# asset servicing times

The primary source of global asset servicing news and analysis

ISSUE 259 17 February 2021

# Will China be the engine to lead world economic recovery?

Despite geopolitical tensions and COVID-19, China continued to open up its capital markets and financial industry to international investors throughout 2020

UK Funds Regime | Luxembourg DLT law I CSDR consultation responses

# Canada's Leader in Sub-custody

With more than 1,600 professionals exclusively focused on servicing Canadian investors and global investors into Canada, CIBC Mellon can deliver on-the-ground execution, expertise and insights to help clients navigate the Canadian market. Leveraging the technology and scale of BNY Mellon, a global leader in investment servicing, and the local presence of CIBC, one of Canada's leading financial institutions, CIBC Mellon has the experience and the capabilities to help you succeed in Canada.

- Canadian custody and sub-custody
- Canadian correspondent banking[1]
- Broker-dealer clearing
- Securities lending[2]
- Brokerage[1]
- Investment fund services
- MIS (NEXEN℠, STP scorecard, trade match report card)
- Data analytics[2]

[1] Provided by CIBC
[2] Provided by BNY Mellon

Learn more, contact:
Richard Anton at +1 416 643 5240
Abdul Sheikh at +1 905 755 7118
Lloyd Sebastian at +1 416 643 5437
**www.cibcmellon.com**

CIBC MELLON

©2020 CIBC Mellon. A BNY Mellon and CIBC Joint Venture Company.
CIBC Mellon is a licensed user of the CIBC trade-mark and certain BNY Mellon trade-marks, is the corporate brand of CIBC Mellon Trust Company and CIBC Mellon Global Securities Services Company and may be used as a generic term to reference either or both companies.

6 **News Focus**
MarketAxess unveils January's trading volume stats

7 **News Focus**
First Abu Dhabi Bank gains OMAN custody license

8 **News Focus**
Euroclear, CDCC and CDS to develop collateral management service for Canada

9 **News Focus**
BNY Mellon opens a new branch in Spain

10 **News in Brief**
AIFMD Review: don't fix something that is not broken

## Lead News

Luxembourg passes new bill to recognise DLT for issuing and settling dematerialised

## UK Funds Regime

It is 'far fetched' that the UK Funds Regime will significantly increase the opportunities

## Emerging Market

China continues to open up its capital markets and financial industry to international investors

## Industry Appointments

Finian Power joins Prescient Fund Services as head of investment manager oversight in Dublin

BUILD MORE RESILIENT MARKETS
LEARN MORE ABOUT EXACTPRO

# New Luxembourg bill recognises DLT for issuing and settling dematerialised securities

The Luxembourg Parliament has passed a new bill to recognise the use of distributed ledger technology (DLT) for issuing and settling dematerialised securities.

The new bill, the Blockchain II Act 2021, will enable the issuance of dematerialised securities directly in DLT devices. It will also open the central account keeper role to record and operate DLT issuances of unlisted debt securities to any EU credit institutions or investment firms.

The bill, which was passed by the Luxembourg parliament on 21 January, completes a set of past legislative initiatives in the DLT space that amended the Luxembourg act dated 1 August 2001 on the circulation of securities, as amended to enshrine the use of DLT devices to settle fungible securities.

Allen & Overy suggests that the Blockchain II Act 2021 will "bridge a gap" left by previous legislation and clarifies the fact that central account keepers or settlement organisations may use DLT devices to make records.

It also highlights that central account keepers or settlement organisations may now use private or public DLTs to make records.

Philippe Noeltner, associate at Allen & Overy in Luxembourg, explains: "A legislative amendment was added to the Luxembourg legal framework to specifically enshrine that fungible securities — whether it is debt or equity, Luxembourg or foreign law governed, can be transferred entirely in a DLT environment."

Noeltner highlights that the amendments in 2019 meant that Luxembourg account keepers were able to plug themselves into a private or public DLT to process their settlement operations. In other words, this amendment allowed transfers of fungible securities to take place directly onto the DLT.

After this amendment was introduced, the needs of the market changed and there was a desire to issue dematerialised securities directly in a DLT environment. Noeltner says because of this need, the Luxembourg law of 6 April 2013 on dematerialised securities, which caters specifically to dematerialise securities, needed to be amended to specify that securities can be issued solely in a DLT environment.

According to Noeltner, the legislation that passed in January will see both issuers and record keepers benefit from a flexible environment to issue securities directly in a DLT environment, which will bring speed, cost saving and transparency.

He comments: "Issuers will be able to see on a DLT ledger who owns their debt or their shares. Issuers could potentially pre-emptively whitelist their investors, which is really helpful in case you have qualified investor requirements. That's something that the transfer agent or the clearing systems would traditionally do manually or directly on their systems, but without transparency across the securities lifecycle chain."

For market infrastructure players, like clearing systems or account keepers, the new bill will allow them to plug their operations into DLT systems to record issuances of dematerialised securities.

Noeltner suggests that they wouldn't necessarily need to have their own specific infrastructure but instead, they could rely on distributed systems without compromising on security and safety.

"Luxembourg and the wider European financial ecosystem seem very keen to adopt DLT technology to spur innovation in traditional operations," he adds.



images by rudi1976/stock.adobe.com

... and climbing.

A global player in asset servicing...

Offering leading value in investor services demands constant evolution. At CACEIS, our strategy of sustained growth is helping customers meet competitive challenges on a global scale. Find out how our highly adapted investor services can keep you a leap ahead.

CACEIS, your comprehensive asset servicing partner.

www.caceis.com

solid & innovative

## MarketAxess unveils January's trading volume stats

MarketAxess has reported its monthly trading volume for January 2021 totalled $575.3 billion, which consisted of $236.5 billion in credit volume and $338.8 billion in rates volume. January's figures showed an increase in the monthly trading volume for December 2020 which stood at $472.3 billion consisting of $203.5 billion in credit volume and $268.7 billion in rates volume.

Total credit average daily trading volume stood at $12.4 billion, surpassing the previous record from March 2020, while US high yield average daily trading volume was $1.9 billion. The emerging markets average daily trading volume came in at $2.9 billion and total trading volume was $55.9 billion, MarketAxess found.

Meanwhile, the statistics show municipal bonds average daily volume was $102.7 million and total trading volume of $2.0 billion for January.

MarketAxess has also published its full-year and Q4 2020 earnings report, revealing the first revenue from its acquisition of Deutsche Boerse's Regulatory Reporting Hub.

The reporting business was acquired by MarketAxess' wholly-owned Dutch subsidiary, Trax, in December 2020 and is understood to have earned the German stock exchange group between €10 million and €50 million.

Full-year revenue of $689.1 million, representing a 35 per cent year-on-year (YoY) increase, and earnings of $171.3 million for Q4, up 32 per cent YoY, included $1.3 million regulatory trade reporting revenue generated by RRH since 30 November 2020.

MarketAxess' 2020 revenue from its post-trade services, which includes its regulatory reporting solutions, increased by 23 per cent to hit $19.5 million. Q4 post-trade revenue reached $6.56 million, up 67.3 per cent from Q4 2019.

images by rudi1976/stock.adobe.com

## First Abu Dhabi Bank gains OMAN custody license

First Abu Dhabi Bank (FAB), the United Arab Emirate's largest bank, has become a direct custodian member of Muscat Clearing and Depository (MCD) in the Sultanate of Oman. Oman is a key part of FAB's leading regional direct custody platform, which currently spans the UAE, Saudi Arabia, Bahrain and Lebanon and will incorporate Kuwait and Egypt in early 2021.

Meanwhile, FAB is the third international custodian of the securities depositary linked to the country's stock exchange, Muscat Securities Market (MSM).

It will contribute to MCD's mission to promote post-trade solutions that systematically reduce risks, enhance operating efficiency and minimise cost.

Haitham Al Salmi, general manager at Muscat Clearing and Depository, says: "We are delighted to welcome First Abu Dhabi Bank as custodian of the MCD. We look forward to collaborating with the FAB team to introduce further post-trade enhancements and provide their regional and international client-base with access to Oman's capital markets."

Kashif Darr, managing director and head of securities services, FAB, explains that the bank is proud to build on its long heritage in Oman with the addition of direct custodian membership of the MCD.

Darr adds: "We look forward to bringing our differentiated brand of securities services - led by next generation technology and a dedicated client focus - to both domestic institutional investors in Oman and to international investors."

images by chalabala/stock.adobe.com

## Euroclear, CDCC and CDS to develop collateral management service for Canada

CDS Clearing and Depository Services (CDS), Canada's equities and fixed income clearing house, and the Canadian Derivatives Clearing Corporation (CDCC), each wholly-owned subsidiaries of TMX Group, have agreed on a joint initiative with Euroclear to develop a new collateral management service for Canada's capital markets.

Under the terms of a memorandum of understanding (MOU), CDS, CDCC and Euroclear are working together to develop an automated collateral management service for the domestic Canadian market.

The service will be designed to improve interoperability between existing domestic collateral pools and consequently result in increased liquidity and efficient collateral mobility.

It will also align the Canadian market to global collateral management standards and provide the foundation for future international collateral mobility, says Euroclear.

The utilisation of CDS' Post-Trade Modernisation settlement platform and Euroclear's Collateral Highway will enable market participants to mobilise collateral assets across their various accounts, including repo, securities lending, cleared and uncleared margin accounts.

Jay Rajarathinam, president of CDCC and CDS and chief technology and operations officer for TMX Group, says: "We are excited to be working with Euroclear to deliver a solution aimed at enhancing collateral mobility and liquidity in Canada, placing our post-trade infrastructure on par with the most advanced markets in the world."

According to Rajarathinam, the initiative represents a significant step forward in their ongoing efforts to keep pace with the ever-evolving collateral requirements of capital markets.

Jo Van de Velde, managing director, head of group strategy and product expansion, Euroclear, comments: "Building on our strong history in the Canadian market, where we have provided international services for many years, we will now provide the functionalities to connect our Collateral Highway to the Canadian market, improving interoperability between collateral pools."

The service, which targeted for launch in H2 2022, pending regulatory approvals, will complement and connect existing service providers in the collateral ecosystem and facilitate the funding of Canadian market activity using assets domiciled in Canada.

## LSEG completes Refinitiv acquisition

The London Stock Exchange Group (LSEG) has completed its all-share acquisition of Refinitiv, a global provider of financial market data and infrastructure, following its previous announcement.

LSEG shares have now been issued to the Refinitiv sellers in satisfaction of the consideration due under the terms of the transaction.

The deal also means Refinitiv shareholders have acquired an approximate 37 per cent of economic interest and 29 per cent of voting interest in LSEG, taking into account the voting ordinary shares which are to be issued one month after completion of the transaction.

As part of this new transaction, Martin Brand and Douglas Steenland were appointed to the LSEG board as representatives of Blackstone, while Erin Brown was appointed as a representative of Thomson Reuters.

Brand is a senior managing director and serves as co-head of US acquisitions for Blackstone's private equity group, while Steenland has been a senior adviser to Blackstone private equity group since 2009.

Brown has served in a number of senior executive roles at Thomson Reuters and is currently head of finance for the Thomson Reuters corporates segment. All three joined the board on 29 January.

LSEG confirms that admission of the entire enlarged voting ordinary share capital of LSEG, consisting of a total of 463.84 million voting ordinary shares, to the premium segment of the official list and to trading on London Stock Exchange's main market took place at 8am on 29 January.

Meanwhile, the 67.35 million limited-voting ordinary shares issued to the Refinitiv sellers will not be admitted to listing or trading on any market, says LSEG.

As disclosed in the prospectus from December, LSEG notes that a further 24.61 million voting ordinary shares will be issued to a group of the Refinitiv sellers one month after completion of the transaction.

## BNY Mellon opens a new branch in Spain

BNY Mellon has opened a new branch in Spain, which will provide support for existing and prospective clients seeking access to BNY Mellon's capabilities and solutions. The new branch will be based in Madrid and follows the opening of the Copenhagen branch in December 2020.

Mariano Giralt will assume the role of branch manager while Ana Arias will be deputy branch manager of the new Madrid office. Giralt joined BNY Mellon in 2011 and is global head of tax and regulatory and European, Middle East and Africa digital lead, BNY Mellon Asset Servicing.

Prior to BNY Mellon, he worked at JPMorgan Chase and before that he was a senior lawyer at Spanish law firm Cuatrecasas. In addition to his role at BNY Mellon, Giralt is chair of the Blockchain & Tax Group at the European Fund Asset Management Association.

Arias joined BNY Mellon in Madrid in 2013 and is head of corporate trust in Iberia. She previously worked at Santander CIB in a range of roles including bond syndication, structuring, trading, research and sales.

Global Coverage
Local Presence

info@goalgroup.com

### CIBC Mellon: increase in-house asset management for Canadian pension plans post-COVID

Canadian pension plans are repositioning asset allocations and increasing in-house asset management, after the COVID-19 pandemic prompted significant volatility in financial markets, according to a new CIBC Mellon survey.

The survey gathered responses from 50 leading Canadian pension managers and was completed in 2020.

Read the full article online

### CSDR consultation: EACH calls for delays to settlement discipline regime

The European Association of CCP Clearing Houses has called for a revision to the date of entry into force of the Central Securities Depositories Regulation's settlement discipline regime (SDR) in its responses to the European Commission's consultation.

The EC opened itself up to feedback on the regulation's terms in December with a deadline for comment of 2 February.

Read the full article online

### AIFMD Review: don't fix something that is not broken

"Don't try to fix something that's not broken", was the message from associations to the European Commission consultation on the Alternative Investment Fund Managers Directive (AIFMD) Review.

The consultation, which closed on 29 January, focused on how to increase the efficiency of the EU alternative investment fund market as a part of a stable financial system.

Read the full article online

### Broadridge and Third Economy launch ESG advisory services

Broadridge Financial Solutions, a global fintech firm, and Third Economy, a sustainable investment research and consulting firm, have launched an environmental, social and governance (ESG) advisory service.

The service aims to help corporate issuers and asset managers improve sustainability strategies while effectively positioning their ESG programmes with stakeholders, the partners say.

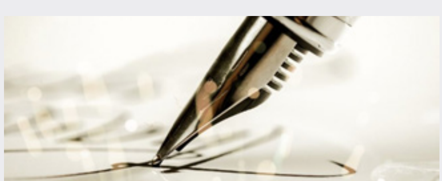
Read the full article online

### FCA confirms 85% of uncleared UK derivatives market are ready for LIBOR transition

The Financial Conduct Authority (FCA) has confirmed that 85 per cent of the uncleared UK derivatives market are ready for the end of the London interbank offered rate (LIBOR) as 12,500 firms sign the International Swaps and Derivatives Association (ISDA) protocol.

FCA's Edwin Schooling Latter described 25 January as a "landmark day" in the LIBOR journey.

Read the full article online



### EC adopts equivalence decision for US CCPs

The European Commission has adopted an equivalence decision determining that the US Securities and Exchange Commission (SEC) regulatory regime for US central counterparties (CCPs) is equivalent to EU rules.

The decision is an important first step for US CCPs registered with the SEC to be recognised in the European Union as it will allow the US CCPs to apply for recognition by the European Securities and Markets Authority.

Read the full article online

# Automate your corporate actions operational process

## IMActions: Supports end-to-end automation of corporate actions and income processing

Mitigate risk and enhance operational efficiency with IMActions offering an extensive range of functional features with global coverage of major events, markets and asset classes. IMActions helps you to increase productivity, improve client servicing and reduce risk by providing real-time monitoring and control.

View real time risk exposure through quantified risk scores based on the complexity and criticality of a corporate action

Leverage automated processing using configurable business rules to enable staff to focus on exceptions and high-risk events

Access to user friendly management dashboard to prioritize tasks and view upcoming events and deadlines

Available on our managed hosted service, enabling customers to optimize infrastructure and minimize costs

A single code base solution shared by a global client community that drives solution direction and evolution

Mitigate risk | Increase automation | Drive productivity

Learn more: ihsmarkit.com/IMActions

562240982-0920-MT

# UK: an attractive option?

**As the UK Government seeks input on issues across both tax and regulation as part of its review of the UK Funds Regime, industry experts suggest it is 'far fetched' that the review will significantly increase the opportunities for the asset servicing industry**

***Maddie Saghir reports***

With many concerned about the competitiveness of the UK's fund industry in a post-Brexit era, market participants may have taken a collective groan after reading the HM Treasury's latest call for input on the UK Funds Regime. In its most recent paper, the UK Government seeks input on issues across both tax and regulation as part of its review of the UK Funds Regime amid concerns that more needs to be done to remain competitive in a post-Brexit era.

The review started with a consultation on the tax treatment of asset-holding companies in alternative fund structures, to which the government responded in December 2020. The latest report, 'Review of the UK funds regime: a call for input', sets out the scope and objectives of the review, and invites stakeholders to provide views on which reforms should be taken forward and how these should be prioritised.

The overarching objective of the review is to identify options which will make the UK a more attractive location to set up, manage and administer funds, and which will support a wider range of more efficient investments better suited to investors' needs.

However, industry experts have suggested that the UK's fund space is at a disadvantage to its European counterparts, especially so in the retail funds space. While the call for input will be welcomed by the UK funds industry, the lack of European marketing passports, exclusion of retail funds and issues surrounding the Overseas Fund Regime (OFR) is a concern for many.

## Significant and immediate disadvantages

One area of the report which has been highlighted by those in the industry is section 4.3, which essentially only applies to alternative investment funds.

The section states: "The government has been told by stakeholders that there is considerable potential for the UK to build on the reputation and history of its legal and regulatory systems and enhance its attractiveness to funds sold in high growth international markets."



images by thinapob/stock.adobe.com

It continues: "However, the government has also been told by stakeholders that the lack of passporting rights and access to the EU market means that the UK may not be competitive for retail funds internationally."

"As a result, the government has been encouraged to focus on proposals to enhance the UK's reputation as a location for alternative investment funds (AIFs), for which the challenges around market access faced by retail funds do not apply to the same extent."

Patric Foley-Brickley, managing director of Maitland, a global advisory, administration and family office firm, says: "HM Treasury has suggested that retail funds will be excluded because there is no ability for UK funds to be passported outside of the UK as there was prior to Brexit."

Foley-Brickley says it's "slightly alarming" this is not mentioned until page 21 of the consultation.

*Once it is recognised that retail funds are not on the table, immediately the scope of the review is significantly reduced and the corresponding opportunity to 'make the UK the domicile of choice' is limited to alternative asset classes only*

He also identifies that compounding this, as the incoming Overseas Funds Regime (OFR) will allow 9,000 EU funds to be freely marketed in the UK but without the reciprocity would allow UK domiciled funds to be similarly distributed in the EU.

"This not only puts UK retail funds at a significant and immediate disadvantage to its EU competitors but also, in my view, puts the whole UK domiciled fund industry at significant risk in the medium to longer term," Foley-Brickley comments.

Indeed, remaining competitive will be extremely difficult. For example, a funds management group wanting to market into the UK is more likely to pick Luxembourg or Dublin to access a wider spread of markets for distribution.

He explains that this is because a fund set up in Luxembourg or Dublin can be marketed into the UK and Europe whereas a fund set up in the UK will be marketed to UK investors.

"Once it is recognised that retail funds are not on the table, immediately the scope of the review is significantly reduced and the corresponding opportunity to 'make the UK the domicile of choice' is limited to alternative asset classes only," says Foley-Brickley.

That is not to say, however, that the alternative fund structures in the UK are not in need of overhaul either from a tax and a regulatory perspective, notes Foley-Brickley, and the opportunity to bring about changes that make UK funds more competitive in this respect should be welcomed.

Whether or not this overhaul will result in the UK becoming the domicile of choice is questionable. According to the paper, the opportunities are clear. It is noted that improvements to the funds regime will result in a wider range of more efficient investments, better suited to investors' needs.

"With the correct fund structures, tax regime and regulatory environment, we can unleash the investment into productive and green technologies that will enable us to meet this government's ambitious and pioneering commitment to net zero by 2050," the government states.

It is also indicated that the growing number of funds located in the UK can also level up the country's economy. By supporting jobs outside of London, the paper suggests that funds are a major employer of jobs across the UK, with the sector already having a notable presence in Edinburgh, Manchester, Leeds, Nottingham, Bolton, Glasgow, Stirling, Essex, Swindon and Dorset.

Yet, regarding market recognition for vehicles that are most suitable for particular alternative asset types, for example, other jurisdictions have a significant head-start on the UK in relation to having market recognition for vehicles that are most suitable for particular alternative asset types. For example, Jersey and Guernsey for real estate and private equity structures and Cayman, Ireland and Luxembourg for hedge funds.

Burkhard Ober, associate partner at Hume Brophy, comments: "The main challenge for the British fund industry, will not lie on the regulatory side or on bonus and tax questions. Yes, Britain will do a lot in these areas to enable the fund industry to flourish, but it doesn't tackle the main question."

*There will inevitably be some challenges ahead, including the lack of European marketing passports, but the treasury's call for input will be welcomed by the UK funds industry who will be only too aware of the need for the UK to remain competitive in the post-Brexit era*

"The major problem will be the brain drain. London benefited a great deal by offering a very competitive work environment for Europeans (young ones primarily, but also senior managers) and the mix of Europeans and people from around the world was a big lure."

"This is going to become more difficult — many Europeans have left London or are planning to do so. This is a damaging factor for the industry," Ober affirms.

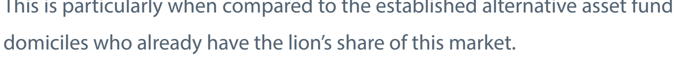
## Fighting to remain competitive

To become competitive and to steal away some of the fund structuring flow that currently goes to other established jurisdictions, Foley-Brickley explains the UK will need to do more than establish parity from a tax or regulatory perspective — they will need to be able to demonstrate a distinct advantage over their competition.

Other aspects such as speed to market and a focused campaign explaining these advantages will also need to be considered.

Foley-Brickley suggests HM Treasury's assertion that this review will suddenly and significantly increase the opportunities for the asset servicing industry is far-fetched.

While the UK has an excellent reputation for providing fund administration and other asset services to the retail funds industry, Foley-Brickley points out that the expertise available in the UK to administer alternative asset funds is significantly more limited.



This is particularly when compared to the established alternative asset fund domiciles who already have the lion's share of this market.

If the OFR was not to be adopted into legislation, then the 9,000 EU funds that want to continue to market to the UK retail investors would have to set up here immediate effect, and that would create a serious number of jobs, additional revenue, and taxation, as highlighted in the paper.

But unless the UK Government removes the OFR from the Finance Bill in its final reading, the opportunity to do this will have been missed, explains Foley-Brickley.

Meanwhile, Rahul Manvatkar, investment funds partner at global law firm Linklaters, argues that the UK has consistently been "a key global centre for portfolio management expertise".

However, with the UK out of the EU, Manvatkar says there is a recognition that it will need to do more to compete with the other global financial centres, especially those in Europe, and that includes enhancing its reputation as an attractive hub to set up and administer funds.

Manvatkar adds: "There will inevitably be some challenges ahead, including the lack of European marketing passports, but the treasury's call for input will be welcomed by the UK funds industry who will be only too aware of the need for the UK to remain competitive in the post-Brexit era."

Among these issues, the lack of clarity around delegation and equivalence, for example, is also challenging and not a stable environment for a flourishing British fund industry that needs continental Europe as a funding source and as a client.

Ober highlights: "The good news is that the German Fund Association BVI has proactively pleaded for the continuity in delegation rights, such as fund management and risk management etc. But it will continue to be a constant battle."

So, what can be done? Ober says: "Look out for allies! London-based asset management companies have to look for better advice, be more engaged and establish a bigger presence in Brussels."

Meanwhile, Foley-Brickley concludes: "There is no doubt that the institutional funds regime in the UK needs a significant overhaul both from a tax and a regulatory perspective, but the idea that the UK is going to suddenly become the fund domicile of choice for alternative asset classes as the result of this consultation is pushing the boundaries of credibility."

confluence.com

# Turning data into financial intelligence

Delivering innovative solutions for the investment management industry

A global leader in data-driven investment management solutions, we partner with our clients to deliver products and services designed to solve complex data challenges, reduce risk and increase efficiency.

**Our Solutions:**

**Performance & Analytics**

**Risk**

**Data Technology & Services**

**Regulatory**

**Investor Communications**

SEARCH "CONFLUENCE"

**www.confluence.com**

*© 2020. Confluence Technologies, Inc.*

# Will China be the engine to lead world economic recovery?

*Maddie Saghir reports*

**Despite geopolitical tensions and COVID-19, China continued to open up its capital markets and financial industry to international investors throughout 2020**

China is on the brink of dramatic growth and intense investor interest. It continues to build its momentum in its finance industry and is increasingly opening up its markets through inbound schemes such as qualified foreign institutional investors (QFIIs) and Renminbi QFIIs (RQFIIs), CIBM Direct, Stock Connect, Bond Connect, and outbound schemes like Qualified Domestic Institutional Investor (QDII) and the Qualified Domestic Investment Partnership (QDLP).

"Since the 1980s, China has gradually been opening up its markets and this has only accelerated, particularly in the last 10 years, as China's economy has grown and become more interconnected with the global economy and international capital markets," affirms Florence Lee, head of china business Development for Europe, Middle East and Africa (EMEA), securities services, HSBC.

Amid the recent geopolitical tensions, volatility and disruption of COVID-19, China continued to open up its capital markets and financial industry to international investors throughout 2020. Last year saw significant growth for China with total foreign holdings of Chinese at a record high, due to the indices inclusion effect, CNY appreciation and market movements.

Last year also saw the approval of public mutual funds licenses granted to global fund houses' wholly foreign-owned enterprises (WFOEs) in China, approvals of foreign majority owned joint ventures between global fund houses and Chinese bank wealth management subsidiaries. Approvals of local funds custody licenses were also granted to more foreign banks operating in China.



images by r_m_nunes/stock.adobe.com

Meanwhile, from an outbound perspective, market participants observed changes to China's outbound investment quota expansion last year.

According to industry experts, from Q4 2020, Chinese regulators will add an additional $10 billion QDII quota every year which will be announced at the beginning of each quarter.

Cross-border flows are also expected to accelerate in 2021 as China steadily recovers from the pandemic. With all of this in mind, China's market is beginning to break away from its title as an emerging market.

## Engaging with global markets and lowering the barriers to entry

China is continuing to engage with global markets and in line with this China scrapped the quota system on inbound investment schemes QFII and RQFII in May 2020.

Effective 1 November 2020, Chinese regulators published new rules to merge the QFII and RQFII schemes into one allowing for a streamlined the application process, shortened licence approval time, and greatly expanded the scope of permissible investments such as futures trading, options, bond repo transactions, margin trading and securities financing on stock exchanges, securities lending, and initial public offerings.

HSBC's Lee says: "Since then, we have seen investors' growing interest in the new products launched under the new regulation, particularly securities lending, investment in private securities investment funds, margin financing and short-selling."

A lot of institutional sophisticated investors are not just content in trading Chinese cash equities, Lee suggests they want more diversified securities and instruments to trade as part of their investment strategy, so it's no longer like it was in the past when it was about being merely long-term buy-and-hold investors in China.

"There are now a lot more opportunities for them as set out in the regulation – for example, commodity futures, exchange-traded funds options, and bond futures, and we're waiting for further detail to be released from Chinese regulators," says Lee.

Similarly, John Sin, head of asset servicing, Greater China, BNY Mellon, highlights that all these amendments work towards making the Chinese markets more attractive to foreign investors, such as improved ability to hedge, which allows investors to execute their strategies more effectively.

"Also, fuelled by indices inclusion, assets under custody in Chinese securities held on behalf of foreign investors have grown significantly at the end of 2020 compared to a year ago which shows the growing interests of foreign investors in the Chinese markets," says Sin.

As well as engaging with global markets, China is working on lowering the barriers for global investors, and compared to few years ago, a lot of barriers have been removed and it's now easier for international investors to hedge their China market risk.

"Similar to other regulated markets, what's important is that international investors are financially strong, have proper governance in place and the origin of their funds is transparent," comments Lee.

Meanwhile, there has been a notable rise in adoption of international practices in various investment schemes such as simplified account opening and operational process set up, removal of initial approvals and quota, more friendly repatriation process, expansion of investment scope and use of hedging tools.

Sam Xu, country executive, China, BNY Mellon, explains that transparency challenges resulting from corporate governance and information declaration deficiencies are being acknowledged and addressed.

"Many investors have moved analysts onshore in China," says Xu.

Expansion in China's onshore capital markets over the next few years is another factor that is set to help attract foreign investors.

Xu suggests this space will expand due to continued GDP growth, a continued push for RMB internationalisation, and a determination to reform China's financing structure as well as the use of capital markets direct financing 17 per cent at the time of writing) to replace overly weighted bank lending.

## Chinese assets

Chinese assets are being used for collateral more regularly than in previous years, partly due to the Chinese government's continuous effort to promote the use of RMB-denominated assets as collateral in the international financial markets.

*Index inclusion of Chinese securities will act as that catalyst for asset managers and owners to buy China assets, while also encouraging them to have more confidence to invest their capital in China, as we have seen in other emerging markets*

BNY Mellon's Xu says the Chinese regulators' vision is to make RMB assets eligible for expanded scope of use, launch RMB pricing mechanism for rates, valuation of financial products, commodities, etc, and promote RMB to be used between non-Chinese parties.

Another important and key factor in this respect is index inclusion. On the fixed income side, two major indices — Bloomberg Barclays Global Aggregate Bond Index and JPMorgan Government Bond Index Emerging Markets — have already completed the inclusion of Chinese bonds.

Last autumn the FTSE Russell announced they would include Chinese governments bonds, subject to a review in March, in the FTSE World Government Bond Index

"Index inclusion of Chinese securities will act as that catalyst for asset managers and owners to buy China assets, while also encouraging them to have more confidence to invest their capital in China, as we have seen in other emerging markets," says Lee.

Another factor here is the yield and growth story in China. Lee affirms: "Even with market volatility and uncertainty at the start of the pandemic, we continued to see capital going into China. The China A-shares market is performing well while Chinese bonds are providing a much better yield compared to a lot of other developed markets."

RMB's appreciation has also enhanced the return of an international fund manager's China portfolio.

All of these factors together are contributing to Chinese assets being increasingly used as collateral in market transactions.

## Trends for 2021

For 2021 and onwards, China's market is expected to continue its growth momentum. This year has already seen the likes of HSBC and Standard Chartered taking advantage of QFII. For example, Standard Chartered Bank (China) has taken on the role of the custodian in assisting a large overseas institutional investor to complete a stock borrowing deal in the A-share market, and HSBC has enabled short selling transactions under the QFII/RQFII scheme.

The themes from 2020 are expected to continue into this year but with increased acceleration. BNY Mellon's Xu believes there will be continued inflow from global investors into China's capital markets, more global fund houses approved for market entry via public mutual fund WFOE and bank wealth management joint ventures, and start launching products.

Over at HSBC, Lee notes there has been "a surge in enquiries" from clients about how to apply for a QFII license, or how to invest in China fixed income.

In addition, China's landscape for 2021 is also expected to see sovereigns and central banks accelerating their exposures to RMB. The efforts China has made over the past few years have encouraged international investors to engage in China with more welcoming market access.

Chinese regulators are also simplifying and streamlining the processes to further welcome international investors. These factors will place China in good stead for 2021 and accelerate the trend in attracting investors.

"I think the China story will still be the yield-seeking story, because a lot of international investors are thinking post-Covid: 'What shall we do, where should our capital go?' China will continue to be a focus for asset managers and owners, given its post-Covid recovery performance and strong export-led market characteristic," says Lee.

Lee concludes: "If you look at China at the moment, they have to a certain extent returned to a sense of normality compared to a lot of other countries and, consequently, many clients are thinking that because of China's yield and growth story, it will be one of the engines leading the world economic recovery in 2021 and 2022."

# Facing new obligations under the Shareholder Rights Directive?

## We've got you covered.

Our innovative blockchain solution for SRD II connects every market and intermediary—providing a single communication chain for all your proxy voting and disclosure requirements.

**Deliver a seamless shareholder experience.** Take advantage of the most advanced mobile apps, dashboards and technologies to achieve unrivalled economies of scale.

Transform shareholder communications and comply with confidence.

Communications
Technology
Data and Analytics

**Broadridge.com/SRD**

© 2020 Broadridge Financial Solutions, Inc., Broadridge and the Broadridge logo are registered trademarks of Broadridge Financial Solutions, Inc.

Ready for Next

**Germán Soto Sanchez has been hired as senior vice president of corporate strategy at Broadridge Financial Solutions.**

In his new role, Sanchez will be responsible for developing Broadridge's strategic plan as he leads its strategy, partnership and other growth-related activities. Sanchez's arrival will see his predecessor Michael Tae, who served in the role since 2017, transition into a new position as chief transformation officer for its investor communication solutions business.

Most recently, Sanchez served as president and member of the board of directors for Cloud9 Technologies, a cloud-based communications and analytics platform. At Cloud9 Technologies he was responsible for the firm's data business and managed and led all aspects of its strategic partnerships, capital raising, investor relations, legal and marketing as well as engaging in product and development.

Sanchez has also worked at JPMorgan Chase & Co, Certus Holdings, AIC Private Equity, McKinsey & Co and Bain & Co.

Tim Gokey, CEO of Broadridge, says: "Germán Soto Sanchez's experience as a Fintech executive, strategist and innovator makes him a valuable addition to our leadership team as we continue to strategically shape and define Broadridge's future state."

**Robert Stenmark has left Handelsbanken, a Swedish bank providing universal banking services, and has joined Northern Trust as head of depositary for Norway.**

Based in Oslo, Stenmark is responsible for Northern Trust's new Norway office.

Stenmark, who worked at Handelsbanken for six years, joined the firm in 2015 as depositary manager before going on to become securities settlement and corporate actions manager in 2016.

In 2017, he was appointed acting head of securities services Norway, and his most recent role was director, head of securities services Norway, based in Oslo. Prior to Handelsbanken, Stenmark was a senior settlement consultant at SpareBank 1. He has also worked at Experian during his career.

## Finian Power has joined Prescient Fund Services as head of investment manager oversight in Dublin.

The appointment follows a year of strong growth for the independent provider of management company, UCITS and Alternative Investment Fund Managers Directive platform and fund administration services. In his new role, he will be supporting the firm's UCITS and alternative fund clients.

Finian joins from DMS Governance, where he worked for five years as a director in both their Dublin and Cayman Islands offices.

At DMS, he managed key relationships with global private banks, pension funds and institutional asset managers.

Previously, he has also held roles at BNY Mellon, Northern Trust and J.P. Morgan.

Rob Childs, head of international at Prescient Fund Services, explains that the Irish business is set to continue growth in 2021, with its traditional and alternative UCITS and AIFMD platform businesses crossing the $4 billion mark earlier in January, as well as a new UCITS Common Contractual Fund begins to operate.

Childs says: "We are pleased to welcome Finian Power to Prescient at a time where having depth and experience in the senior team has never been more important."

## Nick Emmins, a market practitioner and non-executive director of Lazards Fund Managers, has joined Cooper Wood & Associates as an independent senior associate.

With more than 35 years of experience, Emmins joins after working for a combination of insurance companies, asset managers, asset servicing firms and an international fund platform.

During his career, he has worked at M&G, BNP Paribas Asset Management, RBC Investor & Treasury Services and Allfunds.

He has also managed a number of asset manager outsourcing projects and has been part of building a successful European fund platform business.

Tim Wood, partner of Cooper Wood & Associates, says: "Nick Emmins wide ranging experience and reputation represents a compelling proposition for our clients and further develops the depth and breadth of Cooper Wood & Associates ability to deliver high quality services from a team of professionals with direct 'hands-on' experience of both buy-side and sell-side businesses."

**Sudrania Fund Services has enhanced its team with the appointment of three alternative investment industry veterans.**

Based in Boston, Massachusetts, Chris Meader has joined Sudrania Fund Services as senior vice president.

He joins from the North American Fund Administration Association where he worked as director of operations and business development for three years.

Prior to this, Meader was an alternative investment solutions director at State Street for two and a half years.

During his career, Meader has also held senior positions at SS&C, J.P. Morgan, Caledonian Fund Services, and BISYS Fund Services.

Meader has more than 20 years of experience in fund administration and has worked in Bermuda, the Cayman Islands and the US. His experience spans accounting, investor services and risk/compliance operations as well as senior product and strategy roles.

Commenting on his new appointment, he says: "It is gratifying and exciting to be able to leverage my experience to contribute to an organisation that is elevating the fund administration experience and doing it in compliance with industry standards."

Harsha Patwardhan has also joined Sudrania as senior vice president. He brings with him over 20 years of experience in portfolio management, sales and trading and investment banking.

Most recently, Patwardhan traded a quantitative hedge fund and has experience in trading a broad range of financial instruments including equities, bonds, futures and options. Patwardhan has worked in leading financial institutions such as J.P. Morgan and KPMG.

Meanwhile, Shalin Madan, founder of Bodhi Tree Asset Management, has been appointed as Sudrania' strategic advisor.

Madan brings with him more than 20 years of experience in the financial services industry having worked as a multi-asset allocator for prominent institutional asset managers, which led him to launch his own quantitatively-driven hedge fund.

Meader, Patwardhan, and Madan will all contribute their industry experience to help support Sudrania's geographic expansion and new service offerings for fund managers.

Nilesh Sudrania, founder and CEO of Sudrania Fund Services, says: "Chris Meader, Harsha Patwardhan, and Shalin Madan are a natural fit for our entrepreneurial company, as they all saw needs in the market and developed organisations to serve those needs."

asset servicing times

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

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

Associate Publisher: John Savage
johnsavage@assetservicingtimes.com
+44 (0) 208 075 0931

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

Published by Black Knight Media Ltd
Copyright © 2021 All rights reserved

THE NETWORK FORUM VIRTUAL

# AFRICA MEETING

9 - 10 MARCH 2021 - LIVE

## Key themes this year to be explored include:

- Innovation As A Growth Catalyst For Investment In Africa
- Geopolitics And Economic Impacts In The Spotlight
- African Regional Capital Markets In Focus– Where Are The Opportunities For Next Level Product Development?
- Market Access And Regional Exchanges Creativity

---

## With key insights from:

STANDARD BANK • RAND MERCHANT BANK • STANDARD CHARTERED BANK • JOHANNESBURG STOCK EXCHANGE
NAIROBI STOCK EXCHANGE • THE STOCK EXCHANGE OF MAURITIUS • SECURITIES & EXCHANGE COMMISSION (Ghana)
CSCS (Nigeria) • JPMORGAN CHASE • STATE STREET • MAROCLEAR • AFRICAN SECURITIES EXCHANGES ASSOCATION
CDS Mauritius • CREDIT SUISSE • CITI • NORTHERN TRUST • NATIONAL BANK OF EGYPT

... and many more

**VIEW AGENDA**
thenetworkforum.net/africa2021/agenda

**REGISTER NOW**
thenetworkforum.net/africa2021/begin

email **info@thenetworkforum.net** for more information

# Our asset services are first rate and second to none. Perfect for third party funds.

Asset Management
Wealth Management
Asset Services

Geneva Lausanne Zurich Basel Luxembourg London
Amsterdam Brussels Paris Stuttgart Frankfurt Munich
Madrid Barcelona Turin Milan Verona Rome Tel Aviv Dubai
Nassau Montreal Hong Kong Singapore Taipei Osaka Tokyo
assetservices.pictet

Building Responsible Partnerships