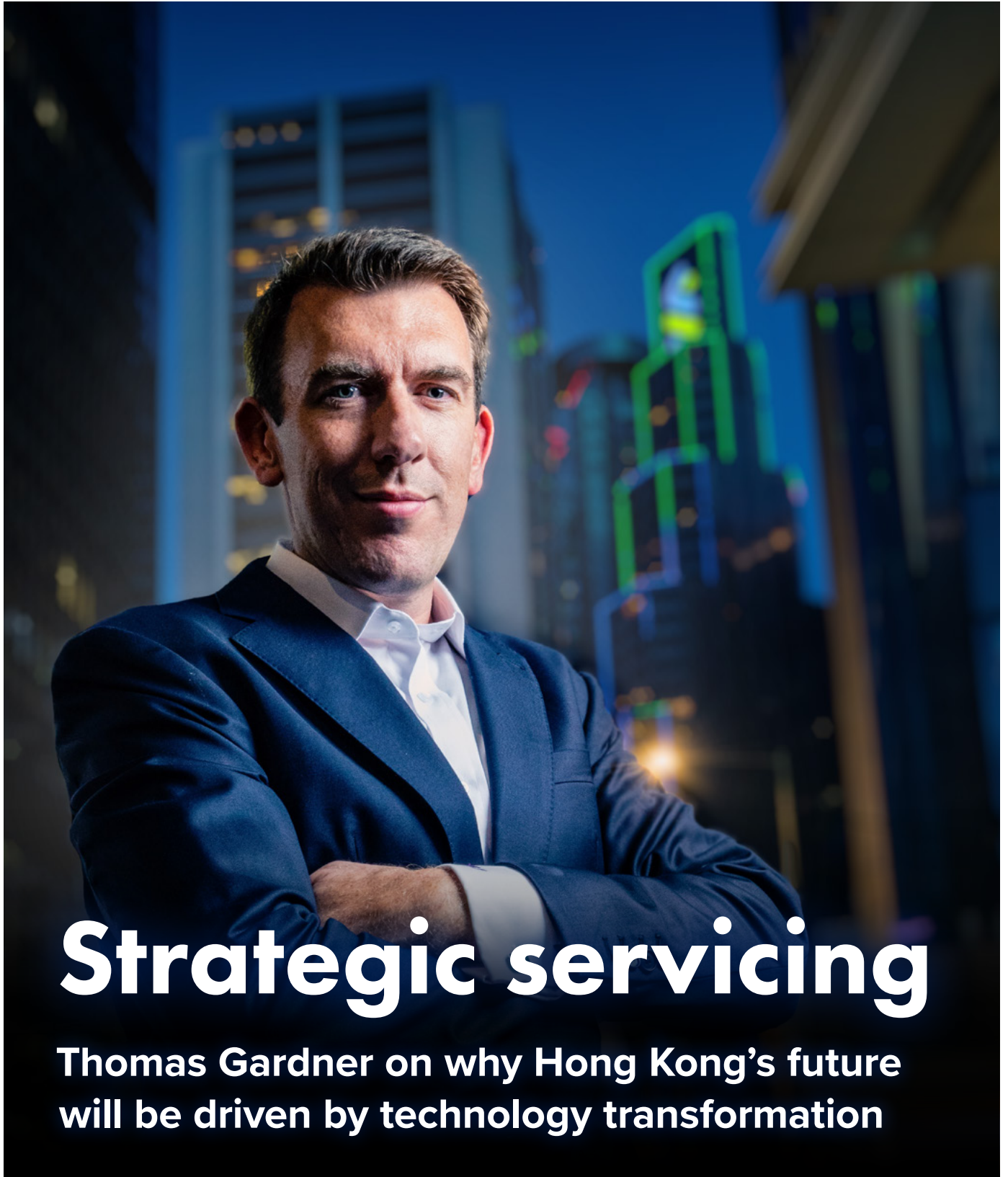


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ISSUE 296 03 August 2022



## Strategic servicing

Thomas Gardner on why Hong Kong's future will be driven by technology transformation

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## DTCC partners with Kingfield to revamp claims process

The Depository Trust Company (DTC), the subsidiary of DTCC, has connected its claims service to the claims processing platform offered by US-based fintech Kingfield Corporation. The mandate is part of a wider effort to streamline DTCC's corporate actions claims process.

By utilising the Kingfield platform, DTCC's mutual clients will be able to manage claims, as well as other types of exceptions, from submission through to settlement.

The connection will allow firms to automatically match claims before sending them to DTC for straight-through processing, and intraday settlement via securities payment orders.

DTC's ClaimConnect service, established in October 2020, provides automated cash claim processing, excluding the need for fax machines, emails, and phone calls.

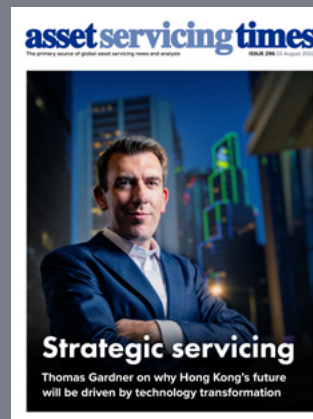
ClaimConnect can also be accessed on DTCC's API Marketplace, an online app

store that allows direct programmatic access to DTCC processing functionality.

Commenting on the partnership, Ann Marie Brian, executive director of asset services business management at DTCC, says: "Instead of a firm waiting a few weeks or even months to close corporate actions claims, ClaimConnect validates, matches, settles, and closes claims in a matter of minutes.

"Based on our discussions with the industry, we knew there was a need for a more efficient, automated, and flexible process, and we thank Kingfield, State Street, and other market participants and stakeholders, for helping us to transform this process."

Craig Welch, CEO at Kingfield, comments: "Kingfield has been working with top-tier global financial firms to build a state-of-the-art claims case management network. We thank DTCC for their partnership and commitment to simplifying corporate actions claim processing." ■



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### Blue Ocean Technologies integrates with Broadridge solution

Broadridge has partnered with Blue Ocean Technologies (BOT), a capital markets fintech focused on global after-hours trading, to integrate Broadridge's Trading and Connectivity Solutions. Blue Ocean ATS (BOATS) will integrate with Broadridge's NYFIX order-routing network to offer clients untapped, after-market access to US equities.

The partnership aims to better serve banks and broker-dealers

in North America and Asia Pacific regions on the NYFIX network around the clock.

Blue Ocean ATS operates an alternative trading system that replicates a daytime trading experience with electronic access, transparent price discovery, regulatory requirements, and clearing and settlement processes while overlapping with Asia Pacific business hours.

### SEC beefs up crypto enforcement unit, charges insider traders

The US Securities and Exchange Commission (SEC) is set to reinforce its powers of supervision and investigation through its Crypto Assets and Cyber Unit with the appointment of 20 new specialists to the division.

Through this expansion, the agency intends to strengthen its investor protection capacity linked to crypto markets and cyber-related threats, with particular focus on securities law violations linked to crypto asset offering, trading exchanges, broker-dealers and lending of crypto assets.

These measures will also reinforce its supervisory and enforcement powers related to decentralised finance, non-fungible tokens and stablecoin.

The SEC indicates that the division has filed more than 80 enforcement actions associated with fraudulent and unregistered crypto asset platforms and crypto asset offers, which have resulted in total penalties or monetary relief totalling more than US\$2 billion.

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**Mercury Capital appoints State Street to administer AUD1bn private equity fund**

State Street has been selected as a fund administrator for the Mercury Capital Fund twenty2, which will focus on mid-market private equity transactions in Australia and New Zealand.

The AUD1 billion fund completed its fundraising and closed on 30 June to launch Mercury Capital's fourth private equity fund since its establishment.

Mercury Capital Fund twenty2 will focus on mid-market private equity transactions in Australia and New Zealand, and anticipates making eight to 10 investments over its life cycle.

It will target partnership investments, alongside private business owners and management teams, in companies with enterprise valuations in the range of AUD150 million to AUD500 million

This enhanced oversight programme, announced by the US securities market regulator on Friday 21 July, will target "gatekeeping accountability" and the failings of financial gatekeepers to fulfil their obligation to ensure financial probity.

Gatekeepers such as accountants and attorneys are often the first line of defence against misconduct, the SEC states, and when they fail to live up to their responsibilities, investors often suffer and the integrity of financial markets is called into question.

The agency has brought a number of recent cases against gatekeepers that have themselves been engaged in malpractice, have attempted to cover up wrongdoing, or have failed to implement compliance obligations and procedures.

The SEC has also announced charges against three persons for alleged insider trading violations linked to digital assets, including a former Coinbase product manager.

Its complaint states that the Coinbase manager, Ishan Wahi, repeatedly tipped off his brother Nikhil Wahi and another person,



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Sameer Ramani, about the content of forthcoming listings announcements.

This alleged offence, which took place while Ishan Wahli helped to coordinate Coinbase's public listings announcements, involved sharing details of crypto assets or tokens that would soon be made available for trading.

The SEC's complaint maintains that, in doing so, Ishan Wahli acted contrary to Coinbase corporate policy, which specifies that Coinbase treats this information as confidential and its employees must not trade on the basis of this information, or "tip off" this information to others.

The SEC statement indicates that this "long-running insider trading scheme generated illicit profits amounting to more than US\$1.1 million.

Speaking about this enforcement action, the SEC's director of its enforcement division Gurbir Grewal says: "We are not concerned with labels, but rather the economic realities of an offering."

"In this case, those realities affirm that a number of those crypto assets were

securities and, as alleged, the defendants engaged in typical insider trading ahead of their listing on Coinbase."

"Rest assured we will continue to ensure a level playing field for investors, regardless of the label placed on the securities involved," he says.

Carolyn Welshhans, acting chief of the SEC enforcement division for crypto assets and enforcement division, adds: "In nearly a year, the defendants collectively earned over US\$1.1 million in illegal profits by engaging in an alleged insider trading scheme that repeatedly used material, non-public information to trade ahead of Coinbase listing announcements. As today's case demonstrates, whether in equities, options, crypto assets or other securities, we will vindicate our mission by identifying and combating insider trading in securities wherever we see it."

**DTCC, ICI and SIFMA publish T+1 Playbook**

The Depository Trust & Clearing Corporation (DTCC) has collaborated with two industry associations, the Securities Industry and Financial Markets

Association (SIFMA) and the Investment Company Institute (ICI), to publish a T+1 Implementation Playbook that will guide the transition to next-day securities settlement in the US.

According to the joint authors, this Playbook has been created to assist market participants in preparing for the many complex steps involved in this move to accelerated settlement.

Subject to final regulatory approval, this document assumes a likely transition date to a T+1 settlement cycle during Q3 2024. However, the authors will update the transition schedule, should the financial authorities decide on a different live date for T+1 enactment.

Deloitte and Touche LLP were employed by SIFMA and ICI to help with the drafting of this volume.

The Playbook has 14 sections, eight of which provide recommendations applicable to T+1 transition across different parts of the trade lifecycle, including trade processing, asset servicing, securities lending, prime brokerage, funding and liquidity management and associated documentation requirements.



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DTCC's outgoing president and CEO Michael Bodson says: "The Playbook provides a robust strategy and plan for market participants to follow to prepare for the move to T+1.

**Participation in ICJ proxy platform exceeds 1700 listings**

Investor Communications Japan (ICJ), a joint venture by Broadridge and the Tokyo Stock Exchange (TSE), has reported that the number of share-issuing companies on its electronic proxy voting platform has exceeded 1,700 listings — an increase of 499 companies since June 2021.

As of June 2022, more than 1,600 companies listed on the prime market participate in the platform.

In addition, more than 1,200 of all companies listed on the TSE that held general meetings of shareholders participated in the platform.

According to Broadridge, the ICJ platform digitises the processes of general shareholders meetings to streamline operations, and contributes to the competitiveness of Japan's capital markets, which aids listed companies' engagement before, during and after shareholder meetings.

Speaking on the announcement, Shigeo Imakirre, ICJ president, says: "Increasing numbers of listed companies and institutional investors are seeking to ensure sufficient time to exercise voting rights, based on constructive dialogue and the platform better enables this

process. ICJ will continue working to strengthen the competitiveness of Japan's capital markets and advance corporate governance through the digitalisation of general shareholder meeting processes."

Demi Derem, managing director of international investor communication solutions at Broadridge, comments: "Broadridge is proud to support the ongoing growth of electronic proxy voting in Japan, by providing digital technology solutions to benefit issuers and investors, and help modernise the industry."

"Through our collaboration in the Japan market, we enable greater issuer and shareholder participation, market wide transparency, and set the standard for proxy communications and voting."

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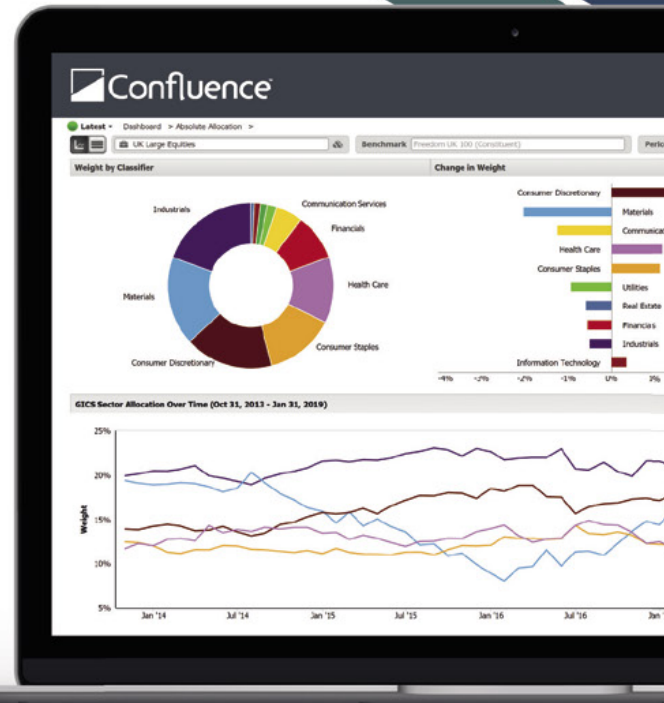
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# Strategic servicing

**Thomas Gardner of Standard Chartered sat down with Asset Servicing Times to discuss how Hong Kong's fascinating and dynamic history has shaped its financial services, and why its financial future will be driven by technology transformation, coupled with ESG initiatives**



**You have been with the organisation for over 12 months now. What is your remit within the organisation, and what has the last year brought with it?**

It has been an incredible, exciting and educational first 12 months, though not without its challenges — I relocated to Asia from London in the middle of a global pandemic with a young family. As the head of sales, financing & securities services Hong Kong, I lead Standard Chartered's Hong Kong sales efforts for custody, fund administration, securities lending, prime brokerage and middle office solutions.

Over the last 20 years, I have been based mostly in London and New York. Today, experiencing one of the most vibrant, dynamic, and fast-paced markets in Asia, has given me a global perspective of the asset servicing landscape and its cultural and market nuances. Working for one of Asia's largest banks has also meant I have been directly involved in some of the most significant deals in the region, including Standard Chartered's acquisition of Royal Bank of Canada (RBC) Trustee Services in Hong Kong.

A primary factor in joining Standard Chartered was the fact the bank is so embedded in Asia, particularly in mainland China and Hong Kong. As the bank continues to reinforce its activities and commitment to Hong Kong in different ways, I am excited about the future of the Hong Kong market and the unique opportunities it presents.

**Broadly speaking, how would you describe the current asset servicing market in Hong Kong, and how does this part of the financial market in the region compare with the wider Asian region?**

I think history is an important factor when we look at Hong Kong in the context of Asia more widely. Hong Kong has a fascinating and dynamic history, and for centuries has served as a gateway for the Americas and Europe to enter mainland China.

Despite developments in technology that make it easier to conduct business digitally around the world, Hong Kong will continue to play an important role in connecting institutions around the world to mainland China, and will help to facilitate the flow of capital and investments from west to east.

Although more mature and well-established than many Southeast Asian countries, Hong Kong is a very fast-paced market, with

change driven by innovation. It also offers considerable growth potential compared with markets in regions such as North America, where there is a risk of stagnation and a constant cost squeeze in the search for investment yield.

Hong Kong is a true hub, not just for global players, but also Asia-centric insurers and asset managers who are investing substantially in Hong Kong-based head offices.

**What are the main themes and big issues currently dominating Hong Kong-based custodians and their clients?**

Throughout 2022, we have seen a notable uptick in the number of institutions who are reviewing their investment strategies and considering increasing their exposure to China, particularly amongst hedge funds and money managers.

While the market today is subdued due to global market factors, this is expected to pick up as COVID-19 restrictions ease towards the end of 2022. These funds are predominantly Europe and Americas-focused, but they are continuing to explore Asia-focused strategies in the search of yield. China is seen as a key component of delivering alpha to their investors, so fund managers need banks, such as Standard Chartered, with the footprint and domain expertise to support them.

No other bank has the footprint that Standard Chartered offers. Our core custody and fund accounting platforms operate on a single instance, ensuring we have a consistent view across our markets.

As new asset types and technologies emerge, the role of custodians and the intermediaries in the settlement chain is evolving, with the role of data becoming increasingly important. We see a greater demand for richer data than traditional message formats such as SWIFT can offer. We are addressing this through enhanced messages and application programming interfaces.

We continue to work with strategic clients on developing structured, standardised data solutions and channels, with clear benefits in operational efficiency and reduction in queries.

Finally, and perhaps most significantly, sustainability and ESG issues are becoming more important priorities, and Hong Kong has been a leader in this area. For example, in January 2022, Hong Kong's Securities and Futures Commission (SFC) required

***“With good ESG practices, driven by the regulator, investors in Hong Kong can have confidence in ESG-related assessment criteria”***

that all SFC-authorized ESG funds and climate-focused fund products disclose how they incorporate ESG factors, report and reference ESG criteria, detail portfolio measurement approaches, and release annual assessments. With good ESG practices, driven by the regulator, investors in Hong Kong can have confidence in ESG-related assessment criteria, the reliability of disclosures, and the ability to compare funds.

Standard Chartered Hong Kong is one of the inaugural members of the Hong Kong International Carbon Market Council, newly set up by the Hong Kong Exchanges and Clearing Limited, to explore carbon opportunities in the region. In addition, we continue to explore new ways to help clients embed ESG and sustainability priorities into their investment decision-making.

#### **What adaptations to working practices have you made to sustain and grow your Asia Pacific securities lending activity in Asia?**

While the beneficial owner community in Asia has been to adopt more third party/non-custody models compared to other regions, this is now changing. This is, in part, due to the significant amount of regulatory and market change around securities lending in the region, particularly in China.

In December 2021, the China Banking and Insurance Regulatory Commission published rules allowing insurers in China to enter into securities lending programmes for the first time. This offers new opportunities for institutions in China, and we continue to invest in our operational capabilities and technology platforms, to support clients seeking to introduce securities lending.

In addition to prospects in China, many of the world’s most attractive securities lending markets globally, are part of our regional footprint. These markets offer continued strong returns, particularly given the outperformance that comes from auctioning these assets and executing exclusive trade structures.

An important element of the discussions we are having with clients investing in locations such as Hong Kong, Malaysia, Taiwan and South Korea, is how best to auction the most attractive assets and participate in exclusive trades.

#### **What are your predictions for the next 12-month period for Standard Chartered’s asset servicing capabilities, and for wider Hong Kong-based financial services?**

With Standard Chartered’s acquisition of RBC Investor Services Trust, we expect to see further growth in the Mandatory Provident Fund space, and continued investment into our activities in Hong Kong and across Asia.

From a market perspective, I believe we will see Asian markets stabilise, as mainland China and Hong Kong ease COVID-19 restrictions and open up further. Investor confidence is likely to increase, resulting in increased flows into Hong Kong and mainland China markets, particularly from European and North American institutional investors.

I also expect to see further disintermediation from a custody perspective. The custody market is evolving at pace, partly due to pressure from investors to reduce cost, drive efficiency and decrease risk. Increasingly, investors are demanding better insights into individual market nuances, proximity to regulators, and an improvement in their investment and reporting cut-off times.

These demands are resulting in a fundamental change in the custodial landscape. There is a continual shift and disintermediation away from a multi-intermediary model, in favour of direct market access and operating models that give investors better proximity, market insights and access.

Finally, following the opening up of securities lending to institutions in China, this activity will become more mainstream. Chinese institutions hold significant levels of international equities and fixed income investments, which will result in significant revenue streams through an appropriate securities lending programme. ■





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# Work in progress

**Brian Bollen outlines the pending changes in tax reclamation and why the introduction of many digital processes within this field remain minimal**

When considering the subject of reclamation of withholding tax (WHT) in the year 2022, we would be remiss to ignore the EU Parliament's report on the WHT framework, which came to light in February of this year.

The report highlighted a total of around €140 billion had been lost to cum-ex/cum-cum fraud between 2000 and 2020. In light of this, the European Parliament instructed the European Commission (EC) to devise new EU-wide structures.

Among this, other factors are developing. Ali Kazimi, managing director at Hansuke Consulting, identifies four other areas of interest that have developed since he participated in Asset Servicing Times' feature on the same subject in December 2021.

One of those areas of interest is distributed ledger technology (DLT) and how it might reduce expensive market inefficiencies. Another is the fact that the Organisation for Economic Co-operation and Development's (OECD's) Treaty Relief and Compliance Enhancement (TRACE) has gone live in Finland, while Sweden has opened its own consultation on whether it should have an authorised intermediary regime.

These Scandinavian countries — famous for their forward-thinking inhabitants — are among the few countries that have adapted their WHT collection and relief procedures to recognise the current holding environment.

The TRACE initiative has, in turn, developed the Authorised Intermediary system, which allows the claiming of withholding tax relief at source on portfolio investments, explains the OECD.

The organisation goes on to explain that it removes the administrative barriers affecting the ability of portfolio investors to effectively claim the reduced rates of WHT to which they are entitled, pursuant to tax treaties or to domestic law of the country of investment.

It minimises administrative costs for all stakeholders and enhances the ability of both source and residence countries, to ensure proper compliance with tax obligations.

However, Hansuke Consulting's Kazimi explains: "TRACE is no panacea. The technology involved is an improvement on what went before, but it is very complex, laborious and costly to use."

Another element of interest for this complicated subject matter, is that the key person who widely came to be viewed as being

responsible for what became the cum-ex/cum-cum affair, was arrested by the Dubai authorities earlier this year.

In March 2022, the aforementioned case was brought to court for violation of the European Parliament's Article 63, which states the free movement of capital on the basis that dividends distributed by Portuguese companies to non-resident collective investment vehicles (CIV) are subject to WHT, whereas dividends distributed to a resident CIV are exempt from such withholding.

The case concerned Portuguese dividends received by a regulated German investment fund.

Kazimi explains: "This judgment has far-reaching implications, as was evident in the recent judgements in July 2022 of the Italian Court of Cassation, that approved refunds of Italian dividend WHTs in favour of German investment funds, and also a series of US mutual funds, as the over-withholding was deemed to be discriminatory and a violation of Article 63."

### Custodians and investors

Providing his say from an asset managers' perspective, Thomas Daffern, asset and wealth management director at PwC, highlights that during the course of 2022 so far, there remains "a good deal of emphasis on improving the stakeholder experience" in the realm of WHT.

To which he adds: "Tax authorities in many jurisdictions are stepping up their efforts to understand current levels of possible abuse of existing systems."

He highlights as examples of such abuse, the cum-ex incidents covered by the trade press in recent years, based on unjustified claims for refunds.

Moving on to address present and future issues, Daffern draws attention to the European Commission's now concluded consultation exercise on WHT, and its reclamation by properly qualified parties.

The consultation suggested a range of policy options. One, improving WHT refund procedures to make them more efficient. Two, the establishment of a fully-fledged common EU relief at source system, generally accepted as the investment industry's preferred default option.

An additional option would be enhancing existing administrative co-operation agreements to verify entitlement to double tax convention benefits.

He does not hold out a great deal of hope for rapid beneficial change, if only because any new EU directives will then have to be implemented into 27 different sovereign state legal jurisdictions.

At this point, seasoned observers might understandably suggest that the long grass into which complex and troublesome subjects might be kicked, just seems to keep growing longer, and thicker.

Daffern does, however, hold out some hope for less extensive change that could be quicker and easier to implement.

"The introduction of digital Certificates of Residence, proving the entitlement of investors, would be a signal improvement on the current time-consuming processes involving the physical printing, signing, notarisation and further stamping of documents," Daffern says.

"Filling in a paper reclaim form is madness in this day and age, if only for the opportunities for error that it presents, even in cases of simple cutting and pasting of data. As a first step, a digital Certificate of Residence should be provided as a matter of course."

Be careful what you wish for, though, is one of the messages transmitted by Nigel Nelkon, global head of tax business services at BNP Paribas Securities Services.

Nelkon affirms: "We stand at an interesting crossroads with the EC consultation, but while so much time, effort and sentiment is being expended in the pursuit of harmonisation, digitalisation and EU-wide standards, everyday reality is not necessarily following the script.

"Custodians and investors might find themselves with yet more work to do if, for example, EU harmonisation takes the form of a directive, and there are significant differences in the way each jurisdiction transposes the directive into their local law."

Nelkon concludes: "Whether EU harmonisation will be achievable is far from certain, as Finland changed its regime relatively recently in 2021. While Belgium, Denmark, Germany and Sweden are all engaged in their considerations for new regimes — which will of course create new challenges for custodians and investors."

## Digitisation

On the subject of digitalisation, while there was some relaxation of paper-based and wet signature requirements in the wake of COVID-19, only some of these have been unwound and others not.

Additionally, the introduction of digitalisation by tax authorities has in some cases only been partial, with one example being pre-filling a tax reclaim form on a website. However, the final phase of the process requires the form to be printed out for physical delivery to the tax authorities. "Therefore, it is by no means certain that digitalisation only has upsides," BNP Paribas' Nelkon cautions.

When it comes to addressing the increasing complexity of the topic, some industry participants think the industry seems to be taking a sticking plaster approach, rather than a holistic one.

Expanding on this, Nelkon surmises: "We have wallpaper on the walls, and rather than stripping it off completely, and cleaning the surface with the intention of making a fresh decorating start, we are instead putting more layers on top."

Lev Shoykhet, New Jersey-based head of tax at the Citco group of companies, discusses the sharp rise of WHT reclamation. He attributes this, at least in part, to the growth of transparency amongst alternative asset managers, and their readiness to outsource the reclaim process.

"Investment managers and investors are becoming more comfortable with sharing their information with the authorities needed as an integral part of the reclaim process which is handled by specialist firms," he says.

## Hurdles to overcome

A well known asset management company made the following comments, while asking not to be identified. They identified three main issues facing asset managers today.

One, countries have different views of whether an investment fund is a beneficial owner, or whether an investment fund should be treated as transparent, and tax relief should be afforded with reference to the underlying investors.

For countries who treat the fund as transparent, this can be a significant issue because of the heavily intermediated structure of the investment cycle. This means the investment funds struggle

to obtain and collate the paper trail for the tax residence of the underlying beneficial owners at such a granular level.

Two, the sheer volume of documentation required to be completed in order to attain either relief at source, or reclaims of tax is a constant issue for asset managers.

Even in Europe, there is no consistent manner or method of achieving tax relief or reclaims, and hard copies and paper submissions are still required by many tax authorities — meaning that processes are slow and inefficient.

Three, tax litigation is commonplace to protect investor interests where tax authorities have overtaxed the fund and are unwilling to refund tax. Litigation processes are costly and can take decades to resolve through court processes.

Asked to enumerate recent changes to the environment, the unnamed asset manager says: "At the start of COVID-19, we saw that many countries changed their approach to documentation and accepted soft copy documentation for relief at source or reclaims. However, since then, this has receded back to hard copy paper submissions."

To give the reader a good example, in 2016, Switzerland changed their approach to reclaims and required signed attestations from nominees to prove the number of UK underlying beneficiaries.

Six years later, and asset managers are still struggling with complying with this regime because of the sheer amount of documentation and attestations that are required from other parties.

"Can we expect to see further technology or infrastructure development?", the secret manager questions.

"The EU has completed a public consultation on a new EU system for the avoidance of taxation and prevention of tax abuse in the field of WHTs," they add. "So, there is thought and development happening in the EU at Parliament level on these issues."

They conclude "industry bodies and professional firms are promoting the use of digital tax residence certificates and blockchain technology to eliminate administrative processes and delays in tax relief."

It seems, to this day, like many other financial industry facets, WHT is still an area needing much development. ■

# Changing landscape

**Asset Servicing Times' publisher Justin Lawson spoke with two leading market participants, Tom Casteleyn of J.P. Morgan and John Worden at HSBC, to gauge an indepth understanding of the current state of the European custody market**



## Broadly speaking, how has European custody evolved in the last 12 months?

**Tom Casteleyn:** The introduction of the Central Securities Depositories Regulation (CSDR) Settlement Discipline Regime (SDR) in February 2022 has been a major change in European settlement processing. It also contributed to triggering some exits from well-established regional sub-custodians.

At the same time, there is further market infrastructure consolidation taking place, where some of the major exchanges are absorbing local central securities depositories (CSDs) to extend their post-trade services.

All of this is increasing the possibilities and the pressure to shorten the custody chain. As an example, in June 2022, J.P. Morgan announced it will provide direct custody in Denmark, through direct connectivity with the local CSD.

Another major focus is on efficiency and automation of post-trade processes. Continued investment and innovation in new technologies, alongside increasing participation of fintechs, are re-defining operating models, improving operational efficiency and broadening product offerings. J.P. Morgan is playing an active role in this through our partnerships and investments in Saphyre (for automation and digitisation of account opening), AccessFintech (for transaction management), and Proximity (for proxy voting and ESG shareholder engagement).

A third focus area is on the transmission, analysis and management of data. Instead of it being a by-product of operational custody servicing, the ability to provide clients with fully integrated, ready-to-consume data across the investment lifecycle is becoming ever more important, which is why custodians are expanding their data services and sometimes acquiring specialised vendors. Recently, J.P. Morgan announced the launch of Fusion, a platform to enable clients to integrate and combine data from multiple sources into a single data model.

Lastly, there is an accelerating trend for custodians to focus on distributed ledger technology (DLT) applications, and expand their services to digital assets.

**John Worden:** In the last year, changes in the European custody landscape have required providers to evolve at the right pace, in line with regulation and client demands, and to make the right strategic choices to remain competitive for the future.

The custody industry is going through a period of transformational change and although the fundamentals of custody remain constant, the industry has evolved in two distinct ways in the last 12 months. Firstly, adaptation to market changes driven by the regulatory agenda, notably CSDR and Uncleared Margin Rules.

Secondly, through partnerships with the increasing level of collaboration between traditional post-trade service providers and platform utility and fintech players. This has been driven by the ability, through technology such as DLT, for simultaneous activities, not sequential functions, to be applied to transactions and areas of asset servicing, such as proxy voting, data integrity, entitlement checks, messaging validations for straight-through processing, (STP) and settlement efficiency.

## How effective has the CSDR settlement discipline regime been from a custodian's point of view, in terms of improving securities settlement in the EU?

**Worden:** The effectiveness of the SDR is still yet to be fully realised. The focus for the post-trade industry, including custodians, has primarily been to ensure the ability to embed the penalties mechanism into systems and processes, and support clients through the implementation.

There have been some challenges for the industry to work through in the first few cycles, which have meant that the emphasis has turned to operational handling of penalties capture, reporting and distribution. The same causes of settlement failure persist, which should continue to be a focus for market participants.

Additionally, there are other factors which are preventing an overall increase in settlement efficiency, such as the adoption of partial settlement. Time will tell as to the effectiveness of the regime, but it is clear that collaboration across the industry, for the benefit of post-trade, has been significant.

**Casteleyn:** In February 2022, a large part of the CSDR SDR, including improved matching processes and fail penalties, was implemented. At the same time, the authorities deferred the mandatory buy-in regime, which was very much welcomed by both buy- and sell-side.

J.P. Morgan was an active and vocal participant in industry discussions. While it is possible that buy-ins may yet be reintroduced if settlement rates do not sufficiently improve,

***“In the future, as more assets are digitised, and with the potential of new DLT-based operations being established, there is no real reason why settlement cycles cannot be shortened further”***

**John Worden, HSBC**

the intention is that the combination of fail penalties and other measures to improve efficiency will lead to a sufficient improvement on their own.

At this moment, it is still slightly early to identify the real positive impact of penalties, given that the regime only went live a few months ago. A number of industry work streams are working on further improving the process, and J.P. Morgan is actively participating in this.

### **How will the potential move from T+2 to T+1, and even T+0, necessitate changes in custodial process and operations?**

**Casteleyn:** The move to T+1 removes half of the time currently allowed for securities settlement, therefore, the need to ensure trades are instructed correctly the first time – and on time – has never been more critical.

Specifically, T+1 will eliminate the one-day cushion between trade execution and settlement, and that cushion has historically

been used to match up settlement mismatches to prevent settlement failure. The compressed timeframe may give rise to operational complexities that were not contemplated with the implementation of T+2.

To reduce these operational complexities and the risk of settlement fails, all market participants, their agents, and financial market infrastructures, must adjust their current operating models, implement new processes, and update outdated technologies.

**Worden:** Custodial operations will need to be significantly compressed through increased automation, especially when considering the complexities of cross-border settlement, foreign exchange requirements and certain asset class activities.

The benefits are clear in terms of reduction of counterparty risk and a drag on capital requirements for collateral and margin, however, not all industry participants are convinced that the benefits outweigh the challenges in a case for Europe moving to a reduced settlement cycle.

A move to T+0 for Europe, in the absence of an end-to-end DLT operating model, and harmonised regulatory framework, needs thorough analysis given the diversity of markets, current infrastructure and technology platforms.

In the future, as more assets are digitised, and with the potential of new DLT-based operations being established, there is no real reason why settlement cycles cannot be shortened further.

### **The links between digital assets and custody are increasing at a rapid pace within the industry. What opportunities can a custodian gain, given this fact? How are you investing to support client demand in this area?**

**Worden:** The evolution and commoditisation of custody as a core product offering, supporting asset owners and managers, has collided with innovation in the digital world.

This has resulted in an opportunity for deeper partnerships, a drive towards data-as-a-service, and support for digital assets providing increased integration across the investment value chain.

Our vision is to deliver a global product proposition for our clients across asset classes, while supporting market developments and providing future-proof digital custody solutions.



This includes services such as the provision of multiple digital channels, such as application programming interfaces, or strategic partnership and investment in digital platforms such as Proximity. It is critical for us to evolve at the right pace in line with regulation, technological advances, investor sentiment and the strategic direction of our clients.

HSBC's strategic direction is taken with a high level of interconnectedness across our business, recognising that, while custody is a core service, there is a greater ecosystem that needs to be supported.

**Casteleyn:** Digital assets and the ecosystems on which they will trade, settle and be safely kept are still relatively immature, but we are committed to supporting our clients as they explore this space. Whether or not these new ecosystems will eventually replace the old remains to be seen, but given the amount of focus and investment they attract, they are unlikely to disappear.

J.P. Morgan has committed business resources to developing solutions which will support our clients to take advantage of the potential benefits of blockchain technology and digital assets, with a particular focus on opportunities within securities market infrastructure.

Additionally, Onyx by J.P. Morgan is a dedicated business unit focused on building and commercialising blockchain products, solutions and infrastructure for J.P. Morgan's businesses and clients.

**John, how are the requirements of asset owners evolving in terms of managing custody risk — and in ensuring efficient asset servicing across their global investments? And how are regulatory changes affecting these requirements?**

**Worden:** While the pace of digital innovation accelerates, custodians will continue to play a vital role in the value chain for the foreseeable future — when asset safety is no longer just about safekeeping, it will also act as an integrated data source for all asset classes, including for example, digital security tokens and digital keys.

Asset owners look to their custodians for interpretation, advocacy and compliance to ensure future digital asset regulatory frameworks are fit for purpose in managing their custody risk. The ability to interpret regulation, break it down to the key areas of

***“T+1 will eliminate the one-day cushion between trade execution and settlement, and that cushion has historically been used to match up settlement mismatches to prevent settlement failure”***

**Tom Casteleyn, J.P. Morgan**

impact for our clients, and articulate clearly what options exist to manage any custody risk, is crucial for asset owners.

Additionally, managing custody risk through the chain, as local markets evolve, is a key requirement where asset owners demand robust network management selection and monitoring functions.

**How will competition evolve in both global custody and sub-custody? Will we see further consolidation? Will new entrants enter the market?**

**Casteleyn:** We have seen quite a bit of change recently. On the one hand, we have seen local custodians exiting the business, and on the other, we have seen consolidation in the global custody space as well.

They both point to the same driver: scale is necessary to afford the increasing investments required, both in technology modernisation and in the data space. It is likely that we will see more of this in the next 12 months.

At the same time, we see new entrants offering custody services for digital assets, which have a distinct operating model and licensing requirements. It is expected that this space will continue to evolve quickly, and that traditional custodians will enter this space as well.

**Worden:** It is not inconceivable that further consolidation will occur; however, the clear trend is the desire for clients to get as close to the local markets as possible. This requires continued development of networks, platforms and knowledge systems that deliver insight, efficiency and innovation to clients as if they were operating in the market themselves. As markets adopt new technologies such as DLT, the latency between clients and the local market can and will reduce, removing the layer between global and sub-custody — thereby allowing clients to directly benefit from areas such as the elimination of duplication of processing and reconciliations and optimised cut-off and processing.

The safekeeping of assets is a regulated activity, and it seems unlikely that any new entrant, say a technology firm or specialised provider, will voluntarily become a fully-fledged custody bank. The more likely evolutionary step, as seen already within the digital assets space, is partnership.

### **And finally, John, what trends have you seen over the past three years in terms of the relative balance of custody revenues and costs?**

**Worden:** The industry faces a dichotomy in practice in this regard. In an increasingly commoditised space, it is essential for custodians to be efficient (and to keep running at low costs), but at the same time, highly knowledgeable, specialised and client focused to meet their demands.

Securities services providers are continually challenged to provide standardised services which offer economies of scale across multiple markets, but conversely need to meet complex and specific client demands.

We foresee the provision of value-added services across all asset classes, combined with data aggregation and platform integration services, as a way forward to sustain future growth.

Pricing models must adapt to reflect the reality of a custodians' products, services and risks in an environment where the regulatory requirements, mandating asset safety and segregation, places specific demands on custodians for the services they perform. ■

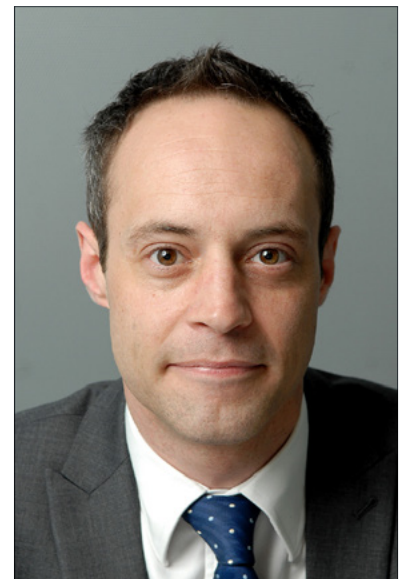
**Tom Casteleyn**

Managing director, EMEA head of custody  
JP Morgan



**John Worden**

Head of global custody product, Europe, asset owners and managers  
HSBC



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### Credit Suisse appoints new group CEO

Credit Suisse has appointed Ulrich Körner as new group CEO, replacing Thomas Gottstein who is retiring. Körner joined Credit Suisse in 2021 as CEO of asset management.

Prior to Credit Suisse, Körner served at UBS for eleven years, six of which were spent leading the asset management division. Before starting this role he served as chief operating officer.

Earlier in this career, Körner was an executive at Credit Suisse and held various roles, including chief financial officer and chief operating officer of Credit Suisse Financial Services, and CEO Switzerland.

Commenting on his new role, Körner says: "I am looking forward to

working with all colleagues across the bank and the executive board, and devoting my full energy to execute on our transformation.

"This is a challenging undertaking, but at the same time represents a great opportunity to position the bank for a successful future and realise its full potential. I would also like to thank Thomas wholeheartedly for his support and partnership."

Gottstein adds: "It has been an absolute privilege and honour to serve Credit Suisse over these past 23 years. Despite the challenges of the past two years, I am immensely proud of our achievements since joining the executive board seven years ago." ■

### Standard Chartered has appointed Andy Ross as global head of prime and financing, financing and securities services (FSS).

In addition to his prime and financing role, Ross will serve as financial markets head in the UK, commencing 1 August.

Based in London, Ross will report to Margaret Harwood-Jones, global head of financing and securities services, financial markets, and to Molly Duffy, head of Europe and Americas, financial markets.

Ross has more than 20 years of experience in the financial services industry, and joins Standard Chartered from the London Stock Exchange (LSE) Group-backed derivatives market CurveGlobal, where he was CEO and member of the capital markets leadership team at LSE Group.

Prior to CurveGlobal, Ross held a number of senior management positions at Morgan Stanley during his 16-year term with the firm, including European head of over-the-counter clearing.

Commenting on Ross' new appointment, Harwood-Jones says: "Prime and financing is core to the FSS business, and I am thrilled that someone of such high calibre is joining our team to further enhance the growth momentum of our business, and deliver our client commitments."

Duffy adds: "Andy brings additional domain expertise and entrepreneurial perspectives to our experienced and seasoned management team in Europe.

"I look forward to his leadership in further driving our strategic initiatives and governance agenda."

**Phillippe Kerdoncuff has left his role as co-head of China at BNP Paribas Securities after a six-year tenure.**

BNP Paribas Securities Services has confirmed to Asset Servicing Times that Kerdoncuff will be leaving the Shanghai office, but will not be leaving the bank.

However, at time of writing, his next role at BNP Paribas is yet to be confirmed.

Kerdoncuff has held a number of roles at BNP Paribas Securities Services, including head of asset custody and head of global custody product management.

Prior to starting his tenure at BNP Paribas Securities Services, Kerdoncuff held a number of senior roles at Societe Generale including managing director of asset management Ireland and location manager of securities services USA.

In April, BNP Paribas appointed Stanley Song as co-head of BNP Paribas Securities Services, alongside Phillippe Kerdoncuff, as part of a wider effort to expand and develop its presence in Asia.

Prior to joining BNP Paribas Securities Services, Song was head of securities services for Deutsche Bank China.

Commenting on his departure, via a LinkedIn post, Kerdoncuff said: "I am filled with a mix of feelings [particularly] sadness to leave behind this amazing city, many friends, and my wonderful team and colleagues from BNP Paribas.

"I wish the best to BNP Paribas China and to the Securities Services team." ■



**BNY Mellon establishes APAC advisory council**

BNY Mellon has established an Asia-Pacific (APAC) advisory council of industry leaders in an effort to advance regional growth.

Founding members of the advisory council include Eiji Hirano, director and vice-chairman of MetLife Insurance K.K. (MetLife Japan), Jong Nam Oh, senior advisor at Kim & Chang, and Zili Shao, senior advisor at Fangda Partners.

Hirano has extensive expertise in public policy, international finance, payment systems, and corporate governance through his experience at the Bank of Japan and several other private institutions.

He was chairperson of the board of governors of the government pension investment fund, and also sits on the boards of NTTDATA, Riken, and Ichiyoshi Securities.

Oh is a veteran advisor in finance, with decades of experience consulting for global, regional and

national business leaders. He joined law firm Kim & Chang in 2008 and has served as chair of the board of directors at electronic health company ezCaretech since 2021.

Oh has also chaired the board of Standard Chartered Bank Korea, UNICEF Korea, Samsung Securities and GM Korea.

Shao founded MountVue Capital Management in 2017, after having spent the prior two years at King & Wood Mallesons China as co-chairman and partner.

He currently sits on the boards of Energias de Portugal, Ares SSG Capital Management, Bank of Montreal (China) and Yum China Holdings.

From 2010 to 2015, Shao held various positions at JP Morgan Chase & Co, including roles such as chairman and CEO of JP Morgan China, and vice chairman of JP Morgan APAC. ■



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