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Empowering the retail investor

Broadridge's Michael McPolin speaks exclusively to AST

ESG

Confluence's Chantal Mantovani and sustainability stress testing

CSDR Panel

Analysing the first crucial months of CSDR's fails penalties regime

Waystone Group adds Centaur Fund Services

Provider of fund administration services Centaur is to be acquired by Waystone Group, subject to regulatory approval.

Under the acquisition, all of Centaur's senior team will stay with the business, while its institutional investor FTV Capital will exit the group following completion of the transaction.

Headquartered in Ireland and with offices in Canada, Bermuda, Cayman, Luxembourg and the US, Centaur employs more than 200 staff to provide services to over 120 client groups around the world.

Centaur offers independent fund administration and regulatory services, including fund accounting, fiduciary, depositary and audit services to hedge funds, funds of funds, private equity and real estate funds, insurance-linked securities funds and institutional investors.

Waystone provides governance, risk and compliance services to the wider asset management industry, partnering with institutional investors, investment funds and asset managers.

Commenting on the acquisition, Ronan Daly, founding partner at Centaur, says: "As we look at the next phase of our growth, combining with Waystone is the logical next step for our business, bringing a complimentary array of services to our clients and helping us drive our future growth. We look forward to the next stage of our journey with Waystone."

Derek Delaney, global CEO of Waystone, adds: "This deal represents a major achievement as, with Centaur, we are gaining a highly-experienced senior management team with similar culture and values, and we will also gain additional global locations including New Jersey, Bermuda and Canada." ■

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SimCorp extends partnership with SGSS until 2028

SaaS company SimCorp has extended its partnership with Societe Generale Securities Services (SGSS) until 2028. The new contract includes additional front office and ESG functionalities for CrossWise, SGSS' front-to-back integrated suite.

CrossWise has been designed to replace legacy solutions for middle office over-the-counter trades and clearing.

The suite is also designed to help clients to be compliant with new regulations, such as the Central Securities Depositories Regulation.

The news comes after Societe Generale appointed Jane Karczewski as UK head of asset manager and hedge fund sales at the end of last month, while SimCorp launched Cloud Data Warehouse, powered by Snowflake, for clients' investment and analytics needs back in December 2021.

David Abitbol, head of SGSS, comments: "As part of our ambition to further expand our buy-side services, we are very pleased to extend this partnership with SimCorp which is key in supporting our ongoing growth strategy.

"This will help us to accompany the market trend for middle office outsourcing and address new market challenges such as growing demand for ESG and alternative investments."

BNP Paribas expands broker-to-custody offering

BNP Paribas has expanded its broker-to-custody offering and has been selected by Luxembourg-based bank, Spuerkeess, to provide custody services. Spuerkeess will use the broker-to-custody solution to execute and settle trades on behalf of its retail clients.

BNP Paribas' integrated broker-to-custody solution, which was previously available in the US and Asia Pacific, is now available across Europe — following BNP Paribas' recent expansion in equities flow trading in the region.

Using BNP Paribas' open architecture, Spuerkeess clients can execute trades via BNP Paribas and other participating brokers while benefiting from integration with BNP Paribas Securities Services' custody offering and global reach.

Integrating execution and custody will enable Spuerkeess' clients to execute and settle trades across different markets with one single instruction.

Aly Kohll, executive vice president at Spuerkeess, says: “We are very pleased to have selected BNP Paribas as our new provider of an integrated broker-to-custody solution. This partnership with one of the leading global custodians and securities services providers ensures Spuerkeess a fully automated operational process while giving our clients a seamless and highly efficient access to some 20 European equity markets.”

Torsten Schoeneborn, global co-head of electronic equities and portfolio trading at BNP Paribas, comments: “Leveraging our highly innovative trading platform, we believe that we are in a unique position to offer unparalleled client service. We look forward to delivering a seamless experience across the entire trade lifecycle, from pre-trade services and execution, all the way to settlement and reporting to Spuerkeess.”

BNP Paribas Securities Services has also announced its collaboration with DTCC to provide a solution which aids its clients in preparing for Phase 6 of the Uncleared Margin Rules.

Zeidler Group announces registration of UK MiFID firm in Luxembourg

Investment funds specialist law firm, Zeidler Group, has announced its successful registration of a UK Markets in Financial Instruments Directive (MiFID) firm under the third country regime in Luxembourg for marketing to professional clients.

Zeidler Group officially received regulatory approval from the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg earlier this year, for the UK MiFID firm of a large institutional asset manager, to market to professional clients in Luxembourg.

Sarah Noville, senior associate at Zeidler Group, says: “Ensuring success and delivering for our client was our first and foremost priority from the outset and we are delighted to receive regulatory approval under the third country regime from the CSSF.

“As investment management firms increasingly look to develop their business through new distribution channels, it is crucial that they have a trusted and strategic partner with whom to grow as well as keep pace with regulatory change, legal requirements and mitigate risk.”

Maximilian Harper, chief delivery officer at Zeidler Group, adds: “The regulatory approval from the CSSF under the third country regime reflects the research-driven and tailored legal guidance the legal services division at Zeidler Group strives to deliver on a daily basis for our asset management clients.”


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SYMPOSIUM
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Have you registered?
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Margin reform
Optimisation
Future Tech
Collateral Management
RegTech
Blockchain
UMR
Optimisation
Liquidity Chain
Digital Markets

TrustQuay launches SaaS platform

TrustQuay has announced the launch of its SaaS platform TrustQuay Online.

The end-to-end cloud-native platform will enable corporate services and trust administration providers to meet their corporate and private wealth clients' regulatory requirements.

TrustQuay Online aids companies to manage their business in an automated way and reduce the total cost of ownership.

To increase margin and drive growth, the platform will enable firms to deploy their IT resources to promote automation, digital client engagement and other key initiatives.

The service will also further reduce cybersecurity and platform availability risks by leveraging the infrastructure of Microsoft Dynamics 365 Business Central Online, as well as being interoperable with Office 365.

The platform is available on demand 24/7 from any device with a browser and internet connection.

Keith Hale, executive chairman of TrustQuay, comments: "TrustQuay Online will enable corporate services and trust administration providers to significantly reduce complexity, reduce the total cost of ownership and reduce risks such as cybersecurity, as well as future proof their technology.

"It offers a one-stop-shop solution that just needs a browser and internet connection, with no installation and no need to separately purchase or manage infrastructure and software." ■

The collaboration will see BNP Paribas' Triparty Collateral Management solution connect with DTCC's Margin Transit Utility service (MTU).

The MTU service was created to improve settlement efficiency and reduce operational complexity and risk for margin call processing.

Speaking on the announcement, Jerome Blais, co-head of tri-party collateral services at BNP Paribas Securities Services, says: "We are excited to be live on DTCC's MTU and allow our clients to reap the operational and technological benefits of a plug and play solution to manage their regulatory initial margin flows with BNP Paribas Securities Services as tri-party collateral agent and custodian."

CoinSmart announces equity investment in NFT cross-bridge marketplace, Curate

Canadian crypto asset trading platform CoinSmart, has announced its investment in non-fungible token (NFT) cross-bridge marketplace, Curate. This investment

represents CoinSmart's interest in making investing in the digital asset sector more accessible to the regular investor. The partnership agreement includes an undisclosed investment from CoinSmart in Curate's NFT marketplace, with an option to acquire a majority stake in the company later this year. CoinSmart expects to complete the first tranche of this investment around 30 April 2022.

The partnership will see CoinSmart take an active equity stake in Curate's NFT marketplace, with the two companies working collaboratively on future projects to bring further adoption to the digital asset ecosystem.

Curate is a blockchain agnostic, gasless, NFT marketplace that serves as a multichain bridge between major chains such as ethereum (ETH), solana (SOL), binance smart chain (BNB), algorand (ALGO), elrond (EGLD), and avalanche (AVAX), and has amassed over 100,000 active users in the last six months.

Curate's native marketplace allows buyers and sellers to exchange physical and digital goods such as NFTs, gaming, electronics, GIFs and more. The platform accepts payments through traditional options like credit and debit cards, as well as cryptocurrencies, while providing a reward to creators and buyers in the form of Curate's native token, $XCUR.

CoinSmart CEO Justin Hatzman says: "I am thrilled to be able to formally announce CoinSmart's partnership with Curate.

"The digital asset industry continues to rapidly expand, and CoinSmart is excited to diversify our operations to take advantage

BNY Mellon appointed USDC primary custodian

BNY Mellon has been selected by Circle Internet Financial as primary custodian for USD coin (USDC) reserves.

As a global internet finance firm, Circle provides internet-based payments and financial infrastructure to companies of all sizes.

Circle is the sole issuer of USDC, one of the fastest-growing dollar digital currencies in the world with more than US$52 billion in circulation in March 2021.

The new relationship will see BNY Mellon and Circle collaborate on digital and traditional markets, ranging investment management, digital asset custody, cash management and digital cash for settlement purposes to construct a stable financial ecosystem for the future.

Commenting on the partnership, Roman Regelman, CEO of asset servicing and head of digital at BNY Mellon, explains: "We are at a point in the evolution of our industry where the digitisation of assets is presenting new and exciting opportunities to a broad range of market participants.

"Our role as a custodian for USDC reserves supports the broader marketplace and brings value to clients, founded on our role at the intersection of trust and innovation."

Jeremy Allaire, co-founder and CEO at Circle, adds: "Building trust, stability and resilience in the digital asset economy is foundational to Circle's mission. As we continue to see exponential growth in USDC, the opportunity to work with BNY Mellon is one way we build bridges between traditional financial services and emerging digital asset markets." ■

of the incredible opportunity offered by the rapid adoption of NFTs.

“Curate is one of the NFT ecosystem’s most advanced marketplaces with an incredibly talented team and an exciting roadmap.

“We are greatly looking forward to our partnership with Curate, as the industry continues to evolve and mature in the coming years.”

Curate founder and CEO, James Hakim adds: “This is an exciting time for Curate as we welcome our new partners and investors, CoinSmart, to help accelerate our growth and adoption globally.”

SIX launches new platform for the Nordic markets and completes acquisition of REGIS-TR

SIX has launched a new clearing platform for the Nordic Markets to enable the clearing of 10 million trade legs per day, with SIX expecting an increase in the number of cleared trades going forward. Based on Nasdaq technology, the new clearing IT infrastructure has been integrated into the SIX post-trade architecture. SIX intends to extend the markets and trading venue coverage for Swiss clearing onto this new platform as the next step of its growth.

The upgrade will provide continued enhancement of the IT infrastructure and reliability as well as increased functionality and processing capabilities, says SIX.

Javier Hernani, head of securities services at SIX, comments: “This upgrade reinforces the position of SIX as a source of high-quality market infrastructure. The new platform for the Nordic markets, with its increased efficiency and scalability, will enable market participants to enhance the client experience in post-trade processes.”

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Michael McPolin
Head of market advocacy and business change for international shareholder communication solutions
Broadridge

Empowering the retail investor

Asset Servicing Times asks Michael McPolin, head of market advocacy and business change for international shareholder communication solutions at Broadridge, about the growing demand for retail shareholder democracy in Europe

There appears to be a growing impetus to empower retail investors in Europe with a vote at company meetings. What is driving this trend?

There are several drivers that have facilitated the empowerment of the retail investor community in Europe, the most prevalent of these being the abundance of regulatory and market change such as that arising from the Shareholders Right Directive II (SRD II), the growth in ESG investments, and the Capital Markets Union (CMU), to name but a few.

Each of these changes has its own objectives and goals. One of the primary objectives of SRD II was to enhance shareholder participation in the corporate governance process.

To achieve this goal, it mandated that intermediaries provide proxy voting services to both institutional and retail investors, creating the opportunity for retail investors to have a greater say in the governance of the companies in which they hold shares, and making significant progress in delivering on the objective of democratisation of the markets overall.

ESG has become a driving force and catalyst for change, with retail investors taking particular interest in areas such as sustainability, climate change and board diversity and using their new voting capability to express their view and influence companies' performance and adherence to ESG standards.

The CMU focuses on enhancing retail investment and is working to reduce barriers to retail equity investment by increasing retail investors' access to market data and trading platforms, which will in turn increase the percentage of retail shareholders across the EU region — representing a major source of potential capital and liquidity. This expansion of retail share ownership will further increase the demand and participation in corporate governance and, specifically, proxy voting services.

Social media has also played a pivotal role in recent years, empowering the voice of the retail investor. At the start of 2021 we witnessed online forums demonstrating the appetite of retail investors to engage and influence markets via coordinated trading activities. These developments have influenced the way the issuers, regulators and the industry as a whole view the position of the retail investor.

As retail investors now have the ability to express a view and vote on company meetings, issuers may find that ignoring the retail voice can result in some unwelcome consequences.

Even though the size of the retail investor holding may be small in relation to institutional investors, they now have the capacity and social media platforms to express an opinion which can significantly impact an issuer both positively and negatively. A tweet by a social media influencer can play a disproportionate role in shaping sentiment and can ultimately impact a company share price.

To what extent is this causing banks, brokers and wealth managers to reappraise their service provision?

Regulation has been and will continue to be a primary driver of change, compelling firms to transform how they service the voting requirements of the retail investor community.

The European regulatory agenda will continue to evolve and grow with many of the existing regulations either under review or scheduled to be reviewed.

A good example is SRD II, which has been the most impactful regulatory change to corporate governance in many years.

The European Commission is due to undertake a post-implementation review of the directive later this year and will no doubt focus on addressing some of the implementation challenges that have impacted its adoption and effectiveness — such as the need to harmonise the definition of a "shareholder" across markets.

Once the review is complete it is inevitable that regulators will be compelled to address noncompliance within their jurisdictions and the demand for proxy voting services will expand.

Financial intermediaries must comply by offering proxy voting and disclosure services or face a combination of financial penalties and potential reputational damage.

There have been several recent examples of firms receiving negative publicity via social media for not offering voting capabilities to retail investors and this is now becoming a potential product differentiator.

The newer generation of retail investors demands digital access to financial services; they want to be able to see their portfolios and participate in corporate governance activities by voting digitally on their smartphones, tablets and mobile devices, so it is important that firms partner with a provider that can offer e-voting and digital channels for investor engagement.

The retail investor community will continue to expand, and firms must ensure that their service provision is suitably aligned.

What kind of impact can fintech have in terms of empowering the retail investor?

If, as predicted, retail investors are to become a larger part of the European market, financial institutions will need to provide digital, customised and scalable proxy voting solutions to their retail clients.

The good news is that this technology is already available from established fintech providers and is operationally functional.

As a result of the global pandemic and the "work from anywhere" approach that has been adopted in many industries, mobile fintech enablement and adoption has accelerated.

Retail investors should already be able to access a baseline of information on companies in their portfolio and be able to vote from anywhere.

A seamless user experience across electronic devices is essential for financial institutions offering retail investor solutions, including consistent and frictionless support for shareholder voting across the markets in Europe and beyond.

These capabilities necessitate a secure and reliable technology platform that provides easy access to data from multiple sources to the end investor.

The use of advanced end-to-end processing services and application programming interfaces to deliver this data quickly, effectively and on demand, enables issuers and intermediaries to contribute and benefit from an efficient and transparent ecosystem.

By offering voting capabilities — as mandated under SRD II — brokers, banks, wealth managers and other intermediaries will help shape the future of corporate governance in Europe, and represent an opportunity, rather than a barrier, to these retail investors. ■

To explore the theme of retail shareholder democracy further, read Broadridge's latest whitepaper, ***The Rise of the Retail Investor***.

Early days yet

Industry experts share their early assessment of the CSDR settlement failure penalties regime and how it has affected the industry since its implementation in February

images by guillaume_le_bloas/stock.adobe.com

With the CSDR fails penalties regime going live back in February, how would you describe the market's level of preparedness for this deadline?

Paul Baybutt: There were some teething issues among a number of market participants on implementing the penalties regime as the Settlement Discipline Regime (SDR) infrastructure continued to be tested. Due to extensive planning and simulated testing at HSBC, we were able to reduce the impact of these problems and produce the required daily penalties reports for our middle office clients.

Rickie Smith: The SDR is arguably the most complex and extensive phase of the Central Securities fails Regulation (CSDR). In the lead up to the go-live there was a lot of uncertainty around the level of readiness from all market participants — from the central securities depositories (CSDs) and the chain of intermediaries, to the underlying investors.

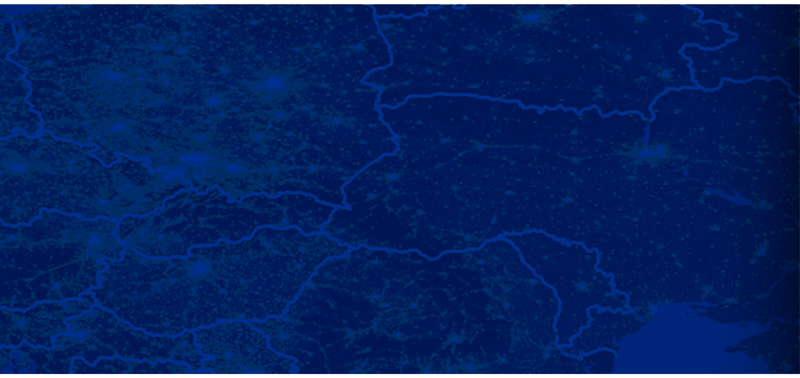
The market had certain operational and technological challenges to overcome. Firstly, with regards to ex-ante measures to improve the pre-trade and settlement process, and secondly, in terms of building tools to ingest new SWIFT messaging types, reconciliation of penalty messages to underlying trade data, and defining new operating models for processing monthly cash penalties.

There was good engagement both in operations and on the business side in the two years prior to CSDR go-live. Across the industry there has been significant improvements in the operational models that support settlement efficiency.

Pre-go-live, market participants were able to engage in the CSDs trial process where offered, which focused on daily reporting and reconciliation without any cash processing. Although this enabled certain issues to be addressed and technology builds to be pivoted ahead of go-live, the market was unable to complete a successful month-end reconciliation process, leading to some uncertainties and challenges in the first few months of the regime.

> *"A minority of firms held off committing fully to system and process updates pending a final decision on buy-ins, or perhaps hoping that the entire rule set might be subject to further delay. Those firms left themselves a lot to do in very short timeframe."*
>
> **Daniel Carpenter, Meritsoft**

Daniel Carpenter: Most firms we spoke to over the course of 2021 had solutions in place to manage the penalties and appeals processes well in advance of the deadline. The year-long delay



undoubtedly helped those who were struggling with the original implementation date. A minority of firms held off committing fully to system and process updates pending a final decision on buy-ins — or perhaps they hoped that the entire rule set might be subject to further delay. Those firms left themselves with a lot to do in a very short timeframe.

Maciej Trybuchowski: The project we undertook to prepare the Central Securities Depository of Poland (KDPW) for the SDR was one of longevity. We worked to implement the changes resulting from the SDR by dividing the process into stages so that the new solutions could be phased in without becoming a burden for us and our participants.

Due to the postponement of the effective date of the regulation, in cooperation and after consultations with KDPW participants, we implemented the solutions step-by-step without waiting to implement the changes all at once on 1 February 2022. Most of the adjustments related to settlement support mechanisms at KDPW were already implemented in spring 2021.

The changes included the tolerance level functionality, changes to the cancellation of settlement instructions, modifications to the partial settlement functionality, as well as changes to the handling of the “place of clearing” field in settlement instructions.

1 February 2022 was primarily the effective date of charging cash penalties for late settlement. From the very outset, KDPW started to calculate penalties and distribute daily reports to KDPW participants.

“The level of preparedness for the go-live date of 1 February was varied across the market, with some unable to support requirements from the off”

Pardeep Cassells
Head of financial products
AccessFintech

The level of preparedness for the go-live date of 1 February was varied across the market, with some CSDs unable to support requirements from the off.

This was indicative of some of the uncertainty around the regulation and how it would be supported, and potentially an underestimation of how technically complex the related data requirements were.

What are your early observations of the regulation and how has it affected the industry since its enactment? How has it changed market behaviour?

> *"Uptake of vendor solutions appears to be on the rise where, historically, counterparties were either unaware or consciously not fully utilising market level connectivity"*
>
> **Rickie Smith, J.P. Morgan**

Trybuchowski: Before the implementation of changes related to settlement discipline, KDPW had a system of penalties for late settlement in place. It covered a slightly different range of operations but it was much more restrictive, with higher fees. The implementation of the settlement discipline regulations was, without a doubt, a very expensive project. It required the development of a completely new system for calculating and reporting cash penalties.

From the perspective of the European market, it is important that standardised settlement support mechanisms are put in place in depository systems, including the tolerance level and the instruction matching requirement, as well as partial settlement. In the longer term, this should help improve the efficiency of settlement.

The implementation of settlement discipline arrangements, as of 1 February 2022, has not materially impacted the behaviour of market participants — settlement discipline has not improved markedly. Nevertheless, it is important to note that the implementation (in February 2022) coincided with market turbulence caused by the war in Ukraine.

Carpenter: The industry-wide imperative to reduce settlement failures led firms to prioritise budgets for this historically under-funded area of their businesses. Moving away from the manual or semi-automated processes of old, operations teams are now focused on greater precision around settlement instructions, fast access to a broad range of data sets from disparate systems, integration of client communications to facilitate rapid issue resolution, and end-to-end automation of the settlement workflow, right through to calculating and managing the penalty payments and receipts. Several of the firms we are working with have taken a more strategic approach, going beyond the regulatory requirements to analyse where trades are failing and why, across assets and across jurisdictions, so that they can make informed decisions about which of their counterparty relationships are profitable and which are costing them too much.

While it is too early to assess the broader impact of the new regime, the industry effort to improve fail rates comes at a critical time. Initial figures of around eight to 10 per cent settlement failures are being reported generally, and while penalties are not perhaps as high as was first anticipated, volumes and reconciliation activities remain high. Banks' margins are already under strain and the cost of funding is set to increase with the recent hike in interest rates, widely predicted to be the first of many throughout this year.

Cassells: A lot of the focus thus far has been on validating and data quality. A key component has been checking penalty information because of concerns around the rate of miscalculations and perceived errors on the part of the CSDs.

Certainly, it does seem that organisations are increasingly aware of their cost of fails and they are seeking to close out this risk quickly – this has been evident through the onboarding of solutions such as AccessFintech's (AFT's) Synergy to help reduce fails up front, and is being further reinforced through work towards the potential T+1 initiative in the US market.

I would expect a true change in market behaviour to take longer than just the two months since go-live. At this stage there are still some groups, such as asset managers, who have seen minimal direct impact and other business lines that are still finding their feet.

Smith: My initial observations, from a securities lending perspective, highlight an improvement in settlement rates from both new loans and loan returns. This indicates that there has been a definite shift in focus towards intraday settlement activity and process improvements with regards to the management of collateral.

Uptake of vendor solutions appears to be on the rise where, historically, counterparties were either unaware or consciously not fully utilising market level connectivity. Critical mass to adopt such solutions will lead to further efficiency improvements and will form an integral part of each firm's operational toolkit.

"We noticed that as the industry approached the implementation of the penalties regime, we had already seen an improvement in settlement efficiency, in terms of both improved settlement rates and shortened timeframes for settlement failures"

Paul Baybutt
Director, senior product manager, global middle office product, markets and securities services
HSBC

We noticed that as the industry approached the implementation of the penalties regime, we had already seen an improvement in settlement efficiency, in terms of both improved settlement rates and shortened timeframes for settlement failures.

This was down to the steps firms had already taken to address the reasons for settlement failures which saw them implement changes prior to the penalties regime being enacted.

Q

How well are market participants managing the processing and reconciliation of daily fails reporting and the monthly fails summaries from the CSD? How well are they equipped to allocate these cash penalties (or credits)? And to draw insights from this data that can improve their processing efficiency?

Smith: Within J.P. Morgan Trading Services, our purpose-built reconciliation engine is validating the daily reported penalties against a trade instruction, prior to communicating anything further down the chain to our clients, achieving a high percentage of straight-through processing.

The most challenging part of the settlement penalties process is the reconciliation between the daily reported amounts against the monthly net amounts, prior to processing the cash settlement.

Given the industry did not see a successful test of the month-end processing through the trial window, this does present a concern which could result in various manual interventions to resolve reconciliation issues, and significant delays to the allocation and attribution of net amounts to the underlying investors.

Intermediaries, within the settlement chain, have had to invest heavily in automating the reconciliation and penalty attribution process to ensure the penalty debits and credits are passed through to the underlying party in an accurate and timely manner.

Cash penalties data is only one aspect, coupled together with the trade settlement information along with the reasoning for the fails. This provides the basis to build a powerful story around understanding key metrics and trends impacting trade settlement.

From this data it will be clear where certain process improvements are required; then the business can prioritise addressing these areas to reduce settlement pain points and further increase operational efficiencies.

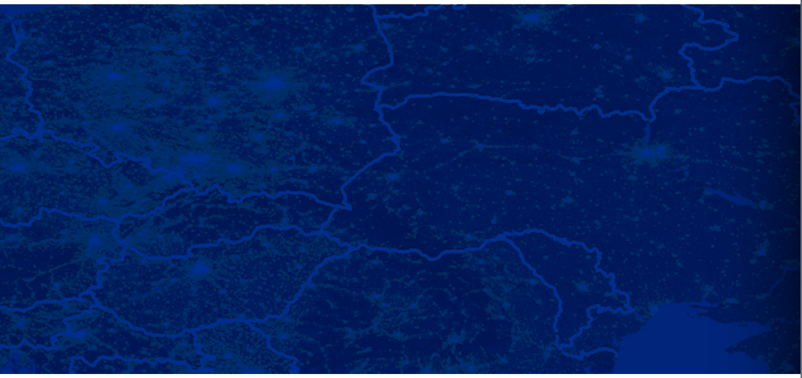
Cassells: Market participants are doing the best they can in terms of managing their daily versus monthly penalties, but they have faced a number of obstacles resulting from lack of detailed insight into intended processes prior to go-live.

These obstacles include CSD data quality and changing deadlines, among other factors, which all add to the complexity of this process.

Organisations without a streamlined and automated solution may find it challenging to allocate cash penalties and credits without significant manual effort, and it will be even longer before they begin to use the data to create efficiencies and drive down fails and mismatches.

Baybutt: The European Central Securities Depositories Association and the European Securities and Markets Authority (ESMA) have published an amended timetable for the collection of penalties, with the intention of providing participants with more time to receive details of a penalty and to reconcile it, while the CSDs have agreed to make adjustments in the next cycle to reflect that timetable.

At HSBC, even before the implementation of the penalties regime, we had detailed management information that has allowed us to draw insights from settlement reports. By using this historical data, we were able to model the impact that penalties would have. Although we already had high settlement efficiency rates, the data enables us to work with clients to address certain issues that might arise in the future.



Carpenter: We are seeing several issues, most notably with the formatting and sharing of SWIFT penalty messages. Not all international CSDs and custodians have followed Securities Market Practice Group recommendations detailing a standard format; therefore, data is being sent in multiple, bespoke formats. Some custodians are sending penalty messages using spreadsheets, thus reducing the expected automation benefits associated with ISO15022/SWIFT messaging. Additionally, inaccurate settlement data, for example around dates, is finding its way through to clients who must make the necessary amendments and then communicate the updates they have made.

While our CSDR solution caters for all these unique formats, firms still need to determine the data attribute mapping requirements from their CSDs and custodians for the automation and reconciliation processing that we support to be applied. Our solution provides access to said data and centralises it, making it easy for firms to perform in-depth analysis of settlement efficiency across all their counterparties. By adopting a more holistic approach that aggregates all the relevant settlement data from across the organisation and making this accessible centrally, firms can analyse this data to gain insight into which trades are failing to settle, with which counterparties, and why.

With this single view, new technologies such as artificial intelligence can increasingly be used to predict the likelihood of future fails and improve efficiency, while re-evaluating counterparty relationships to limit the incidence of failures — ultimately reducing their exposure to penalties. An added benefit is a reduction in the firm's exposure to costly interest claims.

"KDPW received only a few notifications of discrepancies in daily reports in February 2022. This was a great success — thanks to our staff that were involved in the project as well as thanks to close cooperation with market participants"

Maciej Trybuchowski
CEO
KDPW

KDPW received only a few notifications of discrepancies in daily reports in February 2022. This was a great success — thanks to our staff that were involved in the project as well as thanks to close cooperation with market participants — from which we were able to efficiently implement this complex project.

We do not have detailed information as to the level of alignment of individual KDPW participants, but given that thousands of penalties are charged at KDPW each day (as penalties are charged for each instruction not settled when due), it is reasonable to assume that participants are not processing the data manually.

Q

Do you anticipate that mandatory buy-ins will come into force, given that the MBI element of the SDR was postponed last February?

Trybuchowski: Mandatory buy-ins are highly controversial in the market. Comments in this area have mainly been raised by market participants who are the most interested in the issue at stake. Market participants should be listened to, and no solutions should be imposed against the will of the market.

Carpenter: Many firms we have spoken to are hopeful that the penalty regime, coupled with an industry-wide drive to address the historical issues, will minimise the likelihood of buy-ins.

They are focused on handling the current volume of fails, the associated penalties and client communications, as well as automating these processes to achieve the required levels of process improvement.

However, the door has been left open, and mandatory buy-ins (MBIs) remain in prospect if fail rates are not reduced to what the regulator deems an acceptable level. Time will tell how far the industry's collective efforts go in achieving this goal, but with no guidelines published on what constitutes "acceptable", we will have to wait for further information from the regulator.

Baybutt: Although mandatory buy-ins were postponed in February, ESMA has now published details of the CSDR REFIT. The REFIT will address two significant issues regarding mandatory buy-ins: the asymmetry of compensation, and the buy-in pass-on mechanism. ESMA has also noted it is possible that penalties alone will lead to an acceptable improvement in settlement efficiency. It is now down to the industry to continue to demonstrate this as the REFIT outlines that mandatory buy-ins will be implemented only if settlement efficiency does not improve to an acceptable level.

> *"The market now has an opportunity to show that settlement rates can be significantly improved and that the penalty regime is enough of a deterrent for bad behaviour to drive real change"*
>
> **Pardeep Cassells, AccessFintech**

Cassells: Given the recent European Commission update, it seems the market has been granted a reprieve in relation to the introduction of MBIs, with credit going to market bodies such as Association for Financial Markets in Europe, among other associations, who lobbied for this decoupling and delay.

The market now has an opportunity to show that settlement rates can be significantly improved and that the penalty regime is enough of a deterrent for bad behaviour to drive real change. It does feel that real work is needed to improve enough to keep the MBI regime at bay.

How effective has the CSDR settlement discipline regime been in meeting policymakers' goals of improving securities settlement in the EU?

Carpenter: We are encouraged by the efforts we have seen across the industry to bring about real improvements; it is no longer simply a compliance matter.

With the costs of doing business continuing to increase, there is a real drive to eliminate unnecessary expenditure.

The industry has known for many years that improvements in post-trade are needed, but CSDR has turned this "nice to have" into a "must have".

Just how well the process improvements put in place hold up in times of extreme volumes and market volatility remains to be seen, but reducing settlement fails must be a priority for all market participants.

March 2022 invoices will have delivered a reality check as the first wave of penalties hit. While daily data on failed settlements mean there will be few surprises, there will doubtless be a redoubling of efforts to reduce the bottom-line impact.

Cassells: Using the 8 per cent fail rate communicated in the recent ESMA Trends, Risks and Vulnerabilities Report of 2022, I would be interested to see the improvement rates in six months' time as an indicator of effectiveness.

Smith: It is a little early to say how successful the CSDR settlement discipline regime has been. Given the cash processing for the first set of monthly penalties has not yet materialised, many businesses may not have anticipated the financial impact.

This could be the catalyst for firms to increase focus on internal practices, with settlement efficiency being a higher priority.

Trybuchowski: It is difficult to assess the effectiveness of such revolutionary changes after only two months of operation, especially given the backdrop of a completely new situation: the war in Ukraine — which is also affecting the capital markets, particularly in KDPW's part of Europe.

The system of cash penalties is a very expensive solution to build and maintain.

The amount of penalties, at least in the Polish market, seems to be too low to improve settlement discipline, especially if you compare the amount of penalties under the CSDR to the penalties charged at KDPW before 1 February 2022.

Comments have been raised about settlement discipline in the process of the CSDR review, which suggests that the market recognises certain inadequacies of the regulations.

Baybutt: Early indications are positive, however, we will be better-placed to see the full picture in a few months' time, after initial implementation of the penalties regime and what its impact has been.

Q Building on this foundation, what are the next steps forward in eliminating settlement risk?

> *"As we noticed with the move to T+2, once one major market shortened their settlement cycles, the majority followed. The challenge for the industry will be whether other sectors of the investment markets can support the shortened settlement cycles"*
>
> **Paul Baybutt, HSBC**

Baybutt: For some, this is a move to the T+1 settlement cycle. It is not yet clear whether this is achievable or has universal support. Though, as we noticed with the move to T+2, once one major market shortened their settlement cycles, the majority followed.

The challenge for the industry will be whether other sectors of the investment markets can support the shortened settlement cycles. T+2 resulted in the settlement period for collective schemes in the UK to be shortened from T+4 to T+3; a move to T+1 for securities will likely cause the manufacturers of collective schemes to further shorten the settlement cycle to T+2.

The decision to move to T+1 should not be taken lightly, as today's T+2 cycle does allow there to be time to rectify any pre-settlement issues — time which would arguably be lost in a move to T+1 and, therefore, time that would need to recovered by better settlement monitoring tools.

Trybuchowski: Settlement risk cannot be eliminated in full but it can be minimised. The CSDR foresees the need to monitor and report cases of late settlement; however, it will take some time for the new system to settle before we can evaluate how effective it is. If necessary, existing solutions should be modified and improved, or new solutions should be sought. I am certain that not only CSDs, but also market participants, want to improve settlement discipline.

Cassells: Those organisations who were not quite ready to embrace CSDR in an efficient and automated way should now work to do so — removing team members who would be working on true settlement risk to instead reconcile penalty data seems counter-intuitive.

Pre-matching needs to become more consistent, more widely supported, and this should be achieved through data transparency. The real challenge that we have seen at AFT is the data quality across the market, which requires focused improvement. Better data quality, and collaboration based on that data, is how organisations can eliminate settlement risk seamlessly.

Rickie Smith
Executive director,
collateral services product manager
J.P. Morgan

In the short-term, a wider market adoption of partial settlement functionality will be key in reducing and minimising both the settlement risk and associated cash penalties resulting from a failing trade — though this will require all parties throughout the settlement chain to adopt the functionality.

Longer-term, within the securities financing and collateral ecosystem, several key initiatives within the digital space is a natural progression towards increasing market efficiencies through the elimination of settlement risk.

Although in its infancy, initiatives such as J.P. Morgan's Onyx intraday repo programme are starting to gather momentum, thus demonstrating how blockchain can be used to transfer funds and beneficial ownership of securities.

The evolution of such tokenised structures, which do not rely on physical market settlement at all (with both the loan and collateral settling digitally on the blockchain), will be a key step to eliminating settlement risk altogether.

Daniel Carpenter
Head of regulation
Meritsoft, a Cognizant company

Due to the global nature of capital markets, firms have continually struggled to manage failures across different systems and regions, and across distinct asset classes and clearing houses.

While the current CSDR penalties do not apply for trades failing to settle in non-European Economic Area jurisdictions, incidents such as the GameStop incident at the start of 2021 served to highlight the negative and destabilising impact of settlement failures across the global markets. This will become increasingly important as the markets look to reduce settlement times still further to T+0.

Based on our engagement with the market, we have seen an increasing number of forward-thinking firms sharing our vision for a more strategic approach to fails management that goes beyond CSDR compliance. This includes the expansion of our CSDR solution capabilities to cater for other settlement related costs, such as interest claims, and the expansion of solutions into a "single pane of glass" across all settlement systems, providing operations teams with a single portal to manage all exception and fail management activities.

Sustainability stress testing: Confluence's view

In 2021, both the European Central Bank and the Bank of England set out their first stress test exercise on the ability of local financial systems to cope with climate change. The exercise aims to scrutinise the resilience of the country's top banks and insurers to both the impact of extreme weather conditions and the shift to a net zero carbon economy in the coming years

While there are clear benefits in monitoring the exposure to physical risks, such as fires or floods related to climate change, it is equally as important to monitor the exposure to risks associated with transitioning to a climate-friendly business.

In practice, this may translate into sudden changes in asset pricing and values, additional credit risks associated with the trading or banking books, and additional liquidity risks associated with recovery, reinsurance, and investor liabilities.

The integration of climate risk (or more generally sustainability risk) stress testing into long-term business strategy and governance is key, as it will incorporate sustainability assessments into the risk appetite framework of institutions.

The complexity of such monitoring poses tremendous challenges for all industries and building projections as using plausible trajectories is essential to correctly size investment opportunities.

The role of a good partner

Trucost, part of S&P Global, has been assessing risks relating to climate change, natural resource constraints and broader ESG factors since 2000. Confluence partnered with Trucost in mid-2021, combining Confluence's cloud-based Revolution platform with Trucost's data, to provide an integrated ESG analytics and regulatory reporting solution.

The S&P Trucost Climate Change Physical Risk methodology analyses corporate exposure to climate change physical risks by geo-locating the assets and facilities owned by a corporation on climate change hazard maps. It was developed with input from industry experts in the investment, business and scientific communities.

To better understand climate change physical risks, Trucost managed to link over 500,000 built assets to more than 15,000 companies across all regions and sectors, utilising asset level data to assess physical risk exposure.

Such coverage enables the profiling and analysis of investor portfolios in comparison to benchmarks across seven key hazard types (coldwave, heatwave, flood, hurricane, sea-level rise, water stress and wildfire) and across different stress scenarios:

- **High scenario:** continuation of business as usual with emissions at current rates – this scenario is expected to result in warming in excess of 4°C by 2100
- **Moderate scenario:** strong mitigation actions to reduce emissions to half of current levels by 2080 – this scenario is more likely than not to result in warming in excess of 2°C by 2100
- **Low scenario:** aggressive mitigation actions to cut emissions in half by 2050 – this scenario is likely to result in warming of less than 2°C by 2100

Below is a sample view, powered by Trucost and available via Confluence's Revolution platform, which aims at monitoring climate-related activities, in line with the Task Force on Climate Related Financial Disclosures recommendations. The output specifically focuses on carbon performance, fossil fuels and stranded assets, and the associated scenario analysis:

> *"Continuation of business as usual with emissions at current rates – this scenario is expected to result in warming in excess of 4°C by 2100"*

In the driver's seat of innovation

Since the launch of its first index in 2001, Confluence's proprietary research model ECPI has been a pioneer in the sustainability investment world with its market-focused solutions developed to respond to the needs of an ever-growing market.

ECPI focuses on the ESG factors that determine issuers' sustainability and intangible market value, underlying thousands of companies and hundreds of countries.

The process is both rigorous and disciplined, and our methodologies are based entirely on publicly available information from companies, data providers and media.

We use an objective, sector-based, best-practices approach to analyse ESG data of issuers and translate qualitative datainto quantitative indicators, assigning a score and rating to each issuer.

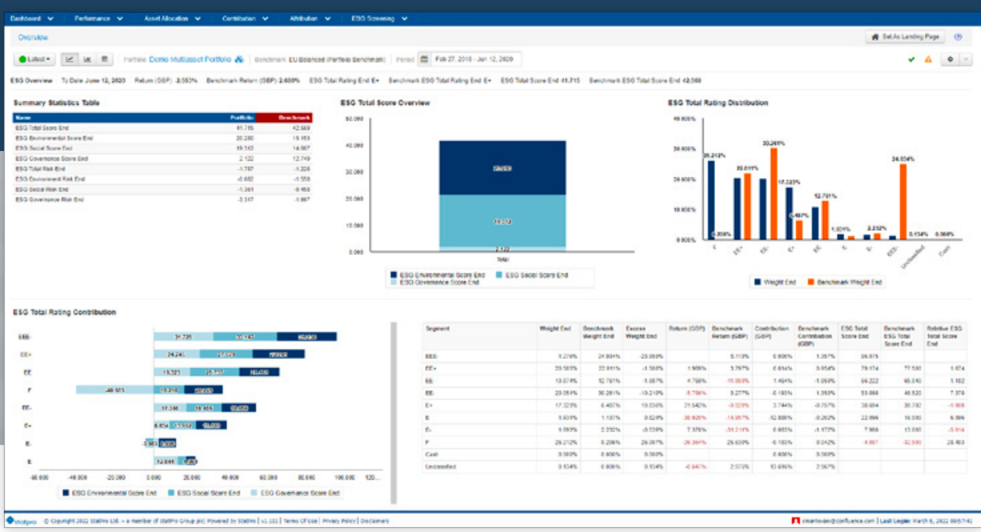
ESG ratings and scores, risk signals monitoring, exposure to controversial activities, and climate adverse changes are available throughout our Revolution platform to comply with all new financial market regulations that require the inclusion of sustainability factors into the investment process, risk management process and advisory services.

Below is a screenshot reflecting one of the various first-level overviews that users can analyse via the Revolution platform, for both portfolios and benchmarks.

When benchmarks are involved, though, managers should not only focus on the official prospectus reference index or blended composition of indices, but rather compare against representative indices of sustainable investments.

For this reason, ECPI has developed a complete suite of equity and fixed income ESG indices with a regional, global or industry focus, designed to allow clients to benchmark all their investments with a single data provider.

This allows organisations to both align investment and ESG objectives, while ensuring a low number of tracking errors with the comparable "standard" index to give exposure to the most compelling investment themes linked to sustainable development.



The predictive power of stress tests

One of the main challenges of an institution, asset manager or risk manager is to know how their portfolio may be affected by significant market movements. To achieve this goal, it is crucial to define stress tests in which a market index is stressed — the shock is then propagated to all other risk drivers. Below is a simplified introductory explanation of the problem we are trying to solve.

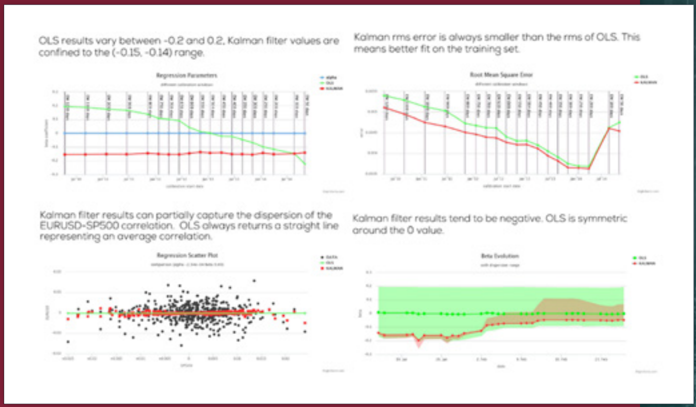
With predictive stress tests we try to answer the following question: what would have happened to my portfolio today if one of the main market factors had changed between yesterday and today by X+dX rather than simply X? Where X can be a stock, a zero rate, an FX rate, a credit spread or an ESG factor, among other components.

To compute predictive stress tests, we first need to evaluate the relationship between the main market-driving factor and any other risk driver. Therefore, we must solve the standard regression problem: Y=a+bX+e where:

- **Y represents the daily variation of a risk driver i.e. Apple, one-year USD zero rate, etc**
- **X represents the daily variation of the main market-driving factor i.e. SP500, specific ESG index, etc**
- **e is the regression residual**
- **a and b are the unknown parameters**

Traditionally, the ordinary least squares (OLS) approach has been used to model the correlation structure behind stress tests, but we instead propose a dynamic and modern approach based on state-space models. Specifically, we implemented the daily running Kalman filter algorithm which produces better results with lower computing effort, even in "non-standard" market situations.

The OLS approach has many advantages, as it is easy to implement, easy to understand and validate, and easy to generalise to multiple factors. But it also has many disadvantages, among them: the average daily correlation over a fixed time period is generally not suited if we are looking for today's daily local correlation; the calibration window dependency; and it is hard to evolve on a daily basis.



Usually, the Kalman filter is calibrated using a maximum likelihood approach. Since 2015, we have enhanced the calibration process by implementing a hybrid solution in which we mix OLS, maximum likelihood, and the novel autocovariance least squares methods. The results are stable, reliable and able to adapt to different market regimes.

By comparing the OLS to the Kalman filter results on a set of common stocks against the SP500 index, we can measure their:

- **Stability:** dependence on the calibration period
- **Accuracy:** root mean squared error over the different calibration periods
- **Dispersion:** data fitting chart for 504 business days calibration window, where the X and Y axis represent respectively SP500 and risk driver daily variations
- **Daily evolution:** daily evolution with calibration window for Kalman limited to 300 to 1200 business days and solid line for the 504 business days calibration window evolution

The Kalman filter results are generally more stable and consistent than the OLS, but are equivalent to OLS values for systems with no real beta dynamics. They are also more accurate, which implies a better fit to the system data and being better suited for analysing dynamic systems where OLS tends to give less results.

"Since 2015 we have enhanced the calibration process by implementing a hybrid solution in which we mix OLS, maximum likelihood, and the novel autocovariance least squares methods"

Building a sustainable predictive stress testing framework

Climate change physical risks will begin to play an important role in the construction of investment strategies, as will the ability to build innovative and focused indices to facilitate the relative analysis of portfolios.

How the stress tests analyses have the power to answer questions institutions may have in terms of exposure to market risk drivers has also been highlighted.

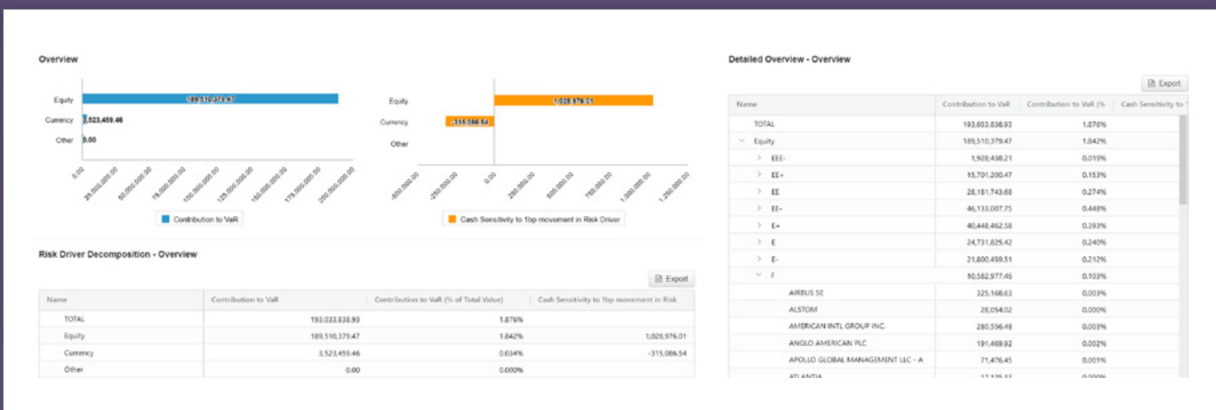
Building a framework which integrates climate and more general sustainable factors into predictive modelling is key. Our Revolution platform enables all of this for its users with the additional capability to monitor against best-in-class sustainable indices.

Understanding the portfolio is therefore the first step in building the right framework around sustainable stress testing capabilities; as risk assessment requires extensive resources, data and analysis, the most vulnerable assets and sectors need to be prioritised.

This can be done via portfolio analysis, which consists of reviewing the portfolio in terms of asset allocation, both in absolute and relative terms against a benchmark. Sectors or sub-sectors exposures, as well as the geographical distribution of the portfolios, need to be assessed, alongside the average life of the assets held, which provides a fundamental factor for choosing the horizon of the analysis and sustainable path definition.

A top-down approach must be combined with intensive bottom-up mechanisms as well. A robust exercise may start with the analysis of the portfolio decomposition by risk drivers such as equities, interest rate curves, credit spreads, FX rates as well as the ESG worthiness of the issuers.

The image below shows a hedged model global equity portfolio's exposure to risks: it shows 1.87 per cent as value at risk (95th percentile over two years risk factor history, one day horizon), only in minimal part exposed to currency risk (in this case, 0.03 per cent).



Additionally, in a rating scale ranging from EEE (high) to F (low), as ranked within our proprietary ECPI research, most of the risks of this portfolio are associated to average rated issuers. EE- (0.45 per cent) and E+ (0.39 per cent) alone contribute to almost half of the portfolio risk, whereas F contribute with -0.1 per cent.

"F" stands for failures and it groups companies that for different reasons, fail the assessment because they show poor long-term strategic attitude, weak operational management and/or ineffective or negative contribution towards society and environment.

The following screenshot further displays the ex-ante correlations between the portfolio and benchmark, as well as a few standard market indices.

"Climate change physical risks will begin to play an important role in the construction of investment strategies"

Scenario	Change in Monetary Value (USD) - Portfolio	Change in Monetary Value (USD) - Benchmark	Change in Monetary Value (USD) - Relative	% Change - Portfolio	% Change - Benchmark
ASX 200 +10%	531,239,566.36	669,553,271.31	-138,313,704.95	4.987%	6.286%
Brent Crude Oil +10%	162,544,512.47	219,832,126.36	-57,287,613.89	1.526%	2.064%
Euro Stoxx 50 +10%	630,101,323.71	886,296,610.17	-256,195,286.46	5.915%	8.320%
FTSE 100 +10%	666,670,587.15	1,193,741,009.05	-527,070,421.90	6.259%	11.207%
Hang Seng +10%	244,704,443.04	396,044,268.90	-151,339,825.87	2.297%	3.718%
MSCI AC World +10%	1,072,957,198.81	901,212,910.93	171,744,287.88	10.073%	8.460%
MSCI Emerging Markets +10%	571,096,203.88	689,414,318.99	-118,318,115.11	5.361%	6.472%
S&P GSCI Energy +10%	183,427,100.29	252,266,559.33	-68,839,459.04	1.722%	2.368%
SP 500 +10%	902,834,076.62	659,016,383.38	243,817,693.25	8.476%	6.187%
TOPIX +10%	250,761,156.20	331,229,017.86	-80,467,861.66	2.354%	3.110%

We can see for example the almost perfect correlation between the MSCI World index and our model portfolio. By shocking the former up 10 per cent, the portfolio reacts with -10 per cent, translating into ex-ante beta -1. The relationships change quite significantly when changing the market invariant, although keeping the positive correlations throughout. We also see the benchmark show similar positive correlations, although shifted more toward the UK market.

"We can see the almost perfect correlation between the MSCI World index and our model portfolio"

The Energy Index though shows quite a low correlation (-0.17), almost aligned to Brent Crude Oil (-0.15). How is this possible in a global environment where demand for clean energy is key? And how does this further translate into an analysis of sustainability of the investments? If we look more closely at a few of our ECPI indices, we can further explain the behaviour:

Scenario	Change in Monetary Value (USD) - Portfolio	Change in Monetary Value (USD) - Benchmark	Change in Monetary Value (USD) - Relative	% Change - Portfolio	% Change - Benchmark
Brent Crude Oil +10%	162,544,512.47	219,832,126.36	-57,287,613.89	1.526%	2.064%
MSCI AC World +10%	1,072,957,198.81	901,212,910.93	171,744,287.88	10.073%	8.460%
S&P GSCI Energy +10%	183,427,100.29	252,266,559.33	-68,839,459.04	1.722%	2.368%
ECPI Global Clean Energy +10%	710,178,924.10	766,182,039.59	-56,003,115.49	6.667%	7.193%
ECPI Global Climate Change +10%	936,093,370.34	976,287,251.03	-40,193,880.69	8.788%	9.165%
ECPI Global ESG Blue Economy +10%	835,905,112.40	934,412,133.73	-98,507,021.34	7.847%	8.772%

> *"Our model portfolio invests in many securities across different financial, industrial and utilities sectors"*

The ECPI Global Clean Energy Equity Index is an equally weighted equity index designed to offer investors exposure to companies in the global market which operate in the clean and renewable energy sector.

A higher beta against such index (0.67) compared to the former broad Energy index (0.17) highlights the presence of investments within the portfolio which results in having a much closer strategy focused on the green sector compared to the original Energy index which may instead result in bias by the presence of companies actively operating in and or with non-renewable energies.

Similarly, the ECPI Global Climate Change Liquid Equity Index is an equally weighted equity index designed to offer investors exposure to companies that are best-placed to seize the opportunities presented by the challenge of climate change. Selected firms operate in sectors identified as playing a key role in meeting that challenge and have the highest ESG ratings in their industries. This shows an even higher correlation, -0.88 ex-ante beta against the market.

It implies that our model portfolio invests in many securities across different financial, industrial and utilities sectors, which are in large part actively contributing to meeting the challenges associated with climate change.

For the interests of this article, we are proposing results at total level only, but the analyses can be continued by moving down through the investment tree, to sector exposures and again down to the individual issuer or security level. All asset classes can be thoroughly analysed: from equities to fixed income (both corporate and sovereign), from derivatives to funds and exchange-traded funds, thanks to the powerful look-through capabilities powered by investment research and investment management service, Morningstar.

Similarly, decomposing liquidity risks by looking at the ESG factors underlying the investments is also an important aspect to monitor. Our Revolution platform offers various options to simulate different liquidation strategies that can be put in place by portfolio managers across different stress scenarios, while improving the portfolio sustainability and concurrently securing the liability ratio.

How it all comes together

The current standard risk assessment practices are not enough for the integration of climate modelling to adhere to upcoming governance.

To add a climate component to the existing monitoring activities, the existing risk assessment tools need to be transformed and enhanced, not only to apply climate quantification, but also to introduce additional climate stress test methodologies to the decision-making processes.

The analysis of the risk appetite includes measuring and monitoring sensitivities, like the ones described above, and aims to translate the more traditional stress tests into a feedback loop back to the risk managers, by generating the information flow necessary for the continuity of sustainable portfolio management and the corresponding high-level strategic plans on sustainability.

Confluence has rolled out an ESG module as part of the Revolution platform, to make it easier for our clients to understand and actively manage sources of sustainability risk. For ESG services in mind, our platform natively embeds multi-sources and is able to support and monitor sustainability across all asset classes. Data providers integrated into the platform include ECPI, S&P Trucost, Morningstar and Sustainalytics.

In 2021, Confluence's Revolution platform started the ambitious development of a cross functional solution, able to respond to the evolving global requirements around the monitoring of sustainability risk and the more general ESG-risk assessment and associated regulatory reporting.

Solving the challenges of the systematic integration of ESG metrics into the risk, performance and investment processes is on us, leaving users to focus on the best investment strategies for an evolving, climate-friendly world. ■

"Confluence has rolled out an ESG module as part of the Revolution platform, to make it easier for our clients to understand and actively manage sources of sustainability risk"

Chantal Mantovani
Product manager, regtech and fixed income analytics
Confluence

A digital horizon

Brian Bollen talks to industry leaders about the increased interest in the NFT phenomenon and what it will mean for the UK and the rest of the world

images by miastendal/stock.adobe.com

Almost a quarter of Britons have said they are ready to invest in tokens or non-fungible tokens (NFTs), according to a new national survey by Tokenise.

For the record, an NFT is generally accepted as a digital asset, such as an image, audio clip or GIF, whose ownership is recorded on a tamper-proof digital ledger known as a blockchain.

Tokens are seen as a new way to access assets previously reserved for the wealthy few. They are also seen as technologically secure forms of investment, according to the results of a survey of 2,000 people commissioned by Tokenise, which is set to be among the world's first fully-regulated global stock exchanges for security tokens.

"Tokenise is opening the door to the democratisation of ownership, where qualifying investors can own and trade a piece of what they love, as well as potentially unlocking access to previously untapped revenue for asset owners and artists," proclaimed the company.

When asked about which investments they viewed as most risky, 41 per cent of Tokenise's respondents said Bitcoin (BTC), 27 per cent company shares, 19 per cent oil, 17 per cent property, and 16 per cent gold. Just 11 per cent of respondents found tokens the riskiest form of investment.

Ease of access is also important, particularly for younger investors. When asked what contributed to their decision to buy tokens, 53 per cent of 18–24-year-olds cited the ability to invest online or through an app. Some 30 per cent of respondents had never heard of digital assets (tokens, fractional ownership, NFTs or cryptocurrency).

Across the UK, there are big regional differences in the knowledge and the appetite to invest in tokens. Some 41 per cent of Londoners, 27 per cent of those in the Northeast and 24 per cent in the Southwest are keen to use, buy or trade a token in 2022, while just four per cent in the Northwest and five per cent in the East Midlands have heard of tokens or NFTs.

Mike Kessler, Tokenise founder and CEO, said: "Our survey pinpoints shifting attitudes towards newer digital assets. We believe that tokens are close to a critical tipping point – the ideal climate for a fully-regulated exchange for security tokens to emerge.

> *"This marks the start of an exciting new era for investors who can own a piece of what they love and stand to potentially benefit financially"*

Mike Kessler, founder and CEO of Tokenise

"Crucially, this also marks the start of an exciting new era for investors who can own a piece of what they love and stand to potentially benefit financially. That is democratising a world – of art, wine, property – that few previously had access to."

Tokenise did contain the cautionary note that any capital deployed in this way is at risk and that past performance is no guarantee of future performance.

Wallets

Elsewhere, according to data compiled by Banklesstimes.com, the top two wallets globally hold 1.2 per cent and 0.80 per cent of all BTC in circulation, respectively. The two wallets, which hold 252,597 BTCs and 168,010 BTCs, are held in Binance and Bitfinex exchanges, respectively. There are currently more than 41 million holders. An analysis of the top 100 holders show that they account for 14.11 per cent of coins in circulation, with the amount of BTCs held ranging from 252,597 to 9,000 BTC coins.

David Weisberger, CEO of crypto trading company CoinRoutes, says that regulatory uncertainty is one of the main themes currently dominating in the digital assets sector.

"The main theme of the market has been a multi-month trading range despite an impressive list of macro tailwinds for BTC in particular," Weisberger explains. "Lending protocols have been stymied in the US by regulation while stablecoins are threatened as well. Small cap crypto and decentralised finance (DeFi) is certainly concerned about regulation, but also with hack events and governance concerns."

Wayne Hughes, head of digital assets at BNP Paribas Securities Services, says: "We are primarily focused on assets with a clear regulation framework, including security tokens, central bank digital currencies and stable coins issued by financial institutions. It is still early days for these assets but we are seeing growing interest from both issuers and investors.

"With that said, various challenges remain such as: full regulatory clarity, fragmentation with many competing blockchain, standards, providers and market initiatives, complexity and cost of adapting legacy platforms, the lack of a widely adapted means of payment for institutional activity on the blockchain. As we have engaged with our clients over the past months, we have seen that most of them are convinced of the potential of digital assets but believe some of the challenges will have to be addressed before we can expect this to scale up. For the time being, they are focused on performing live experiments of a limited scope as a learning experience and means of getting their full organisation started on their digital assets journey."

Hughes concludes: "The existing providers like ourselves are adapting our services to cover digital assets. One of BNP Paribas Securities Services' design principles is to offer clients a seamless, consolidated service across traditional and digital assets. We believe these assets will have to co-exist for an extended timeframe and therefore it is important that we provide our clients with an operating model that allows them to get the benefits while minimising the impacts."

How do those affect custodians and their clients? “Custodians have to be concerned with regulation, of course, but the biggest impact on them is the difficulty that large potential clients of theirs have in taking regulatory risks to invest in crypto directly,” he says.

Looking at how this has changed in recent times, Weisberger continues: “It seems like the ice is starting to thaw, with firms such as Cowen & Co offering crypto trading and BNY Mellon announcing custodial services, but most large brokerage firms are still reluctant to trade spot crypto.

More firms are setting up either internal arms to study crypto or have announced initiatives to begin trading.

“We believe the sector is attractive, based on two core beliefs. One, digital assets will grow to be the dominant form of all assets that are traded due to the efficiency, true multi-currency, and transparency of the trading mechanisms. Two, crypto, which represents three new asset classes, will grow to be extremely significant,” Weisberger affirms.

“The markets are maturing rapidly, but progress is uneven between exchanges, market makers and clients.”

“I would say that in some respects, particularly the matching and network technology, the crypto markets are as immature as US-based stock exchanges were in the late 1990s. In other respects, the crypto markets are more advanced than today’s traditional markets, including public transparency and risk control. Technology and consistency of rulesets will continue to improve, with the result of improved liquidity and lower costs to trade.”

“The markets are maturing rapidly, but progress is uneven between exchanges, market makers and clients”

David Weisberger, CEO of CoinRoutes

More than half of millennials and nearly three-quarters of Generation Z are considering including NFTs into their investment portfolios, reveals a new survey by deVere Group. It highlighted that 52 per cent of those born between 1980 and 1996, and 74 per cent of those born between 1997 and 2002, would welcome the inclusion of NFTs into their portfolio mix. According to deVere CEO and founder Nigel Green: “The findings of this poll underscore that digital natives – those who have grown up immersed in a fully-accessible digital life – understand that unique, highly portable and transferable digital assets have an intrinsic value and that this is a trend that will inevitably grow moving forward.

“They know that how we live, study, work, interact and enjoy downtime is increasingly digitally-oriented. As such, it is natural to want to take digital representations of fashion brands, music, sport and art into the digital space — and now we can with NFTs.

“Sensibly, younger generations — who instinctively better understand it — appreciate that, therefore, it is going to shape the future of investing. They are keen to have a stakeholding in this new financial ecosystem by including NFTs in their portfolios.”

This last reason, says Green, is arguably the most important for the majority of investors. “Proper diversification of a portfolio across asset class, sector, region, and currency is the best way an investor can best position themselves to mitigate risks and to seize opportunities when they are presented,” he outlines.

> *"Digital technology and DeFi are changing the financial industry's business model by taking out huge costs"*
>
> **Mark Makepeace, CEO of Wilshire**

Weisberger adds: "Who are the main players in digital asset custody? We hear about Anchorage, Bitgo, Fidelity and exchanges such as Coinbase and Gemini. In addition, we hear of a few banks that are moving into custodial services and there are also quasi-custodial firms offering use of accounts such as FalconX, Hidden Road and Bequant. The list is certainly growing."

Changing attitudes

Long-term evolution sometimes demonstrates that yesterday's lunacy can become the new orthodoxy. Not that long ago, ESG was little more than a glimmer in the investment world's eye. Now it is one of the dominant themes and no investment decision is considered complete without giving it thorough consideration.

The same is true of digital assets today, according to Mark Makepeace, CEO of Wilshire, the global investment technology and advisory company, and Doug Schwenk, CEO of Digital Asset Research, a provider of crypto data and research.

"Digital technology and DeFi are changing the financial industry's business model by taking out huge costs. All investors analyse and they need a classification system to help them navigate the changes taking place in digital assets," says Makepeace.

For those neophytes who think that 1,000 is a big number, Schwenk has a bit of news. "We are tracking over 10,000 digital assets that are fungible (that is, exchangeable), partly because the barriers to entry are very low. If you add in non-fungible assets, there are probably millions," he says.

"It is going to be a whole new world, and we all have to educate ourselves and be prepared for that," adds Makepeace.

The ink had barely dried on this paragraph when news broke of plans for the UK's Royal Mint to launch an NFT as part of a plan to make the country a global crypto-asset hub.

Mark Basa, global brand and business manager at HOKK Finance, was quick off the mark to react. He says: "Honestly, I am incredibly excited for the UK to do this. The UK is extremely influential when it comes to certain fiscal policies, so I imagine this could have a ripple effect in the Commonwealth, where numerous nations follow suit and begin to rapidly accept crypto, issue NFTs, and use stablecoins as a major use of commerce.

"What is incredibly interesting is the UK government's take on decentralised autonomous organisations (DAOs). I feel that once the true mechanisms of a DAO are understood, there will be a boom in companies shifting towards this sort of governing for both private and public entities, where governance tokens are issued in lieu of common stock."

Basa concludes: "Also strikingly positive is how the UK government will look into DeFi loans. A major hurdle in crypto adoption will come down to how the mortgage market shifts towards DeFi, opening a plethora of opportunities for new and existing businesses to offer their customers loans on the blockchain.

"Depending on how the legislation is worded, I imagine that centralised banks will try to secure their place in DeFi, whereas decentralised platforms will continue to dominate until either cracks the code on how to get the average retail investor to adopt their lending protocol." ■

Ryan Lemand appointed non-executive director at FundRock Middle East

Apex Group has appointed Ryan Lemand as a non-executive director of FundRock Investment Management Services, a fully authorised ManCo for qualified investor funds and exempt funds.

Prior to FundRock, Lemand served as senior executive officer and board director of ADS Investment Solutions, the ADSS Group's wealth and asset management company.

Commenting on his new role, Lemand says: "FundRock is a leading example of how access to fund structures for asset managers can be made more efficient and flexible. I have followed with interest the trajectory of the business, and now as part of Apex Group, it goes from strength to strength, overseeing more than 470 funds, with a total of €134bn in assets under management.

"I am delighted to join FundRock's board of directors and I look forward to deploying my experience and knowledge to support the company's continued growth in the region." ■

CACEIS UK has appointed Christopher Christofi as head of risk and permanent controls and CASS oversight officer.

Based in London, Christofi will oversee operational risk control frameworks across the CACEIS UK business and, as a subject matter expert on risk and CASS, will act as an advisor to CACEIS' custody services, fund accounting and depositary teams. Christofi joins CACEIS UK from Societe Generale Securities Services (SGSS), where he was head of compliance advisory to custody services covering authorised and unauthorised open and closed-ended fund structures.

Prior to his tenure at SGSS, Christofi worked with the Financial Conduct Authority in the implementation of the Alternative Investment Fund Managers Directive.

Pat Sharman, country managing director at CACEIS UK, comments: "Chris' appointment reaffirms CACEIS' growth ambitions in the UK and our commitment to partner with asset managers and pension schemes through a focus on sustainable governance and client-first thinking. Chris is a great addition to the team and brings considerable expertise in operational risk, operational resilience and governance within regulated environments."

Christofi says: "I was really attracted by CACEIS' ambition for growth in the UK, their sustainability expertise and the personalities in the team. I also like the way CACEIS is bringing new governance solutions into the market to help their clients monitor a new range of challenges, such as ESG and climate risk. I am looking forward to working with such an ambitious team."

Broadridge appoints Stephan Müller as managing director for Germany

Based in Frankfurt, Müller will join Broadridge's international leadership team and will be responsible for leading and growing Broadridge's overall business in Germany.

This includes across all solution lines in the firm's global technology and operations portfolio, investor communication solutions and managing Broadridge's Payments-as-a-Service business and financial messaging services.

Müller joins Broadridge from Commerzbank AG, where he held divisional board member roles during his 13 years with the firm, including for banking operations, chief information officer (CIO) and transaction banking.

Previously, Müller was at Dresdner Bank for 14 years, where he was most recently CIO for corporate and private clients. Prior to this, he was global head of transaction banking and customer service.

Samir Pandiri, president of Broadridge International, comments: "Stephan brings strong, inspirational leadership, extensive experience and deep market knowledge that will be fundamental to our solution and service provision as we embark on the next stage of our regional growth trajectory."

DTCC has elected two new members to its board of directors, William Capuzzi and Kelley Conway.

As a post-trade infrastructure for the global financial services industry, DTCC's board is responsible for determining the strategic direction of the company, as well as providing oversight and guidance on risk management, regulation, technology, innovation, and new product development.

Capuzzi is CEO of Apex Fintech Solutions, where he is responsible for setting the company's vision and strategy to identify new areas of growth and opportunity.

With more than 20 years' experience in the trading, clearing and custody business, Capuzzi previously held senior leadership roles at Convergex, Pershing and DLJ.

Conway is executive vice president and head of corporate and digital strategy at Northern Trust. In this role, she leads Northern Trust's strategic planning process and enterprise digital strategy, including its roadmap to enhance client experience and improve security, stability and scalability.

Commenting on the board appointments, Robert Druskin, non-executive chairman of DTCC's board, says: "We are pleased to welcome Bill and Kelley to the board of directors."

"Each brings decades of leadership and experience in financial services technology, which will be invaluable as DTCC continues to drive innovation by bringing new solutions and capabilities to market. We look forward to their insights and contributions."