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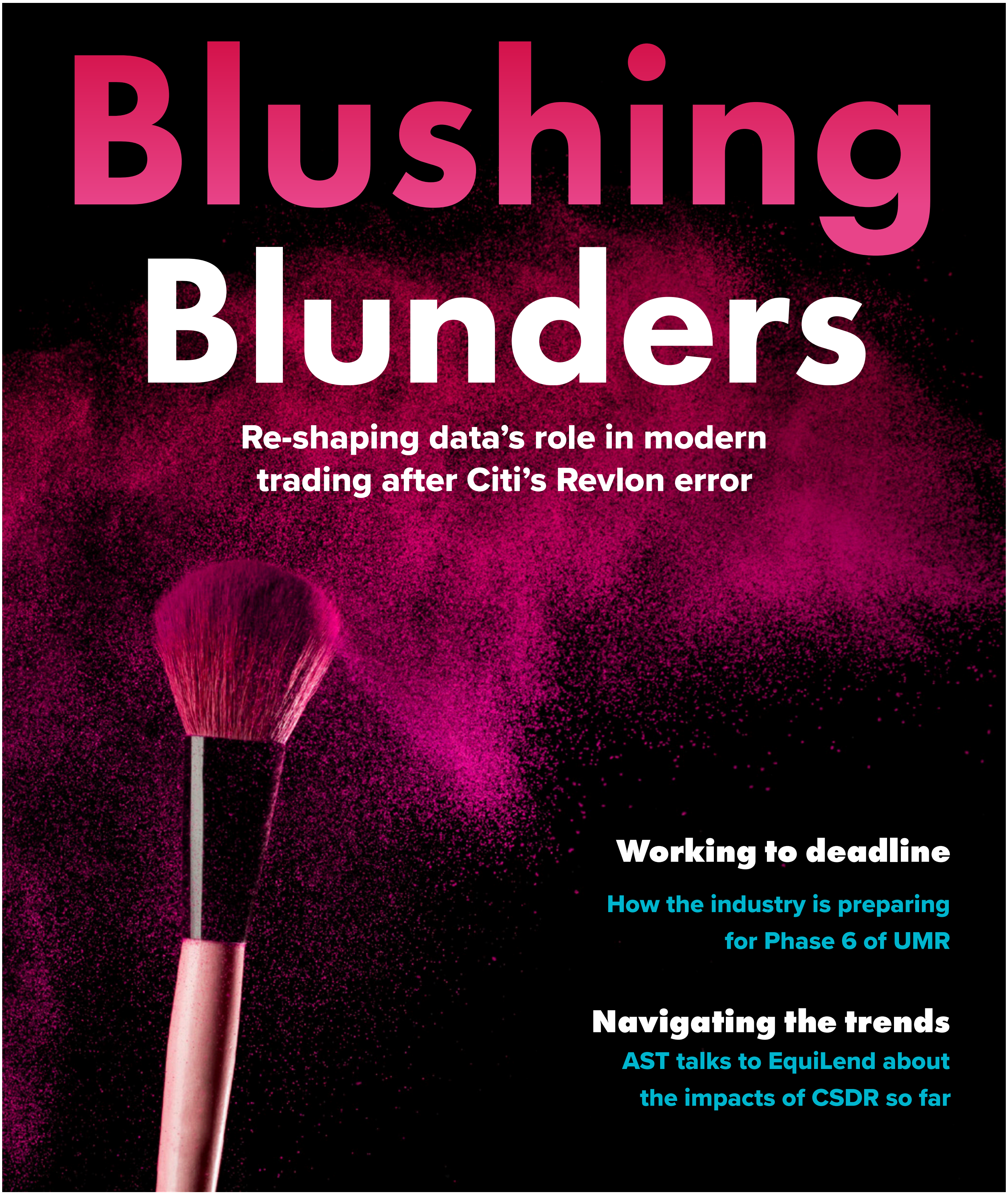

Blushing Blunders

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Reporting entities launch APARMA association

Six of the industry's leading institutions have launched the Approved Publication Arrangements (APAs) and Approved Reporting Mechanisms (ARMs) Association, to be more commonly known as APARMA.

Created by affiliates of Bloomberg, Cboe Europe, Euronext, London Stock Exchange, MarketAxess and Tradeweb Markets, the association represents the interests of companies who operate APAs and ARMs in the EU and UK.

Established under the second Markets in Financial Instruments Directive (MiFID II), APAs make public post-trade transparency reports in financial instruments that have been traded off-venue, while ARMs report details of transactions to regulators on behalf of investment firms.

The association will represent the views of its members in relation to regulations and laws impacting APA and ARM businesses and the associated supervisory framework to promote dialogue with policymakers and regulators.

With the rules governing trade and transaction reporting under frequent review and scrutiny, the association will also focus on developing and supporting the adoption of best practice, with the common aim of improving industry data quality, transparency, and the auditability of transactions in both the EU and UK.

As laws for the two financial markets continue to develop post-Brexit, it is increasingly important to bridge the dialogue between regulators and policymakers to facilitate common solutions for global market participants accessing both markets, initial members of the association say.

Membership of APARMA will be open to all market participants that meet the established membership eligibility criteria.

The activities of the association will be governed by members of APARMA's executive committee, who are elected by the general membership and are responsible for the executive management of the association. ■

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StonePine Asset Management selects SimCorp for investment processing

StonePine Asset Management has selected investment management solutions firm SimCorp to support its front-to-back office investment processing. As part of the mandate, SimCorp will also provide StonePine with operational and technical services.

The agreement will allow StonePine to run all aspects of its portfolio management, trading, and compliance processes on the same platform as its post-trade operational activities, which includes reconciliation, corporate actions and trade lifecycle management, among other capabilities.

StonePine's portfolio management will be supported by SimCorp accounting and operations services.

Nadim Rizk, CEO of StonePine Asset Management, says: "We are confident that the unique, consolidated front-to-back approach of SimCorp is the right choice to support our business growth.

"We appreciated how quickly the SimCorp team was able to mobilise its platform and service teams for StonePine in just a few months and we look forward to working with SimCorp in both the short- and long-term to achieve our business objectives."

James Corrigan, executive vice president and managing director of SimCorp North America, comments: "We are very proud to partner with StonePine, whose leadership team has gained much industry recognition over the years." ■

Broadridge launches ESG reporting service

Broadridge has launched a ESG reporting solution in response to the upcoming Sustainable Finance Disclosure Regulation (SFDR) implementation.

The service will assist asset managers of European funds in preparing for compliance requirements and regulatory disclosure obligations of SFDR, which are expected to take effect in 2023.

The expansion of Broadridge's multi-jurisdictional regulatory fund reporting suite will also enable disclosure through the European ESG Template (EET).

The end-to-end EET outsourcing solution has control systems to support asset managers from pre-production through to dissemination, providing support for all aspects of the EET, encompassing composition, ongoing maintenance and dissemination to distribution channels. The SFDR regulations require Principal Adverse Impact (PAI) information to be publicly disclosed from January 2023.

Ottawa’s Tradex Management picks RBC I&TS for investor services

Investor-owned fund manager Tradex Management (Tradex) has selected RBC Investor & Treasury Services (RBC I&TS) to provide its full suite of back-office investor services, including custody, fund accounting, securities lending and transfer agency.

Based in Ottawa, Tradex has supported the investment needs of public service professionals and their families since 1960.

The mandate follows the news that RBC I&TS’ has been named custodian to Evermore Capital.

Commenting on the Tradex mandate, Sylvain Gervais, managing director, Quebec and Eastern Canada, client coverage, at RBC I&TS, says: “We are pleased to be associated with one of the oldest mutual fund companies in Canada — a not-for-profit oriented organisation dedicated to supporting public sector employees and their families.

“Being selected as their number one trusted service provider really fortifies our commitment to supporting a better future for the clients and communities we serve.”

Blair Cooper, president and CEO of Tradex, adds: “In RBC we have found a partner with a stellar reputation on a global scale that can provide us with a robust platform for our members. [RBC I&TS] possess a strong working knowledge of our processes and the right solutions to meet our needs — which allows us to focus on providing solid returns for our clients.” ■

Additionally, there are amendments to both the second Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD), coming into effect in August 2022.

The EET will facilitate the necessary exchange of data between product manufacturer and distributor for the purpose of fulfilling ESG-related regulatory requirements contained in the SFDR, relevant provisions of the Taxonomy Regulation, and the relevant delegated acts complementing MiFID II and IDD.

Commenting on the announcement, Paul Poletti-Gadd, chief solutions officer at Broadridge Fund Communication Solutions, says: “Asset managers are navigating a very complex and changing regulatory landscape and are under increasing pressure to disclose more ESG data to investors.

“Broadridge’s new ESG solution enables asset managers to efficiently provide data by leveraging automation and existing

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network links among fund distribution channels to ensure they have data and regulatory documents at the right time for their end clients."

SEC proposes amendments to rules concerning funds incorporation of ESG factors

The U.S. Securities and Exchange Commission (SEC) has proposed amendments to rules and reporting forms to promote consistent, comparable, and reliable information for investors concerning funds' and advisers' incorporation of ESG factors.

The proposed changes would apply to certain registered investment advisers, advisers exempt from registration, registered investment companies, and business development companies.

The proposed amendments seek to categorise certain types of ESG strategies and require funds and advisers to provide more specific disclosures in fund prospectuses, annual reports, and adviser brochures based on the ESG strategies they pursue.

Under the proposals, funds focused on the consideration of environmental factors would be required to disclose the greenhouse gas emissions associated with their portfolio investments.

Funds claiming to achieve a specific ESG impact would be required to describe the specific impacts they seek to achieve, while summarising their progress on achieving those impacts.

Funds that use proxy voting or other engagement with issuers as a significant means of implementing their ESG strategy would be required to disclose information regarding their voting of proxies on particular ESG-related voting matters and information concerning their ESG engagement meetings.

Gary Gensler, SEC chair, says: "I am pleased to support this proposal because, if adopted, it would establish disclosure requirements for funds and advisers that market themselves as having an ESG focus.

"ESG encompasses a wide variety of investments and strategies. Investors should be able to drill down to see what is under the hood of these strategies. This gets to the heart of the SEC's mission to protect investors, allowing them to allocate their capital efficiently and meet their needs."

EMIR Refit to cause delays and risk of fines, says Acuiti study

The upcoming European Market Infrastructure Regulation (EMIR) Refit could cause significant delays and run the risk of fines as regulations increase sell-side and investment firms' reporting requirements, says an Acuiti study.

The report, which is sponsored by Broadridge and titled "EMIR Refit: Navigating the mandatory changes", details how regulatory reporting teams face significant challenges in complying with the new regulation.

According to Acuiti, companies find themselves operating with a lack of clarity

on how the new framework will impact their reporting processes.

This increases the risk of errors, which adds to the burden for teams when they have to explain breaks to regulators.

Acuiti found that 69 per cent of firms are expecting serious challenges when building up their matching, reconciliation and exception management capabilities.

All 40 sell-side firms surveyed for the study envision some level of challenge in correcting errors and resubmissions.

The study also highlights that firms are facing significant resource constraints in amassing the expertise and infrastructure to meet the challenges posed by EMIR Refit.

These constraints have added to the difficulties of controlling the amount of budget devoted to regulatory reporting, which can eat into other investment plans, says the report.

The findings highlight the importance of developing robust systems for trade and transaction reporting, and for the correction of errors.

Hugh Daly, general manager at Broadridge, comments: “Given the complexity and scope of reporting requirement changes that will impact industry participants over the next two years, firms face significant operational challenges in updating their systems to comply.

“This opens the door to innovation, with the opportunity to improve how reporting systems function from a more strategic, multi-jurisdictional or multi-regional perspective.” ■

Blushing blunders

Jenna Lomax analyses why a fresh look at data services is needed in 2022 — following the recent "fat-finger" error of 2 May, as well as the 2020 debacle involving Citi and make-up giant Revlon

On 2 May 2022, a mistyped transaction by the London desk of New York bank, Citi, caused a fat-finger error for the European market which sent equities into a freefall, momentarily wiping off US$315 billion from the European stock market.

A fat-finger trade, as it is coined in the financial industry, is a major mistake made by human error, instead of a computer or automated process, with the wrong information manually inputted for a trade.

The Citi incident came almost two years after another Citi fat-finger error in August 2020, when the bank accidentally sent creditors at make-up giant Revlon a combined payment of almost $900 million, when it only intended to send (a comparatively mere) $7.8 million in the form of an interest payment.

"We are still talking about this [error] because of the size of the transaction, the profile of the bank involved, and the potential consequences for the syndicated loan market," says Mark Gibbs, head of Quant architecture at technology firm Coremont.

Just two years on, Gibbs adds: "We are already seeing so-called "Revlon clawback" clauses being written into credit agreements, which waive any rights of the lender under existing legislation."

Fat-finger errors do not just lie with Citibank, of course. The aforementioned instances just so happen to give this writer two good examples for her article. Fat-finger errors are nothing new, and have been bringing data service blemishes to the surface for banks and traders, for some years now.

As the saying goes: "You have to know the past to understand the present." With this adage in mind, over the course of the last 20 years, the financial industry has, to some extent, become a victim of its own success concerning trading and instant payments. Increased globalisation, coupled with the wonders of human ingenuity, are two factors that have brought the financial industry more growth — yet also more risk.

In the case of the Citi-Revlon error in 2020, Citi put the blunder down to a "clerical error", whereas payments expert, Andy Schmidt, vice president and global industry lead for banking at CGI, says the error represented an operation and risk teams question: "Where do you draw that line between fulfilling an

images by alexandr_bognat/stock.adobe.com obligation, and more thoroughly checking an outbound payment — an action that could slow down a payment itself?"

Essentially, the stakes that underpin modern instant trading sit so much higher, compared to those in years gone by. As the world has grown metaphorically smaller; the amount of money one single payment can carry — and at such a rapid rate — does little to heed trading anxieties.

In addition, "headlines will be made when a company approaches nearly one billion dollars worth of an error, as with the Citi-Revlon error," says Steven Strange, head of product (asset management) at ION Markets.

Fresh look

Modern securities markets started centuries ago, yet many of the biggest blunders (and near blunders) have happened in the last 10 years alone — due to the amount of money one single payment can send through, but also at the rapid rate in which payments can be sent consecutively.

The 2018 Samsung mistake saw an employee at South Korea's Samsung Securities mistakenly allocate 2.8 billion shares to the company's other employees, instead of giving them a dividend of 2.8 billion won as intended.

The cost of the mishap could have been as much as $100 billion, but only some shares were sold. However, the mistake still led to an investigation into Samsung Securities' methods of trading.

Four years prior, in 2014, there were a series of accidental orders for shares in some of Asia's largest corporations. Orders included a request for 1.9 billion shares in Toyota.

The requested trade, among others, was later found to be made by a single Japanese trader. If the trade had been accepted, and not just requested, the cost for this potential blunder could have cost an eye-watering $711 billion.

The above case studies all have the same commonality: they were all created by human mistake. Completely overcoming human error in fat-finger trades may be near-impossible, but minimising their occurrence can become a reality, agreed the industry experts who kindly contributed to this piece.

As CGI's Schmidt outlines: "An error within the remit of payments can be massive, as the Citi/Revlon error indicated — the industry will never completely eradicate them, but it needs to protect against them and prevent them as often and as well as it can."

Throwing automation into the mix came out on top as — if not an overarching cure — a sufficient treatment to the minimisation of fat-finger errors, contributors said. Another answer to overcoming fat-finger errors was outsourcing for both technology and data services.

"We are seeing the pendulum swing very much in the direction of outsourcing," says Roy Saadon, CEO of AccessFintech. "The amount of data banks are required to handle is growing exponentially. It makes little sense for each bank to try and build its own data services in-house."

When deciding what part of their data infrastructure to outsource, a bank or trader needs to distinguish between machine learning and artificial intelligence (AI), when incorporating their differing capabilities, especially into data services.

Put simplistically, machine learning can be implemented to notice an anomaly in relevant patterns of data, while AI can be used to put a warning in a trading platform to alert when a payment is likely to be too big or incorrect — something that Vincent Kilcoyne, executive vice president of product management at SmartStream, expands on.

"Everybody is claiming they have the right data and they are building AI models. While that is interesting, the exciting part is when you take those AI models, and you incorporate them into your control infrastructure," he says. "If you do not do this, you will have instances like fat-finger crashes."

"When you do incorporate them, the challenge is to have your data control infrastructure include AI models, which can then help you analyse errors before they potentially happen. You can use AI models to help you interrogate why warnings were not given before a potential fat-finger crash," Kilcoyne adds.

Good foundations

Of course, the start of any challenge starts with the gathering of knowledge and analytics — the data.

"Data has to be accurate right from the start of the process, otherwise the whole process itself, and the end product, is compromised," comments Daron Pearce, brand ambassador for Europe, Middle East and Africa at Goal Group.

When discussing whether data services need an evolution or resolution to lessen, if not completely eliminate fat-finger trades, AccessFintech's Saadon says: "Both — as life is always a compromise! The most dramatic change (the revolution) has already happened — [the industry realises] that data is at the forefront of innovation. It is being treated as an asset."

"The fantastic news is that organisations see the benefits of upgrading their technology to better handle their data. It is also becoming an easier process to manage and once completed, can improve workflows across financial services. Evolution can be a painful and painstaking process, but the results are worth it," he adds.

SmartStream's Kilcoyne also says bankers and traders need to consider both a resolution and evolution in changing data services. "There is a whole rethink that needs to happen — an evolution in master and reference data," he outlines.

This evolution is needed, "to make sure that when banks and traders are looking at trades from a global source perspective, they actually have all of the underlying identifiers in the global marketplace available to them," he highlights.

In addition, through a resolute approach, Kilcoyne adds: "Bankers and traders can optimise their use of global position data, and align this with their operational processes. By fusing those two elements together, they can eliminate most errors, and lessen the disconnect in the way in which they operate."

Building coverage

Realistically, the need to build on data architecture teams has not come at a great time, amid external factors such as the "Great Resignation", and longer-running industry obligations such as regulation compliance, though the latter has always been expected from a bank and trader — even more so since the Financial Crisis of 2008.

Even so, research from ACA Group, released in February 2022, revealed that 97 per cent of reports under Markets in Financial Instruments Regulation and European Market Infrastructure Regulation contained data-related inaccuracies in 2021.

There is also evidence to suggest that firms either remain naive around their reporting obligations, have misplaced confidence in the quality of their reporting, or simply do not know that they are in breach, the research adds. This siloed way of operating for reporting — where one department is not often aware of what another is doing — is also mirrored in the problems behind fat-finger trading.

ION Markets' Strange expands: "As a financial firm, you must have a good foundation to understand the data that is available to you — that includes all the services and data of the products that consume it. Having a solid foundation of that understanding is significant. You can then build your architecture teams and avoid having siloed teams working on the "latest and greatest" with data scientists."

In addition, the siloed nature of such teams is just one reason why the building of improved architecture teams is needed, whether it is for meeting regulatory compliance (as ACA Group deems the industry is still struggling with) or a better understanding of relevant data, before going ahead with a trade. However, it is not just siloed teams in the industry that need addressing, it is also those teams' willingness and ability to change that will streamline data and also payment services to mitigate fat-finger trades.

"Improvement will only come if businesses are willing — and able — to upgrade the systems, processes, and workflows around the key functions around payments," says CGI's Schmidt.

"This is especially true in the world of faster cross-border payments where payment settlement is immediate and irrevocable and laws can vary from country to country."

Regardless of the external influences, such as regulation compliance and struggles to find staff — at a time where it has been well-documented the industry is leaving their jobs in droves — the fact still remains that reduced global settlement compression times, and generally faster cross-border payments (as Schmidt alludes to) also conjure up their own stresses for data services. With this, bankers and traders are navigating a new territory — albeit, not a territory that has popped up overnight. Settlement compression times have been tightening for many years, while payments have been increasing both in quantity and in monetary volume.

"Inevitably, more payment accidents will occur as payment volumes continue to increase," outlines CGI's Schmidt.

Mixing it up

With all the above considered, and despite the financial industry's competitive nature, would an increase in discussion forums and standardisation help to mitigate fat-finger trades, or is it mostly further outsourcing for data services that will provide answers?

Goal Group's Pearce says: "There is no silver bullet. Data service providers need to collaborate on global standards and quality measures. Outsource providers need to continue to invest and consolidate their capabilities."

Coremont's Gibbs highlights: "Increased industry cooperation is very beneficial — allowing people to learn from others' true mistakes rather than the sound bites or hypotheses that they may see in the media.

"There seems to be some schadenfreude industry-wide," he adds. "But the reality is, many industry participants will have initiated fire-drills around their own risk management and payment processing systems."

The level of risk apparent through any trade is of course dependent on the size of a financial institution, and the amount any entity, or person, has been given to trade. The level of risk also depends on where in the world a bank or trader is accessing its data, and who from — internally or externally.

In addition, the bigger the bank or trading company, the more likely outsourcing of data services is likely to be, but this needs to remain a competitive edge for global banks' survival, says ION Market's Strange.

"We should be creating industry forums around common goals, but where outsourcing is concerned, you need to remain competitive," he says. "You need to take the technology that is available and then add your unique selling point, or your "secret sauce", so to speak."

Mihir Joglekar, business analyst at AutoRek, expands: "For large global corporations where the business operates across multiple time zones and cross-continental teams, by far the most effective and efficient solution is to outsource data services."

Though he adds: "Data services, industry standards and outsourcing are three distinct, but not mutually exclusive, areas and, in order to remain competitive, financial institutions should be looking to improve quality standards across all three.

"To prioritise one over the other would increase exposure to operational risk, and ultimately compromise a bank's competitive advantage."

Changing face

A financial institutions' competitive advantage and disadvantage is the speed at which a modern bank or trader is able to send money instantly — it is a double-edged sword.

The general consensus is: data services need to be further automated to avoid fat-finger errors, but the complicated debate remains: are some in the industry still not ready, willing, or able?

However, as Schmidt outlines: that is simply not an industry choice in 2022. "As necessary as it is to have the right brakes on your car in order to avoid an accident, you have to have appropriate safeguards around key functions like payments, to prevent – or at least mitigate the magnitude of a potential error," he comments.

Realistically, humans will, for the foreseeable future, be needed to finish a trade, meaning errors, on some level, will always be an occurrence. Nonetheless, the data challenges that precede trade activation, are not impossible to overcome.

"It is worth pointing out that the reason companies like AccessFintech exist is to manage the myriad data challenges our clients face," AccessFintech's Saadon surmises. "It is our bread and butter, and our worth grows as these challenges become more complex."

SmartStream's Kilcoyne concludes: "Ultimately, the game is changing, the data is there, the analytical capability is there — it is the ability to mobilise that remains the challenge." ■

Re-papering over the cracks

Brian Bollen outlines the rulings behind Phase 6 of the UMR. Who in the industry is well prepared ahead of the September implementation date, and who is still lagging dangerously behind?

Re-paper. This word featured so often in a recent conversation that at one point this writer felt they were listening to a script read-through for a television property refurbishment programme.

He was in fact talking to Shaun Murray, CEO of the specialist consultancy firm Margin Reform. The subject under discussion was not the refreshment of internal domestic design, but the readiness of financial markets for Phase 6 of Uncleared Margin Rules (UMR), which is currently due to begin on 1 September this year.

This will extend the requirement to comply with UMR to firms whose total notional exposure (measured on a group basis) reaches €8 billion, although if counterparty relationships fall below a €50 million initial margin (IM) threshold, they will continue to be exempt — for now.

"If you do not reach that threshold, you do not have to re-paper," Murray states. "But if you think you will breach it, then you should either be working on it, or have in place a soft trigger to threshold monitor and commence re-papering when you hit that point. Should you breach the threshold without the re-papering completed, you will have to stop trading and get back below the threshold."

It almost goes without saying that there is software available to alert firms pre-trade to a potential breach. "You do not want to be using Excel," Murray cautions.

Over the course of the last few months, many vendors have been doing much more than utilising Excel to ready their clients for Phase 6 of the UMR. For one, SmartStream Technologies has launched Eligibility API, a new solution for faster collateral management optimisation.

Eligibility API is a platform for clients to receive eligibility information contained within collateral agreements, such as credit support annex, global master repurchase agreements and overseas securities lenders' agreements, for both pre- and post-trade collateral optimisation.

In April, BNP Paribas Securities Services announced its collaboration with DTCC to provide a solution which aids its clients in preparing for Phase 6 of the UMR. The collaboration will see BNP Paribas' Triparty Collateral Management solution connect with DTCC's Margin Transit Utility service for Phase 6 compliance — in an effort to reduce operational complexity and risk for margin call processing.

BNP Paribas Securities Services has also added IHS Markit as an IM calculation source to its existing service for clients that are in-scope for UMR in derivatives markets. IHS Markit provides sensitivities fed into BNP Paribas' middle-office platform through a Common Risk Interchange Format file, to perform IM calculations and reconciliation.

The right papers

However, the re-papering which Murray repeatedly referenced is the process by which would-be derivatives traders ensure that their documentation is complete, consistent and coherent.

The typical process can take up to one year from start to finish with people who know and understand the regulations, Murray explains, meaning that anyone who is not already compliant with the regulations and needs to re-paper is clearly already running late. "Not everyone will be ready," he warns. "There will always be a tail of clients where threshold monitoring is acceptable, for now."

While re-papering is the largest issue in this sector, others do need to be taken into consideration. Murray identifies cost as one such consideration. "If you think about collateral historically, costs have gone up. Everyone active on the buy-side has to be aware of the regulations and how they affect ownership."

He specifically cites back testing, benchmarking, auditing, risk management and the existence of 13 or 14 other jurisdictions — with their own version of UMR — as other considerations.

"Regulatory requirements are not going to go away," Murray goes on. "People have to get up to speed with collateral management and how it works, unless they want to fall foul of regulatory monitors."

A number of other industry specialists volunteered their help in the preparation of this article, amongst them Julie Mostefai, global product manager for over-the-counter (OTC) and collateral services at BNP Paribas Securities Services.

"This is a very active and very special period for our industry, being the final stage of an implementation process that began in 2016 and has been delayed by the outbreak of COVID-19," she says.

"Around 1,000 firms will be among those newly affected, mainly on the buy-side, and they are by definition less experienced and less familiar with the topic than the firms caught by the previous phases, and generally less equipped to deal with it."

Mostefai adds: "Consequently, a significant number of the new firms are looking to outsource the process to asset services providers where they lack the knowledge, experience and technology to calculate margin requirements."

However, on the other hand, she says: "The €50 million threshold is very welcome for Phases 5 and 6 in-scope firms, as it allows a bit of relief — granting them further time to demonstrate full compliance instead of being prevented from trading."

For firms to determine if they are in scope of the UMR, they must first calculate their Average Aggregate Notional Amount (AANA).

To calculate a firm's AANA is to sum the total outstanding amount of non-cleared derivative positions during the prescribed observation period on a gross notional basis. All instruments are to be considered when calculating a firm's AANA.

Once a firm determines if it is in scope, it should begin the process of disclosing to its counterparty groups.

Phil Slavin, CEO of Taskize, a financial technology firm that helps financial institutions reduce the amount of time firms spend disputing margin calls, comments: "Those close to the threshold of the €8 billion AANA threshold, particularly those with heavy commodity exposure, will have their hands full over the next 100 days from an operational perspective in preparing for Wave 6 of the UMR regulation."

He identifies the misalignment of margin calculation models as a key reason for disputes in exchanging margin.

In many cases, hedge funds will be using a custom risk model for margin calculation, or one from an external provider, if they are resource-constrained, which will very often be different from the model being used by their counterparty.

"As a result, disputes between parties will arise and operations will fall back to using email for getting to a resolution," Slavin adds.

"When Phase 6 comes into effect, the expected increase in volume of margin disputes and the costs associated will further illustrate the shortcomings of email for post-trade operations.

"Those affected need to put in place solutions to resolve these disputes more efficiently, ensuring there is effective collaboration across global financial operations staff."

Refining the edges

Phase 6, perhaps more than its predecessors, will be pulling in numerous investment managers — many of whom will be trading on behalf of clients and thus facing reduced regulatory thresholds, surmises Neil Murphy, business manager at TriOptima, OSTTRA.

"While some will have pretty vanilla portfolios, the more sophisticated quant hedge funds will possess more exotic portfolios with associated market data requirements creating new operational challenges," Murphy adds.

"Getting hold of the relevant market data, identifying in-scope trades and correctly assigning trades to relevant risk buckets in a timely fashion is key to these firms calculating IM."

For its part, CME Group sent out a note with exactly 100 days to go in the final countdown, advising that an all-time record number of market participants are holding large open interest positions in foreign exchange (FX) futures, while interest in equity futures is growing strongly.

"While certain FX instruments, such as forwards, are not in-scope products for UMR, they do contribute to the notional driving the qualification," outlines Paul Houston, global head of FX products at CME Group.

"This is a key factor as to why more asset managers are using FX futures as a replacement for some of their OTC FX forward exposure, as they do not count towards the rules. The final phase of UMR, where the threshold reduces to €8 billion AANA threshold billion, will see many more firms impacted and this activity has increased correspondingly."

"UMR has further increased the appeal of listed futures," adds Paul Woolman, executive director of equity products at CME Group. "The capital-efficient, transparent, liquid nature of these products, along with their ability to help clients mitigate counterparty risk, has led to the adoption of traditional futures."

"Increased demand for listed OTC alternatives, such as adjusted interest rates total return futures, dividend futures, and sector futures, shows that preparations are in full swing 100 days out from the deadline."

Speaking specifically of securities lending, Adrian Dale, head of regulation, digital and market practice at the International Securities Lending Association, says: "Securities lending is a valuable mechanism for the efficient management of assets and collateral that, by extension, may assist with UMR obligations, especially for those firms in Waves 5 and 6 of the margin rules."

"However, and while UMR in itself does not drive any specific documentation or industry practice change within our market, many firms have expressed the view that UMR is increasing the use of securities lending for the specific purpose complying with these obligations," he adds.

What, then, happens next? We turn to Amy Caruso, head of collateral initiatives at the International Swaps and Derivatives Association for a conclusion. "The expected volume in this phase is higher than all the previous phases combined. Everyone needs to be operationally ready," she highlights.

"The tail of Phase 6 will go on into 2023, but will not be the end of the story. It will go on for perpetuity. There will be a need for continual monitoring.

"Phase 6 is not a one-and-done situation — UMR will become an embedded part of a firm's annual review processes going forward as the industry prepares for a new normal." ■

"Around 1,000 firms will be among those newly affected, mainly on the buy-side, and they are by definition less experienced and less familiar with the topic than the firms caught by the previous phases"

Julie Mostefai, BNP Paribas Securities Services

A UMR guide from the International Securities Lending Association

Firms that may be subject to the requirements include asset managers, banks, corporates, hedge funds and pension funds.

In 2016-2018, during the first three phases of implementation, firms initially with an AANA of over €1.5 trillion in derivatives balances, went live under UMR.

Industry leaders expect there will be a significant increase in the number of firms captured during Phases 4, 5 and 6, with an estimated number of more than 1,000 additional firms.

Having to post initial margin will be new to most firms, particularly those on the buy-side.

Introduction of the final phases will require firms to not only implement the regulation themselves, but also begin to exchange IM with all firms from previous phases.

Navigating the trends

A roundtable discussion on same-day loans sees EquiLend's director of global certified product owner and post-trade services Iain MacKay, and director of global trading product owner Mike Norwood, analyse the impact of CSDR, future predictions and a guide to help firms navigate these trends

The Central Securities Depository Regulation's (CSDR) new regime went live on 1 February, implementing a new settlement discipline framework to boost settlement efficiency in the EU and to promote the stability and resilience of Central Securities Depositories (CSDs). Asset Servicing Times' Justin Lawson spoke with EquiLend's director of global certified product owner and post-trade services Iain MacKay, and director of global trading product owner Mike Norwood, on the ins and outs of CSDR.

Reviewing the impact of CSDR so far, EquiLend's MacKay has seen clients focusing on pre-matching, particularly in trying to understand the current level of mismatches in the market. In doing so, users have been looking closely at static data, evaluating the booking models that they have in place with their counterparts, and addressing how these can be improved to increase matching rates.

MacKay says: "Through our pre-matching tool, we started to see some improvements in this element over the first couple of weeks. Another area where we are seeing a change is in our returns processing. We have had a double-digit percentage increase in clients signing up and onboarding to our returns platform since the beginning of this year. A focal point for clients is on trying to get their instructions into the marketplace as quickly as possible and addressing any issues to ensure that the instructions are accurate. The emphasis is trying to make sure that they can get settlement efficiency to help fight the potential fines that could occur."

Speaking from a trading perspective, Norwood estimates that it is too early to tell what kind of impact CSDR has had on the industry since February. However, he identified a significant increase in volumes in the second half of 2021 across the Europe, the Middle East and Africa region, which indicated a readiness for the implementation of CSDR. Subsequently, EquiLend witnessed record daily trading volumes, on average, during January.

Norwood adds: "We have seen a general uptick in same day settled positions being booked across platforms. We have seen automation growing in spaces where there was hesitancy before, namely the non-general collateral space and the fixed income space, specifically corporate debt."

EquiLend anticipates continued growth in automated trading as the market adjusts to the new regime, Norwood adds.

> *"We are hearing a lot of questions from our clients about how they can improve linkages between their trading and post-trade offering — is there integration? Is there cross-platform integration?"*
>
> **Mike Norwood**

A scope of the next six months

Discussing his predictions for the next three to six months, Norwood expects, based on early observations, to see increased volumes across the EquiLend platform. Recognising the efficiency and accuracy established through having a digital version of a trade identified by both sides, Norwood explains: "Motivated by client growth and the rising trading volumes that firms are likely to experience across a wide range of asset classes, we expect firms to move beyond the analogue processes they have relied on for the last 30 years and to migrate to a more digitised automated version of trading. From my perspective, we expect to see volume growth across the board, but specifically with a focus on Europe."

The CSDR settlement discipline regime provides good news for clients that are seeking greater transparency around the cost of settlement fails — which is likely to become evident in the next three to six months, according to MacKay.

Equally, clients will be keeping a close eye on some of the early mitigation processes they put in place, meaning clients will potentially receive autoborrows via their custodians and face operational costs around cancelling and rebooking transactions.

MacKay comments: "The counterparts that have invested time in increasing automation, reducing manual processing and improving the settlement efficiency will ultimately end up getting increased volume and increased business as a consequence of that.

"We are spending time with clients, going through the workflow between instructing and settling a transaction, to identify where those gaps are in automation. We are working with them to put improvements in place, so that clients are ready to absorb that potential increase in volume when it may start to occur in the next three to six months."

Focus points for the industry

As the industry adjusts to the new regime, financial participants are reminded to focus on putting efficient practices in place at an early stage. "It is an integrated front-to-back experience that really starts to matter," says Norwood.

With an increase in same day settlements, the timeline begins to compress, forcing financial participants to get more done accurately in a shorter period of time.

Norwood advises that firms should look at their own internal practices, as well as their counterparts' internal practices. He explains: "Whereas trading may not have always been concerned about their counterparts' operational efficiency, I think you are going to see behavioural change, where firms prefer to deal with counterparties that are more efficient, that are using more automation and are taking advantage of more of the industry vendor provided tools that are out there."

As the industry looks forward, Norwood questions whether industry participants are embracing technology to its fullest — how do you get the most value out of this technology, and do all that you can to avoid being subject to penalties under CSDR?

"Between myself and Iain, we are hearing a lot of questions from our clients about how they can improve linkages between their trading and post-trade offering — is there integration? Is there cross-platform integration? If you do not know a common version of the trade on day one, you are setting yourself off on the wrong foot, and then things snowball from there. You need to be thinking about a more holistic view."

MacKay concludes: "We envisage that clients that invest in automating and reducing their manual processes will be recipients of increased volume at reduced costs."

"At EquiLend, we have the right tools in place to help clients be able to achieve these improved trading volumes and higher operational efficiency."

Securities lending is an enabler to make a more efficient capital market, MacKay explains. It is flexible in nature, allowing securities to move quickly and freely to provide settlement coverage, which improves settlement rates across different settlement platforms globally.

Predicting an increase in same-day fails coverage, EquiLend's MacKay believes reducing the latency between executing a trade and settling it in the market will be the key part.

"EquiLend has a product suite, which can address all of the different aspects of the execution through to the settlement, that will enable clients to get that automation that they require. You can take a look at EquiLend's Next Generation Trading platform that allows automation from an execution point of view."

"You have the added benefit of being able to provide collateral to tri-party agents for pre-pays and then automate the loan release — that can come from our risk exposure management platform," advises MacKay.

"EquiLend has a product suite, which can address all of the different aspects of the execution through to the settlement, that will enable clients to get that automation that they require. "

Iain MacKay

EquiLend has a pre-matching and standing settlement instruction distribution that can come from its settlement monitor platform, which allows clients to be able to book trades correctly the first time. Ongoing maintenance of loan reallocations can be tracked with EquiLend's unified comparison products, and the returns process, when participants look to close out the loan, can be managed with EquiLend's automation support products. ■

Iain MacKay
Product owner, global post-trade services
EquiLend

Mike Norwood
Director, global trading product owner
EquiLend

LiquidityBook appoints Jonathan Cross

LiquidityBook has appointed Jonathan Cross as general manager, Europe, Middle East and Africa (EMEA).

Based in London, Cross will report directly to LiquidityBook CEO Kevin Samuel. In his new role, Cross will manage all aspects of LiquidityBook's EMEA business operations, including the continued development of the firm's European buy- and sell-side client base. He will also play a key role in securing long-term growth opportunities internationally.

Cross brings more than two decades of fintech experience to the role, joining LiquidityBook from Messer Financial Software, where he headed sales and business development.

Before that, he served as chief operating officer of Broadridge Financial Services' asset management arm, and held the same role at Tradar (now part of SS&C Eze). He has also held other senior roles at Barclays Capital, J.P. Morgan and Landesbank Berlin.

Commenting on Cross' appointment, Samuel says: "We are thrilled to add Jon to our leadership team. He brings strong technical knowledge and a deep understanding of trading systems. As we work to achieve continued global expansion for our business, we have prioritised hiring exceptional individuals who have a firm grasp of the needs of our clients and prospects — and Jon is no exception." ■

Data automation software provider Xceptor has appointed Josh Monroe as chief revenue officer and Ludovic Blanquet as chief strategy and transformation officer.

Reporting to Xceptor CEO Andrew Kouloumbrides, Blanquet will be based in London while Monroe will be based in Xceptor's New York office. Monroe will be responsible for leading worldwide sales, marketing, strategic partnerships and alliances. He joins Xceptor from Itiviti where he was head of Americas. Prior to that, he held senior leadership roles at FIS and SunGard. Blanquet will be responsible for leading the formulation and execution of the next iteration of Xceptor's business strategy. Prior to Xceptor, Blanquet was at software company smartTrade, where he developed and executed the company's growth strategy which included establishing and running the product function. Prior to smartTrade, Blanquet was at HG Capital, advising on fintech acquisitions. He also spent seven years at Finastra (formerly Misys).

Commenting on his appointment, Monroe says: "In taking responsibility for all sales, marketing, and partner activities globally I have a unique opportunity to help drive Xceptor to the next level and consolidate its position as an undisputed market leader."

Blanquet adds: "I am delighted to be joining Xceptor, a company that is truly revolutionising the banking, financial services, and insurance sectors. My focus will be on providing expert leadership on high-performance strategy development so the business can continue to transform in the ways needed to meet the challenges facing our customers and the industry."

Citi Australia bolsters senior team

Citi Australia has appointed Mark England as head of Securities Services Australia and New Zealand, following the retirement of long-serving executive Martin Carpenter.

England is currently based in Hong Kong and is Asia Pacific co-head of sales for Citi Securities Services.

He will relocate to Australia upon beginning his new role, while retaining his existing regional responsibilities.

Carpenter has served at Citi Australia for more than 16 years and has led the Securities Services franchise across Australia and New Zealand for 13 years.

Commenting on England's appointment, Marc Luet, CEO of Citi Australia and New Zealand, says: "With a significant number of additional opportunities ahead of us in Australia, we are delighted to be able to locate a senior regional role out of Sydney as a demonstration of our ongoing commitment to the market."

Thanking Carpenter for his service, Luet adds: "Martin has overseen a tremendous period of growth and development in our business in Australia. The success of the business is a testament to Martin's character and hands-on leadership approach.

"Martin has played an integral role in Citi's business for almost two decades. We thank him for his dedication and commitment to success and wish him well in the next chapter of his life." ■

Fund administration provider Ocorian has appointed Ricky Popat to its Newgate team as director of business development — regulatory, compliance and legal.

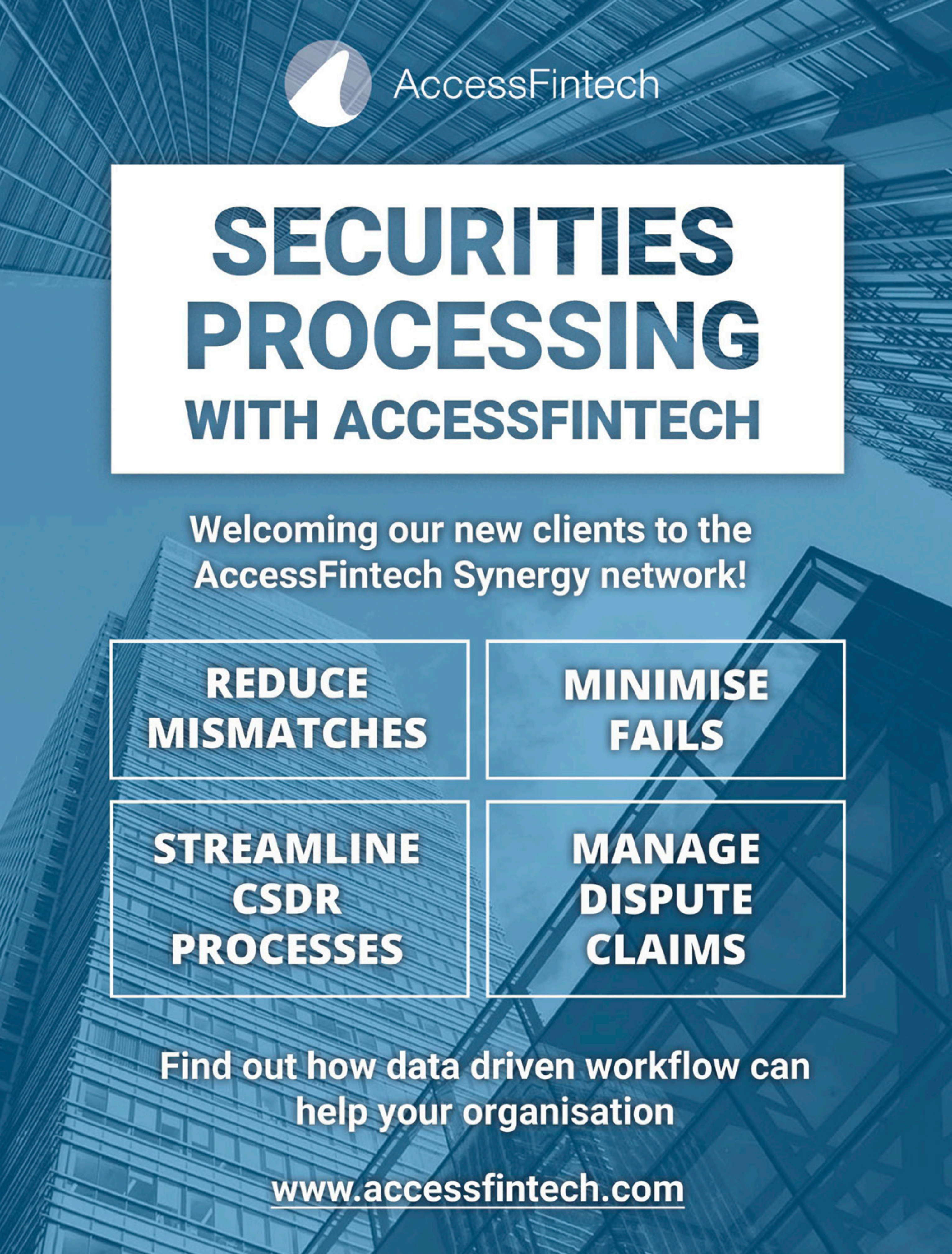
Newgate is Ocorian's regulatory services arm which supports asset managers, brokers, corporate financiers and corporate entities with regulatory authorisation applications, implementation of compliance and governance structures, regulatory and compliance training, and financial crime risk mitigation.

Based in London, Popat will work with Newgate as part of Ocorian's commercial function led by chief commercial officer, Simon Behan.

Prior to Ocorian, Popat served at software company Quantifi from 2019 to 2022. He has also held senior roles at solutions firm Blackwell Global and finance broker London Capital Group.

Commenting on Popat's appointment, Behan says: "Ricky has a wealth of commercial and practical expertise coupled with an impressive strategic sales track record within high growth financial services organisations. I know Ricky will be instrumental in driving new business development to accelerate growth for Ocorian in our newest service line."

Popat adds: "I am extremely pleased to be joining Ocorian. It is a fast-growing, dynamic organisation with a hugely experienced leadership team and I am looking forward to working with the UK's leading regulatory and compliance experts to bolster the firm's exciting growth ambitions." ■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