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Future-proof reporting

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Data at the centre

FIA Tech's Andrew Castello talks to AST

CSDR

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Ready for Next

DTCC launches new tax service

DTCC has launched a new service to provide its subsidiary, the Depository Trust Company (DTC), with IRS Form 1042-S tax withholding information on distributions.

The service, known as the 1042-S Classification Announcement, will lower the amount of tax withheld on distributions for non-US investors, prior to the payable date.

DTCC collaborated with BlackRock and Citi Securities Services on the launch of the service and to establish a formal process for providing interest-related dividends on bond exchange-traded funds (ETFs) at the time of distribution.

Citi Securities Services is leveraging the new service to reduce the amount of taxes withheld on payments to its clients.

While interest-related dividends are not subject to a withholding tax, due to information not being available at the time of distribution to non-US investors, ETF distributions are treated as dividends and subject to a 30 per cent tax on payments.

At year end, when firms receive data on interest-related dividends, tax refunds are processed to investors that were over-withheld throughout the year.

By providing interest-related dividend information on the 1042-S Announcement at the time of distribution, brokers and custodians will now have access to the required information and will no longer have to withhold 30 per cent tax on payments, says DTCC.

The corporation estimates that hundreds of millions of dollars are over-withheld on distributions at inception, tying up funding and liquidity, only to be refunded later in the year.

The service has been launched following the U.S. Securities and Exchange Commission's approval.

Longer term, DTCC has said the 1042-S service may be used for additional pooled investments and types of distributions that may have multiple components for 1042-S tax withholding purposes. ■

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JTC launches fund administration offering in Ireland

Global professional services provider, JTC has launched its fund administration offering in Ireland to complement its existing Alternative Investment Fund Manager (AIFM), depositary and corporate services.

The latest Irish offering will be led by Graham Kennedy, CEO of JTC Fund Solutions Ireland (pictured) and follows Central Bank of Ireland regulatory approval. Following the acquisitions of Ballybunion Capital Limited and INDOS Financial in 2021, JTC in Ireland is now able to provide fund solutions tailored to clients' requirements covering fund administration, depositary, and corporate services from its offices in Dublin and Enniscorthy.

Fund administration services will include fund accounting, transfer agency, anti-money laundering and the preparation of fund financials with audit support. ■

Apex Group launches new digital banking service

Apex Group has launched a new solution to help enhance its clients' management of day-to-day transactions. The new solution will be delivered by Apex's subsidiary European Depositary Bank (EDB).

Through the new solution, Apex's clients will be able to open multi-currency accounts and manage their day-to-day transactions through automated money market sweeps from a single, online dashboard.

The platform is designed for asset managers, special purpose vehicles, family offices, corporates and trusts for transactions including global payments and foreign exchange requirements.

The platform includes onboarding and bank account opening, account visibility and transparency via an accessible dashboard as well as two-factor authentication for efficient security.

The EDB also houses custom payment approval processes, cash balances in 18 major currencies, real-time payments in multiple currencies, and automated money market fund sweeps in three main

currencies to enable clients to improve investment returns.

Peter Hughes, founder and CEO of Apex Group, says: “EDB’s Digital Bank sits at the heart of Apex’s single-source solution, and these latest enhancements to the platform will ensure we continue to provide innovative solutions for clients which differentiate our offering as a leading global financial services provider.”

Ankit Shah, head of digital banking at Apex Group, comments: “Over the course of the pandemic, as individuals, we have become more accustomed to the ease and convenience of the digital offerings of retail banks, but frustrated by the lack of the same functionality and ease of use when it comes to everyday institutional banking.

“We are providing a secure, fast and fully digital solution that is designed specifically to eliminate the inefficiencies that asset managers and financial institutions currently face in their day-to-day banking.”

Apex Group has also announced the acquisition of alternative asset and corporate services provider, Sanne Group. This is the latest in a series of 31 global acquisitions for the group.

The close of the Sanne acquisition means Apex now services nearly US$3 trillion in assets across administration, depositary, custody and under management.

The addition of Sanne brings an additional 2,500 people into the group and expands the firm across six new locations including Denmark, Japan and Serbia.

Indian Prime Minister launches Deutsche Bank’s IFSC banking unit in Gift City, Gujarat

Prime Minister, Shri Narendra Modi, has launched the IFSC Banking Unit (IBU) of Deutsche Bank AG at Gift City, Gujarat. The IBU will provide all approved international financing products to Deutsche Bank’s clients in India and overseas, providing access to solutions that help improve business efficiencies.

Deutsche Bank proposes to commence its business in Gift City with credit facilities for corporate clients and will provide a suite of products across trade finance, fixed income and currencies initially.

Deutsche Bank’s IBU, will offer products such as factoring and bank guarantees, with the aim of helping global clients increase efficiencies across their supply chain and reduce their financing costs.

Within the framework of extant guidelines, it also will facilitate cash pooling and other deposit propositions for Indian and international clients.

India’s maiden IFSC at Gift City, has witnessed significant increase in banking sector activity, says Deutsche Bank AG. A competitive tax regime, conducive regulatory framework, and ease of doing business, has provided an impetus to the financial centre, it adds.

Alexander von zur Mühlen, CEO of Deutsche Bank, Asia Pacific and member of the management board, says: “The IBU will help provide our clients in India and overseas with access to the best suite of financial solutions and services that India has to offer.

“Congratulations to the Indian government for conceptualising and establishing Gift City, and we look forward to a fruitful association for many decades to come.”

Kaushik Shaparia, CEO Deutsche Bank Group India, adds: “With the rising number

of multinational corporations in India, we will witness an increase in the demand for cross-border banking services from hedging to financing. Our IBU will help us bridge this gap for our clients, opening new avenues of growth for them.

BNY Mellon picks Xceptor to streamline its custody tax operations

BNY Mellon has selected the Xceptor tax platform to provide digital process automation for tax documentation management and pre-population, as part of a wider effort to streamline key areas of its custody tax operations.

The agreement will also enhance BNY Mellon's capability to identify tax relief opportunities, enhance submission, and track withholding tax reclaims.

BNY Mellon's phased implementation of Xceptor's end-to-end tax platform is part of a multi-year licensing agreement.

Liam Stanbridge, head of tax product at BNY Mellon, says: "BNY Mellon's adoption of the Xceptor Tax Solution will help us transform how we perform custody tax services for our clients.

"This aligns with our digital strategy to offer scalability and agile functionality, strengthening both our tax service proposition and our client experience."

"We look forward to working with Xceptor on implementing this programme together and advancing digital integration across market participants to help make withholding tax relief more efficient for institutional investors."

Andrew Kouloumbrides, CEO at Xceptor, comments: "As the move towards digital versatility and capability intensifies, fuelled by increasing regulatory oversight, there is a need for financial institutions to implement more efficient and effective processes.

"The Xceptor Tax Solution embodies our deep industry knowledge of optimising and automating tax processes, which has been derived from transforming tax operations for the world's leading financial institutions."

Indxx launches CAdmin corporate actions platform

Indxx, a provider of custom indexing solutions, has launched CAdmin, a centralised, integrated hub for corporate actions, developed with its current customers.

With the development of the new platform, Indxx aims to transfer the burden of corporate actions from clients to a trusted professional service provider.

Through the new platform, CAdmin will support high volumes of corporate actions and will also look to reduce the fixed costs associated with corporate actions validation.

All data handled by CAdmin on a daily basis will be provided by the client and stored solely on the client's servers.

In addition, clients will have access to a customised dashboard and analytics based on their planning and decision-making needs.

Rahul Sen Sharma, managing partner of Indxx, says: "At Indxx, we are committed to providing innovative solutions to our clients. With over 15 years of experience in the indexing industry, we identified a need for a more effective corporate action management solution and established our Indxx data and technology service to address such industry challenges."

US SEC increases scrutiny on Coinbase

At the end of July, the U.S. Securities and Exchange Commission (SEC) increased scrutiny on Coinbase, announcing an investigation into alleged securities laws violations.

Some industry participants, including SIX, say this could potentially spark a legal battle where the resulting consequences could affect the whole crypto landscape.

The controversy stems from the SEC's action to implement amendments that standardise disclosures regarding cybersecurity risk management, as well as President Joe Biden's signing of an executive order in March this year. The President's order highlighted the US Government's commitment to ensuring that virtual assets and cryptocurrencies will be subject to further compliance measures with appropriate regulations and supervision.

In the executive order, Biden outlined: "We must mitigate the illicit finance and national security risks posed by misuse of digital assets. We must reinforce US leadership in the global financial system and in technological and economic competitiveness, including through the responsible development of payment innovations and digital assets. We must promote access to safe and affordable financial services."

Commenting on the SEC's increased scrutiny on Coinbase, David Newns, head of SIX Digital Exchange, says: "Classifying cryptocurrencies as securities potentially has very far-reaching implications on many areas, including regulatory requirements for venues trading these assets, accounting, taxation, governance, and disclosure.

"Regulation should be looking at what each type of token represents as each crypto-asset has a different function and utility and will require their own set of regulation based on these functions. If all cryptocurrencies become securities, then we will see a major impact on the industry. Current crypto exchanges will need to be licensed securities trading platforms to provide trading in securities to US persons. Let's use the current market downturn to invest in building a strong infrastructure foundation for the crypto and digital asset markets, as well as a level of regulatory oversight that allows for innovation." ■

ESG Disclosure Regulations: Creating data-driven, future-proof reporting and analysis

Confluence explores upcoming ESG-related regulations, operational solutions, and actionable takeaways for building a competitive ESG approach for the future

ESG investing is still evolving and will continue to do so for years to come. As part of that evolution, ESG frameworks are emerging to standardise the reporting and disclosure of ESG metrics across as many as 140 jurisdictions around the world, with the EU's Sustainable Finance Action Plan leading the way.

Managing ambiguous ESG data requirements is proving to be a monumental task. Investment managers and asset owners need a practical, data-driven approach to solving their near- to long-term ESG challenges.

Although progress towards this goal has been initially centred on meeting ESG taxonomy, disclosure and reporting, companies have an opportunity to create a strong ESG strategy while driving positive change. Technology is the key to solving how the investment community can implement sustainable investing.

Technology is the key

ESG regulations take hold in Europe with other regions set to follow. The EU's comprehensive sustainable finance action plan aims to mandate that companies integrate sustainability risks into their investment management and disclosure processes, including their impact on the market environment.

Its goals are to provide greater transparency on ESG investment products, use a taxonomy to set a common definition of sustainable activity, and set market standards for financial products including green bonds, benchmarks and eco labels.

Companies are regulated under the Non-Financial Reporting Directive (NFRD) and soon the Corporate Sustainability Reporting Directive (CSRD), while financial products will be regulated under the Sustainable Finance Disclosure Regulation (SFDR).

As displayed above, the EU is imposing an aggressive timeline for compliance over the next several years, including major milestones that are imminent. A key challenge is the discrepancy in the timing of disclosure requirements: financial firms are being required to report ESG information which relies on data from corporates — who themselves are not required to disclose that data until later dates.

Meanwhile in the UK, climate-related disclosure requirements have been drafted for the financial sector and corporates, and their dates of implementation follow closely on the heels of EU requirements.

Contents of disclosures are based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which have emerged globally as the prevailing approach outside of the EU.

The US has also issued climate-related disclosure requirements for both financial firms and issuers. Based on global frameworks such as the TCFD recommendations and the GHG Protocol, the U.S. Securities and Exchange Commission's (SEC's) rules are scheduled to be implemented in stages, beginning in 2023, and require specific climate-related data to be provided in registration statements, periodic reports, fund prospectuses and other filings.

All these regulations are positive developments designed to enhance and stabilise climate-related disclosures, while generating more data to assist all parties with assessing companies' performance and to drive regulatory reporting.

ESG data challenges

Regulations are ultimately present to protect investors, and regulators want to ensure the data presented to them is digestible, offers clarity, and provides the best possible view of risk and performance.

However, many firms are struggling with ESG data challenges as they attempt to meet their reporting obligations. The main challenge is the ambiguity and inconsistency of data used for various disclosures, and the way in which it is presented to investors. Fortunately, the outlook is positive for solving these issues.

The SEC's proposals require the companies themselves to report on their risks related to climate transition across its three scopes. This will help ensure better data quality from the disclosure phase to the downstream investors. Even at this relatively early stage, data quality, consistency and normalisation are improving, as more companies participate in reporting and engage in the topic of data-driven ESG disclosures.

The way data is presented through different ratings providers is also a significant issue. Investors are tasked with making sure they have a true understanding – beyond top-level ratings – of the captured key performance indicators (KPIs), the intention of the framework used, the company's risk through an ESG lens, and the amount of risk to society in general.

From there, they will need to reconcile those differences in a more meaningful way.

Thankfully, we are beginning to see different standards consolidate through the International Sustainability Standards Board.

The cost of ESG

Naturally, the cost of ESG weighs heavily on the minds of all industry participants, especially as it becomes more embedded in different use cases and value chains. Data licensing is at the heart of this challenge.

Firms are integrating ESG into their investment management strategies while also complying with ESG disclosure regulations that are relevant to them. Firms also need to report their required disclosures (including for risk management and investment policy), and often the challenge is that the licence held on one side does not always allow it to send data to the other.

This implies that both the asset managers and the management company are buying some of the same data. Discrepancies may develop regarding what must be disclosed and the additional cost will be passed on to the investors. In addition, data costs depend on the providers' different offerings.

Generally this is split into the following categories: procuring raw data from multiple disclosures (and providing it to certain organisations based on their needs), as well as procuring raw data, contextualising, and normalising it, and filling the gaps with estimation models.

> ***"The end goal is to encourage greater convergence between different frameworks, and define ESG risk versus ESG impact"***

Firms need to evaluate their specific raw data needs, how they plan to interpret the data using their internal capabilities versus how much help they will need from the vendor.

In addition, data must remain consistent at the company, fund, portfolio and benchmark levels. Therefore, a good level of cohesion is needed between different use cases where ESG data will be embedded – from creating the fund to selecting it and reporting.

The end goal is to encourage greater convergence between different frameworks, and define ESG risk versus ESG impact to reach a common understanding and consistent results in terms of liquidity and transparency. This way, investors will truly understand what it is they are investing in.

Private markets have even more unique challenges

Up until now, public markets have been the primary focus of ESG disclosures. However, private markets face different challenges, such as connecting the data in a standardised way when dealing with private equity funds.

The obvious challenge is that data is currently based on self-reporting. Small companies may not realise they have the data they need or that it may not be in an easily accessible format.

In addition, firms must understand the data points they need and have a solid framework for what they can realistically measure. Private market investors struggle to find the right KPIs and regularly get inconsistent views of data from each of their investment companies, as a result of the data often residing disparately across regions and industries.

In this infancy stage, interpretations of data through tailored diagnostics, focused on relevant ESG issues, will reign supreme, provided firms have knowledgeable people to analyse and understand the data and the methodologies behind the analytics, and then make the best use of all available data sets.

The technology innovations underpinning sustainable finance investing

Technology tools and processes are emerging to help streamline ESG KPIs and support ESG analytics across the front and back offices. The front-to-back challenge stems from use cases around screening investments, building, and monitoring portfolios and reporting on them to investors, distributors and asset owners.

Large firms that are already well advanced in their journey towards full integration of ESG processes, often have a dedicated team and the means to integrate ESG data into their portfolio management systems.

These firms have typically had an established core ethos ready to be applied to sustainable investing, with eco-green credentials and strong governance.

Smaller firms tend to be less ESG-mature and therefore struggle with disseminating volumes of information to multiple stakeholders and meeting regulatory obligations. A ready-to-use tool that aggregates structured and unstructured data, analyses ESG risk and performance, and manages reporting, is key for these firms.

Technology can help firms improve data procurement and fulfil gaps around disclosures. It can also pave a path for new product offerings that bring ESG along, such as direct indexing.

Enhancing the connection between ESG data and a technological solution where audiences can engage with personalised ESG investing, such as separately managed accounts, is the goal. In the private equity real assets market, tools and frameworks are also emerging to help structure the process of aggregating data and intelligence, and structuring companies' ESG approaches.

ESG investment strategies

Regardless of where you are on your ESG journey, avoid diving into reporting too soon. Set a clear roadmap starting with defining your level of ambition. Jumping straight into the EU taxonomy may send you on the wrong path if you are just starting out.

Think through the whole value chain. When ESG strategy and sustainability goals are built together – from the investment manager to the management company and authorised fund managers – all entities will be able to meet their obligations throughout the process.

Learn all you can about ESG; all market participants should keep up with the latest ESG trends. Once you appreciate the value of ESG as an investment tool, challenges will seem more manageable. Know that ESG is not an isolated discipline. Ultimately, people are engaging with ESG across the firm, from managing risk exposures to driving capital into positive areas of impact.

Focus on your ESG objective. Understand the exact intention or objective of what they are trying to capture within your strategies, and remain steadfast in your reporting.

Consider data licensing implications — the licensing of data should ensure consistency across the value chain while also reducing data costs.

Be aware of greenwashing risk. Stay consistent within your investment activity, build funds using intentional KPIs that align with your objectives, report on those and ensure your story remains consistent.

The outlook for ESG

Demonstrable improvements in the breadth and depth of ESG information, tools and frameworks are evident throughout the investment management community. While a significant amount of work has been completed, there is still a long way to go.

Market participants can optimise efficiency and control across their investment lifecycles, from portfolio analytics, to compliance and regulatory data solutions (including investment insights and research) to meet the evolving needs of asset managers, asset servers, and asset owners who are making ESG a valuable part of their investment process. ■

Data at the centre

FIA Tech's Andrew Castello talks to Jenna Lomax about starting his current role just before the pandemic, and why the firm's new industry initiative, the Databank Network, is rapidly adding members

You've been with FIA Tech since 2019, what does your current role entail and how have your responsibilities changed over the last few years, given the COVID-19 pandemic and the technology developments it necessitated?

I am head of reference data at FIA Tech. I also manage our data bank operations. My major focus is on strategy, operations, and product development. I was appointed to take a look at FIA Tech's existing reference data and work with the industry to expand it. Databank started with exchange fees and position limits that we acquired from the Institute for Financial Markets in 2018.

What really sparked our new reference data initiatives was reaching out to the industry and identifying industry participants' painpoints. FIA Tech aimed to learn about the contracts themselves, and what happens to those contracts from the day they are listed, to the day that they are "delisted" — it's strategising how to grow the business line, and how to work with clients to identify areas of interest and areas that are inefficient.

As for COVID-19, the immediate response of our management team was to consider the health and safety of all of our staff. Second, we had to consider how to operate day to day, however as a tech company, we had everything we needed to operate. One silver lining, if you had to have one from this terrible collective experience, is the effect it had on the work-life balance — we actually saw staff productivity increase during the pandemic.

Removing the commute allowed our staff to step away from their desks, to do what they needed to do for their personal lives, and then come back and get what they needed done. Luckily, even before the pandemic, we operated a global operations team that is offshore, and consists of individuals that we have never met. They did, and continue to do, a fine job remotely.

Can you tell us more about FIA Tech's reference data strategy and the new Cash and Collateral service?

Through speaking with the industry about their painpoints, we realised that firms have fragmented and siloed data feeds. The main issue in the industry is that lots of money is being spent on overlapping data. For instance, if you have all these various vendors coming in, and then you are trained to plug them together, and then roll out that data to the front, middle or back-office, there is a lot of effort and money wasted from an operational standpoint from just trying to connect feeds.

> *"If the Cash and Collateral service can help our clients to save capacity, and we can save banks time and money, we are going to help them do exactly that"*

It is still an issue. FIA Tech brings value by housing all of the above under one umbrella — allowing users to reference one single provider where they are able to send those data points. We also serve the industry better when working as a collaborator, and as co-competitors with the providers within our network, instead of being in direct competition with them. Direct competition in this industry does not always work.

Cash and collateral management are very manual processes. The acceptable collateral on haircuts, concentration limits, fees, and interest rates all have data points that need to be put into an operating or optimisation system. However, these are hidden in various different locations across the central counterparty clearing houses.

Currently, in the industry, whether it is onshore or offshore, there are entire teams that aggregate data daily and punch this data into operating systems — that is often a big waste of time and effort for banks. Being able to standardise that, while creating a schema that industry participants are able to tap into, automates the process while helping to reduce risk. We can accurately determine which collateral should be deposited or what the acceptable collateral really is. Those factors could change day to day.

We also have central counterparties that are updated daily. If a client is out of loop and not aware of what is going on, or there is a certain element missing in their operational process, they run the risk of not having the most accurate data in front of them.

If the Cash and Collateral service can help our clients to save capacity, and we can save banks time and money, we are going to help them do exactly that.

CQG and Trading Technologies have joined the FIA Tech Databank Network, an initiative to bring together independent software vendors, exchanges, clearing houses and other data providers into an interoperable global network. Why now?

Databank Network is about taking software vendors, exchanges and clearing houses' data and having it interact with our data. Without that you have fragmented and bespoke processing, where you have teams that have to create those mappings.

Broadly speaking, with any of these independent software vendors, or order management systems, our service is similar to a Rosetta Stone — providing mapping and identification of the exchange product, and what the exchange actually calls a product.

This is because, at some point, those random alphanumeric characters will not mean anything to an individual until you provide meaning and give definition back to the exchange. Pointing it back to the exchange is extremely important. We hope this network improves the industry's efficiency and that it becomes a key benefit for our clients. They all seem very excited to participate.

In October 2021, FIA Tech expanded its reference data offering with three new services consisting of Cross Reference Symbology and Contract Specifications. Can you tell us more about these services?

It is about understanding the basic economics of the contract itself. If you look at a contract, the first element we would look at is the grouping mechanisms of the contracts.

European Market Infrastructure Regulation is a good example of where we are able to help classify what these products are called.

When you have an individual or firm looking to see what is actually being referenced on the exchange, it is great to be able to maintain that kind of taxonomy, and then create our own FIA Tech taxonomy that harmonises the two and creates an industry standard of how these products are bucketed.

That helps with reporting; it does help with some settlements, because then you are properly able to classify that product.

Through understanding the basic economics of it — the contract size and the unit of measurements — you are able to assist in trade reconciliation, trade identifying, and also calculations that may need to happen within the back-office, and that could be brokerage settlement, or it could concern other types of settlement.

Being able to provide those in a clean, consumable manner really helps the client. Looking at the settlement portion of it, it is about looking at your first trade day, your last trade dates, your delivery periods, the actual settlement of physical contracts, and taking that giant, convoluted text, and breaking that down into a standard date format, that a system could understand.

Being able to tap into that feed and access the data that you need to settle whatever process you are dealing with, at the precise moment you need it, is a benefit.

What do you hope to expand on and achieve in the next 12 months as a network? What opportunities do you think you might see?

We have a few other independent software vendors that are looking to participate in the network, so we look forward to welcoming them.

Partnership discussions will be held throughout the next 12 months, but even after that, this is something that we will continue to grow.

One of the things I am looking forward to is opening the door to two-way data flow. By providing our ISVs data, we can work together and help solve their painpoints.

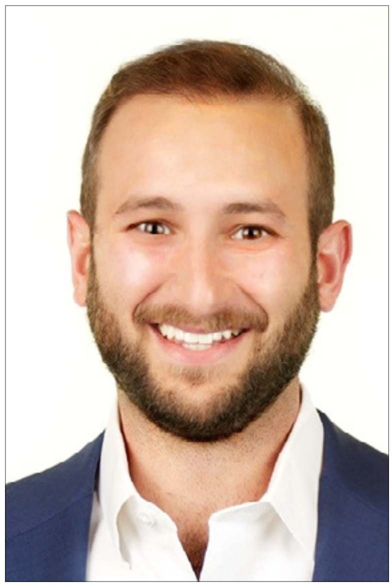
I am also looking forward to focusing on alternative delivery mechanisms, looking at various different new technologies. It is one thing to talk about the data, it is another thing to see the data and create customised reports.

What hurdles do you think you might face?

As far as hurdles go, there is currently increased competition in the marketplace. We also have to consider the complicated regulation that is coming down the pipe from the regulators. One example is the position limits with the over-the-counter swap equivalency that are supposed to come out at the end of this year. However, regulation compliance is an area in which we can shine. We can help members of our network to put together some sort of offering that will help assist clients and members in navigating that regulation.

The last hurdle worth mentioning is legacy technology that is used by clients. That is always a hurdle for any kind of technology vendor — gathering their data to interact with the systems that they are using. It can be a painpoint. In a perfect world, everything would flow back and forth seamlessly, but when you have some systems that are not ready for some of the new technology, or some of the datasets that have been put together — or the functionality is just non-existent — it takes a lot of time and effort to be able to adapt. That is a factor for any company as it grows.

Something the industry has to be aware of is how to communicate with old legacy systems. However, this is a hurdle that is not new to us, and because of that, it is a very exciting time to be working at FIA Tech. ■

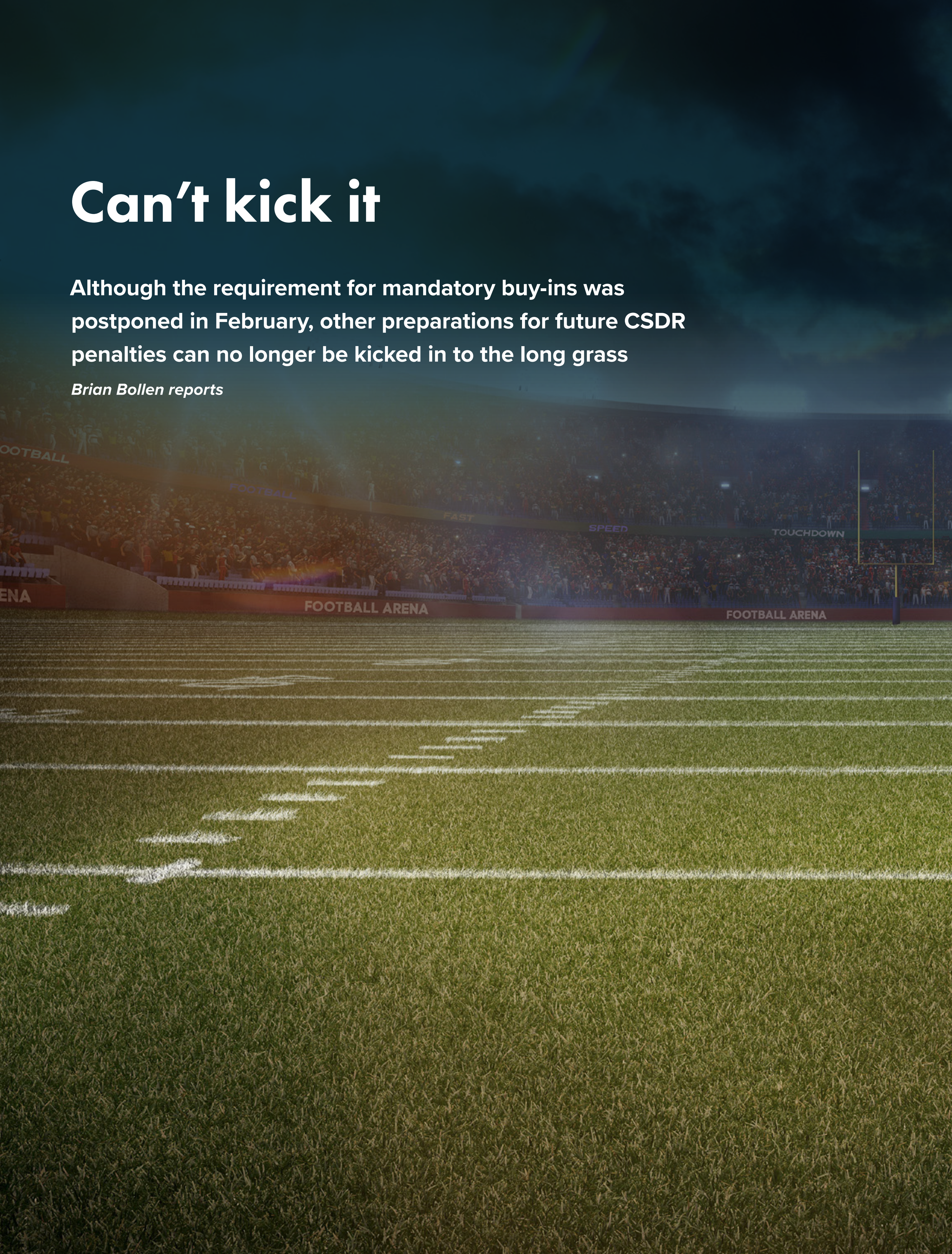


Andrew Castello
Head of reference data
FIA Tech

Can’t kick it

Although the requirement for mandatory buy-ins was postponed in February, other preparations for future CSDR penalties can no longer be kicked in to the long grass

Brian Bollen reports



"Who benefits?". That is the first question that comes to mind when considering the Central Securities Depositories Regulation (CSDR). Someone somewhere must be benefitting from the chaos that has resulted since failed settlement penalty imposition, calculation, collection and distribution became a feature of daily, weekly and monthly life in the European securities markets.

In one segment of the market, participants are racking up penalties at an estimated annualised rate of US$5 million to US$15 million in penalties that go to the buyers of the stock, who did not receive the stock. We must remember that the actual figures involved will vary from system to system, firm to firm, and market niche to market niche. It is the direction of travel that is important, rather than precise numbers. To the layperson, even one who has spent an entire adult working life in and around the international financial industry, from its most open high roads to its poorest lit alleyways, it can be a struggle to identify who might actually be a beneficiary of CSDR — at this moment in time, at least. Almost incidentally, the requirement for mandatory buy-ins, which was also scheduled to begin from 1 February but was postponed, has now been well and truly kicked into the long grass, to the great relief of almost anyone who has a view on the issue.

A matter for ESMA

Officialdom has, as one might expect, reacted. On 11 July, the European Securities and Markets Authority (ESMA) launched a consultation on a possible amendment to the CSDR cash penalty process for cleared transactions. ESMA also produced a formal document on 3 August on improving securities settlement in the EU and on central securities depositories (CSD). In the official announcement of 11 July, ESMA states that the consultation paper seeks stakeholder views on simplifying the process of collection and distribution of cash penalties for settlement fails relating to cleared transactions.

ESMA's proposals would change the existing practice by allowing the CSD to collect and distribute all types of penalties, including those for settlement fails relating to cleared transactions. Currently, central counterparties (CCPs) are responsible for the collection and distribution of cash penalties for settlement fails on cleared transactions. Stakeholders, in particular CCPs, CSDs and their clients, are invited to submit their input to ESMA by 9 September 2022. ESMA says it will consider the responses it receives to this consultation exercise with a view to publishing a final report, including an amending regulatory technical standards, by Q4 2022.

Industry opinion

Pardeep Cassells, head of financial products at AccessFintech in Glasgow, raised concerns in Asset Servicing Times Issue 282 on the communication of data which is provided by CSDs. "We have seen duplication and straightforward miscalculation," she commented back in December 2021.

She continued: "There is a lack of consistency and clarity at global custodians and prime brokers on how they will communicate underlying information to their clients. Once penalties become a reality and start hitting home, we will see a change in focus and a flurry of activity as organisations put mechanisms in place to help manage the process."

The importance of high-quality data and analysis thereof is being re-emphasised by the problems arising from settlement failure penalty implementation.

"The focus is on the penalty side, which has presented numerous data challenges," says Cassells in new comments about the existing state of play.

"This has led to organisations investing a huge amount of time in manually checking penalties. Erroneous penalties are being levied. Monthly statements do not align, and there is a lack of consistency, despite the availability of and use of standard SWIFT messages," she adds.

"Such is the state of affairs that organisations have felt unable to pass day-to-day CSDR management from their project teams to their operational teams, and we have encouraged our own working groups to continue focusing on the penalty issue," Cassells explains. "The communication of all penalties to asset managers and asset owners is not happening. The scale of the data issues has far outstripped what the industry expected and people have been taken aback by the extent of the ensuing problems."

Cynical and coarsened long-term observers might describe all this as a good old-fashioned mistake, caused by a lack of preparation.

Meritsoft, a Cognizant company is also experiencing a second wave of engagement, according to its CEO, Daniel Carpenter. He says: "A lot of people put in place short-term tactical solutions in order to comply with the evolving regime, and they are now reviewing those arrangements to evaluate just what they need to do next.

"It has been a painful period. The idea behind the settlement failure penalty regime was to reduce overall levels of settlement failure. Has it done that? No. But it is early days. The net impact has not been successful yet."

Meritsoft has been analysing fails, and for the big houses. The cost of penalties will be in the range of US$5 million to $15 million, it predicts. Some houses may have individual fails costing $100,000, while the majority of penalties will be $20 to $50 a time.

Carpenter warns: "If you are carrying out a lot of trades, and do not have the required levels of settlement efficiency, that will soon rack up. People are affecting partial settlement to reduce the value of penalties, but the volume of fails has not gone down."

With banks manually calculating then reconciling against multiple formats of feeds, and simultaneously validating their associated penalties, Carpenter says: "there is no doubt automation is drastically required here as an initial step for those who have not done so."

He goes on to say: "Subsequent issue resolution, accounting processing, and associated claim management and client communications then become increasingly important, all operationally intensive activities.

"Meritsoft's clients focus now is on a more strategic approach that enables them to aggregate all their fails data (not just CSDR data) from across the organisation to track settlement efficiency."

"Another approach is to allow for the application of new technologies like artificial intelligence and machine learning — helping them to predict fails with ever-greater precision."

Cassells expands on Carpenter's point, identifying that AccessFintech has seen a second wave of interest in clients looking for automated solutions.

She affirms: "We need to see the data coming from agents and CSDs to be more reliable, and trust needs to be regained. We need to minimise manual processes and to see penalties trickling through the ecosystem to their rightful destination.

"We need to remember that penalties should hurt and organisations need to be incentivised to reduce the number of failures taking place. In the face of everything, we remain optimistic — we are always optimistic." ■

Northern Trust appoints duo to senior business development roles

Northern Trust has appointed Mauricio Sandoval and Dean Marziarz as senior business development representatives for asset servicing in North America.

Based in New York, Marziarz will lead business development for private capital fund services, which provides middle and back-office solutions for a range of alternative investment managers.

Marziarz has more than 20 years of asset servicing experience at BNY Mellon and J.P. Morgan, where he developed and led strategic private markets relationships with large alternative investment managers. Marziarz was also a director at Citi from 1998 to 2011.

Also based in New York, Sandoval will lead business development for the insurance solutions practice in North America.

Northern Trust's insurance solutions practice provides integrating investment management and advisory services, middle and back-office operations, capital markets capabilities and portfolio management support.

Prior to Northern Trust, Sandoval served at BNY Mellon, where he was a senior relationship manager with asset servicing clients including traditional and alternative asset managers, banks, broker dealers and asset owners. He has more than two decades of experience in financial services, beginning his tenure with BNY Mellon in 1998.

Sebastien Sacre, chief operating officer of private capital fund services at Northern Trust, says: "Dean brings the right experience to this role and will make a difference, as private capital fund services continue to grow." ■

David Turmaine has joined Broadridge as UK practice lead for its consulting services division.

Based in London, Turmaine comes to Broadridge from Capco, where he was executive director with responsibility for promoting digital transformation in the financial services industry.

Turmaine will oversee the expansion of Broadridge's post-trade and digital asset consultancy business in the UK, Europe and Asia Pacific, building on the growth of this business in the US.

He brings more than 35 years of financial services consultancy experience to Broadridge, having previously worked at Accenture where he was subject matter expert for Accenture post-trade processing and, prior to this, was head of securities and prime brokerage operations at J.P. Morgan.

Broadridge managing director and head of professional services Uday Singh indicates that Turmaine's deep market knowledge, industry experience and expertise in driving digital transformation across global markets will be an important addition to the firm's UK practice.

"We look forward to working with David and are excited to execute his strategy to accelerate Broadridge's global consulting capabilities," says Singh.

Financial service company The Charles Schwab Corporation has appointed its current CEO Walter Bettinger as co-chairman of the Schwab board of directors, along with founder and co-chairman Charles Schwab.

Bettinger will maintain his current chief executive responsibilities and will also share responsibilities for

leadership of the board with Schwab. Schwab will continue to be actively involved in the firm's strategic direction and corporate governance.

Bettinger has served as CEO of The Charles Schwab Corporation and as a member of the board of directors since 2008. He also held the title of president from 2008 until 2021.

In addition to becoming co-chairman for the Charles Schwab Corporation, Bettinger will become co-chairman of the boards of the firm's banking subsidiaries: Charles Schwab Bank, SSB, Charles Schwab Premier Bank, SSB, and Charles Schwab Trust Bank.

Commenting on Bettinger's appointment, Schwab says: "Walt embodies the firm's belief in service and integrity and is an excellent steward of the business as both CEO and a member of the board. The board will benefit greatly from Walt's expertise and insight."

Sionic welcomes Anna Harris

Global consulting firm Sionic has appointed Anna Harris to the newly-created role of delivery lead for its asset management practice.

Harris has more than 25 years of experience working in the financial industry, with a particular focus on asset management, working with investment managers, service providers and pension schemes.

She joins the practice's management team as a director and will be responsible for the coordination and delivery of transformation and change initiatives across the practice's entire international client base.

Prior to Sionic, Harris served at National Grid UK, White Tower Consulting and asset management company Schroders.

Commenting on her new role, Harris says: "Accelerating Sionic's expansion while maintaining a clear and absolute focus on clients, and on quality, provides a fantastic opportunity to apply my expertise and experience in a fast-growing firm.

"Our aim is to help clients solve problems and achieve their goals by converting strategy into reality, using our wealth of industry and change experience alongside a robust delivery framework. I am excited to be joining such a highly regarded team, at such an important time."

Ashley Sheen, managing partner in the asset management practice at Sionic, comments: "Anna has an outstanding track record of designing and leading large scale global projects, covering all aspects of strategic change. Her experience as a programme leader in our industry leaves her well placed to provide valued perspectives, both internally and to clients." ■

BNP Paribas Securities Services has appointed Camille Papillard as head of financial intermediaries and corporates (FI&C) Europe, Middle East and Africa (EMEA).

In her new role, Papillard will be responsible for the go-to-market strategy, products and solutions for all FI&C clients in EMEA. Papillard, who was previously head of clearing and settlement products and custody sell-side solutions at BNP Paribas, will report to Bruno Campenon, head of the FI&C client line.

Prior to her time at BNP Paribas, Papillard was a team manager in the general inspection department at Societe Generale. ■

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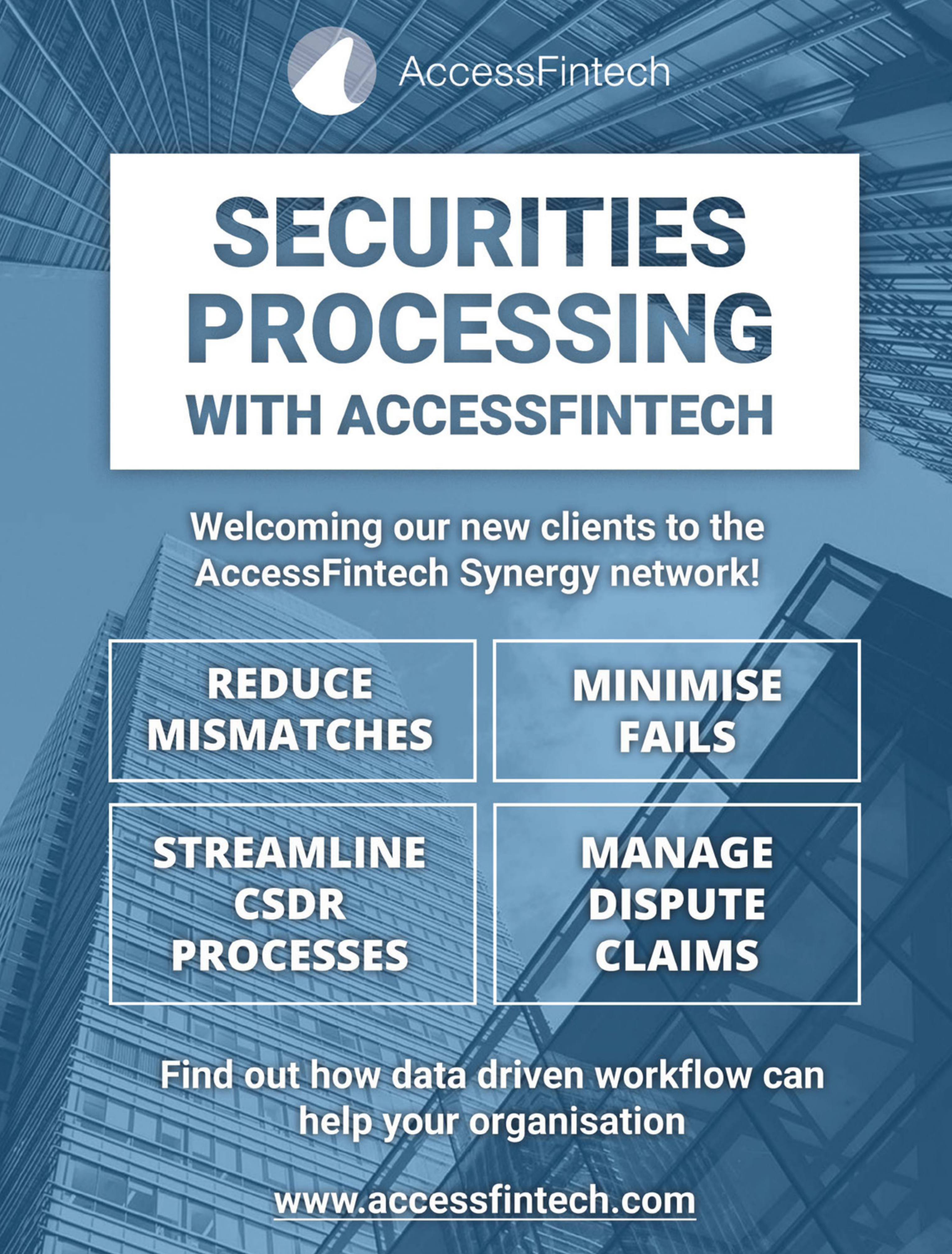
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