AST ASSETSERVICINGTIMES

ISSUE031
25.01.2012 WEDNESDAY
assetservicingtimes.com

Europe's sovereign downgrades taken in stride

LONDON 20.01.2012

The financial services industry has taken the recent wave of downgrades to sovereign bonds and the European Financial Stability Facility (EFSF) in stride, with commentators noting that the impact on the market had been priced in.

Commenting on the decision, Standard & Poor's noted that in their view, policy initiatives taken by European policymakers in recent weeks may be insufficient to fully address ongoing systemic stresses in the eurozone.

The credit rating agency lowered long-term ratings on nine eurozone sovereigns and affirmed the ratings of seven. However, the ratings on all but two of 16 eurozone sovereigns, Germany and Slovakia, are negative. Long-term ratings on Austria, France, Malta, Slovakia and Slovenia were lowered one notch. Cyprus, Italy, Portugal and Spain were lowered two notches, while the long-term ratings on Belgium, Estonia, Finland, Germany, Ireland, Luxembourg and the Netherlands were affirmed.

As far back as August 2011, analysts commented to AST that the markets were pricing in a downgrade of French bonds, of particular concern to financial services providers because they are commonly used as collateral.

"These changes were widely expected and came as little surprise to market participants. France did, however, retain the second-highest rating of AA+, against fears that it could have been moved two "notches" lower by S&P, and French bonds rallied slightly on the news," said Alan Wilde, head of Fixed Income & Currency at Baring Asset Management, adding that the euro by contrast weakened.

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SunGard has announced its platform, Front Arena, is selected by 5:15 Capital Management for trade processing, OTC derivative valuations, risk management and portfolio analytics.

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Europe's sovereign downgrades taken in stride

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The downgrades may still have profound implications, particularly as OTC derivatives trading is being pushed on exchange and in general large volumes of transactions are moving to a secured environment.

For now, the news has gone the way of the US downgrade. Speaking to AST's sister publication, Securities Lending Times, experts on the US markets remarked that though there was initial volatility, US debt continued to trade at AAA. Others pointed out that the impact had more to do with market participants questioning the significance, relevance and viability of credit rating agencies as the treasury market staged a rally in later months amid a flight to safety.

Still, markets have been warned. Unless solutions to historically high debt levels of sovereigns are found, expect further volatility.

Citi gets US "fund of hedge funds" mandate

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"We selected Citi to consolidate more of our business because we have been continually impressed by the depth of Citi's expertise with alternative funds and its broad range of administration, custody and capital markets capabilities," said Craig Carlson, CFO at Dorchester Capital. "With Citi, we know that we can draw upon deep bench strength to support our ability to innovate, bring new products to market and continue to grow our business."

As alternative investment continues to grow, investors are demanding greater transparency, more robust administrative support and a seamless combination of services. Citi's alternative fund of funds service platform helps clients to establish a more efficient, informed and effective investment process - from risk management tools, research, custody and middle office services to analytics and administrative reporting.

"We are very pleased to strengthen our relationship with Dorchester, who is a leading manager in the alternative space," said Bob Wallace, head of North America for Securities and Fund Services, Citi. "We look forward to continuing to support Dorchester's growth by delivering end-to-end fund of hedge fund solutions that help improve transparency and create cost and operational efficiencies."

SunGard's platform chosen by 5:15 Capital Management

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Front Arena is a cross-asset solution that provides trade capture, real-time profit and loss, position control and risk management capabilities for hedge funds and other alternative investment managers and financial institutions. It helps customers grow their businesses and better manage portfolio risk by helping establish more efficient operational procedures and controls.

Martin Boyd, president of SunGard's asset management business, said, "Today's economy, combined with increased competition and greater scrutiny from investors, is driving alternative investment firms to seek technology that can help them grow with improved efficiency and transparency. SunGard's Front Arena provides the automation, auditability and scalability to support the expansion strategies of hedge funds like 5:15 Capital Management."

Front Arena's open and extendable framework allows firms to add proprietary and external models and analytics to implement new trading strategies. It also allows managers, operations and middle office staff to view and manage portfolios, trades, profit and loss accounts and cash from the highest level as well as customise reports according to required criteria.

BNY Mellon picks up Van Eck ETF mandate

BNY Mellon has been selected to provide exchange-traded fund (ETF) services, custody, securities lending and fund accounting for the six new Market Vector Industry ETFs which recently launched.

The six new ETFs were offered to existing investors in the corresponding six Merrill Lynch-sponsored HOLDRs through separate exchange offers. This transition from HOLDRs is a first for the ETF industry, noted Joseph Keenan, managing director and global head of exchange-traded fund services at BNY Mellon Asset Servicing, adding that it illustrates the continuing changes in the ETF investment segment.

HOLDRs are Holding Company Depository Receipts, securities that represent an investor's ownership in the common stock or American Depository Receipts (ADRs) of specified companies in a particular industry. They are designed to offer investors a way to achieve exposure to a basket of stocks in a cost-efficient manner while preserving ownership benefits, such as voting rights, related to the underlying stocks, according to ETFdb.

"The ETF structure provides a more dynamic, diversified investment vehicle as it better reflects changes in the composition of industry sectors that inevitably occur over time," said John Crimmins, VP, portfolio administration at Van Eck. "This was a unique transaction, and we are pleased that BNY Mellon had the expertise and depth of service required to assist investors who transitioned from the HOLDRs to the ETFs."

BNY Mellon's Depositary Receipts group has acted as the trustee for the HOLDRS baskets since the inception of the product in the late 1990s. BNY Mellon Shareowner Services was the exchange agent for the six exchange offers.

Citi GTS net income down 11% in Q4 2011

Citigroup's transaction services net income fell 11 per cent, to $776 million, in the fourth quarter of 2011 versus the same quarter last year on the back of narrow spreads and widening expenses. A 14 per cent increase in operating expenses to $1.5 billion reflected investment spending, severance and legal and related charges. Compared to the third quarter of 2011, net income fell 13 per cent.

Regionally, Latin American operations saw the biggest drop in revenue of 7 cent to $411 million quarter-on-quarter, while revenue in Asian operations increased 3 per cent year-on-year to $748 million, still a 1 per cent drop from the previous quarter. EMEA saw a 4 per cent drop to $858 million and North America dropped 3 per cent to $604 million when compared to the previous quarter. Year-on-year the two regions saw a lift of 2 per cent and 3 per cent respectively.

Transaction Services revenues were $2.6 billion, up 2 per cent from the prior year period, driven largely by 7 per cent year-on-year growth in Treasury and Trade Solutions (TTS), which was partially offset by a 10 per cent decline in revenues in Securities and Fund Services (SFS).

TTS revenue growth reflected strong growth in average assets, while the decline in SFS revenues reflected lower volumes, reduced spreads and the impact of foreign exchange.

Transaction Services average deposits and other customer liabilities balances grew 4 per cent year-on-year to $368 billion, and assets under custody fell 1 per cent to $12.5 trillion. The decline in assets under custody was largely related to the impact of foreign exchange.

Overall, Citigroup net income was down 11 per cent to $1.2 billion compared to the previous quarter although full year net income did rise.

Vikram Pandit, Citi's CEO, said, "Overall, we made solid progress in 2011. We increased our net income to $11.3 billion, up 6 per cent from the previous year, and reached key benchmarks in our consumer businesses, showing our strategy is achieving results. Clearly, the macro environment has impacted the capital markets and we will continue to right-size our businesses to match the environment. With Citi Holdings assets at 12 per cent after the transfer of retail partner cards to Citicorp, we are increasingly focused on driving earnings through our core franchise and beginning to return capital to our shareholders this year."

The majority of the revenue decline in 2011 was driven by the ongoing reduction in Citi Holdings assets, to the tune of $90 billion during the year

to come in at $269 billion. Citi Holdings 2011 revenues declined 33 per cent to $12.9 billion. Citicorp revenues for 2011 were $64.6 billion, down 2 per cent, or $1 billion, from 2010 as revenue growth in Regional Consumer Banking (RCB) and Transaction Services was offset by declines in Securities and Banking revenues.

Deutsche Bank gets ADR mandate with BG Group

Deutsche Bank has announced its appointment as depositary bank for the Level I American Depositary Receipt (ADR) programme of BG Group, an LNG exploration and production company headquartered in the UK.

Akbar Poonawala, head of Global Equity Services at Deutsche Bank said, "We welcome BG Group's decision to transfer its ADR programme to Deutsche Bank's depositary receipts platform. Our broad range of customised services will be used to assist BG Group in enhancing the visibility of its ADR programme with the United States investor community."

The mandate was transferred from J.P. Morgan, according to a source familiar with the matter.

Misys gets Strategic with RM system

Misys has announced its Sophis VALUE system has been selected by Strategic Investment Group for cross-asset trading and global risk management.

Sophis VALUE provides Strategic, founded in 1987 by the former World Bank senior pension team, with a single system to oversee their diversified positions with external managers, as well as their direct investments. The asset manager will use Sophis VALUE for front-to-back transaction processing, holistic global risk management and investment accounting.

"As our business continues to expand and global markets evolve, we need a comprehensive platform that can manage all of our externally and internally managed investments across asset classes," said Carol Grefenstette, founding partner and CFO of Strategic. "Sophis VALUE not only addresses the various needs of our portfolio managers, operations staff and risk managers, the solution also has the flexibility to adapt to our specific business processes. Sophis VALUE provides us with a single, configurable system that will keep up with our growth. We look forward to working with the Misys team as our portfolios evolve."

The system is a fully integrated cross-asset solution for investment management that leverages STP to handle the complete trading life cycle from portfolio management to middle and back office operations, to risk management and compliance. It combines sell side level financial and technological capabilities with the user-friendliness, modularity, connectivity and ease of implementation required by buy side players from start-up hedge funds to global asset management companies.

Olivier Vinciguerra, COO for Misys Sophis North America, said, "We are seeing an increased shift in asset managers moving from a best-of-breed approach for all system components, to a consolidation of business functions by using a one-stop solution to help reduce operational risk and minimise architectural complexity. We are constantly improving our offering to investment management firms, such as Strategic, with continuous investments into new components of Sophis VALUE."

ADVA delivers data security technology for German IT provider

ADVA Optical Networking has announced that Finanz Informatik Technology Service (FI-TS) is using its data security technology to connect data centres in Frankfurt's metropolitan area. The FSP 3000's encryption technology securely transports and monitors mission-critical data for FI-TS' customers in the finance sector.

The technology improves network efficiency and simplifies network control while reducing power consumption and data center space requirements. "The FSP 3000 provides integrated encryption technology based on internationally accepted standards for an excellent price-performance ratio," said Stephan Rettenberger, VP Marketing at ADVA Optical Networking. "We have worked on successful data center interconnection projects with FI-TS since 2000 and are proud to take this step together into the next generation of secure and efficient data transmission."

The FSP 3000 is a scalable Wavelength Division Multiplexing (WDM) system specifically designed for large enterprises and service providers that require a flexible, cost-effective system that will multiplex, transport and protect high-speed data, storage, voice and video applications over fibre optic networks.

TriOptima compresses $62tr in OTC derivatives

TriOptima has eliminated $62 trillion in notional principal outstanding for both interest rate and credit default swaps in 2011.

This kind of portfolio compression is achieved using the company's tool for maintaining post trade processing efficiency, triReduce. Portfolio compression is one of the tools that global regulators have identified as effective in reducing counterparty credit risk.

"We developed a strong partnership with LCH SwapClear and its members that resulted in significant terminations of cleared interest rate swap transactions," said Peter Weibel, CEO of triReduce. "In some months, like October, we actually eliminated more existing interest rate swap notional principal from the clearinghouse than the aggregate notional of new trades submitted to clearing during the same period. We are working to sustain these results in 2012 within the clearinghouse while continuing our expansion in non-cleared currencies around the globe."

The record-breaking figure includes $56.4 trillion in interest rate swap notional principal of which $48.3 trillion were cleared swaps in LCH SwapClear, and $5.6 trillion in credit default swap notional principal. This represented a 14 per cent increase over 2010 levels overall, and a 23 per cent increase in interest rate swap terminations.

European insurers at risk of Solvency II non-compliance

A new study from Intedelta and BNP Paribas shows that firms have made some headway towards the Solvency II directive's requirements, but embedding risk governance into the business is lagging.

The survey of European insurance companies measured firms' progress towards delivery of the Solvency II directive's requirements, while identifying particularly challenging areas that threatened compliance.

Data requirements stipulated by Solvency II are extensive, spanning enterprise, portfolio and reference data typically housed on a multitude of systems within both the insurers and their suppliers' organisations.

According to the study, a significant reliance on third parties for data, sophisticated risk modelling requirements and obtaining sufficiently detailed fund data were among the challenges identified by European insurers in order for them to meet Solvency II requirements, which are effective beginning 2014.

57 per cent of respondents reported a significant dependence on third-parties for risk modelling and other critical data requirements. Challenges such as sourcing data of sufficient granularity for certain funds and products were reported while 80 per cent identified affiliated and third-party fund managers as key data dependencies.

In addition, 60 per cent of insurers were yet to address the directive's disclosure requirements around public and regulatory reporting, anticipating that these will continue to develop. While most perceived these requirements to be straightforward, many acknowledged that the scale of input presented a significant challenge within the deadline.

Commenting on the research, Maxime Gibault, head of insurance companies at BNP Paribas Securities Services said, "While insurers have made a lot of progress towards gathering the quantitative requirements for Solvency II, the industry must now urgently address the directive's risk management and reporting requirements.
"New data traceability processes, additional data governance and new criteria for mandate reporting were all identified as being of critical importance to insurers. Yet, each of these ap-


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pears challenging for some insurers that hold assets with third party managers, or those that hold externally-pooled funds requiring look-through reporting.

"What is clear is that insurers must re-engage with their asset managers over Solvency II in order to be compliant by 1 January 2014."

Respondents also noted that the implementation of Solvency II is a major cultural change, for example, embedding risk management at all levels and day-to-day processes, but it is also better business management.

J.P. Morgan WSS posts $971 million revenue in Q4 2011

J.P. Morgan Worldwide Securities Services (WSS) net revenue was $971 million, an increase of one per cent compared with the year previous. Compared to the previous quarter, net revenue was up three per cent.

Overall, Treasury & Securities Services (TSS) net income was $250 million, a decrease of $7 million, or three per cent, from the prior year. Compared with the previous quarter, net income decreased by $55 million, or 18 per cent, primarily driven by higher Global Corporate Bank credit allocation expense and provision for credit losses.

TSS reported record deposit balances, up 28 per cent for 2011. Assets under custody came in at $16.9 trillion, up five per cent year-on-year.

Firmwide, J.P. Morgan reported net income of $3.7 billion for the fourth quarter of 2011, compared with $4.8 billion for the fourth quarter of 2010, a drop of 23 per cent.

Commenting on the results, Jamie Dimon, chairman and CEO of J.P. Morgan, said, "The firm's returns on tangible common equity for the fourth quarter of 2011 and the full year 2011 were 11 per cent and 15 per cent, respectively. We believe these returns were reasonable given the environment, although the return for the fourth quarter was modestly disappointing."

SocGen gets Repsol mandate

Societe Generale Securities Services (SGSS) has been mandated by Repsol to provide administration services and act as agent bank and settlement provider for the Spanish global energy company's employee stock plans.

SGSS was first selected in May 2011 to provide a global administration solution for the Repsol Executive Stock Plan. In October 2011, SGSS was selected again by Repsol but in this case to provide agency and settlement services for Repsol Employee Stock Plan.

Asset Control gets direct access to DTCC for CA

Asset Control has integrated DTCC's corporate action service into its data management solution as standard functionality. The integration offers Asset Control clients direct connectivity to DTCC's pre-validated corporate actions data to remove financial risk and inefficiency associated with manual operations.

Phil Lynch, CEO of Asset Control, said, "Following the global financial crisis, corporate actions data has increased in volume and complexity and because of this, it is one of the last sectors in the data management space to be automated. Investors and regulators no longer have the palette for manual processes, especially with such tight scrutiny on cost and operational risk.
"Inefficiently managing your corporate actions data is no longer an option, as it has an increasing number of touch points in the trading life cycle. The partnership with DTCC Solutions will help clients achieve a consolidated view of corporate actions data alongside other types such as pricing or reference data," he adds.

DTCC's feed provides access to pre-cleansed corporate actions data for all downstream processes. The interface allows clients to populate their in-house repository and link to various other data types, including instrument and pricing data.

Dan Thieke, VP Product Management from DTCC, said, "Although corporate actions data has always been important for the back office, firms are quickly beginning to realise that front office visibility can enhance trading strategies and improve portfolio pricing. By partnering with Asset Control, we are also giving our clients greater transparency of where their data is stored, improving its traceability and manageability."

BNY Mellon launches P&RA mobile app

BNY mellon is introducing a mobile dashboard application for its performance and risk analytics services offering.

The mobile app will deliver investment risk, results and exposure data to client iPads to view portfolio and bench market information such as daily and historical returns, top 10 positions and the top five overweight and underweight positions.

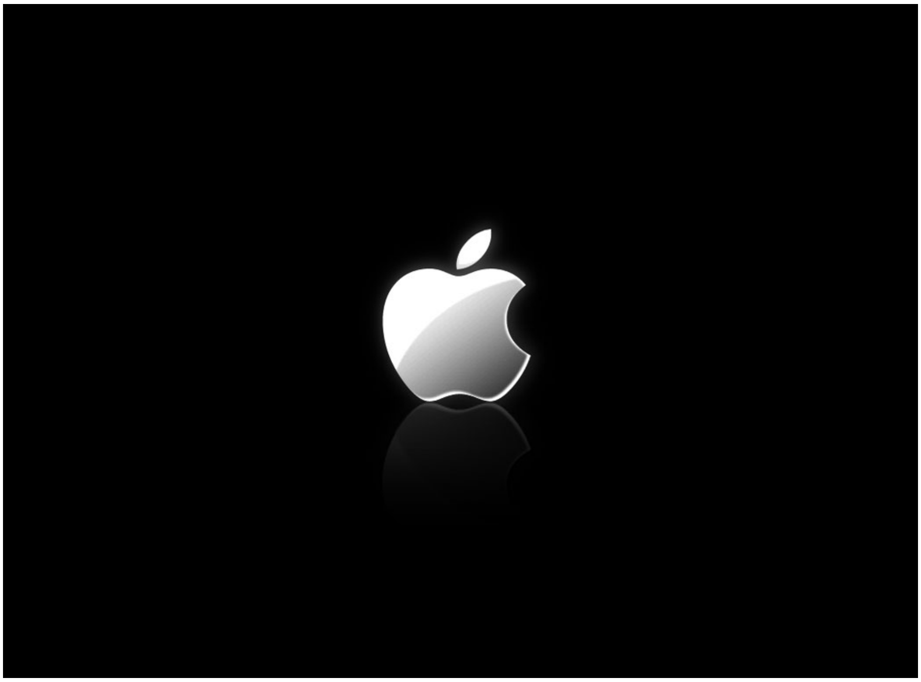
"As the need for instant information swells, we continue to integrate our products and services into more convenient, customisable views," said John Gruber, managing director, global product strategy for BNY Mellon Asset Servicing's Performance & Risk Analytics group. "The new P&RA Mobile Dashboard gives plan sponsors and fund managers true on-the-go and highly useful information about their investments' performance, exposures and allocation."
Results can be viewed as line or bar charts, or in tabular data format. Other features include filters to review investment returns by major asset class, as well as gross or net of fees. Additional views are scheduled for delivery in early 2012

Abacus "orchestrades" cross asset processing

Abacus and Orchestrade have partnered to integrate a full cross-asset platform and risk monitoring systems for hedge funds. This will allow hedge funds to measure and monitor real time P&L, positions and risk while managing the full trade life cycle.

Richard Ferrari, VP Business Development of Orchestrade, said, "We believe that with the increased pressures of regulatory compliance and greater transparency to their investors, hedge funds need more than ever robust systems to help them. Until now the choice has been limited to older legacy systems but these have proven to be to cumbersome, complex and costly for the vast majority of fund managers."

Orchestrade has worked closely with Abacus to make its full cross asset platform available on the AbacusFLEX platform, enabling hedge funds of all sizes to quickly and easily start using the system.



Chris Grandi, CEO of Abacus, said, "By offering Orchestrade through AbacusFLEX, hedge funds will be able to access this industry first solution in an efficient, cost effective manner."

Quintillion updates certification to ISAE 3402

Quintillion has completed its ISAE 3402 Independent Service Auditor's report.

The certification checks for proper controls in areas such as fund accounting and investor services, client boarding and investment operations as well as data access, security, backup and change management. It was completed by Deloitte.

Linda Gorman, COO of Quintillion said, "As investor and manager expectations continue to focus more closely on the existence and substance of robust controls, we are delighted to obtain this certification".

The hedge fund administrator was previously certified under SAS 70 Type II.

State Street adds Form PF for US regulatory compliance

State Street has added regulatory reporting capabilities to help advisers comply with new SEC rules impacting hedge, private equity, liquidity and other private funds.

Private fund advisers will be required to adopt Form PF reporting in 2012 in order to comply with the Dodd-Frank Act. Form PF is intended to provide investor protection when filed with the SEC or to assess systemic risk when sent to the Financial Stability Oversight Council (FSOC), a new body established under the Act and chaired by the US secretary of the Treasury.

"Our goal is to provide our clients with new products and functionality to automate reporting and comply with changing regulatory requirements," said George Sullivan, executive vice president and head of State Street's alternative investment solutions group. "Clients can leverage our infrastructure and capabilities to help alleviate the administrative challenges they face and focus instead on growing their core business."

BATS Chi-X Europe launches 4-way IO clearing

BATS Chi-X Europe are the first trading platforms to launch four-way interoperable clearing. The service allows BATS Europe and Chi-X Europe participants to choose from EMCF, EuroCCP, LCH.Clearnet and SIX x-clear to clear their trades except in Spain and for ETFs.

Mark Hemsley, CEO of Chi-X Europe, BATS, said, "This launch is the culmination of effort by BATS Europe and Chi-X Europe, as well as the CCP, to bring about a competitive clearing model to further reduce costs associated with post-trade European equities. We continue to encourage our participants to demand clearing choice from all exchanges and MTFs."

BATS closed the acquisition of Chi-X Europe at the end of November last year and the two trading platforms now account for 25.4 per cent combined market share of European equities trading in December, making BATS Chi-X Europe the largest European securities market operator.

Brazil's clearing hurdles

Faced with pressure from trading venues seeking access to the market, Brazil may have to find a solution to open up its clearance and settlement system

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Though Brazil's central regulator has publicly supported competition and BM&FBovespa (BVMF) has courted electronic and high frequency trading, major potential stumbling blocks exist related to clearing and settlement.

Prior to the mid-1990's, changes in the Brazilian payment, clearing and settlement systems were aimed at increasing the speed of financial transaction processing. Then, in 2002, the focus shifted to risk management. As a result of those reforms, Brazil now has a national payment system with features such as same day settlement of large-value funds transfers and securities clearing and settlement systems in relatively short cycles, real-time or T+1 for government securities. In addition, all clearing and settlement systems settle in central bank money and DvP is observed.

In terms of safety, Wagner Anacleto, COO of Cetip, the Brazilian post trade services group, says that services in the country are considered state of the art. Cetip provides an organised OTC market for fixed income securities and derivatives and is the largest CSD in Latin America .

He explains that a central counterparty (CCP) is used for most derivatives, stocks and interbank foreign exchange transactions and almost all OTC derivatives and securities transactions must be registered in a centralised system. Straight through processing is extensively used.

"There is a lot of investment in post trade in Brazil, that is one of the reasons why it is so difficult for new entrants to build the same type of solution we offer. The regulators want to have competition but do not want to downgrade the level of service," he says. "If you look at it from the point of view of beneficial owners, it is hard to find any other country where you can settle a transaction on the same day."

At the same time, the recent rapid growth of high speed trading has not had an impact on the fixed income market, Anacleto admits. Still, even in this space, trading infrastructures are being improved upon. Cetip is upgrading its electronic platform because they are anticipating that the fixed income market in Brazil will experience rapid growth and is soon set to announce a US-based partnership.

Underlining foreign interest in post trade services in the country, IntercontinentalExchange (ICE) bought a 12.5 per cent stake in the Group last year.

Competition conversation

The major challenge for new competitors, particularly in the equity market, is access to post trade services. Both Direct Edge and BATS have announced plans to enter Brazil's market, but BVMF leadership has not given any indication that it would allow direct competitors access to its clearance and settlement system.

"Right now, new competitors need to build a post trade solution in order to have authorisation to enter the Brazilian market and there is a big discussion around this, it is not like in the US where DTCC offers services for any new entrants in the equity market. It is difficult time for players wanting to enter into the Brazilian market in a short period, for now they need to build their own infrastructure or they must go to BVMF and make some kind of agreement for clearing," Anacleto says.

Although the Brazilian regulator, Comissão de Valores Mobiliários (CVM), is working on a new regulatory framework for CSDs, the focus is on segregating activities for custodians, CSDs, depositors and entities registering assets. It is not currently focused on making it mandatory to provide clearing for competitors. At the same time, CVM is looking into international recommendations for the best environment for the equity market and whether it is the right time to issue regulation to provide a facility for competitors.

"New entrants do not realise how complex the post trade environment is. For example, the transaction in the depositary must be allocated to the beneficial owner, it has to be done at this level for clearing purposes, outside of Brazil you clear the transaction in the name of the broker. Also, Brazil is very strongly regulated for clearing and depository services. Competitors need to go and look carefully at what is the regulation put in place," says Anacleto.

Right now, new competitors need to build a post trade solution in order to have authorisation to enter the Brazilian market

In a recent report, Instinet remarks that the efforts to attract new market players may bear fruit in creating volume, but the critical component of clearing costs is likely to remain unaddressed in allowing true competition without enforced interoperability. Meanwhile, some equity market observers have noted that the back office system in Brazil has failed to keep up with the fast pace of trading resulting in hedging activity exposing investors to the market.

BVMF did not respond to requests for an interview for their clearing and settlement business in time for publication.

Australian experience

Some years ago the Australian regulator, the Australian Securities and Investments Commission (ASIC), started paving the way for competition in the equity trade execution space. This led the way for Chi-X Australia to enter the market in late 2011.

Commenting on the process, Rohan Delilkhan, general manager of business development for Clearing and Settlement at ASX Clearing Corporation, says regulators recognised that opening up to competition required an assessment against existing structures for the benefit of users.

"ASX has made a decision to facilitate cooperation and work with regulators and Chi-X. We have a vertically integrated exchange but we have moved to create a horizontal structure within so that we can provide services to customers of companies that are competing with us on other levels. We don't want to be obstructing a potential benefit to our users, so we have structures, including legal structures in place on how best to achieve that," he says.

From the perspective of countries facing the same challenges, Delilkhan notes that aside from the prohibitive costs associated with setting up a separate clearing house for competitors, such a strategy can also introduce systemic risk.

"The structure that is forming in Europe, which is essentially competitive interoperability, took a long time to achieve, there are enormous complications and substantial additional costs to clearing houses. They have to create a separate default fund to mutualise risk. Regulators are cautious about trying to achieve an appropriate structure. But what is driving that model in Europe is a unified single market objective but in Australia we already have that, we aren't connecting to other markets under the same structures as in Europe. You have to ask, do the benefits [of setting up more clearing houses] outweigh the costs?

"We have indicated to regulators that we agree with the view that what is important is that the default fund and the collateral associated with Australian transactions remain in Australia so that systemic risk can be managed domestically and participants are not subject to an offshore-based regulator in a distressed market or crisis market situation," he adds.

Event-driven emergence

AST speaks to SAS' team to get their bird's eye view of emerging models for risk management

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SAS is positioning itself as a global market leader in analytics. The firm has a 12,000+ strong team around the world and though they have solutions for a wide variety of sectors, financial services represent a large part of their business. Their customers in the risk management space are major tier 1 banks and insurers and some 140 clients are using their Basel II solution.

SAS' business analytics offerings aim to provide fact-based answers that organisations can rely on as decision-makers are waking up to the fact that traditional approaches to decision support have not yielded optimal results.

To get a view on the changing nature of risk management in this space, AST catches up to Duncan Ash, industry manager, Financial Services and Dale Stevens, head of Capital Markets, UK.

AST: What differentiates you from some other vendors providing risk management solutions?

Duncan Ash: Some of our solutions are built around event-driven models and can be deployed in a way that takes advantage of existing systems. You don't have to rip anything out. The real-time solutions are deployed in a supervisory capacity and sit above everything else going on and so are able to listen to all the different things that are happening. We do offer overhauls, it depends on the level to which our clients want to participate. For example, if it was a brand new bank, we could provide them with an end-to-end risk management infrastructure, however, there are rarely any new banks so we generally get called in to deal with just the particular area they want to look at; whether it is driven by regulation or by the need to be more competitive.

AST: Investment in technology has been mismatched between the front and back offices. Do you see this changing more in favour of the back office?

Dale Stevens: What has been driving our solution framework that we are bringing to the market is the desire of the risk management team to push risk down into the front office systems and almost to disintermediate the middle office, take the middle office out of the equation if you will. We see far more of an interlinkage between back office and front office developing. Back office is having to get the figures out a lot more quickly, while the front office needs to do all the pre-trade analytics, all the risk assessments while getting a much better view of their overall risk. We see a lot of demand now to harmonise the figures from the company's financials with those used for risk management systems. There is a big driver to make those the same, to date they have not been, because they close their books differently and use different measures. So in that partnership the back office is starting to adopt real time solutions, which is the only way they can genuinely keep up with the fast and furious nature of the front office trading systems. These technologies are not pushing right down to the microsecond, although they can run at that speed, the problems we are looking to address are much more on a second by second view of the market.

AST: How is the middle office being disintermediated?

Stevens: For the banks and investment shops that we are talking to, they want a much better view of what has traditionally been done in the middle office. For example, there is greater demand for trade reconciliation to happen in the front office, in real time. It used to be that one could do a trade and then throw it over to the middle office and let them reconcile it and then just deal with the exceptions at the end of the day. That is no longer acceptable and it now has to be done during the trading day. So the front office is having to take on a lot more of those traditionally middle office functions. The back office is much more interested in what the front office is doing and can't really wait for the middle office and now is demanding access to all of the real time figures. So the middle office, which was much more of a batch processing service oriented function, is going away. At least for the banks we are talking to.

AST: What do you see happening at the board level to move away from "silo" mentality?

Stevens: If you look at the drivers at the board level, they want a much more joined up view and the way they are expressing this, in a lot of cases, is through this risk appetite framework we have been speaking about. Traditional VaR measures are no longer adequate, they simply don't give the level of granularity or dimensionality to the actual value at risk. So in setting up an appetite framework they are bringing together the needs of the back office and the needs of the front office into a single dashboard where both will have inputs. For example, the liquidity funding piece would tend to be driven much more from the back office perspective while the trade compliance and the capital utilisation piece could well be driven by the front office. That is how we see businesses bringing them together. Operationally, they won't be brought together at the desk level, for reasons like rogue trading and compliance, but once you get to the business unit level, boards want to see a much more joined up message.

AST: How do you see the next year unfolding with investment in this kind of technology?

Stevens: I see three major factors pushing investment; one is a much more holistic view of risk across all of the risk types: liquidity, credit, operational. The second piece is the reaction of regulators, because there is going to be a very heavy load of regulation coming down the pike and people will have to respond to it. And then I think just the natural market turmoil. Everybody is risk off at the moment. If they are going to make money, they will have to become risk on again. So for those companies that do make it through this turmoil in good shape, mid-year will absolutely be risk on and banks will need to go to a real-time model.

AST: What challenges do your customers face?

Stevens: I think it is around the data integration piece. It is actually moving the organisation from a batch type model to an event driven model that manifests itself at the trading desks. A lot of traders will do trades and book them and then hedge them, booking the hedges later in the day because they know they won't have to reconcile them until the end of the day. That type of behaviour, which could potentially expose a bank quite significantly, is not going to be tolerated or is not going to be acceptable. The whole trading infrastructure and operation will have to move to an event driven methodology and process. That will require a lot of banks to completely refresh or reappraise the way they do their infrastructure.

AST: Are the challenges rooted in the costs to upgrade or in ingrained cultural attitudes?

Stevens: It is a bit of both. Definitely there will need to be a change in mentality. Of course there are costs associated with changing systems. But if you look at those systems that are no longer able to support, or were never able to support, an event driven model, which are typically legacy systems, some banks have been trying to pension them off for 15 years and I think they will now get pushed to do so.

> One of the big challenges is defining the end of the day. What is "end of day" in a global context in a trading operation?

One of the big challenges is defining the end of the day. What is "end of day" in a global context in a trading operation? You can no longer afford to take the system down for hours. What many companies are doing at the moment is they are still silo'd - so London has its end of day, but then you will find that Tokyo is opening up before London has closed its day, so Tokyo will have to run on its own risk figures. That is starting to impact the whole ability of the operation to do things like holistic risk modelling, which they absolutely need to do. They will have to answer the question - how do we shorten the end of day so that we can close out the books for reporting without impacting the 24/7 or 20/6 trading operation?

AST: What are the advantages of intraday reporting as opposed to end of day reporting?

Ash: End of day reporting shows you the position you are in at the end of the day, but it does not tell you how you got to [that] point during the day and when traders have [been] set limits, which are set at the beginning of the day, they often do things during the day which create exposures way higher than their management would necessarily be happy with. They know that as long as they close those positions out at the end of the day they look good, but what happened during the day may tell a different story. So by having continuous reporting, you are able to see what all the intraday movements are and potentially pick up any intraday gaming or unscrupulous activity that may be going on. Things like going above your limits or way above your limits, knowing you will go below them by the end of the day is just a way of gaming the system and taking more risk. What is the point of having those limits there in the first place if people will just go and do what they want?

2012

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The 18th Annual International Beneficial Owners' Securities Lending Summit

Location: Phoenix, AZ
Date: 29-31 January 2012
www.imn.org

The 18th Annual International Beneficial Owners' Securities Lending Summit details to follow

6th Clearing, Settlement & Custody Asia Forum

Location: Singapore
Date: 21-22 February 2012
www.clearingcustodyasia.com

Informa Finance's 6th Clearing, Settlement & Custody Asia Forum continues to be ahead of the markets, providing attendees with a preview of the challenges ahead, regulatory updates and latest approaches in managing risks. With a history of open and frank discussions, attendees will be exposed to best practices in risk and collateral management in order to increase efficiency in their daily work functions

ITAS 2012 International Transfer Agency Summit

Location: Luxembourg
Date: 29 February - 1 March 2012
www.informaglobalevents.com

Last year, the 10th Anniversary of ITAS saw 250+ attendees at the event. The positive feedback led all involved to declare it a resounding success in terms of catching up with business partners, listening to and debating with some of the leading figures in this industry, and having great fun at the evening functions. Already there is great anticipation in the market for coming along to ITAS 2012.

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Location: Taiwan
Date: 6-8 March 2012
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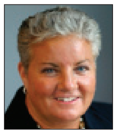
Chief Operating Officer
ING INVESTMENT MANAGEMENT LUXEMBOURG S.A.



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Outsourcing Transfer Agency

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Industry appointments

Minerva Trust and Corporate Services has appointed **Brian Lee** as group managing director. Lee is a chartered accountant who qualified with Deloitte and was most recently the managing director of IFG, a fiduciary business in the Isle of Man.

He was also the managing director of Allied Irish Bank's wealth management business, with responsibility for its UK and offshore operations and has over twenty years of experience in the international and offshore market place in Jersey, the Isle of Man and the US. Lee will be based in Jersey.

3d Innovations (3di) has tapped **Roderick Manzie** as COO of the data management consultancy. Manzie joins the Board and will manage the legal, commercial and financial aspects of the company to build an infrastructure for growth. The appointment marks a point of significant growth for 3di, as it prepares for the continued rapid market adoption of its Profiler and Data Compliance and Dependency Management (DCDM) market data solutions through 2012.

Manzie is a market veteran. Co-founder of MSB Consultants in 1990, he was responsible for finance, commercial and administration from startup mode to the firm's ultimate multi-million pound sterling acquisition by New era of Networks (NEON).

Northern Trust has appointed Belinda Burgess as head of the Nordic region to replace Madeleine Senior, who has been appointed as head of sales for EMEA.

Madeleine Senior was appointed to lead Northern Trust's development in the Nordic region when it opened a branch office in Stockholm, in September 2009. In 2011, the office extended its asset servicing offering to include asset management products and services for clients across the region. In her new role, she will be based in London and report to Wilson Leech, CEO for Northern Trust in EMEA.

Replacing Senior, Burgess will be based in Stockholm, responsible for managing the growth and development of Northern Trust's business activities across Sweden, Finland, Norway and Denmark. She reports to Penelope Biggs, head of the Institutional Investor Group for EMEA, and will work closely with John Krieg, managing director of Northern Trust's asset management business in EMEA.

The Latvian parliament has approved the appointment of **Kristaps Zakulis** as chairman of the Financial and Capital Market Commission (FKTK). He replaces Irena Krumane, who resigned in December.

In February, FKTK will have to look for a new council member to replace Janis Placis, who tendered his resignation in late November last year, Zakulis told Baltic News Service, adding that at first the watchdog will look for suitable candidates to the post among its finance minister Andris Vilks and Bank of Latvia governor Ilmars Rimsevics.

FINRA has announced that **Gregory Fleming** was elected as large firm governor on its board. He is president of Morgan Stanley Smith Barney and of Morgan Stanley Investment Management.

Fleming fills the seat vacated by Sallie Krawcheck, former president of Global Wealth & Investment Management, Bank of America.

The Conifer Group has announced the appointment of **Howard Eisen** to join its Securities sales team as it expands its client base to include alternative asset managers of all stripes. Eisen will be based in New York and comes to the role with more than 15 years of experience in prime brokerage and capital introduction at investment banks such as Goldman Sachs and UBS. Prior to joining Conifer, Eisen was the co-founder and managing director of FletcherBennett Group, a capital raising and consulting firm that works closely with the hedge fund community.

His appointment comes as the fund administrator is experiencing increasing demand, particularly from large hedge fund managers, for its growing suite of services, namely its new cloud-based asset servicing solution, Conifer iCon.

TriOptima has appointed **Ken Nishimura** as head of TriOptima Japan to manage operations in the Tokyo office and the continuing expansion of the ICAP company's client relationships in Japan.

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Published by Black Knight Media Ltd
16 Bromley Road, Beckenham, Kent,
BR3 5JE, UK

Company reg: 0719464

Nishimura has extensive experience in the Japanese financial and corporate markets and was formerly director of Advantage Partners Group and worked in business development and risk management at GE Capital Japan. He also served in various roles at Normura Securities and Nomura International focusing on the swap and structured product areas.

Yutaka Imanishi, CEO of TriOptima Asia Pacific and to whom Nishimura will report, said, "Ken is an excellent choice to lead our continued growth with clients in Japan. As the regulatory environment changes and the business changes with it, Ken's experience in the markets will guarantee his ability to meet the challenges that arise and to help clients adapt as well."

Since the opening of the Tokyo office in 2009, TriOptima has witnessed significant growth in the participation of both Japanese and global financial institutions in its core services, triReduce for portfolio compression and triResolve for counterparty exposure management and portfolio reconciliation. **AST**