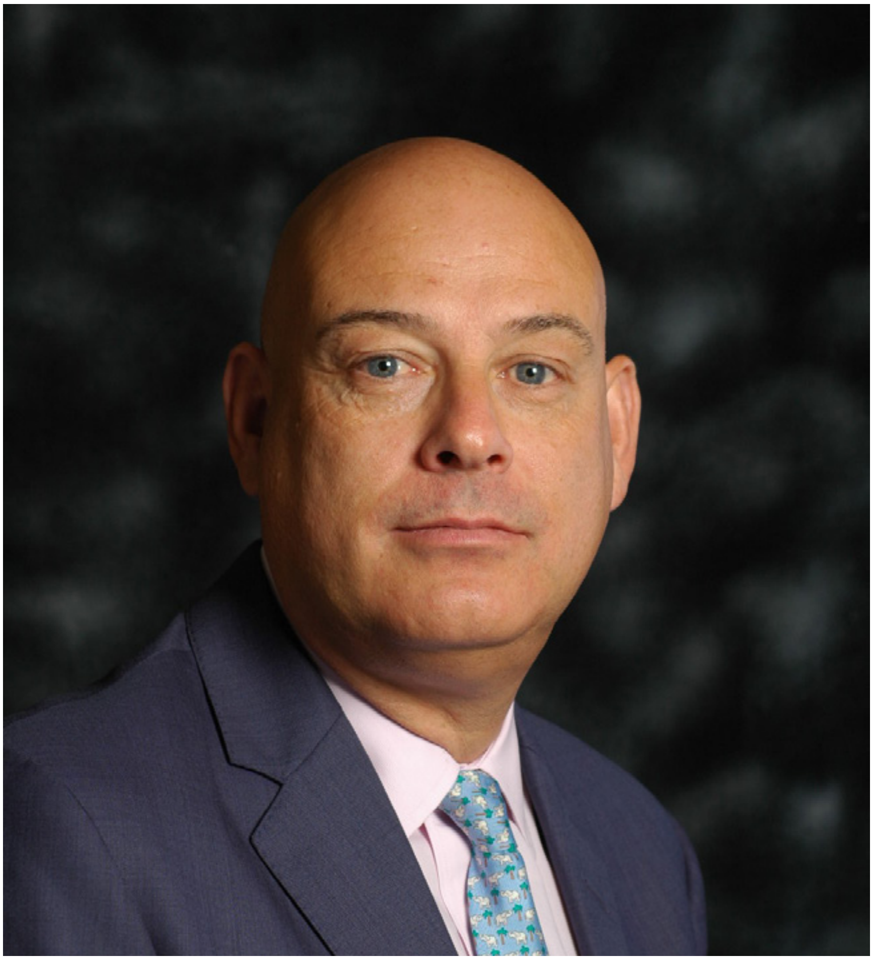
BNY Mellon Investment Management has appointed Hanneke Smits as CEO following the retirement of Mitchell Harris, effective 1 October.

Catherine Keating will continue in her role as CEO of BNY Mellon Wealth Management under the investment management business. Both Smits and Keating will report to Todd Gibson, CEO of BNY Mellon, while Smits will also join the executive committee. She currently holds the position of CEO at Newton Investment Management, a subsidiary of BNY Mellon, since 2016. Smits previously served as chief investment officer and member of the executive committee at Adams Street Partners, and non-executive director to the Court of the Bank of England.

Gibbons commented: "Mitchell Harris has been instrumental in driving our investment management business over the last four years as CEO and we wish him all the best in retirement."

"We are delighted to elevate Hanneke Smits into the CEO role for investment management. Smits has spearheaded Newton's business momentum and client-centric culture, and we look forward to her leadership within BNY Mellon Investment Management. Mitchell has cultivated a strong bench of leaders, including Hanneke and Catherine Keating, who will continue to drive the execution of our strategic priorities to deliver leading investment solutions to our clients underpinned by exceptional investment performance."

Smits added: "I am deeply honoured to serve as CEO of BNY Mellon Investment Management. We have made great progress in building a diversified investment portfolio to help our clients achieve their investment goals."



The Certified Investment Fund Director (CIFD) Advisory Committee has appointed Clive Bellows as chair.

Currently, Bellows is head of global fund services for Europe, Middle East and Africa at Northern Trust, with overall responsibility for leading the company's fund administration and depositary business in the UK, Ireland, Luxembourg, Switzerland, Netherlands and Guernsey. In a statement, Mary O'Dea, chief executive of the Institute of Banking, said: "As past president of IOB and a CIFD Alumni, Bellows brings a unique combination of vast experience in the funds and asset management industry combined with a passion for lifelong learning and professional standards."

O'Dea noted that Bellows will be joined on the committee by new appointees Martina Kelly, Dr Blanaid Clarke and Dr Margaret Fitzsimons.

Established in June 2015, the CIFD Institute is a global, not-for-profit community of investment fund directors offering specialist qualification in investment fund governance.

The advisory committee of CIFD is drawn from the global community of industry experts in asset management, investment funds and securities markets regulation.

Hex Trust, the provider of bank-grade custody for digital assets, has appointed Colin Brooks to its advisory board.

Brooks brings with him 30 years of experience in institutional custody and securities businesses and has previously served as HSBC's head of custody and clearing.

He was primarily responsible for building HSBC's custody business from a small team to the biggest and most dominant sub-custodian in Asia.

Additionally, he was also closely involved in all aspects of HSBC's securities business evolution, from a custody business operating in six individual markets in Asia, to its current form as a global business within HSBC's corporate and institutional banking division.

During his career, Brooks has worked in a number of securities industry roles, including as a member of SWIFT's Securities Council and their Asia Pacific Advisory Group, as well as a board member of the International Securities Services Association (ISSA).

Brooks moved to Standard Chartered Bank (SCB) in 2015, first as senior advisor to the securities business and then as vice chair securities services based in Singapore.

At SCB, his responsibilities included re-shaping the leadership team and driving forward a series of key change initiatives across multiple areas to effectively re-launch the SCB securities business. Brooks retired from SCB in 2020 after the successful completion of the re-launch.

Hex Trust explained that as it continues to scale its banking and financial institutional

The Aztec Group has appointed Paul Watson and Alexandra Prince as director and associate director of the private equity team, respectively.

As director, Watson will be responsible for the implementation and development of administration, accounting, and governance services to a major global fund manager client.

Having previously held the positions of principal consultant at Marbral Advisory and global director of change management at SANNE, Watson is experienced in managing programme oversight and governance.

Prince joins the Aztec Group from Saltgate, where she was part of the in-house counsel and senior leadership team. In her new role as associate director, she will be responsible for leading a client relationship team handling private equity fund managers' portfolios.

Simon King, co-head of private equity, Jersey at the Aztec Group, commented: "I'm delighted to welcome Alexandra Prince and Paul Watson to our team. They are both highly experienced professionals who bring a wealth of expertise to the business, helping to further enhance the industry-leading service we provide to our clients."

"Their knowledge of the local operating environment in Jersey and the alternative investments space in general will add real value to the group and our offering."

client base across Asia and Europe, Brooks' experience and guidance will be invaluable to its expansion.

It was also noted that Brooks will also help to ensure Hex Trust continues to build the industry's leading platform for bank-grade digital asset custody.

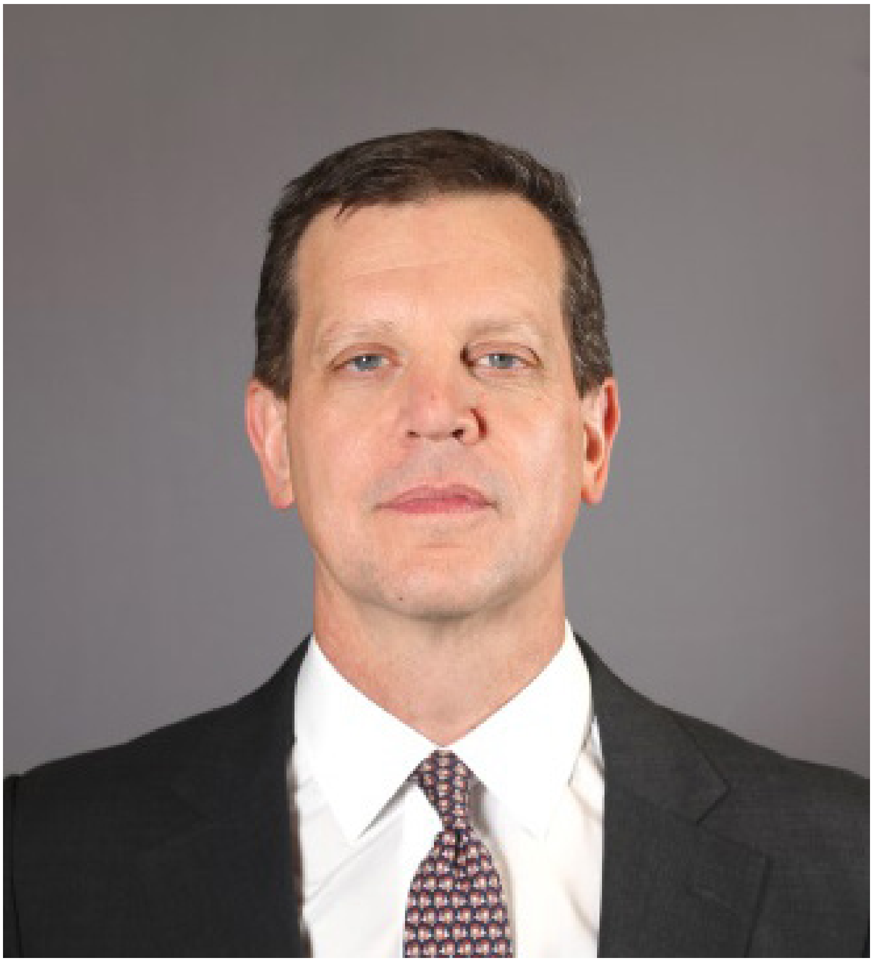
Alessio Quaglini, CEO of Hex Trust, stated: "Colin Brooks joins Hex Trust at a critical juncture for the entire digital assets industry. A new wave of adoption is taking place, spearheaded by banks, central banks and other financial institutions, which is transforming the market and the way service providers operate."

"Brook's extensive experience in custody and securities services accumulated in leading financial institutions will play a critical role to develop and shape Hex Trust's service offerings to banks looking at entering the digital assets market," Quaglini added.

Commenting on his appointment, Brooks said: "I'm excited to join the Hex Trust advisory board to help the business scale, optimise its custody platform and operations, and onboard more banks and financial institutions as clients."

"Using my years in the traditional custody and securities industries, I'll be aiming to pass on my guidance and experience to take Hex Trust to the next level to make sure that the platforms we build correctly address both financial institutions' needs and the requirements of the highly regulated markets which they operate in."

"I'm looking forward to being part of Hex Trust's journey and participating in the revolution of blockchain technology reshaping the infrastructure of financial markets."



The International Securities Services Association (ISSA) has appointed Jeff Williams, global head of network management for direct custody and clearing at Citi, to the board of directors.

ISSA operates as an association of global securities services providers to offer industry information on the developing markets, and promote stronger market practices.

Williams' appointment follows Lee Waithe's retirement as board chair earlier this year.

Phil Brown, chairman of ISSA, commented: "We are pleased to welcome Jeff Williams to our board of directors. His experience and global outlook, coupled with his deep knowledge of the securities industry and ISSA's agenda, will add further strength to our board."

"The fact that Jeff has served on the ISSA operating committee is an added bonus."

Williams added: "I am honoured to be elected to the board of ISSA as Citi's representative. I have been a strong supporter of ISSA over the years and look forward to helping the association adapt to the next set of strategic challenges."