



Barclays fails to keep assets safe

Barclays has been fined nearly £38 million by the UK FCA for failing to properly protect clients' custody assets worth £16.5 billion.

This is the highest fine ever imposed by the FCA for client asset breaches, which reflects "significant weaknesses" in the systems and controls in Barclays's investment banking division between November 2007 and January 2012.

Because of these weaknesses, clients risked incurring extra costs, lengthy delays or losing their assets if Barclays had become insolvent.

David Lawton, FCA director of markets, said: "Safeguarding client assets is key to maintaining market confidence if firms fail—Barclays's lack of focus on the rules was unacceptable."

"Our on going scrutiny of firms' compliance reflects the important of the regime, which protects custody assets worth £10 trillion held in the UK."

The FCA's rules protect client assets in case a firm becomes insolvent. Barclays failed to properly apply these rules when opening 95 custody accounts in 21 countries.

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Euroclear and SIX partner for Swiss clients

SIX Securities Services and Euroclear Bank have joined forces in to provide more cost- and risk-efficient fund services to Swiss investors.

Under the agreement, SIX and Euroclear are bringing together order routing and unit settlement onto a single platform for all types of fund transactions. This will give clients an enhanced service quality and processing efficiencies.

In addition to this, specialist hedge fund know-how and experience as well as integrated reporting for all asset classes will be on offer to clients.

Mutual clients of SIX and Euroclear will benefit from market proximity, with SIX covering primarily Swiss market securities and clients, combined with Euroclear's global network of more than 500 transfer agents.

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DTCC and FS-ISAC tackle cyber threats

A joint venture has been created between the Financial Services Information Sharing and Analysis Centre (FS-ISAC) and DTCC to develop automation solutions that advance cyber security capabilities and the resilience of critical infrastructure organisations.

The Soltra Edge solution delivers software automation and services that collect, distil and speed the transfer of threat intelligence from many sources to help safeguard against cyber attacks.

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Records of the accounts did not correctly reflect which company within its investment banking division was responsible for the assets in the accounts and Barclays also failed to set up the appropriate legal arrangements with the accounts.

In addition to these failings, account naming or incorrect data suggested that the account assets belonged to Barclays instead of its client.

These failings breached the FCA's Client Asset Rules and requirements that firms should have adequate management, systems and controls (Principle 3) and properly safeguard clients' assets (Principle 10).

Tracey McDermott, FCA director of enforcement and financial crime, said: "Barclays failed to apply the lessons from our previous enforcement actions, numerous industry-wide warnings, and exposed its clients to unnecessary risk."

"All firms should be clear after Lehman brother that there is no excuse for failing to safeguard client assets."

By agreeing to settle at an early stage, Barclays avoided the full penalty of £53.9 million.

Collateral management solution for LCH.Clearnet

LCH.Clearnet has successfully implemented the Calypso collateral management solution to its collateral and liquidity management offering.

With this solution, LCH.Clearnet is able to deliver further processing efficiencies with automated, real-time collateral management options.

Calypso's collateral management solution give collateral managers access to automated, real-time management of liabilities, a consolidated view of member collateral assets facilitated in a streamlined margin call process, and full support for cash management and treasury services.

By using Calypso's solution, LCH.Clearnet has been able to replace a vendor package in the front-office and an in-house legacy platform in the back-office.

Charles Marston, chairman and CEO at Calypso Technology, said: "Successful implementation of the Calypso platform at LCH.Clearnet is a strong testimony of our ability to scale and perform to the demands of one of the leading clearing houses in the world."

"We are especially proud of this endeavour, as it is an innovative and sophisticated combination of our core solutions for capital markets, treasury and collateral management."

Euroclear and SIX partner for Swiss clients

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The partnership has also allowed for cost savings through processing and standardisation and the reduction of risk through the straight-through processing of transactions, with an option to open segregated accounts.

Tim Howell, CEO of Euroclear, said: "We welcome the alliance with SIX Securities Services which integrates the expertise, scale and services of our two organisations for the benefit of Swiss wealth management."

"This open-architecture co-operation between two infrastructure powerhouses comes at a time when regulatory changes like the Market in Financial Instruments Directive, Alternative Investment Fund Managers Directive and UCITS V are pushing our industry towards greater processing certainty, asset protection and related portfolio transparency."

CEO of SIX Securities Services, Thomas Zeeb, said: "This is a demonstration of our long-term commitment to this market and capitalises on our deep understanding of client needs as well as our specialist hedge fund expertise."

DTCC and FS-ISAC tackle cyber threats

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More than 125 FS-ISAC members and representatives from other sectors, government entities and the private sector contributed to the requirements, architecture and design of the automation software.

Soltra Edge leverages open standards including Structured Threat Information Expression (STIX) and Trusted Automated Exchange of Indicator Information (TAXII) and will include the platform, infrastructure and ecosystem to help individual organisations of all sizes, industry bodies and private sector vendors come together to streamline threat information sharing using STIX and TAXII.

Mark Clancy, CEO of Soltra and chief information security officer for DTCC, said: "Today, most cyber threat information is provided manually to users from various, unconnected industry sources. Because of this, on average, it can take firms seven hours to evaluate each threat."

"With Soltra Edge, one organisation's incident becomes everyone's defence. The solution will enable clients to send, receive and store cyber security threat intelligence in a streamlined and automated format, enabling these firms to deploy safeguards against a potential attack."

Bill Nelson, president of Soltra and president and CEO of FS-ISAC, said: "As a joint venture,

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"Today's threat intelligence sharing must occur at network speeds. It needs to reduce the workload for security analysts and for smaller organizations. It needs to be available for all critical sectors in order to share information within each sector and also cross-sector to increase resiliency from cyber threats."

Currently being user tested, the solution will be generally available late 2014.

Industry must engage to meet RDR needs

The most important lesson to be learned from the UK's experience of the Retail Distribution Review (RDR) is that positive engagement between all parties creates an easier process and regulation that works effectively for all concerned, according to a new study by the Association of the Luxembourg Fund Industry (ALFI) and Fundscape.

The report, Navigating the Post-RDR Landscape in the UK, looks at RDR, which came into effect on 1 January 2013 and aimed to improve adviser qualifications and remove product bias from the advice process by changing the way advisers are remunerated.

The report found that despite predictions that the UK financial services industry would 'implode' under such radical regulations, the timing of RDR coincided with a more sustained recovery in the UK, an improved outlook in the Eurozone and consequently rising stock markets.

The biggest failing of the RDR was found to be the advice gap, with advisers finding advice was too expensive for some clients or too unprofitable.

The study also incorporates the Dutch inducement ban, as well as the impact of RDR/Markets in Financial Instruments Directive on Europe and its potential impact in France, Germany, Italy and Spain.



Marc Saluzzi, chairman of ALFI, said: "Regulators and the industry need to work together to ensure clients of all size can access affordable advice and investment products. Only then can we achieve significant growth for our industry, and have more satisfied investors."

"As concepts of RDR are adopted more widely across Europe, the fund industry has an opportunity to have wider appeal as long as it learns from the lessons of the UK and the Netherlands."

"The main message for the industry is that, to anticipate and avoid any pitfalls, we must engage; engage with policy makers, engage with the regulators, engage with

distributors and, last but not least, engage with consumers."

SmartStream wins TLM Reconciliations SEC contract

SmartStream has been awarded a contract by the US Securities and Exchange Commission (SEC) to furnish SmartStream's TLM Reconciliations Premium solution to the SEC's office of compliance inspection and examinations (OCIE).

The SEC will use TLM Reconciliations to support the OCIE's nationwide examination and inspection programme for registered self-reg-

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ulatory organisations, broker-dealers, transfer agents, clearing agencies, investment companies, and investment advisers.

As well as TLM Reconciliations, the SEC also has access to TLM SmartRecs and will use data delivered by Morningstar's ByAllAccounts.

The TLM Reconciliations will be used in Washington DC as well as 11 regional offices across the US.

Phillippe Chambadal, CEO for SmartStream, said: "We are very excited to have the primary US regulatory agency using our solutions to support the work of its office of compliance inspections and examinations."

James Carney, president of ByAllAccounts, said: "Using ByAllAccounts data, SmartStream has created an innovative approach that the SEC intends to utilise in facilitating its examination and inspection programme."

Enhanced service for UK pension funds

BNY Mellon and Redington are teaming up to offer Redington's pension fund clients an enhanced asset and liability risk reporting service.

The service allows pension funds to monitor both the funding position on a quarterly basis as

well as the level of risk exposure, which will help fiduciaries and scheme trustees understand how to meet their current and future liabilities.

The service is also offering analysis of the sensitivity of scheme's funding position that could be impacted by changes in the external economic environment.

Fraser Priestley, head of consulting for global risk solutions in Europe, the Middle East and Africa at BNY Mellon, said: "The depth and breadth of reporting we offer is a key part of our value proposition to the pensions market in terms of helping schemes with the provision of strong governance around their investment."

Robert Gardner, founder and co-chief executive at Redington, said: "The relationship with BNY Mellon affords us the opportunity to expand iRIS, our reporting tool, to more clients."

"BNY Mellon's granular data can be uploaded directly into our systems, ensuring our mutual clients receive best in class reporting coupled with thorough analysis."

Broadridge is PROactive with management solution

PROactive, a reconciliation and process management solution, has been released by Broad

ridge to enhance overall operational efficiency for global financial firms.

The solution includes a new confirmations portal for sell-side firms seeking to improve service levels with institutional clients. The portal will include seamless, real-time processing and will eliminate paper-based communications for affirmations of foreign exchange and non-deliverable forward trade confirmations.

Sell-side confirmations received through SWIFT are published via the internet, allowing buy-side organisations to easily view, affirm or query them.

Through the enhancements, PROactive will give a more targeted resolution of true processing expectations that will resolve automatically when certain conditions are met.

Jose Contin, general manager of reconciliation and process management solutions for Europe, the Middle East and Africa and the Americas at Broadridge, said: "We have extended our track-record of helping firms reduce the cost of configuring new reconciliations through our new, user-friendly dashboards that help tackle prioritised expectations in a more timely and efficient manner."

"Our new confirmations portal, available as a technology managed service, offers firms a

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secure and streamlined approach to confirmation and affirmation processing at a time when industry regulations, specifically around the requirement of timely confirmations, are becoming ever more prevalent."

Ebix launches Exchange to support DTCC

Ebix has launched the Exchange platform to support an array of in-force transaction (IFT) capabilities offered by DTCC's insurance and retirement services.

The support of DTCC's IFT capabilities is being implemented through EbixExchange, which provides a front-end exchange to support post-trade transaction processing within the DTCC IFT service.

IFT is a service offering of National Securities Clearing Corporation, a DTCC subsidiary.

The platform allows the agent/broker to perform withdrawals, asset rebalancing, funds transfer, and support for other financial transactions across participating carriers through DTCC and all on a single system.

EbixExchange, in conjunction with DTCC's IFT, will give insurance carriers and distributors access to a broader set of post-trade transactions via an upgrade to DTCC's web-based service.

With the upgrades to IFT and leveraging EbixExchange, users can now manage and submit financial transactions to support active contracts.

EbixExchange now supports: withdrawal requests for one time payments disbursement; financial arrangement requests for scheduling systematic withdrawal payments, asset rebalancing and other arrangement types; values inquiry for requesting and responding with current account valuation; and fund transfer for requesting asset rebalancing.

"These enhancements further automate and streamline in force annuity contract processing, providing a faster and more efficient service to users," said Randi Gordon, vice president of DTCC insurance and retirement services department.

"Clients will be able to decrease operating costs, support straight-through processing, standardise the method of data entry, reporting and electronic communication and increase end-customer satisfaction."

ERES and CACEIS in employee savings deal

CACEIS has been chosen to provide depository and fund administration services for ERES's employee savings funds.

The deal covers approximately 50 funds, such as multi-company or dedicated shareholding funds (FCPEs) and FCPs eligible for retirement schemes, with assets close to €1 billion.

Nicholas Vachon, CEO of ERES, said: "Through this partnership the funds concerned will benefit from the support of France's leading provider of asset servicing."

"We based our decision on CACEIS's expertise in the area of employee savings funds, its open architecture reporting system and the relationship it has already developed with our partner custody account keepers."

Joseph Saliba, deputy CEO in charge of business development at CACEIS, said: "CACEIS is ideally placed to support ERES in its development and compliance with changing regulations by providing a comprehensive range of services that is constantly being adapted."

"This new deal strengthens our position as a leading asset servicing provider for management companies specialised in employee savings solutions."

VP.Lux gives a little help to transfer agents

VP.Lux has introduced a new service that will make new infrastructure available to transfer agents and issuers in Luxembourg.

The vp.Fund Hub in a fully automated order routing, settlement and central securities depository (CSD) issuance facility aimed future-proofing cross-border fund distribution.

Tested in Denmark, the new infrastructure has been adapted to cater for Luxembourg's transfer agents, issuers and the wider fund-distribution eco-system.

Jan Vandendriessche, head of fund platforms at VP.Lux, said dematerialisation, CSD Regulation, TARGET2-Securities (T2S) and the drive to have even more efficient transfer agent operations allow for changes in the fund industry.

He added: "We are already in dialogue with some of Luxembourg's transfer agents, international investors and potential partnering institutions."

"Our goals are to future proof them with regards to, amongst other things, dematerialisation and help them connect to T2S. We will carefully ensure that this new offering supports out users' business processes."

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FCA approval for Halcyon and Newgate

Halcyon Commodities has received authorisation from the Financial Conduct Authority to operate in the UK.

The application had been by Newgate Compliance on behalf of Halcyon, following completion of Newgate's own application.

Halcyon provides services in broking futures and options linked to financial products to its global base of customers.

Martin Herriot, managing director at Newgate Compliance, said: "Having only launched to market this year, we're delighted to have completed our first successful application, especially with such a quick turnaround. This is a real milestone for the business, and we look forward to managing processes in an equally efficient manner for our clients in the coming months."

"The FCA application can be a particularly tricky path to navigate, and we can provide clients with the expertise and knowledge they need to gain authorisation in the UK in a very timely manner. Our background as regulators means clients have additional peace of mind, that we understand the process from both perspectives."

Keiron Mathias, director at Halcyon Commodities (UK), said: "With our offices in London up and ready to go, we're delighted to have completed the process, having worked with Newgate Compliance towards authorisation over the past few months."

"We found the process relatively straight forward, thanks to the expertise Newgate Compliance had to offer. There were certain aspects of the application that initially seemed complex, but as ex-regulators, its second nature to the team at Newgate."

Northern Trust TARGET2 for strategy

Deutsche Bank and Euroclear have been chosen by Northern Trust to support the firm's TARGET2-Securities (T2S) strategy.

The strategy is designed to offer Northern Trust's clients an enhanced range of asset safety holding structures, liquidity assurance and liquidity products to meet individual requirements.

Under the terms of the appointments, Northern Trust will establish direct market connectivity in a number of key European markets through Euroclear's Investor Central Securities Depository solution (CSD) and Deutsche Bank will service the assets held in Northern Trust's accounts directly at Euroclear's Investor CSD.

Wilson Leech, head of Northern Trust in Europe, Middle East and Africa, said: "T2S is a

significant step forward in fostering greater efficiency and integration of Europe's financial markets and reducing counterparty and settlement agent risk."

"By appointing Deutsche Bank and Euroclear, Northern Trust is well positioned to support new centralised delivery-versus-payment settlement in central bank funds across European securities markets, on behalf of our clients."

Satvinder Singh, head of institutional cash and securities services at Deutsche Bank, said: "As the European securities settlement landscape continues to evolve, we are very pleased to have been selected by Northern Trust to pro-

vide an innovative solution that will enable them and their clients to capitalise on the new single market infrastructure."

"This mandate reinforces our commitment to the success of T2S and our leadership position in Europe."

Tim Howell, CEO of Euroclear, added: "We are delighted that Northern Trust has appointed Euroclear as their central securities depository of choice to provide safe, efficient post-trade services with direct access to a number of key European securities markets. Euroclear's Investor CSD solution will ensure Northern Trust's clients benefit from enhanced transparency, access to liquidity and asset protection."



Health matters

Bill is in his local golf club having a drink with a few chums. "I have some news for you," he says. "Go on," reply his friends, noting that Bill is being unusually serious. "Well, as you know, I haven't been well for some time, and I've just come back from seeing the specialist who said it's terminal". "That's terrible Bill! How long did he give you?" "Ten," says Bill. "Wow—10 what? Years, months or ... weeks?" Bill looks at his watch and says: "Nine, eight..."

I share that piece of fairly dark humour with you as I'm about to attend a 30-year school reunion, and in the course of contacting potential attendees, it has emerged that many of the Class of '84 are no longer with us—these are folks who by now would be just over their mid-40s. While the causes of their passing are multiple and varied, lifestyle played a part with a significant number of them, and my thoughts naturally turned to the stresses inherent within the asset servicing industry.

Now I've touched on this to some degree in the past—the constant awareness of the need to be the main breadwinner in an unstable employment environment, pressures of deadlines and presenteeism, challenges of climbing the corporate ladder, and so on—but we can also add to that the significant hospitality and socialising inherent in many roles. The historic, ongoing and endemic 'macho' culture of the city, which nowadays applies equally to women, as any given night in Abacus or The Gables will confirm, means that scant regard is given to

the long-term health effects of a sustained, semi-hedonistic lifestyle.

I'm aware some of you will read that last line and laugh, decrying the word 'hedonistic' and suggesting that it's just a natural part of city life, but bear in mind that between the ages of 40 and 60 are the most dangerous years for heart attacks. Stress, poor diet, lack of exercise and a strenuous travel schedule also take their toll, with their impact not being seen until it's too late.

I'd therefore urge you to take advantage of the facilities and amenities that are increasingly the norm with large corporates now, including cycle-to-work schemes, health checks and gym memberships. In fact, why not combine the latter with family membership, which has double the benefit in terms of also spending more time with family. Earlier this month, Mohamed El-Erian, the head of Pacific Investment Management Company, resigned after his 10-year old daughter presented him with a list of 22 life milestones that he'd missed through being at work. Richard Branson has also suggested that he will allow his employees unlimited time-off for holidays, as long as it doesn't interfere with their projects, workload or careers.

I can't actually see this happening in my lifetime, but I would urge you to try your best and take a proper break away from electronic aids when on holiday. Otherwise, you could be the next one counting down from 10...

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Attention pays

Malaysian fiduciaries and investors must grasp all opportunities to participate in relevant securities class actions, even though the country's own domestic securities legislation is not yet fully established, says Jonathan Hu of Goal Group

The securities class action scene outside of the US has been developing fast. In a number of legislatures, including Germany, the Netherlands and Canada, US style securities litigation is evolving and frameworks are already in place to allow non-US investors, in shares listed on a non-US exchange, to pursue their securities class actions in those countries' courts.

The international diversification of class actions can be recognised as a combination of restrictions on jurisdiction definitions in US federal courts, along with a growing desire to develop domestic class action procedures in many countries around the globe.

This is also a result of the US Supreme Court's ruling in the 2010 *Morrison v National Australia Bank* case. It ruled that US securities laws only apply to companies listed on US exchanges, eradicating the eligibility of f-cubed actions, which involve a non-US shareholder suing a non-US company whose shares were purchased on a non-US exchange, in a US court.

Although the US is still the most recognised class action legislature, plaintiffs are very much now instigating litigation in more flexible jurisdictions around the globe. International businesses listed on multiple stock exchanges must be aware of the possibility of securities class action cases against them from multiple legislatures.

In conjunction with this development, greater emphasis has also been placed on the importance of fiduciary duty and corporate governance reform where disregard or negligence can lead to a significant loss in investment value. Fiduciary duty also increasingly includes the responsibility of identifying and ensuring participation in relevant securities class actions to enable clients to reclaim rightful returns.

Failure to engage in class actions leaves billions in unclaimed settlements, which not only compromises fiduciary integrity but can also present a legal risk with clients potentially entitled to legal redress.

In Malaysia, representative actions have served as an equivalent of class actions.

These actions are conducted according to Order 15, Rule 12, of the Rules of the High Court 1980. In 2008, Malaysia's Corporate Law Reform Committee acknowledged in its Member Rights and Remedies recommendations that Order 15, Rule 12, holds several faults in the protection of minority shareholders and that a class action procedure would provide stronger accountability. It specified that the ability to pool resources would likely provide a better outcome for shareholders as the cost of bringing separate proceedings would be reduced, and as a result, increase the amount of compensation obtained.

However, despite these recommendations, the committee decided against introducing a framework for class actions in Malaysia, believing that amendments concerning derivative actions would provide enough of a solution to the issues.

It is important to acknowledge Malaysia's development towards class actions and the court's appreciation of the potential benefits of this kind of legislation. Despite this decision, specific securities class action litigation may well be fostered in the near future, especially due to the international diversification of class actions, which has motivated activity in the Asia Pacific region.

With Malaysian investors now investing \$35 billion in foreign equity shares, up from \$25 billion at the end of 2010 and \$1 billion in 2005, it is clear that there is a duty to monitor and participate in securities class actions and collective redress opportunities in various countries around the world. Investment in the UK in 2012 from Malaysian investors was \$1 billion, \$11 billion in the US, \$10 billion in Singapore and \$2 billion in China.

Goal Group's analysis of its class actions knowledge base predicts that by 2020 annual securities class action, group and collective redress settlements outside the US will reach \$8.3 billion. The analysis predicts that an estimated \$2.02 billion of global investors'

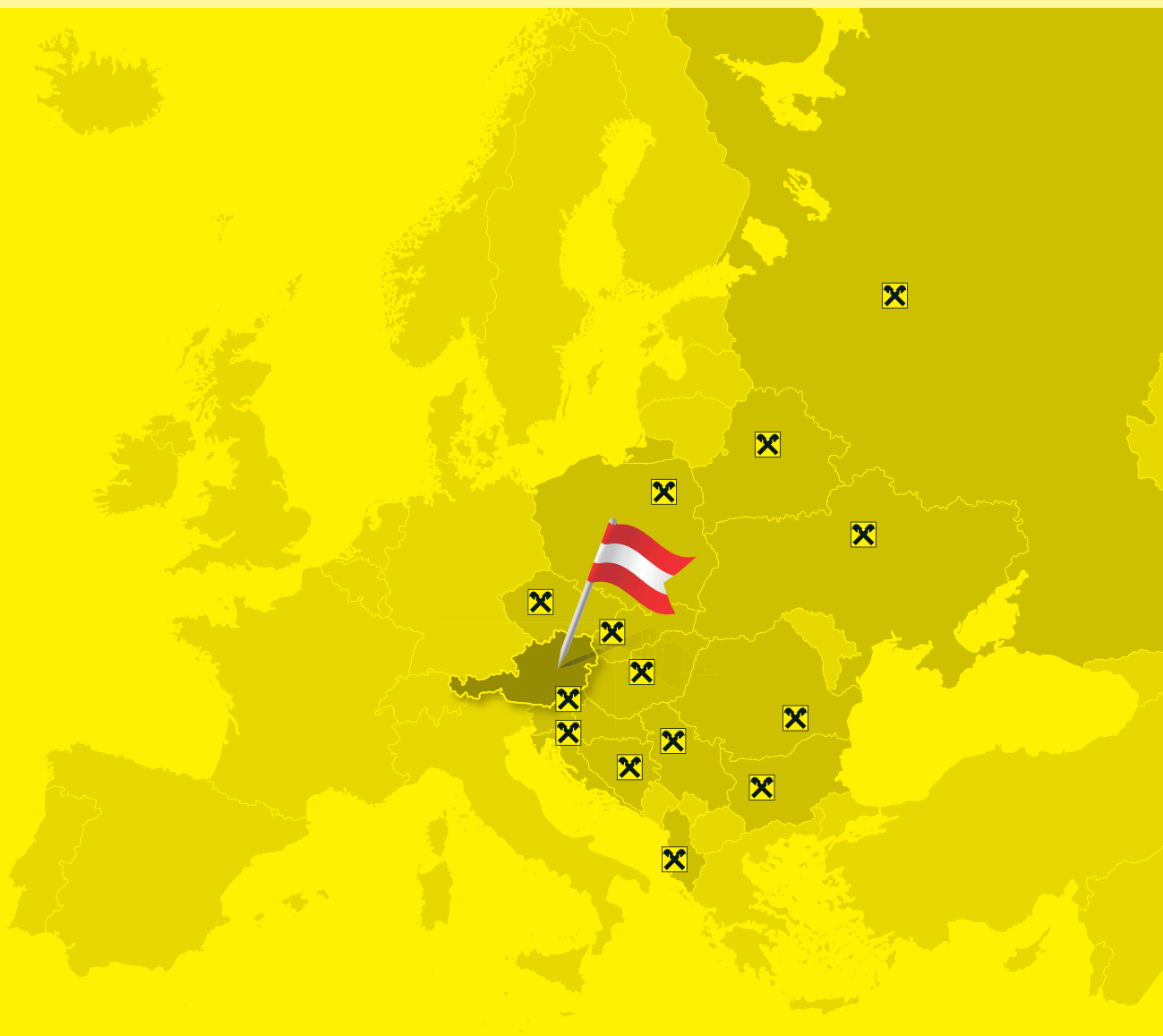
rightful returns will be unclaimed each year by non-participation.

Therefore, it is clear that there are still significant amounts being left unclaimed each year due to non-participation. At this point, it becomes the responsibility of fund managers and custodians to monitor and pursue opportunities to participate in securities litigation. There are now also a number of specialist services available that automate the process of class action participation, which in turn minimises the complexity and cost of recovery. On this basis, there becomes no real viable excuse for non-participation from fund managers and institutional investors.

While some jurisdictions, including Malaysia, still may not have as robust securities litigation frameworks as countries such as the US and Canada, these recent developments across different regions supports the need for global firms to monitor securities class actions and potential litigation across the world. Goal Group has calculated that securities class action settlements for the Asia Pacific market will reach \$3.435 billion by 2020. As a result, Malaysian fiduciaries and investors must still grasp all opportunities to participate in relevant securities class actions, even though the country's own domestic securities legislation is not yet fully established. **AST**



Jonathan Hu
Director of sales and relationship
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Panellists discuss how the custody business is changing in Central and Eastern Europe, and what the new world will look like

How do central securities depositories complement custodians' back-office operations?

Marek Začal: We feel strong support from our local CSD, the Central Securities Depository Prague (CDCP), as they always reflect the fact that behind us—CDCP participants—is our client for whom we cooperatively find solutions. For such reason, CDCP regularly asks for practical business insight from participants so that implemented changes will bring added value to clients and also to participants themselves.

Its support and cooperation can be seen in two aspects. Firstly, there is a technical background, which means that participants are provided with a daily data feed that allows us to reconcile positions, send confirmations of settled trades or, for example, information on trade status on a daily basis.

Secondly, there is professional informational support that gives us regular updates on planned changes, optimisation, development, and generally, anything that can make the local market attractive. Moreover, CSOB regularly participates in status meetings on individual topics (Xetra, MTS, SWIFT connectivity, intra-day collateral management and T+2 harmonisation) with CDCP.

Juergen Sattler: Generally speaking, CSDs throughout our network provide a sophisticated and reliable service to their clients. They are a strong backbone of the domestic market infrastructure where custodians can build on their service offerings. However, client driven, tailor-made solutions are still not offered at the CSD. As a result, the role of the local custodian is still an important one in order to compensate for that particular shortfall of the CSDs' service package.

RBI, accessing some of our offered markets directly via the local CSDs, has to enrich the

service quality, especially on the asset servicing part of the product. The prime focus of CSDs seems to be on the transaction side of the business, but not on the asset servicing side.

Gokce Iliris: CSDs, intermediary institutions and custody banks are inseparable members of one big family that live and work together, in good and bad times. The regulator, on the other hand, is more like the big brother of the same family having the control and authority. In order to maintain a successful, working financial market, all of the mentioned actors and their stakeholders have to share the same 'motto' and concentrate their efforts for healthy and good working financial markets.

In many markets, bureaucracy, unnecessary paper work and less automation cause problems. Not only do they deteriorate the relationship between these parties, but they also make main corporate actions or settlement processes cumbersome. In order to avoid these problems, regulators, CSDs and custodians have to work together to get rid of the excessive load by taming these processes.

In Turkey, the Capital Markets Board (CMB), central bank, and financial infrastructure companies such as MKK (as the CSD) work together, especially on corporate governance practices and corporate actions processes, to further develop and make them more compliant with international and EU standards and principles.

A good example of this collaboration can be seen in the recent changes to the capital market and commercial laws. General assembly meetings can now be attended via electronic means. In fact, Turkey is the first country to make it a legal obligation for all Borsa Istanbul listed companies to organise both physical and electronic general meetings simultaneously. The main idea behind this change is to remove the boundaries to cross-border voting and increase corporate governance practices in Turkish capital markets.

MKK, with this in mind, developed an electronic platform and from this platform investors are now able to attend to concurrent meetings, pre-register their votes, watch the meetings live, express their comments and opinions online, and assign proxy to their custodians. Custodians are now able to receive electronic proxies from this platform, get rid of all the paper and manual work attached with proxy processes, attend meetings electronically (without needing to send any representatives physically), and save time and human resources. Expenses and operational costs have also decreased considerably with this new situation.

Value added services that CSDs will develop as per the need and demand of market players will not only help custodians' to lower their back-office operation costs, but also help them to better serve their clients. Such initiatives are also important in attracting new foreign investors to their local markets.

How has custody business evolved in the last three to five years?

Záčal: In Central and Eastern Europe, the main trend throughout the years is clear: continuous convergence with western developed markets. We have done a lot of work in the last five years. For example, the CDCP was established, a new market was opened (MTS) and a new trading platform was launched (Xetra). There are still more projects to come, namely the central counterparty and SWIFT connection to CSDP.

In terms of operational flows, the most significant impact on matching and settlement was the introduction of an automated pre-matching procedure (hold/release mechanism). This enhancement brought greater comfort to customers, generated higher frequency of real-time status and significantly increased the overall straight through processing (STP) rate.



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“ Automation enables significant mitigation of operational risk and increases efficiency of the back office and related departments. Automation significantly reduces cost in the long-term ”

Marek Začal, relationship manager, CSOB Custody



Sattler: The major trend to be detected over the last three to five years was a strong focus on consolidation of the markets on various levels. First and foremost, the number of sub-custodians in the markets showed a clear trend towards the south. The business moved mainly to regional providers in order to create substantial efficiencies regarding administrative cost, operational risk, as well as financial risk and contractual risk in terms of the legal agreement.

The sub-custodian's role is vital for risk mitigation in all areas of the product offering. Moreover, the vast number of regulations approaching the markets challenges all market participants of the entire value chain of the custody business. The various regulations do not only provide market players with more security and efficiencies, but also with higher costs based on required IT developments and additional expenditures on the administrative side, such as segregation of accounts at the client level throughout most of the global markets.

Iliris: In parallel with the financial markets, the custody business also evolved and became more complex in the last couple of years. Especially after the financial crisis, local and global authorities concentrated more on applying new regulations to financial markets and the custody business. When you look at the lessons learned from the crisis, you might well see where the custody business goes and how it evolves. For instance, five years ago the focus was on asset size and the value of the assets under custody.

Today the focus is more on asset safety and (minimising) risk in assets. The scope of the services provided by custodians were always broad but with CSDs providing more custodian-like value-added services, the quality and scope of the services (such as tax services, asset servicing and account operating) provided by custodians gained more importance.

I believe the only unchanged fact about custody business is the value that custodians' clients would like to receive for the money that they pay. As competition between custodians, with CSDs coming into the picture, increased dramatically and putting operational costs aside, the custody business is now transforming into a more CSD-like and tailor-made business, where players are fighting to retain their existing clients.

The custody business's existing 'know your customer' (KYC) policies have received much more attention than they have in the last five years. It is now more important and critical for regulators and custodians to have the most accurate and reliable information about clients. KYC policies are the utmost priority to avoid penalties. In that sense, like the evolution in the custody business, client due diligence processes have also evolved based on the changing needs of financial markets.

Is automation of back-office operations a necessity or a luxury?

Záčal: It is certainly a necessity. Our clients are always very well informed about the STP status of agents in the market and if we want to achieve 100 percent service for clients (and it is understandable that they always require such a service), we have to automatise. Today, the level of operational risk plays an increasingly greater role, not only towards clients and proper settlement of their transactions, but also towards control and regulatory mechanisms within the agent. Automation enables significant mitigation of operational risk and increases efficiency of the back office and related departments. Automation significantly reduces cost in the long-term.

Sattler: It is an imminent necessity. Without a high degree of automation the challenges that the markets force on participants will not be met successfully. To know, and above all, to manage operational risk, is and will be the major differentiating factor among service providers. The overall efficiency of an organisation and the back-office operation represents the one and only guarantor for a long-lasting and sustainable business model.

Iliris: It's not wrong to say that automation in back-office operations is definitely a necessity.

Any kind of manual process, paper work or hands-on-effort in any operations department but especially in the back-office operations of custody banks, result in excessive consumption of human resources, lower control over 'manual' processes and an increase in the level of operational risk that custodians are normally subject to. Automating the cumbersome processes, making them lean and more efficient helps back-office operations not only in performing smoothly but also in providing consistent, reliable and better services to their clients.

Also, in an environment where 'operational costs' have gained importance more than ever, automation brings efficiency, lowers those costs, maintains better allocation of resources and helps custodians to support capital and liquidity requirements that regulations such as Basel III stipulate.

Looking at the debate from another point of view, some may say that automation requires high technological investments and money and time. This is a true argument, however, with the help of differentiated services, increased cross-border transactions and economies of scale, automated processes and smoothly performing back-office operations, I believe

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Juergen Sattler, head of regional management, Raiffeisen Bank International





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“ T2S is another crucial initiative that CSDs and custodians need to be a part of. The new platform, with its high investment costs, still carries considerable ambiguities ”

Gokce Iliris, head, international relations and reporting department, MKK (CSD of Turkey)



custodians will have the opportunity to lower their fee schedules (as a result of decrease in costs), retain their existing clients and increase their satisfaction level, acquire new clients, and offer new services/products. In that sense, in the medium to long term, automation will definitely provide better returns compared to the cost of investment.

How do you envisage the custody business changing over the next 10 years?

Začal: Without the benefit of a crystal ball, we can assume that the Central and Eastern European custody business will continue its inclination towards harmonisation on the EU level. Local markets will be more and more interconnected and their standards will tend to be unified. On the other side of this story, we still cannot forget challenges stemming from fierce European regulation. I am afraid that this will be the most thorny problem of the following decade. It will be our highest priority to balance between the harmonisation and effectiveness, on the one hand, and creativity and complications on the other.

Sattler: The industry will experience further consolidation both on the clients' side and the local market level, the providers. The one offering the most efficient service model will prevail. Scale on volumes will count even more than it does today as the investments needed to stay on top of the food chain will grow systematically and rather exponential than linear.

Iliris: To better comment on this question, we should examine custody business and CSD business together as they are the two key denominators of post-trade world, like the right and left foot preceding each other.

The post-trade world is passing through a series of change shaped by new regulations, existence or establishment of new players (new custodians and CSDs), development of a new settlement platform (T2S), harmonisation of corporate actions processes, and more. Therefore, CSDs and custodians have much to do to comply and adapt to these new initiatives and in fact face high costs to make necessary investments. Especially, regulations addressing more transparency, increased asset safety and enhanced risk mitigation require big investments, not only in terms of systems but also people.

Moreover, T2S is another crucial initiative that CSDs and custodians need to be a part of. The new platform, with its high investment costs, still carries considerable ambiguities.

In order to cope with these 'variables', post-trade actors, especially CSDs and custodians, started to shift their roles from what they used to perform to a rather more extended and new one, trespassing each other's boundaries. CSDs, providing services that custodians used to provide, and custodians becoming CSDs, show how the new post-trade world is going to be pictured.

In the next 10 years, first fragmentation and then consolidation could be seen among CSDs and custodians. CSDs that do not differentiate their services and fail to establish new links with other CSDs and try to survive only with the revenues generated from the core functionalities will most probably be left out of the competition.

On the other hand, custodians that fail to extend the scope and quality of their services fail to retain their existing customers and cannot be a part of T2S will also be left outside of the future post-trade world. As the revenues that custodians generate from core transactions or custody services shrink, custodians must tap into new businesses to concentrate their efforts, such as securities lending, collateral management or derivatives clearing. In fact, custodians that are willing to establish new CSDs or transform into CSDs should also comply with the new CSD Regulation (CSDR) in addition to the existing laws and regulations that they have to comply. CSDs on the other hand, should also focus on corporate governance and asset servicing for the next 10 years.

What effect will T2S have on the custody business?

Začal: From a CSOB perspective, T2S can be perceived either as an opportunity or as a challenge. It depends on the given position in the market and practical analysis of the whole project. I am convinced that every single entity that is involved in the T2S project will make such an analysis of their own. Either way, CSOB will definitely be ready to transform these challenges into opportunities.

Sattler: The good-old custody business will change dramatically. T2S will turn the currently existing business models upside down and create a totally new infrastructure in markets. The opportunities will hopefully outnumber the downside effects for market participants. However, adoption to the new environment is still on-going across the industry and it is still up in the air as to what future service offerings will look like.

Iliris: There are many advantages that T2S is believed to bring to the financial markets and two of them are the increase in competition and decrease in transaction and settlement costs. In this context, the custody business will definitely be affected by T2S, at least from 'costs' point of view. CSDs giving more custodian-like services and custodians' transformation into CSDs and the expected fragmentation in the post-trade environment regardless of the (CSD or custody) business can be all linked with T2S.

I am not so pessimistic about the effects of T2S on custody business and tend to think more on the positive side. I believe custody business will find new areas for business with T2S. The platform will facilitate new products and new post-trade services for custodians. For instance, some custodian banks have already declared that they are going to be direct participants of T2S. This is also a starting point for custodians or custody businesses to provide new services to their clients and can be considered an indicator that they will have the opportunity to broaden their current client portfolio and geographical reach. In fact, according to a recent study conducted by Clearstream (supported by Oliver Wyman), "a global custodian with €400 billion in assets under custody across major T2S markets could save up to €50 million".

There will also be much more competition than ever in the post-trade environment, particularly between custodians. Therefore, I also think that there might be some consolidation in the market, too. Custodians merging with other custodians or custodians concentrating more on 'niche' and differentiated services could be seen in the long run.

In order to benefit the most from T2S and changes in the post-trade environment, I believe a cooperative rather than competitive approach would be more feasible and beneficial for custody business. **AST**

Industry appointments

Michael Cahill, CEO of OCC, will be retiring from the company at the end of the year.

Cahill has been with OCC for 32 years and current executive chairman, Craig Donohue, will oversee the transition of Cahill's responsibilities to other OCC executives.

The board of directors has created a board sub-committee to undertake a search for a new CEO.

As part of the transition, **Michael McClain** will be promoted from chief operating officer (COO) to president and COO and will report to Donohue.

OCC will also be promoting John Fennell will be promoted from senior vice president of financial risk to executive vice president of financial risk.

Cahill said: "It has been a great honour to work for OCC for 32 years. I am sincerely grateful for the opportunities that I have had over the past 3 decades to work with so many talented people and to participate in the tremendous growth and challenges of the options industry and OCC." He added: "I will truly miss the people I have worked with at OCC."

Donohue said: "Under Cahill's leadership, OCC has become recognised as one of the world's most efficient and innovative clearinghouses ... annual cleared option volumes at OCC grew from 780 million to over 4 billion while Cahill helped facilitate OCC's expansion into futures, over-the-counter and securities lending clearing services."

"While we will greatly miss Cahill, we are fortunate to have a strong leadership team in place and we congratulate McClain and Fennell on their well-deserved promotions."

James Burns, deputy director of trading and markets at the Securities and Exchange Commission (SEC), will leave the agency in October. Since 2012, Burns has overseen core regulatory functions within the division including market supervision, analytics and research, derivatives policy and trading practices.

"During his tenure at the commission, Burns provided valuable leadership on important rulemaking and policy initiatives. His unwavering commitment to the investing public and his commitment to promoting strong capital markets served the agency well," said chair Mary Jo White.

Prior to joining the division, Burns served under chairman Mary Schapiro as the agency's deputy chief of staff, where he advised on the development and execution of the SEC's rulemaking and policy agenda.

He joined Schapiro's staff as counsel in 2010, having first come to the SEC as counsel to commissioner Kathleen Casey in 2008.

In these previous capacities, he worked on investment management and trading and markets regulatory and enforcement matters arising from the financial crisis.

Before joining the SEC, Burns was a securities lawyer in private practice, focusing on investment management regulatory and enforcement matters. He previously served as a clerk on the US Court of Appeals for the Fourth Circuit.

Stephen Luparello, director of trading and markets at the SEC, commented: "Burns played an instrumental role in [the division's] work on numerous rulemakings, including adoption of the Volcker Rule and other key provisions of the Dodd-Frank Act."

"He also has led the division's response to significant market events and the development of key equity and fixed income market analytical and policy initiatives."

Tariq Husain has been named UK managing director and global head of outsourced business services (OBS) for First Names Group.

Based in the new London office, as managing director, Husain will be responsible for establishing, managing and growing the overall corporate and institutional services in the UK.

As global head of OBS, Husain will focus on building a global service delivery platform for multinational businesses needing critical com-

pliance. Services will include accounting, tax, human resources and payroll, corporate secretarial, director and domiciliary services.

Husain has 20 years of experience, with 12 spent at TMF Group.

Husain said: "I am delighted to be joining First Names Group, and I am looking forward to applying my skills in a way that I hope will directly contribute to business growth."

"This is an exciting opportunity that will allow me to strengthen existing First Names Group affiliations and build new client relationships in key markets."

Armin Kirchner, group managing director of corporate and institutional services for First Names Group, said: "I am very pleased that [Husain] has joined First Names Group. I am confident he will be a great asset to the team and I am sure that he will make an immediate, positive impact."

"He brings a significant skill-set and senior experience that will improve our offering and further support our approach to driving out corporate services line. I am very much looking forward to working closely with him as we build and develop the corporate service line."

SmartStream has welcomed **Richard Nicholas** as director of professional services for the Asia Pacific region.

He will be based in Singapore where he will be responsible for professional services and programme management across the region.

Nicholas has worked in the region for 15 years and has over 20 years of experience in the financial services sector. He previously held senior positions at HSBC and ION Trading.

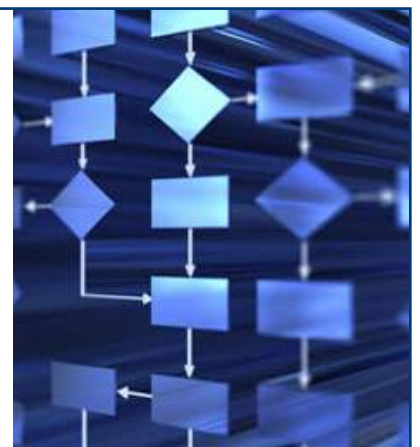
Nicholas commented on his new role: "I am delighted to have made this move and am very excited about the prospects it offers."

Joe Kubyeka, regional director of Asia Pacific, said: "I am extremely pleased that a candidate of Nicholas's calibre has chosen to join SmartStream." **AST**



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