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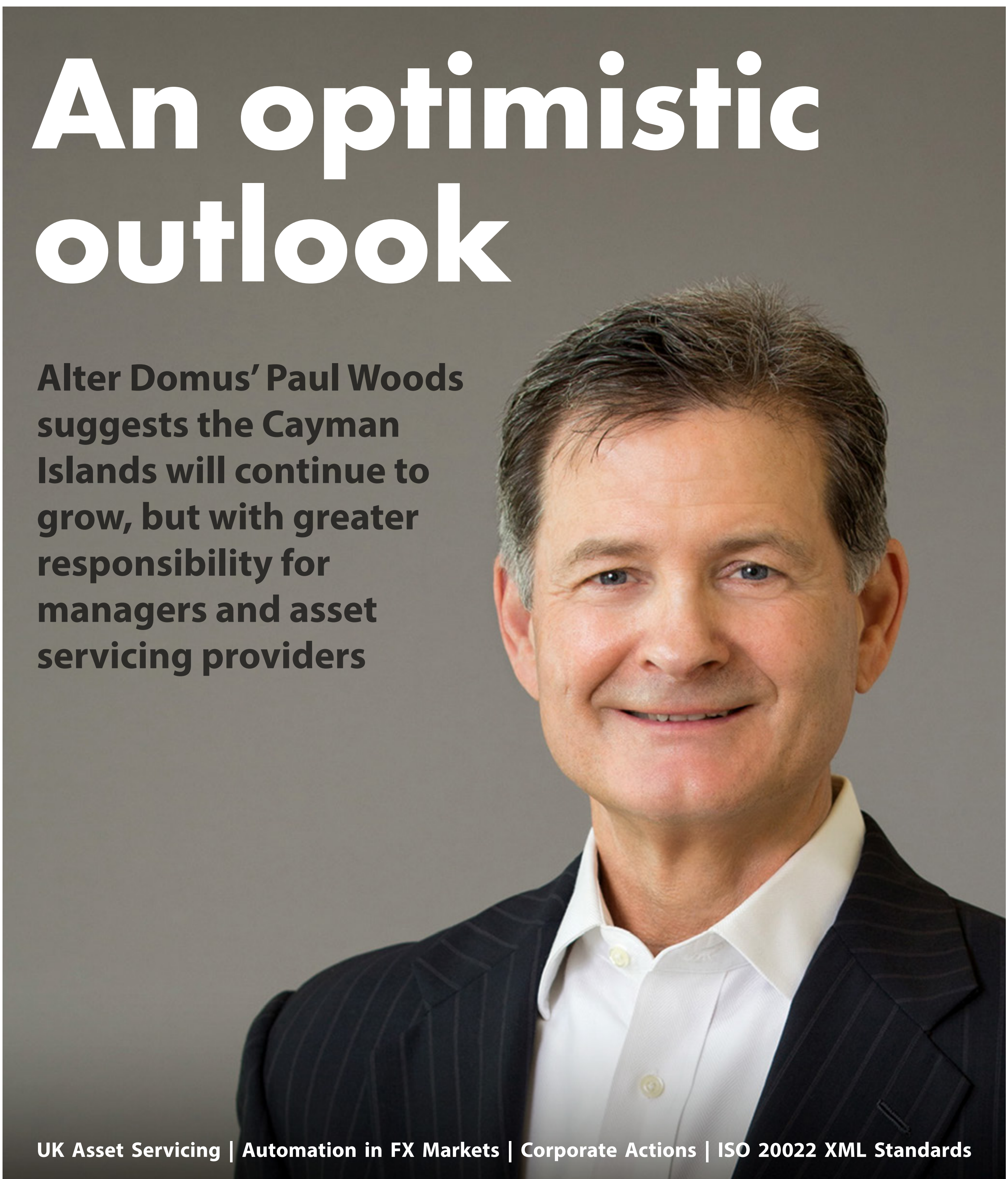
ISSUE 257 20 January 2021



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Brexit deal shows 'lack of focus' on financial services

With a post-Brexit agreement made just a week before the transition period between the UK and EU came to an end, industry experts highlight the "lack of focus" on the financial services sector.

The word 'fish' appears almost three times as often as 'financial services' (16 to six references) across the 1,200 pages of the new trade and cooperation agreement (TCA) the UK signed with the EU just before Christmas.

Finance and its associated professional services sector collectively represent about 12 per cent of the UK economy – it is the UK's biggest export segment and runs a huge trade surplus.

Consultant Tony Freeman says: "It's widely assumed that the government posture is driven by two factors: banks are very capable of looking after themselves and, crucially, there are very few votes garnered in standing up for bankers."

The lack of focus on this highly successful sector has been very evident for some time which, according to Freeman, has led to the sector taking steps to prepare for both a managed or hard Brexit.

Tej Patel, partner and regulatory practice lead at Capco, also highlights that services, in general, were not the focus of Brexit negotiations.

On 1 January, UK financial services firms lost their passporting rights to sell services into the EU from within the UK unfettered by any need for further regulatory clearances.

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As a result, Patel explains that UK-based firms are effectively now operating under their no-deal/ hard Brexit scenarios.

In a statement, the Financial Conduct Authority (FCA) affirms: "Passporting between the UK and EEA states has ended and the temporary permissions regime (TPR) has now come into effect for those firms and funds that notified us that they wanted to enter this regime."

This allows EEA-based firms that had been passporting into the UK to continue new and existing regulated business within the scope of their previous permissions in the UK for a limited period, while they seek full authorisation from the FCA, if required. It also allows EEA-domiciled investment funds that market in the UK under a passport to continue temporarily marketing in the UK.

Alongside the TPR, the government has created the financial services contracts regime (FSCR).

According to the FCA, this allows, for a limited period, EEA passporting firms not in the TPR to continue to service UK contracts entered into prior to the end of the transition period (or prior to when they enter FSCR) in order to conduct an orderly exit from the UK market now that the transition period has ended.

Immediate effects

In terms of immediate effects, it has been reported by the Financial Times that London's financial sector started to feel the full effects of Brexit on the first trading day of 2021 as nearly €6 billion of EU share dealing shifted away from the City to facilities in European capitals. It was further reported that business on London hubs for euro-denominated share trading, including Cboe Europe, Turquoise and Aquis Exchange, shifted to their new EU venues set up late last year to cater for the end of the Brexit transition.

Some industry participants suggested that although there has been a shift in trading Euro-denominated stocks onto EU platforms, the majority of staff at Aquis, Cboe, and Turquoise will remain in London.

The London Stock Exchange Group (LSEG) launched its new pan-European share trading platform Turquoise in Amsterdam as part of its Brexit contingency plans in November.

LSEG explained the difference between Turquoise Europe and the existing Turquoise in London is that Turquoise Europe only has available the European economic area listed securities for trading on its platform.

London-based Turquoise continues to have both the UK and European listed securities that it has always had, so there is no change in that offering there.

"The immediate impact, already visible, is that trading in European stocks has moved from UK exchanges to newly created platforms domiciled in the EU. These are electronic trades and the physical impact - on jobs for example – will be limited. The new subsidiaries are bridgeheads into the EU27 – it doesn't mean that exchanges have moved their main operations away from London. However, this won't stop politicians claiming that the EU has successfully repatriated business from London," highlights Freeman.

Other immediate impacts relating to Brexit include the European Securities and Markets Authority's (ESMA) announcement to withdraw the registrations of four UK-based trade repositories (TRs) and six UK credit rating agencies (CRAs).

Longer-term effects

With no equivalence granted for UK financial services, the longer-term impacts of a no-deal Brexit will potentially be more significant.

The European Commission's EU-UK TCA, states: "The agreement does not cover any decisions relating to equivalences for financial services."

"Nor does it cover possible decisions pertaining to the adequacy of the UK's data protection regime, or the assessment of its sanitary and phytosanitary regime for the purpose of listing it as a third country allowed to export food products to the EU. These are and will remain unilateral decisions of the EU and are not subject to negotiation."

Freeman explains that the absence of equivalence is a problem but was anticipated. He says: "Equivalence is a flaky, politically skewed process that most firms do not want to rely on. Its scope is also limited – it does not cover all business segments. Banks and investment managers have therefore created new EU entities to trade with clients and counterparties inside the EU27."

"The very clear objective of EU27 policymakers, both nationally and in Brussels, is to use regulatory standards to build local presence – meaning a transfer of jobs from the UK."

Freeman suggests that for investment banks the primary issue will be what standards local supervisors take on the issue of "substantive presence".

"Today, this is undefined. For fund managers the crucial issue is delegation: will they continue to be allowed to manage funds in a globally flexible model, or will the fund have to be managed within its legal domicile?" he adds.

Capco's Patel notes that the TCA does not provide certainty with regards to the outstanding

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areas of equivalence which still remain unresolved between the UK and EU.

The further information being requested by the EU, to support its decision making, will be a challenge for the UK government as they have yet to determine detailed plans for regulation in the future, which Patel says "puts us [the industry] into a 'Catch 22' scenario".

Patel explains that the EU has granted time-limited equivalence decisions for derivatives clearing (18 months) and settling Irish securities (six months).

"Beyond that, the Joint Declaration – non-binding, it should be noted – that sits alongside the TCA commits the UK and the EU to future cooperation around financial regulation. However the Memorandum of understanding that will facilitate this cooperation is not set to be finalised before March 2021," Patel comments.

Given that negotiating permissions across individual EU states could be complicated and expensive, equivalence is seemingly the way forward for firms.

Patel highlights that it will inevitably be a downgrade from what firms previously enjoyed in terms of activities covered.

While equivalence determinations were slated to be confirmed by mid-2020 under the terms of the 2019 UK-EU Political Declaration, that deadline passed without resolution.

To date, the EU has granted temporary equivalence only to UK clearinghouses. In September, ESMA confirmed that LCH, ICE Clear Europe, and LME Clear will be recognised as third country central counterparties (CCPs) from this month.

At the time, ESMA explained the 18-month period will provide the opportunity to conduct a comprehensive review of the systemic importance of UK CCPs and their clearing services or activities to the EU and take any appropriate measures to address financial stability risks.

Patel notes that the equivalence to the UK clearinghouses is due to the sheer volume (trillions of dollars of derivative contracts per day) that flows through these venues.

"That said, this does provide some kind of platform to build towards future regulatory equivalence/cooperation between the UK and EU," adds Patel.

GoldenSource's regulatory expert Volker Lainer stipulates that for those in the financial services industry, the failure to agree equivalence will carry on having an important impact on their day-to-day activity for some time going forward.

"While some key elements of financial market structure have been agreed – for now – the different approach of the FCA and ESMA to market rules and regulations may result in divergence in the near future," Lainer says.

As a result, Lainer believes that firms operating in both jurisdictions will need to have better data segregation to respond to the split regulatory reporting.

Lainer comments: "The recovery from 2020 will be tricky enough and market participants can't rely on any agreement in early 2021 to resolve the issues stemming from this."

Also weighing in, Freeman says: "These issues will be a slow-burn process and facts will be hard to discern. But the trend is clear. However, the City of London is creative and extremely adaptable. It believes that the growth in its overall business – green finance, derivatives/risk management, non-EU markets - will more than compensate for the loss of business into the EU. Only time will tell."

BECAUSE TIME DOESN'T STAND STILL, EVEN IN CORPORATE ACTIONS

Automated solutions in business continuity planning tells the story

During FIS' recent webinar, **"Looking Beyond 2020: A Reality Check for Corporate Actions,"** the question was asked, "Who will be chosen as the sacrificial lamb to go into the office and retrieve the fax notifications during the next wave of pandemic?"

A telling question if there ever was. The very pandemic that pushed modern corporations into adopting work-from-home policies is now driving the financial world at large to embrace the new digital norm – or fade quietly into the sunset.

Three inescapable developments

During the COVID lockdown, logistics became vital to ensuring the uninterrupted flow of business. With staffers working from home and access to on-premise resources limited, corporate actions teams managed to function well enough, thanks in no small part to smart business continuity planning in advance. However, now that the dust has settled, the back office needs to focus on some key areas to move beyond 2020 confidently.

1. Communication is key

Corporate financial data must be made accessible across the organization, to accommodate anywhere-anytime account services. The ability to move work on short notice must be bridged, outfitting employees to communicate over consumer grade networks in any geography at will. Bank-to-bank communications, such as SWIFT messaging, must also be embraced. Regulators have set the stage for transformation with legislation such as SRD II (in Europe), but COVID now makes modernization non-negotiable.

2. Online resources are vital

While on-premise infrastructures provide a high degree of security and control, they also demand great wherewithal to duplicate operations for reliable business continuity. The cloud levels the playing field by making secure resources available from anywhere. What's more, browser-based tools, advanced data management capabilities and cutting-edge AI, ML and analytics on the cloud make it the preferred deployment for business continuity moving forward.

3. Staff knowledge must be democratized

Managing corporate actions is a complex business. It can take years for operations staff to learn the ropes and make right decisions based on experience and in-depth knowledge of rules and procedures. When COVID effectively separated junior staff from senior peers, mistakes were made. Connecting junior employees with expert resources across the enterprise will become more important than ever in the post-COVID world of corporate actions.

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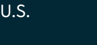

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Broadridge and SLIB team up on SRD II solution for French market

Broadridge Financial Solutions has partnered with SLIB, a software vendor in electronic voting and security services based in France, to provide a joint, cross-border proxy voting solution for Shareholder Rights Directive (SRD II) compliance.

The solution, which will cover European shareholder meetings, will use Broadridge's global proxy solution and includes a straight-through processing (STP) connection to SLIB's Votaccess platform.

The partnership will enable the distribution of meeting agendas for European shareholder meetings, as well as process and count votes from French shareholders in a seamless service.

The Broadridge and SLIB solution will allow French retail intermediaries to offer proactive proxy voting services to shareholders where they can be notified of shareholder meetings for European companies and exercise voting rights seamlessly.

The solution is fully integrated into client workflows and will be available ahead of the 2021 proxy season, the first proxy season where SRD II compliance is compulsory.

SRD II went live on 4 September 2020 and is global in its scope, impacting any financial intermediary that holds or services European equities, irrespective of where the intermediary firm is located.

It applies to all types of financial intermediaries, including banks and brokers, wealth managers and central securities depositories (CSDs).

Philippe Cognet, CEO of SLIB, says: "This is a landmark initiative and brings together the leading provider of global proxy solutions in Broadridge, with our unique Votaccess platform, the electronic voting solution leader in the French market."

Demi Derem, general manager of Broadridge's international investor communication solutions, adds: "We are delighted to partner with SLIB to help French intermediaries meet their regulatory obligations at such a vital time."

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Deutsche Bank joins ranks of custodians offering securities lending via QFII scheme

Deutsche Bank has facilitated a margin trading and securities lending transaction under China's expanded Qualified Foreign Institutional Investors (QFII) and RMB Qualified Foreign Institutional Investors (RQII) schemes. A QFII licence allows international investors to participate in mainland China's stock exchanges.

As of November 2020, the abilities of licenced investors expanded to include securities finance and short selling.

The new rules have also lowered entry requirements and simplified procedures under the combined quota-free QFII and RQFII.

On 28 December 2020, the China Securities Depository and Clearing Corporation opened the application and registration channel for margin securities accounts.

Deutsche Bank China has confirmed it supported a qualified foreign investor as its China onshore custodian bank on the first day of trading under the new rules.

According to Deutsche Bank, it offered a full suite of custody services including account opening, asset custody, cash transfer and regulatory reporting, and helped in completing a smooth transaction on the first trading day of margin trading and securities borrowing under the new rules.

Tony Chao, head of securities services Greater China and head of securities services sales in North Asia at Deutsche Bank, says: "The opening of margin trading and securities borrowing through the QFII/RQFII scheme expands the investment product scope and increases the diversification of investment strategies available to foreign investors. It also helps in improving fund efficiency, providing investors with greater flexibility to investment strategies and portfolio execution."

The German bank also received a domestic fund custody licence recently and says it is also one of the most active foreign settlement agents in the China Interbank Bond Market.

Deutsche Bank offers custodian services in more than 70 major markets globally, including 12 markets with dedicated teams in the Asia Pacific region.

Other global banks to take advantage of the new rules to help clients engage in securities lending include HSBC, Standard Chartered and Citibank.

IQ-EQ acquires Constellation Advisers

IQ-EQ, an Astorg portfolio company, has acquired Constellation Advisers, a US co-sourced and outsourced investment management services provider.

The acquisition will be IQ-EQ's second in the US over the last 12 months, following the acquisition of Blue River Partners at the beginning of last year.

Founded by Boris Onefater, CEO and co-founder, and Greg Farrington, president and co-founder, Constellation Advisers provides customised solutions to traditional and alternative investment management firms.

These firms include private equity, real estate, private credit, venture capital, hedge funds and family offices.

Following this acquisition, IQ-EQ's newly combined US business is said to total more than 320 US-based employees with scale in regulatory compliance, fund administration and outsourced services.

With immediate effect, Mark Fordyce, CEO of Blue River and IQ-EQ US Funds, will assume overall responsibility for the group's expanded US operations. Constellation Advisers co-founders, Onefater and Farrington, will assume the roles of chairman, global head of outsourced services and president and head of outsourced services, Americas, respectively. IQ-EQ will retain the Constellation Advisers brand name in the short to medium term and will move to rebrand the business to IQ-EQ as part of its longer-term business strategy.

Fordyce says: "The addition of the 100 plus Constellation Advisers team brings the total US headcount to more than 320, giving the combined firm increased scale and presence in all key financial markets across the US and the ability to successfully leverage the depth and strength of the entire IQ-EQ Group operating across all of our 23 strategic jurisdictions around the globe."

Seward & Kissel LLP represented Onefater and Farrington, the co-founders of Constellation Advisers, in connection with this transaction.

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Brexit: ESMA withdraws registration of four UK-based TRs

The European Securities and Markets Authority (ESMA) has withdrawn the registrations of four UK-based trade repositories and six UK credit rating agencies, following the end of the Brexit transition period. The CRA Regulation, the European Market Infrastructure Regulation, and the Securities Financing Transactions Regulation require ESMA to withdraw the registration of a firm where it no longer meets the conditions under which it was registered.

Read the full article online

Bequant gains approvals for exchange and prime brokerage products

Global digital asset services firm Bequant has been granted in-principle approvals by the Malta Financial Services Authority (MFSA) to operate both a prime broker and exchange.

The MFSA has approved in principle a Class 3 Virtual Financial Assets (VFA) Licence to Bequant Pro to provide VFA services as a prime brokerage to experienced investors.

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Mizuho selects Fenergo to automate client onboarding systems

Fenergo, a provider of digital transformation, customer journey and client lifecycle management solutions for financial institutions, has automated client onboarding systems for Mizuho America.

Mizuho America has deployed Fenergo's software to automate know-your-customer and anti-money laundering regulatory processes, digitalise workflows and accelerate client onboarding onto a single platform.

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VP Bank enhances activity in Luxembourg with new acquisition

VP Bank (Luxembourg) has acquired Öhman Bank's client business, enhancing its activities in the Luxembourg and Scandinavian markets.

The transaction, which was completed in the form of an asset deal, will include the takeover of employees and the migration of client assets.

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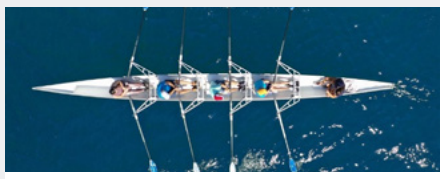

Six industry players team up to create new asset management platform

IHS Markit, State Street, PIMCO, Man Group, Microsoft, and McKinsey & Company have teamed up to form a new technology-led company, HUB, to create a new asset management platform.

The participants will build a cloud-based operating platform aimed at transforming asset managers' operations technology.

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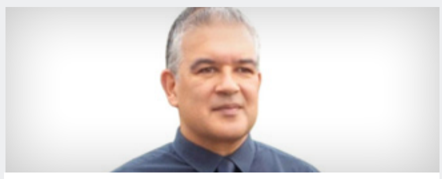

Equiom expands Dublin office with new super ManCo platform

Equiom, a provider of multi-jurisdictional investment and asset protection solutions, has launched Equiom Fund Solutions (Ireland), a super management company (ManCo) for fund managers.

The ManCo offers both alternative investment fund managers directive and UCITS solutions for regulated funds looking to raise capital from investors in the EU.

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Bright spots in the clouds

Maddie Saghir reports

The UK's fund industry has had its fair share of challenges especially with the pandemic and Brexit thrown into the mix, but experts say there are always bright spots in the clouds

With Brexit, the COVID-19 pandemic and other significant challenges, the UK's fund industry is working hard to keep afloat.

Experts say the UK is on a multi-year run of negative net flows for domestic funds, and most asset classes are in the red for flows in 2020 while equity is just managing to lift its head above water.

The industry is mature and older investors are often drawing down savings to live on. Chris Chancellor, senior director, Broadridge, says at present "there is not enough water pouring into this bath to offset that draining away."

While absolute return funds have been massive sellers in the years gone by — providing an alternative to low yielding fixed income — experts believe they dragged the mixed asset area to be the worst selling investment type in 2020.

However, Chancellor highlights there are always bright spots in the clouds in asset management and simple mixed asset ranges have been selling well like those from Vanguard, J.P. Morgan or Assurance Services International.

Meanwhile, the industry continues to rotate from active to passive with large outflows to active and vice versa.

Areas of particular interest in the UK's fund industry encompasses new product launches — to ensure cost efficiency — as well as the continuing shift towards the use of separately managed accounts rather than pooled accounts for large investors who are demanding more control over fee structures and customised solutions. In addition, no longer a niche, environmental, social and governance (ESG) gained even greater momentum last year in the UK and this is some-

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thing that experts suggest will continue this year and for many years to come.

ESG was enhanced by the pandemic's effect on how funds view risks of all types, as well as regulatory drivers and demands from employees, consumers and investors.

Funds are now focused on ensuring greater disclosure of non-financial data and information and ensuring that ESG requirements are met by their products.

"We expect this trend will only continue to intensify in 2021 and differentiate the service providers which offer value-added services in these areas," comments Apex Group UK's managing director Niall Pritchard.

Increased interest in alternative funds

In line with increased growing interest worldwide, the alternative funds space is growing in the UK. This is while investors of all types look to generate returns and diversify to reduce risk.

Alternative funds are mutual funds, or exchange-traded funds (ETFs), that invest in non-traditional securities.

While some investors may find these funds are inappropriate for them, they can be used as diversification tools if used properly.

According to Chancellor, the challenge in the retail space remains the difficulty of having relatively illiquid investments in a liquid vehicle causing well known issues that investors in the UK will be especially sensitive to.

Over at Apex, an interest in a wider variety of different strategies has been identified as the group operates in the new working environment evolving under COVID-19.

Pritchard says there has "undoubtedly" been increased allocations to private equity, private debt, real estate and infrastructure as these asset classes "continue to grow rapidly and become more important in investor allocations".

"The private equity industry has proven itself to be very adaptable and faster at deploying capital than public markets, and with so much dry powder ready to invest it is in a good position to access deals and drive meaningful recovery," he adds.

Indeed, the industry will have a key strategic role in rebuilding the economy through rapid, targeted capital deployment.

The volume of distressed deal activity alone within funds is expected to continue to increase largely because the falling valuations have created attractive opportunities for those who have capital to deploy. As well as this the public finances are feeling the strain in the wake of the pandemic and so private capital will remain in high demand.

A greener future?

Across the globe, financial institutions are paying more attention to ESG. Countries like Luxembourg, for example, are taking big strides towards sustainable finance with the opening of the Luxembourg Green Exchange (LGX) in 2016.

Experts especially noticed a trend developing in lockdown in the ESG space as more and more people are aware of nature in their surroundings during 2020.

According to Brian Charlick, principal consultant at CGI, this accelerated the push towards ESG which started in Europe a few years ago and has really taken hold in the Nordic states.

"The EU has now drafted an ESG regulation that will mean greater control and standardisation of the ESG market. It is also noted that most of the asset management and fund management firms now have a policy on ESG and ESG funds available," Charlick comments.

Moves are being made in this space as the European Commission has stated their intentions to introduce regulation about the Alternative Investment Fund Managers Directive (AIFMD)/UCITS and Advisory.

In August 2020, the European Securities and Markets Authority recommended adding a reference in the Directive that ESG factors should be considered in the AIFMD reporting in order to monitor ESG related risks.

Experts anticipate that projects such as the accelerated carbon footprint move in the UK will need to be factored into fund strategies.

There have long been 'exclusion' funds, which do not invest in certain industries as well as 'impact' funds for whom ESG impact is a key component of their investment strategy.

But Pritchard says increasingly, many UK managers now have ESG teams or outsourced solutions to assist with ESG analysis during the investment due diligence phase as well as ongoing monitoring of their portfolio from an ESG perspective.

"A low ESG rating should not be viewed as a 'make or break' for an acquisition, but the fund should be aware of this as an area which needs to be addressed and improved during the period they hold the asset," Pritchard adds.

Keeping the challenges at bay

Brexit is one of the most obvious challenges facing the UK's fund industry. The effects of no equivalence granted for UK financial services is likely to impact fund managers in the long term. Experts suggest the very clear objective of EU27 policymakers, both nationally and in Brussels, is to use regulatory standards to build local presence — meaning a transfer of jobs from the UK.

For investment banks, the primary issue will be what standards local supervisors take on the issue of 'substantive presence', according to consultant Tony Freeman.

"Today, this is undefined. For fund managers the crucial issue is delegation: will they continue to be allowed to manage funds in a globally flexible model, or will the fund have to be managed within its legal domicile?" Freeman comments.

Meanwhile, Pritchard says: "Getting past Brexit may mean a sigh of relief for the industry and flows may return but there may be complexities for those with Luxembourg or Dublin ranges."

Low savings rates mean that UK investors should become interested in funds as a good way to save for their future, allied with ESG this may bring new investors in.

Chancellor cautions that getting the interest of new investors is not easy and the industry has yet to find the right voice to attract millennials to investing.

Despite the ongoing challenges and uncertainties around Brexit, experts are confident that London will remain the financial centre for alternative asset classes and will continue to fuel investment into these sectors.

Freeman affirms: "The City of London is creative and extremely adaptable. It believes that the growth in its overall business — green finance, derivatives/risk management, non-EU markets — will more than compensate for the loss of business into the EU."

Harry Chopra, chief client officer at AxiomSL, suggests that in order to compete effectively, UK asset servicers will have to be able to deliver value to investment managers that will be operating under UK and European rules and regulations.

"Take a new regime, such as the Investment Firms Regulation. The rules for calculating risk exposures have been defined by Continental European regulators, and a similar set is being defined by the UK," says Chopra.

He explains: "Asset servicers will have to be competent across both concepts to deliver a seamless experience in helping their clients meet their regulatory obligations."

Opportunities for 2021

For 2021, experts predict funds service providers will continue to expand their product suites tailored to alternative investors such as private equity and real estate.

"We anticipate that the buyer demand for a 'one-stop shop' providing single-source solution will also continue to grow as managers further recognise the major advantages of having one provider – the cost and administrative efficiencies achieved, a reduced level of due diligence required, seamless integration and a single point of contact for ongoing management of the relationship," says Pritchard.

Looking to the rest of the year, experts also expect 2021 to see the continued adaptation to a post-pandemic world, with a renewed focus on areas such as cyber-security as remote working continues.

Looking more broadly at the UK's financial services as a whole, Tej Patel, partner and regulatory practice lead, Capco, explains that now that Brexit has happened and political tensions begin to ease, "it will be important for supervisory bodies to remember the productive and close working relationship which has existed with the UK for so many years".

"A renewed focus on this positive relationship will be key to delivering much needed equivalence decisions in a timely manner, as the priority has to be market stability, protection of investors and detection of abuse/manipulation — not political agendas on either side," Patel adds.

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Harnessing the benefits of more automated FX trade lifecycle operations

Steve French of Traiana discusses the challenges to automation, its benefits, and the key steps that firms should take on their journey towards implementing automation

Foreign exchange (FX) markets are unique not only in their scale but also in their complexity. There are multiple trading paradigms, and also multiple venues where trades may be executed.

The FX ecosystem is highly fragmented and the case for more automation – more automated FX trade-lifecycle processes and procedures – has been clear for some time. And yet, automation hasn't happened yet. Why not, and when will it happen?

Steve French, head of product for Traiana, writes about the challenges to automation, its benefits, and the key steps that firms should take on their journey towards implementing automation.

Inefficiency is an ever-present risk factor in FX trading and post-trade processing. This should be surprising, but it isn't. FX markets are complex ecosystems in which the complexities arise from three main areas: first, there are the challenges associated with the need to support post-trade processing across the whole of the fragmented ecosystem; secondly, there is the established practice of using multiple vendors and/or internal systems to support individual areas of the wider FX market; and finally, there is the related established practice of using multiple vendors and/or internal systems to support discrete aspects of the overall FX trade lifecycle.

All this adds up to a diverse matrix of processes and procedures that have evolved to handle, bluntly, anything that the FX market can throw at it. To cite just a few examples that illustrate the challenges facing the back office, some clients still book trades manually, and resort to fax and/or email confirmation. Some clients have no agreed protocol or method for responding to significant events — which is problematic for derivatives if not so much for cash markets. In cash, some bilateral trades are still being settled manually.

There is widespread automation in FX, of course, but it falls significantly short of being universal.

The maxim 'if it ain't broke, don't fix it' applies as well here as it did to stagecoach technology at around the time the first Model T Ford rolled off the production line. What's to be done?

Putting the money up front

"Historically, investment has been focused on front-office activities. Since the financial crisis, regulatory conformance has taken a huge slice of IT budgets," says French.

Back office and supporting post-trade services have only received a small percentage of the IT spend. But the benefits of automation are increasingly being acknowledged: lower operational risks and avoidance of settlement failures; lower support and operational costs.

Automated matching, confirmation and affirmation processes with a greater number of counterparties will also lower costs for intermediaries and execution providers and will provide a more streamlined flow of trades into settlement and clearing services.

How, then, do we move forward?

First point: regulation facilitates automation. French says: "There's an indirect impact of regulation whereby the costs associated with maintaining bi-lateral agreements with counterparties — and having to post variation margin for some FX instruments under Unclear Margin Rules — are pushing more firms towards clearing, which will force standardised processes to emerge. We're seeing an expansion of the number of FX instruments supported by central counterparties as well as the introduction of listed FX instruments, which some are using as alternatives to pure over-the-counter FX market trading."

There's also some pressure from other asset classes. French continues: "Messaging standards that have been adopted in other asset classes are now gaining traction in FX. This will benefit firms which have systems that support these standards. The increased adoption of messaging standards like FIX and the implementation of FX affirmation and allocation workflows between suitably equipped market participants has created a degree of conformity for some scenarios in the FX markets that we have seen in the equities space."

In terms of moving forward, there are signs that FX-market demand for universal automation is beginning to be met. One of the main criticisms of existing post-trade processes is the need for multiple connections with multiple vendors and multiple vendor processes. French says: "Being able to access multiple trade lifecycle management services through one connection is advantageous, as long as the vendor providing the consolidated solution has an established network of market participants and provides an open platform capable of supporting industry-standard messaging protocols, third-party vendors and industry utilities such as clearinghouses and trade depositories."

Single-connection services are now available, as and as this suggests, vendors have a significant role to play in driving automation. This goes far beyond providing simple connectivity.

Intelligent solutions

Vendors, in fact, can play a key role in facilitating change. French explains: "Vendors play an important role in their interaction with regulators and industry bodies, most importantly with respect to longer-term structural changes. They work hard to understand and interpret new initiatives and industry-body best practices – and regulations – and play a critical role in ensuring that market participants are aware of what is expected of them as part of any change."

He emphasises that change-driving solutions are often the result of a vendor's interaction with their client base.

Historically, little attention has been paid to post-trade platforms across the FX market place, but today, vendors and their clients are closely focused on making processes more useful and efficient through the application of business intelligence. French explains: "We're now in a position where we can centralise a lot of the decision-making that has previously been managed independently by each market participant and realise intelligent post-trade processing." Trades can be automatically routed only to those services required to conclude each given post-trade process and the cobweb of if-then-else-style decision-making logic can be replaced.

To end on a pragmatic note, firms with the most efficient pre and post-trade processes are likely to appear more attractive to those clients who are themselves increasing automation within their own systems. So choose a vendor with an eye to the future. French says: "Vendors must have a track record of delivering solutions that work and which solve real-world problems as opposed to simply presenting concepts that don't benefit a firm and that have not actually been delivered."

French says: "Vendors must have a track record of delivering solutions that work and which solve real world problems as opposed to simply presenting concepts that don't benefit a firm and that have not actually been delivered."

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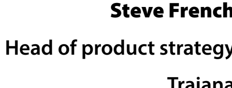


Steve French
Head of product strategy
Traiana

An optimistic outlook

Becky Bellamy reports

Alter Domus' Paul Woods suggests that the Cayman Islands market will continue to grow, but with greater responsibility for managers and asset servicing providers. David Boyd also shares his views on the alternative asset managers space in the jurisdiction

What trends are you seeing within the alternative asset managers space in the Cayman Islands?

Paul Woods: Asset managers and investors are increasingly interested in the Cayman Islands as a fund domicile, and are often looking for support with fund administration, corporate and debt capital market services for Cayman Islands structures.

While regulations have recently been put in place to encourage Cayman managers to set up shop and have a real Cayman presence, relocation remains an unlikely option for many managers. It is far from cost effective for smaller asset managers, and larger asset managers who may be able to absorb the cost and relocate people who do not always have the experience and depth of knowledge needed to build and run Cayman-based in-house teams. As a result, managers have turned to outsourcing compliance officer roles and directorships to experienced firms like Alter Domus.

What are the biggest challenges in the Cayman Islands' alternative asset managers space?

Woods: Cayman has spent years building up its reputation as a trusted fund domicile, but earlier this year, a missed compliance deadline by a few days landed the country on the EU's blacklist for several months. While no longer on the blacklist, the Cayman government is well aware of its reputational risks and continues to adapt its regulations to ensure that the Cayman Islands' financial industry remains a robust market and good partner in the global investment industry.

As regulatory requirements continue to evolve and expand, the penalties for non-compliance in certain areas are increasingly steep. Many asset managers, especially those with smaller operations, face challenges in securing the in-house staff and resources required to cover director positions, anti-money laundering (AML) officers, audit fees and Cayman Islands Monetary Authority (CIMA) fees.

What is being done to tackle tight regulations and reporting requirements?

Woods: Asset managers need to make sure they have trusted advisors to guide them through the regulatory landscape. CIMA has been taking a closer look at almost all entity types. Regulators will physically visit offices to review a setup, speak to directors, and review all documentation for investment approvals.

Outsourcing firms like Alter Domus help managers successfully navigate the regulatory environment by providing dedicated phone lines and office space to the managers. The professionals at Alter Domus also have experience in investment management and can serve as directors, approving investments and preparing managers for any potential scrutiny.

How has the virus affected the sector in the Cayman Islands?

David Boyd: While there is no doubt that the asset management sector has experienced a fundamental jolt to its system, there is still confidence out there. The scope of disruption presents clear opportunities, and those best placed to capture them are those best able to scale resources and expertise where needed. Specifically, for the Cayman Islands, COVID-19 has significantly changed the ways managers interact with their boards and investors. Where managers might previously have held board meetings in person, it can be hard to justify the mandatory 14 days of quarantine for a half day meeting. Meetings with onshore members of the board are also being conducted remotely.

As we live with and learn to adapt to virtual meetings, travel limitations and ongoing economic turbulence, technological solutions look set to become more firmly embedded across operational activities. Technology has been at the heart of the world's response to COVID-19 and this may well prove to be the first steps on the path towards a significantly greater digital era.

> *The Cayman Islands market will continue to grow, but with greater responsibility for managers and asset servicing providers*

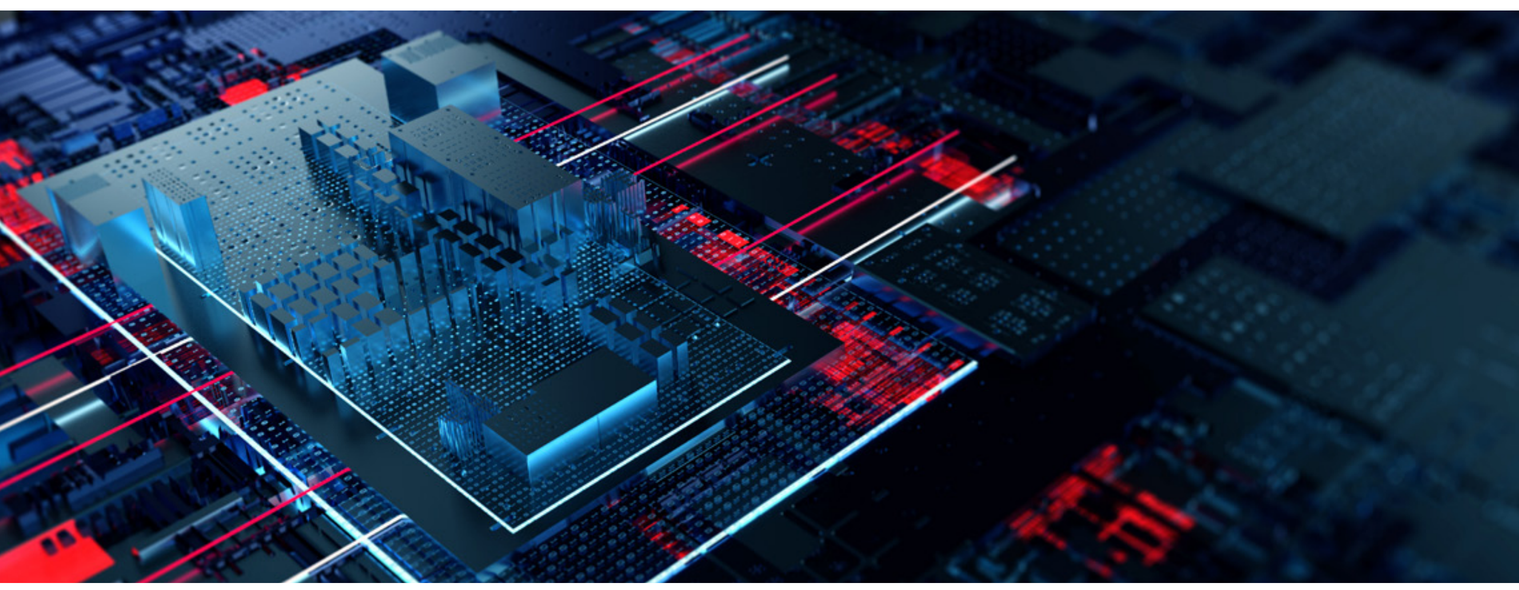
David Boyd
Country executive
Cayman Islands
Alter Domus

How do you think the market will progress in 2021? What will be the big talking points?

Woods: The Cayman Islands market will continue to grow, but with greater responsibility for managers and asset servicing providers.

In the year ahead, we may begin to see the impact of recent regulations on new fund openings. Managers trying to launch funds in the Cayman Islands may run into challenges, particularly if they are short-staffed to handle all administration in-house.

We are optimistic in our outlook for the fund services industry. As the region's emphasis on regulation continues into 2021, asset managers — particularly the US and Asia-based managers — who find the Cayman Islands an attractive fund domicile will require the guidance of a fund services team which brings a global network, as well as in-depth knowledge and local best practices.



A new way of working

Maddie Saghir reports

While COVID-19 highlighted the inefficient work processes in the corporate actions space, industry experts suggest it has been a catalyst for a new, improved way of working

The financial services industry traditionally processed corporate actions on existing back-office systems which were separated by region, line of business or asset class, and those systems were not integrated with one another and often operated on a batch cycle without any real-time capabilities.

More recently, modern solutions have become available allowing institutions to deploy technology to help navigate the complexities of corporate actions but manual workflows are still commonplace.

The one common cause of problems across corporate actions has always been the lack of defined processes, manual workflows and paperwork combined with fragile, complicated infrastructures leading to operational inefficiencies and increased risk, according to Mike Wood, general manager, asset servicing at Broadridge.

With the volatility last year, when the pandemic started, the movement to remote working had a knock-on effect on corporate actions and only intensified the importance of modern technological solutions in this space.

For corporate actions, a company can issue dividends in either cash or stock which are usually paid out during specific periods, usually quarterly or annually. This tends to mark a share of the company profits that are being paid to owners of the stock.

Lockdowns and remote working caused some issuers to defer their annual general meeting (AGM) and approval of cash dividends — or even cancel their dividend for 2020, which means the implications of this will stick well into this year.

Amid the challenges, however, industry participants pulled together and collaborated sharing creative solutions to solve some of the problems and issues around corporate actions. This has been a catalyst for changing the way corporate actions are viewed and the approach to them.

The immediate implications of COVID-19

During the pandemic meridian in late March to April, unprecedentedly high uncertainty drove a dramatic decline in the prices of almost all asset classes.

Sova Capital's head of capital markets origination, Alina Sychova, says for them, this resulted in a surge of requests from corporate clients regarding opportunities in liability management or shares buybacks.

"Of these, only a handful were prepared and capable of making the rapid decisions necessary to launch bonds or shares buybacks, and unprepared clients missed the window as assets prices started to recover in summer," says Sychova.

COVID-19 also resulted in extraordinary government relief, which Sychova suggests, flooded the global economy with exercise liquidity, an enormously effective catalyst for the primary markets.

In response to investors keeping a close eye on new equity placement, issuers believe that the market has unlimited potential to absorb liquidity, resulting in corporates considering alternatives to traditional sales.

The pandemic also meant that people shifted from working in an office to working at home.

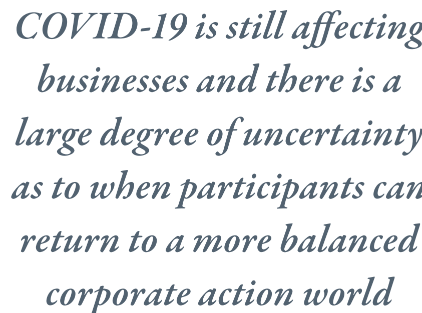
BBH was able to move 95 per cent of its corporate actions workforce to a work-from-home model as a result of high levels of automation that were within its processes.

"We did identify the need to adjust certain workflows to ensure we continued to maintain our risk and control environment," says Cara D'Addario, vice president, corporate actions at Brown Brothers Harriman (BBH).

Meanwhile, KDPW CEO Maciej Trybuchowski, says there were "no major issues" for corporate actions due to the COVID-19 pandemic on the Polish capital market.

Trybuchowski identifies the most common issue was that general meetings had to be cancelled in view of legal restrictions imposed on public meetings.

"We have offered assistance in that regard to issuers with our solution which was implemented before the pandemic, in the autumn of 2019. The e-voting application supports companies whose shares are registered in KDPW in holding and voting at general meetings remotely," he explains.



2021 uncertainty

COVID-19 is still affecting businesses and there is a large degree of uncertainty as to when participants can return to a more balanced corporate action world.

Last year, some issuers had to defer their annual general meeting and approval of cash dividends — or even cancel their dividend for 2020.

In Poland, for example, the dividends paid by public companies in 2019 stood at more than PLN 24 billion (£4.7 billion or $6.4 billion).

According to Janus Henderson, the provider of the Global Dividend Index, approximately 35 per cent of dividends were not paid out in 2020 as distributions were deferred until 2021.

That sharp decrease is due to the fact that a large part of dividends are paid by banks as well as defensive stocks such as utilities.

"While state aid in corona times has reached unprecedented volumes, the banking industry and defensive stocks may be unable to freely share their profits with shareholders," comments KDPW's Trybuchowski.

Meanwhile, the European Central Bank and local regulators in Europe do not encourage banks to pay dividends.

In Europe, there has been a mighty push by the heads of member state organisations acting on behalf of shareholders to improve the processing of AGMs.

David Baxter, managing director at T-Scape, suggests that this, along with shareholder information disclosure, are the two aspects of the European Commission's (EC) Shareholder Rights Directive (SRD) II, which came into effect September 2020, that the market is still struggling to deal with.

The EC rejected financial intermediaries' attempts in April 2020 to have the directive postponed. Those same intermediaries also requested the EC to waiver any penalties for non-compliance with the directive until September 2021.

Baxter suggests that it wasn't "an unreasonable request" given the argument that SRD II wasn't so much a regulation but more of a market infrastructure project.

"In which case, full adherence could not be achieved until all market participants affected were on board. With such a push to get those improvements in place, the timing of COVID-19 with respect to SRD II couldn't have been worse," says Baxter.

Challenges and problem solving

Aside from SRD II, the pandemic shone a bright light on traditional processes that rely on physical documents and signatures.

This encouraged creativity to solve some of the problems and issues around corporate actions.

D'Addario explains that BBH collaborated with its clients to quickly create new electronic workflows for items that were previously done physically, adhering to the same level of risk and control.

For example, BBH was able to file approximately 50 per cent of its reclaim volume via email PDF docs for the 2020 statute of limitations for tax reclaims which typically require physical documents to be filed.

On the topic of how the pandemic encouraged creativity to solve some of the problems and issues around corporate actions, Baxter says: "Only insofar as the overcoming logistical issues and challenges caused by the displacement of operational staff (as a result of the pandemic), were concerned."

From the perspective of KDPW as a post-trade infrastructure institution, its services have long been driven by regulation and technology.

Trybuchowski says: "Regulations aiming to improve market transparency and safety are very complex and require the retention and processing of huge data volumes. We need state-of-the-art technology to ensure compliance. Most of our services, including corporate actions services, are offered via IT systems which have been designed and developed regardless of the pandemic."

Opportunities for now and in the future

There are opportunities for increased collaboration across all parts of the corporate actions chain as well as a heightened focus on leveraging technology to achieve automation and scale.

Looking at some of these opportunities and how corporate actions could change in the future, experts anticipate an increased focus on automation across the industry and expect to see greater collaboration with market participants to leverage technology and partnerships with fintech firms to create real-time solutions.

D'Addario says BBH would like to see a greater focus on tax reclaims to see greater standards and automation introduced to the reclaim process.

"This would include a focus on migration from physical signatures to electronic signature requirements and review the medallion stamp process. This industry collaborative approach would benefit the holders by providing more transparency and time to make informed investment decisions," she explains.

The future of corporate actions lies in further development of electronic communications, which Trybuchowski suggests go well beyond simple transition from paper documents to email and extend to advanced communication systems and applications.

Discussing further opportunities that lie in store for corporate actions, Broadridge's Wood says: "Fintech providers have been helping the market meet these needs and expand with innovative projects underway to overhaul the way the market drives corporate actions, looking to streamline inefficiencies at market level, something the corporate actions world has been in sore need of for some time."

Although 2020 has been a tough year for many, Wood highlights the fintech industry is thriving and the realisation that institutions can leverage mutualised services has been more prevalent than ever in 2020.

"Benefits such as automation, operational and cost optimisation will benefit everyone in the market enabling further innovation in 2021. There are truly exciting times ahead in the corporate actions innovation space," he adds.

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Ready for Next

ISO 20022 XML standards are taking over transaction reporting

Cappitech reviews the move to the ISO 20022 XML standards occurring within transaction reporting regulation

The Securities Financing Transactions Regulation (SFTR) go live date in July last year marked the first time an EU transaction reporting regulation went live with only the format available for submissions. This followed the 2018 introduction of the Markets in Financial Instruments Regulation (MiFIR) post-transaction reporting of which submissions to national competent authorities (NCAs) are required to be in XML. In contrast to SFTR, alternative formats such as CSV are available when submitting through licensed approved reporting mechanisms. In addition, existing reporting regimes have in place or may see migrations to XML in the future. Already, the European Markets Infrastructure Regulation (EMIR) REFIT (Level 3) and updates to the Commodity Futures Trading Commission (CFTC) Part 43 and 45 — set to go into effect in 2022 and 2023 — are adding XML requirements for submissions. For EMIR, the addition of ISO 20022 expands existing repository to repository data sharing requirements that are in XML.

Big data, standardisation and report quality

What is leading this move to the ISO 20022 format? The simple answer is standardisation.

Regulatory reporting, especially regimes governing derivatives which came out of the 2009 Pittsburgh G20 Summit, was created to allow sharing of data between submitting firms and regulators. NCAs then use this information to help them analyse trading markets for systemic risk and market abuse. But getting this data is easier said than done.

Complicated reports are the vast arrays of data required for each trade, often well over 100 fields of information. For derivative reporting, this data is submitted to a trade repository (TR) or swap data repository (SDR). Repositories then share the submissions between themselves to create pairing and matching reports.

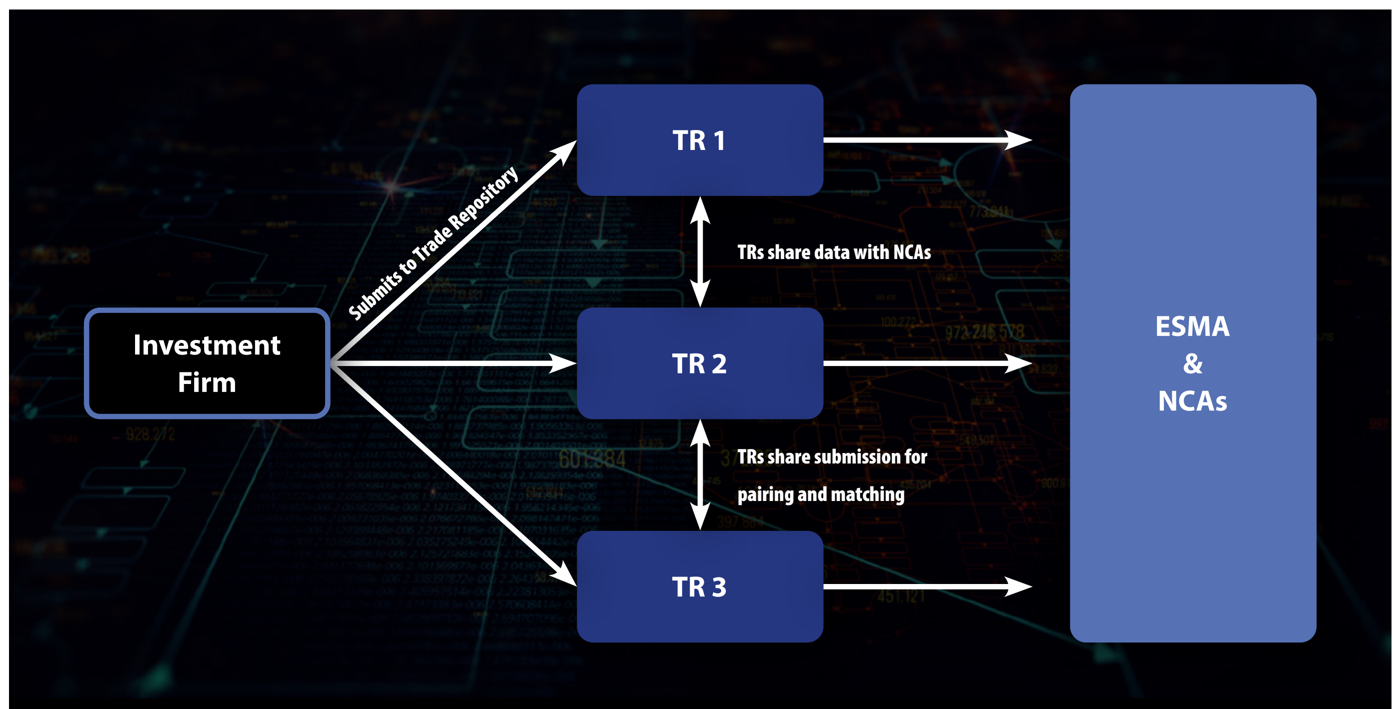
The pairing reports check for breaks of unique transaction identifiers (UTIs) where only one counterparty has submitted a report. While the matching data reviews for paired UTIs where there are differences in the underlying fields being reported. The repositories then make this information available to be accessed by local NCAs and national regulators. (The chart below illustrates the data flow used for EMIR).

Due to the need for data sharing, regulators have found that data quality of reports is improved through standardising file formats. In the case of EMIR, the European Securities and Markets Authority (ESMA) found deficiencies in matching and pairing reports due to inconsistencies between data formats between TRs which have improved under ISO 20022. ESMA specifically mentioned the reduction of data cleaning and normalisation improving the quality of information.

Global standards

Beyond the ISO 20022 format assisting regulators to monitor transaction reporting data within their jurisdictions, there is also a trend among regulators to harmonise collected information to global standards. In the CFTC Part 43 and 45 updates, many of the new fields being added relate to using global identifiers for identifying products (UPI), counterparties (LEI) and UTIs. While many of these fields exist globally, they are new for the US.

As data fields being used for transaction reporting around the world harmonises, the adoption of the ISO 20022 XML format is expected to make it easier for firms to report across different regimes. Also, as datasets harmonise, regulators will have an easier time sharing top level data between themselves to analyse risks in the greater financial markets.



BNY Mellon has bolstered its asset servicing business with the appointments of Neal Chansky and Amos Rogers.

Chansky has joined BNY Mellon as global head of consultant relations, where he will partner with consultants to develop and implement asset servicing solutions for BNY Mellon's mutual clients.In his new capacity, Chansky will report directly to Christine Gill, head of commercial development for asset servicing at BNY Mellon.

With 30 years of industry experience, he joins BNY Mellon from Olmstead Associates, a consulting firm helping investment managers plan for, select and implement solutions.

Prior to Olmstead Associates, Chansky held multiple roles at State Street, most recently as relationship executive.

Meanwhile, Rogers has joined BNY Mellon as director, business development – alternatives, where he will be responsible for business development initiatives across the real assets industry, a growing area of strategic focus for many of BNY Mellon's clients.

Rogers, who will report to Brian McMahon, global head of credit and debt fund services, BNY Mellon, has 25 years of real estate industry experience.

He has been a member of the National Association of Real Estate Investment Managers, the Pension Real Estate Association, the National Association of Real Estate Investment Trusts, the National Council of Real Estate Investment Fiduciaries, and the Urban Land Institute. Most recently, Rogers was managing director at State Street, where he was responsible for leading business development efforts for the firm's real assets fund administration and fund services business. Before State Street, he was principal and portfolio manager at The Tuckerman Group, a real estate fund manager in partnership with State Street Global Advisors.

Gill says: "Both Neal Chansky and Amos Rogers bring significant industry experience to the firm which will prove invaluable to clients as we work with them on optimising their operating models and focusing on growth, and to our asset servicing business as we continue to drive client-centric and global solutions."

Archax, the forthcoming digital asset exchange, brokerage and custodian, has appointed Richard Shade as head of operations.

The appointment comes as Archax prepares to launch the first Financial Conduct Authority (FCA)-regulated digital securities exchange.

Shade was most recently head of custody at crypto exchange BEQUANT and before that was head of operations at CME Europe – the CME Group's UK Regulated Investment Exchange. He also brings institutional operational experience from roles at NYSE Liffe and Bank of Tokyo Mitsubishi, as well as start-up experience from blockchain business UWINCorp.

Archax is leveraging tokenisation and blockchain technology to democratise financial markets and help bring liquidity to assets that are hard to trade.

Graham Rodford, CEO of Archax, comments: "As we prepare to launch the first ever FCA regulated digital securities exchange, it is vital that we have the right operational team in place. With our regulated status and institutional focus, providing the highest levels of operational controls and processes is paramount."

Shade adds: "I am excited to be joining Archax at this pivotal moment, as it prepares to launch the first FCA regulated digital securities exchange. I believe my operational background with financial institutions both large and small, across a multitude of asset classes, positions me well to deliver what is needed and help make Archax the success that it is destined to be."

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Standard Chartered has appointed Torry Berntsen as a new member and chair of its supervisory board.

Berntsen has been with Standard Chartered since 2016, serving as CEO and head of corporate and institutional banking for the Americas.

Following his appointment as CEO, Europe and Americas, and CEO, Europe and UK for the bank, he will also serve as chair of Standard Chartered Bank AG's Supervisory Board.

Bernsten will replace Tracy Clarke who has retired after 35 years with the bank.

Prior to joining Standard Chartered, Berntsen, most recently, served as the president and a director of Independent Bank Group (IBTX) where he was involved in all aspects of the company's operations.

This included spearheading its investor relations efforts as well as managing all of its financial institutions' relationships and partnerships.

Prior to IBTX, he spent 25 years in various senior management roles at BNY Mellon. His last position in BNY Mellon was senior executive vice president, sector head, global client management.

In this capacity, he was responsible for leading the relationship efforts with financial institutions, corporate, government, not-for-profit, and real estate clients worldwide.

Heinz Hilger, CEO of Standard Chartered Bank AG, says: "We are thrilled to be welcoming Torry Berntsen to the team. Standard Chartered Bank AG is one of the our fastest growing client franchises and is key to delivering the bank's aspirations in the region, while we continue to be a trusted institution for our European clients and those wishing to do business in Europe."

"I would also like to take this opportunity to thank Tracy Clarke for her immense contribution to Standard Chartered Bank AG since its inception."

TMF Group has appointed two new senior executives to accelerate the growth of the firm's funds business unit in Singapore.

William Fung will take on the role as head of fund services, Singapore and Malaysia, reporting to TMF Malaysia and Singapore's managing director Edmund Lee, and Andrew O'Shea, global head of fund services.

Before joining TMF Group, Fung served as head of operations at Alter Domus, where he oversaw the operations team in Singapore and acted as the main point of contact for client escalations.

Fung previously served at TMF Group as a solutions architect, where he was responsible for developing fund administration capabilities in the APAC region.

Prior to this, he worked for the fund administration firm IQ-EQ, both in the UK and Singapore for 10 years.

Elsewhere, Thurgagini Thaverajah joins TMF Group as client service director focusing on TMF's APAC fund clients. In her new role at TMF Group, Thaverajah will report to Melanie Peploe, chief operating officer for fund services.

Thaverajah previously gained experience at Citco Fund Services Singapore and occupied several positions ranging from senior fund accountant to vice president.

In her capacity as vice president, Thaverajah created a fund accounting department and was involved in establishing Citco's office in Mumbai. Thaverajah also managed fund launches and conversions.

Both Fung and Thaverajah will be based in Singapore.

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