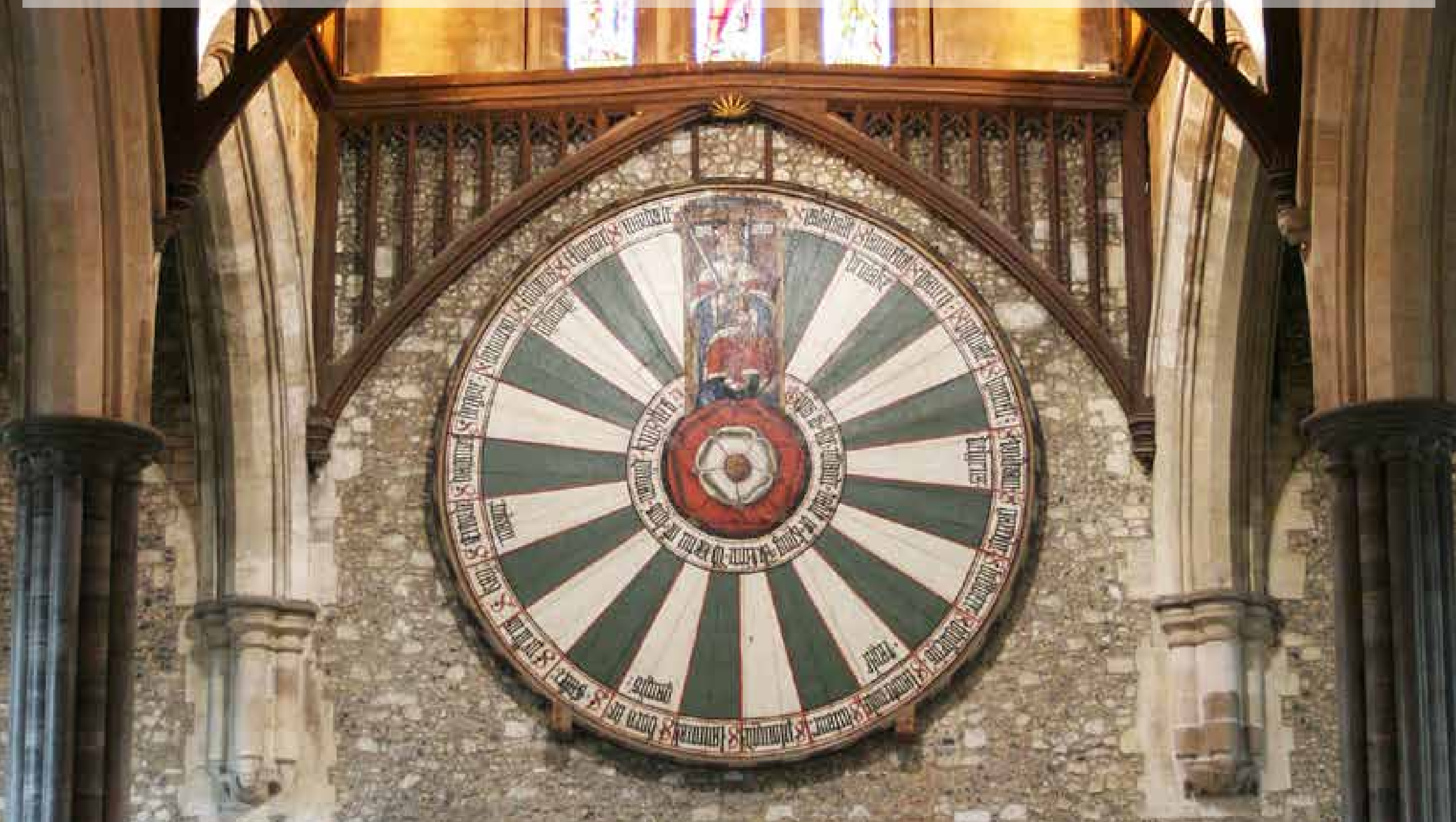
International Securities Services

Connecting minds



Q4 2015

Who's been sitting in my Siege Perilous?

Roundtable Special Edition

Sub-custody's evolving landscape

Up to date with T2S

International Securities Services
Connecting minds

Editorial

Brian Bollen, Consulting Editor
(brianbollen@mac.com; tel +44 1908 234 952)

Managing Editor
Eddie Heaton
eddie@iss-mag.com

COO, Director
Farzana Hakim
faz@iss-mag.com

Consulting Editor
Brian Bollen
editor@iss-mag.com

Editorial Coordinator
David Hancock
davidh@iss-mag.com

Assistant Editor
Kerry White
kerry@iss-mag.com

www.iss-mag.com
@ISSMAG
#ISSmagazine

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In a world where people are slaughtered for having the temerity to be sitting outside a Paris café on a Friday evening, the question of whether the US Federal Reserve might begin raising interest rates in the run-up to Christmas somehow lost the importance it would once have had. But that doesn't stop well informed economic observers, and ill-informed economic observers, from obsessing over the subject.

I am no economist, but did an Applied Economics module in my banking exams in 1979-80 at Hull College on day release from Midland Bank International and have spent my entire professional life in and around institutional international finance. I personally believe that interest rates are going approximately nowhere over the next five to 10 years and believe that a growing number of 'proper' economists are beginning to share that view. In this world, yield is increasingly represented by the return of money invested, not the return on money invested.

Traditional return-seekers will need to inch their way ever further along the risk-reward spectrum, inevitably paving the way for the next set of financial and commercial disasters. The sky-high valuations for Internet 2.0 companies, such as the 50 times earnings share price for a service that enables users to order takeaway food via a website rather than choose from a piece of card and pick up a phone, almost ensures we will see an Internet Bust 2.0.

I will of course be labelled a Cassandra, as I was when I suggested in the early 2000s that the Basel Committee's decision to classify mortgages issued in OECD countries to be zero risk weighted, and to allow banks to decide what capital levels they needed to hold, was fundamentally flawed and ultimately a recipe for disaster. I will remind readers yet again, as I think I have done on more than occasion that Cassandra was proved 100 percent brutally right in her predictions of doom.

This issue of ISS (no relation to the terrorist group which has set the whole world against it in recent weeks) contains predictions of success rather than gloom. Our two industry roundtables in particular point to silver linings in sub-custody and T2S rather than any clouds to which they might be attached.

Asset segregation, technology and scalability and meeting the challenges posed by new regulations are some of the themes that pepper the sub-custody conversation between representatives of Commerzbank, Societe Generale Securities Services and Mercer Sentinel. "The advent of large regulatory reforms on a global scale has been and will continue to be of tremendous benefit to all involved in this industry," says Commerzbank.

The T2S discussion looks to the future and the next waves of migration to the system as well as to the first wave, which can be deemed to have been a success, if not an entirely unqualified one. Even the late entry of Italy is presented as a positive rather than a negative, emphasising the bullishness surrounding the overall project.

Elsewhere in this issue, Julian Trostinsky, managing director of Central On-Boarding Utility & Managed Services, SmartStream, looks at a new operating model where a specialist vendor teams up with financial institutions to lift the burden of reconciliations processing.

Fiona Hamilton, vice president of EMEA Operations, Volante Technologies, addresses the issue of harmony in the standards world. KELER's director of strategy and client relations, Péter Csiszér, talks about REMIT (Regulation on Wholesale Energy Market Integrity and Transparency) the issues it raises and the solutions it offers.

All of us here at ISS hope that readers enjoy this assortment of offerings and would like to wish everyone a politically incorrect but whole-hearted nevertheless Merry Christmas and a Happy New Year (when it comes, as those of us from central Scotland tend to add when expressing these sentiments in advance.)

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International Securities Services Magazine Roundtable

Sub-custody

ISS Magazine talks to Rob Scott at Commerzbank, Jessica Hynes at Mercer, and Andy Duffin at Societe Generale about the major issues facing sub-custody.

Rob Scott
Head of Custody & Collateral Solutions
Commerzbank

Jessica Hynes
Senior Associate, Head of Custody Consulting - UK, Europe & Middle East
Mercer Sentinel

Andy Duffin
MD, Head of Sales & Relationship Management, Emerging Markets
Societe Generale
Securities Services

ISS Magazine: What would you identify as the major issues facing sub-custody today?

Rob Scott, head of custody and collateral solutions, Commerzbank: In general terms it's likely that sub-custodians are often challenged with aged technologies which lead to cost and efficiency issues. This is not only true of them, but also for the global players. The securities community for the most part is burdened with aged technology, with most investment in recent years going to front office trading units, or lately to the numerous regulatory challenges. Even those organisations with seemingly unlimited investment are spending a significant part, if not all of the available funds in complying and keeping pace with regulatory change. Innovation budgets are considerably challenged at a time when frankly innovation is needed the most in order to bring the cost of operations and technology to commercially viable long-term, sustainable models.

Scalability is always a question. However, if you operate in a major market with good levels of flow business and activities it's still relatively easy to navigate a successful business model.
- Rob Scott

Scalability is always a question. However, if you operate in a major market with good levels of flow business and activities it's still relatively easy to navigate a successful business model. If you have a thorough and comprehensive understanding of your client community and detailed knowledge of them and their operating needs, and as long as you remain truly focused on bringing value and delivery in those areas of need and where you have proprietary advantages, your long-term commercial viability is generally not in question. Trying to be all things certainly brings about challenges in today's post-trading environment.

Andy Duffin, managing director, head of sales and relationship management, emerging markets, Societe Generale Securities Services: The ever-increasing regulatory workload upon sub-custodians and network managers is now very much viewed as business as usual. As such one of the most significant issues today is redefining the service model for sub-custodians and the network strategy as a client.

The increasing ability to unbundle services is creating multiple options for both service providers and purchasers with new entrants in certain areas. How to best leverage these options is still not fully defined and will be played out over the coming years increasingly as the T2S go live waves are reached. Regulation along with the changing service model options are forcing network managers to consider issues which may not have always been a primary topic on their agenda, for example intra-day liquidity. The conversations we at Societe Generale Securities Services are having with our clients today are very different now to the ones we were having a few years ago and we are proposing new services.

Jessica Hynes, senior associate, head of custody consulting - UK, Europe and Middle East, Mercer: Probably asset segregation and AIFMD. It's all about liabilities at the end of the day.

ISS: Have those changed in any significant way in recent times?

Rob Scott: The cost of regulatory compliance and attaining a balance of core service provision coupled with maintaining good levels of innovation have always been challenges to the sell-side. Yes, in today's regulatory focused environment this is certainly heightened and provides numerous challenges. However, if you remain focused and targeted in your client delivery, you can still sustain your business model in the longer term. The difference now is there is more of an open dialogue with both client and custodian regarding the consumption of services on both sides. There are very clear trends that rewarding clients for high levels of performance with high STP (straight-through-processing) and minimal human interaction, or in the provision of a range of ancillary services, often upon review are no longer needed, and very often a function simply of historic or bad setup or operating practice.

Jessica Hynes

Senior Associate, Head of Custody Consulting - UK, Europe & Middle East - Mercer Sentinel

Jessica Hynes is the Head of Global Custody Consulting for the UK, Europe and Middle East within the Mercer Sentinel® Group. An industry expert in global custody, she is responsible for sales, strategy and product for Mercer Sentinel's custody practice. She also is responsible for ongoing custodian monitoring, the maintenance of Mercer's proprietary database of global custodian capabilities and custodian selection exercises for major UK and European pensions and Middle East sovereign wealth funds.

Jessica is a 25 year veteran of global custody who joined Mercer Sentinel in January 2011. She began her career in 1991 in Luxembourg with Brown Brothers Harriman, a private US global custodian bank managing offshore fund operations. She relocated to London in 1998 and has held a variety of senior Relationship Management and Sales roles at J.P. Morgan, State Street and HSBC Securities Services servicing Asset Managers and Asset Owners.

Mercer Sentinel® Group is a specialist consulting group for post-trade securities operations within Mercer Investments. Mercer Sentinel has a team of over 50 specialist operational experts in London, Sydney and Chicago. The team provides consulting on Custody, Operational Risk and Transition Co-ordination, supporting institutional investors, major pension schemes, sovereign wealth funds and investment managers.

Mercer is a wholly owned subsidiary of Marsh & McLennan Companies (MMC), and is a leader in Talent, Health, Retirement and Investment Consulting.

The custodian industry generally has been poor at both accepting the "race to the bottom" in terms of pricing, as well as in educating clients about their consumption of core services. Historically, pricing policies and practices has often encouraged custodians not to point out or highlight client inefficiencies or bad practices. In today's environment efficiency, transparency and streamlining activities is of paramount importance.

It's better for investors to know that risks are being supported by banks, but it is much harder for banks to have those liabilities imposed upon them. - Jessica Hynes

Andy Duffin: To a certain extent many of these options have always existed and were in a limited number of cases utilised. So it is not a new concept; it is more a case of the options available increasing.

Jessica Hynes: AIFMD is a relatively new feature on the sub-custody regulatory spectrum. Looking to banks to take liability for operational risk is new. In this context, balance sheet strength becomes even more important than before.

ISS: If so, how? Is this for the better or worse?

Rob Scott: My view is that the advent of large regulatory reforms on a global scale has been and will continue to be of tremendous benefit to all involved in this industry. There is a much better and comprehensive understanding of service consumption, in inefficiency and its consequences and in terms of service providers having much clearer and better understanding of the risks they subscribe to on a daily basis, be that liquidity risks or in the better assessment of counterparty credit issues and onboarding assessment.

It has also been hugely beneficial in starting to define proprietary and sustainable business models. I believe that the days of the big universal banks being "all things in all markets to all client segments" will continue to be a thing of the past. Banks and service providers will continue to reshape their commercial business models and refocus their activities. This can only be great for the industry overall and its participants. We will continue to see over the coming years in some cases large and to some no doubt, surprising moves and exits from business lines. The net effect being a long-term, sustainable business environment whereby fair pricing, transparency and focus around consumption is properly understood.

Finally, what will also emerge for those able to be focused and nimble in their delivery, is the emergence of a range of new products and services due to regulation. The advent and adoption of new technologies and process efficiencies will bring about new ways of operating commercially and the replacement of traditional revenue streams which have underpinned and remained largely consistent within the community.

Andy Duffin: I have been part of our industry for nearly 30 years and change has always been the one constant. Any opportunity to re-examine the way in which we service our clients can only be good for all involved.

Jessica Hynes: It's better for investors to know that risks are being supported by banks, but it is much harder for banks to have those liabilities imposed upon them.

Rob Scott

Head of Custody & Collateral Solutions - Commerzbank

Prior to joining Commerzbank, Rob was instrumental in the creation of an industry Securities Post Trade Utility in Accenture enabling Banks, Broker Dealers and Financial Institutions the ability to outsource their Back- and Middle-office-functions globally. Prior to this, Rob globally ran the Securities Clearing and Financing business in the Domestic Custody Service Group at Deutsche Bank, responsible for both product and sales areas. Rob has held a variety of senior positions running global operations and advising on global client strategies for Banks, Broker Dealers and Financial Institutions and has worked amongst others with Citigroup and Bank of America.

ISS: Would it be fair to say that in an increasingly uncertain world, long-term partnerships with local institutions are of greater importance than ever?

Rob Scott: As banks, service providers and clients redefine their business models, the ability to recognise your proprietary advantages quickly and to partner and collaborate with others who have greater efficiency, scale or capabilities in areas where there is little to no advantage to yourself, is of paramount importance.

In order to sustain long-term commerciality, recognition and acting quickly in these areas are essential in order to truly differentiate and focus on areas where you retain core competency. No longer is it an advantage for banks, for example, to have huge back and middle offices and build huge, complex technology platforms, which for the most part all perform the same functions. People are now thankfully less proprietary in their thinking and this will give rise in the next five or so years to increase outsourcing, coupled with business collaborations which benefit all.

COMMERZBANK

Corporates & Markets (C&M), is the client-driven investment banking arm of Commerzbank, providing integrated investment banking products and services to corporate and institutional clients globally. C&M draws on the three strategic core areas of Fixed Income & Currencies, Equity Markets & Commodities and Corporate Finance; combined with integrated Research capabilities, Credit Portfolio Management and Client Relationship Management.

C&M contributes to the real economy by committing capital to support clients' long-term ambitions, and stands for trusted long-term relationships, aiming to provide clients with transparent risk management solutions and unbiased advice.

Andy Duffin: Building long-term partnerships has always been extremely important. In the context of this question it is important to differentiate between a local bank operating in one or two markets versus one which is attached to a universal bank with global reach. When considering whether a sub-custodian represents a good long-term partner a network manager has to look beyond the local custody activities. It has to also consider the banks' other activities in the market as well as its activities and strategy at a regional, global and business line level. Commitment to the business does not necessarily mean longevity of service. We have seen there are lots of factors which can impact whether a chosen partner bank remains over time the right one. It is now more than ever a critical part of the selection process to consider these factors.

Jessica Hynes: Banking relationships are best when they are stable, and remember, in sub-custody only a limited number of partners may be available, particularly in emerging markets. Everything comes down to great relationships.

ISS: What are the essential requirements of a sub-custodian? Strong parent and balance sheet? Experienced staff? First-class relationships with local financial infrastructure and regulatory bodies?

Rob Scott: There are many facets and advantages to local custodians. They bring about levels of local expertise and understanding which are usually unparalleled. Their knowledge of clients and their respective activities is usually far more comprehensive, enabling them to bring about solutions which bring real and tangible benefits to their clients. Due to their size and focus, they are often able to be nimble in their client solutions and in providing a quick time to market on initiatives and market and regulatory adaptations.

The ever-increasing regulatory workload upon sub-custodians and network managers is now very much viewed as business as usual... one of the most significant issues today is redefining the service model for sub-custodians and the network strategy as a client. - Andy Duffin

Their understanding of and connectivity to local infrastructures, people of influence, regulators and various market participants are deep and advantageous to clients seeking strong market advocacy and representation at a local level.

Above all else, local custodians offer a client service experience which is often unique in today's "service centre/ centralised" approach. There is very often stability in the client engagement model and relationship management. Again this is often a criticism heard of larger universal organisations which in recent years seem to have somewhat of a "revolving door" approach to clients and in the relationship management of day-to-day services. It's virtually impossible to understand your client in a very holistic and comprehensive manner if relationship support changes with high frequency. Local custodians are very often rightly proud of the fact that

Historically people entered markets with the anticipation of volume and the hope of being commercially successful. Now, there is more business scrutiny from clients who need to properly align with their end-client or proprietary needs.
- Rob Scott

their success is measured on the longevity of the client relationship and making the client central to how they measure their success.

Andy Duffin: Increasingly clients are focusing more on risk during the selection process. Clients are digging deeper into local market law and regulations in particular around restitution of assets. They are asking more in-depth questions around business continuity, IT security and demanding more stringent internal controls and automation.

Jessica Hynes: Most sub-custodians are members of a large international banking group, so the majority of assets are in the care of the major banks which are all interlinked in one way or another. Many banks are both clients and competitors of each other. This domination of big international banks reflects the importance of having a strong balance sheet. Only in emerging markets will you find local banks operating, and you will find that a couple of major banking groups are the dominant players in the larger EMs. They have the expertise and first class relationships needed to get things done with stock exchanges and regulators.

ISS: How are these changing, if at all?

Rob Scott: My feeling is that the essential requirements of sub-custodians have always been and will continue to be the same today as they were yesterday. Of paramount importance is the need to truly understand your client and the ability to service them locally in their language, and in a manner which they are used to and comfortable with. The need to strike an effective balance of optimising P&L to the level where client interaction and relationship is distanced and at worse, potentially compromised is a recipe for disaster. A balanced approach and, if working with clients an open, equitable relationship manner, are always the secrets of long-term success.

Andy Duffin: Risk has always been a key component of the selection criteria; however regulation has required clients to have a greater focus on this topic in particular when acting in a depository bank capacity.

Jessica Hynes: Stronger reporting and enhanced operational security are expected as standard now. People want to find out what is going on in a local market the same day, not overnight.

Andy Duffin

Managing Director, Head of Sales & Relationship Management, Emerging Markets - Societe Generale Securities Services

Andy Duffin has been with Societe Generale Securities Services since 2007 and is currently Head of Sales, Emerging Markets. He has over 25 years experience within the securities services industry having begun his career within the custody division of the Royal Bank of Scotland plc in 1987. Following a 10 year period at the Royal Bank of Scotland plc he joined the network management group of Deutsche Bank AG where he headed the team in EMEA. In 2005 he joined Clearstream Banking as a Sales and Relationship Manager based in London.

ISS: Are there natural limits to how far outside institutions might penetrate into so-called emerging markets?

Rob Scott: Both clients and service providers are often drawn to emerging or frontier markets due to the levels of returns in those given markets. This applies both to the client in terms of P&L generated from trading activities either locally or in their ability to arbitrage respective markets. The only difference today is that historically people entered markets with the anticipation of volume and the hope of being commercially successful. Now, there is more business scrutiny from clients who need to properly align with their end-client or proprietary needs.

There is far more rigour around entering a market and a full and comprehensive understanding of the local risk models and dynamics from, for example, fully understanding local infrastructure and its respective regulatory environment to understanding counterparty credit perspectives.
From a service provider perspective the days of "build and they will follow" are long gone. Unless being in that market is paramount to your client needs or meaningful from a proprietary perspective, it's unlikely you will attract sufficient volume and be able to invest and develop sufficient levels of product delivery to make it commercially viable in the long-term. This is a major contributory factor in why we continue to see exits from markets or product types by the sell-side community.

Andy Duffin: There are definitely limits and the question needs to be addressed in the context of the client segment concerned. It is most definitely more challenging for an outside institution to penetrate domestic clients such as providing a depository bank service. Domestic clients tend to favour local banks, in particular those which can deliver an efficient service by utilising the global infrastructure of a parent company.

Jessica Hynes: Certainly there is a cost-benefit dynamic to consider. If a market is very small and thinly traded, there is not much room for more than one or maybe two players and there really is not any room or need for more players. It is not so much a safety concern, more a question of whether there is enough business, competition and issues. If not, why would one of the big international players want to be there?

ISS: Is the pace of expansion by global custodians into such markets slowing? Does this highlight the need for the sub-custodian?

Commerzbank: The pace of global custodians expanding into frontier/emerging markets is certainly slowing. There are even quite recent examples and trends of organisations withdrawing from markets and localised activities. This is again often a result of organisations trying in the past to be all things to all clients, in all markets, products and currencies. As large banks begin to understand and rediscover their proprietary strengths and identify markets where they truly have strongly aligned client interests, I foresee this trend continuing and more exits and product/service reshaping ensuing.

Banking relationships are best when they are stable, and remember, in sub-custody only a limited number of partners may be available, particularly in emerging markets. Everything comes down to great relationships.
- Jessica Hynes

SOCIETE GENERALE

Established in 28 locations worldwide with 4000 employees, Societe Generale Securities Services (SGSS) provides a full range of securities services that are adapted to the latest financial markets and regulatory trends: clearing services, custody and trustee services, retail custody services, liquidity management, fund administration and asset servicing, fund distribution and global issuer services.

SGSS is among the top ten global custodians and the 2nd largest European custodian with EUR 3,995 billion of assets under custody. SGSS provides custody & trustee services for 3,653* funds and the valuation of 4,094* funds, representing assets under administration of EUR 585* billion.

SGSS ranks among the European leaders in stock option management.
**Figures at end September 2015*

In turn, this gives local service providers the chance to shine once again and to find commercial strength where once they were challenged by the large global custodians which very often served to force prices to unsustainable levels by competing for business at all costs in order to keep clients happy; often compensating from a P&L perspective in other areas of their business activities with the same client, or loss leading for sake of overall relationship reasoning purposes. Regulation and greater levels of transparency have served to stop and curtail this activity as legal entities and business lines need to need to stand up commercially, as this now leads to drains in capital usage or balance sheet consumption.

I have been part of our industry for nearly 30 years and change has always been the one constant. Any opportunity to re-examine the way in which we service our clients can only be good for all involved.
- Andy Duffin

However, whilst local sub-custodians will continue to provide necessary expertise and client solutions at the local level, I do not foresee the return of commercially sound models for multiple local providers to co-exist in the same markets. We will likely therefore see some local providers fall away all together or consolidate further.

Andy Duffin: The expansion of global custodians into new markets is definitely slowing. The number of new markets added to their networks year on year is very light.

Jessica Hynes: In terms of the largest players, only a handful are truly global AND local. The two largest global custodians have little or no network of their own to speak of and are quite happy to outsource this function to the sub-custody specialists.

ISS: Can you point to one or two instances, without betraying confidences, where a sub-custodian has demonstrated its value beyond any shadow of a doubt?

Rob Scott: There have often been many examples where the client gets into difficulty with a trade or series of transactions. Local custodians often have the ability to gain the upper hand in, for example, cut-off times, deadlines and election windows of local corporate actions. They very often have superior relationships with local infrastructure, be that exchanges, CCPs or central depositories. This has the advantage that you can work right up until the market closes in an effective and problem-solving manner. Whilst much of this is of a non-contractual nature and is usually on a "best efforts basis", having local people familiar with the market, clients' activity and behavioural patterns, coupled with sound technical knowledge of what's possible and what's not, is a distinct advantage.

ISS: Are there any areas not covered by the above that you think we need to include in the discussion?

Andy Duffin: The requirement for a client to have an exit plan from its existing sub-custodian is increasingly being debated in the industry. Whether this is called a contingency provider, back-up provider or secondary provider the real issue is having an exit strategy. The need for an exit plan is for me not in question as there have been numerous examples in recent times where, not through choice, clients have been forced to move from one sub-custodian to another. Today, the selection process and service demands of a sub-custodian are broadly the same for most clients. However, when it comes to appointing a contingency provider there is no commonality in the selection process and the required services and level of engagement differ greatly from one client to the next. There is also no common industry view upon what a service provider should deliver in terms of service and capacity. There is also limited interaction between sub-custodians regarding how they would plan in advance to efficiently deliver a client's exit strategy. The industry needs to work together to tackle these points and address this current area of risk.

Jessica Hynes: I think it is important to point out that the seven major custodians are all globally systemic important banks (G-SIBs), and that in terms of custody and sub-custody, they are all networked into one another. The majority of the world's assets are thus looked after by tightly regulated and well capitalised institutions. Future growth will be driven, broadly speaking, by market growth, but if markets are thin no one will go into them as there is no business case.

The Centre of Excellence
Lifting the regulatory, management and financial burden of reconciliations processing

Julian Trostinsky, MD of Central On-Boarding Utility & Managed Services, SmartStream, looks at a new operating model where a specialist vendor teams up with financial institutions to lift the burden of reconciliations processing.

Recent years have seen an explosion in the volume of reconciliations financial institutions perform. Regulatory initiatives, in particular, have driven financial services organisations to increase the number of reconciliations they carry out. Firms are coming under greater pressure than ever from regulators to speed up the on-boarding of new reconciliations and to prevent the occurrence of backlogs.

To respond effectively to regulators' demands for speedier on-boarding, financial institutions are reviewing operations in this area.

Some financial institutions are turning away from in-house development and looking instead at working in partnership with a specialist third party to whom all or part of the reconciliations management process can be entrusted.

Reviews sometimes reveal a concerning picture. Far from discovering that they are achieving operational excellence, firms often find that quite the opposite is the case. For example, the average time needed to investigate and close an exception may be increasing, not decreasing. Alternatively, the number of 'open' exceptions may be unacceptably high. Manual input – for example, manually loading or transforming data – might also have reached high levels.

Reviews of reconciliation processing operations frequently reveal insufficient or inadequate risk controls and alarms, too. One typical weakness is a lack of alerts to flag up reconciliation breaks. Another problematic issue is an insufficient number of checks and controls in the workflow defined to regulate the write-off process. In other cases, matching is carried out using incorrect rule criteria.

Compounding these difficulties, is the fact that existing systems and processes often lack scalability and flexibility, making it hard to incorporate operational changes or new business lines. Lack of flexibility and scalability also hinders financial institutions' ability to respond to external changes, such as new regulation or alternations in counterparty messaging formats. An ageing and inflexible solution is likely to make the on-boarding of new reconciliations time-consuming and arduous, too.

Clearly, weaknesses such as those previously outlined make it far harder for financial institutions to achieve continuous process improvements.

Yet achieving change is more easily said than done. An initial stumbling block is the multiplicity of disparate legacy systems and end user applications banks have in place – how should these best be dealt with? Implementing new technology is time-consuming and expensive, while its maintenance is also costly. Firms must budget for software upgrades, routine software or database maintenance tasks, and must factor into their calculations the purchase, housing and building of hardware, as well as the cost of operating system and database licences, data backup and archiving services.

As a result, some financial institutions are turning away from in-house development and looking instead at working in partnership with a specialist third party to whom all or part of the reconciliations management process can be entrusted.

In response to these industry challenges, SmartStream has developed a Centre of Excellence for reconciliations processing. The Centre, which was developed in consultation with clients, is staffed by highly trained personnel and is equipped with the latest SmartStream technology.

Well established, the Centre of Excellence currently serves several well-known financial services organisations. These are drawn from both the sell and buy-side, and include Tier 1, 2 and 3 banks, as well as hedge funds and asset managers. Operating across different geographies and business lines, the Centre has a truly global reach. This capability, coupled with the Centre's capacity to handle multiple products, makes it a one-stop-shop for financial institutions. It also enables it serve the needs of even the largest, multinational company. The Centre provides a risk-mitigated solution with consistent levels of service performance, as well as great scalability and flexibility. It allows financial institutions to achieve better value through operational excellence and continuous process improvements.

The Centre of Excellence is staffed by personnel of the highest calibre. Resources are drawn from business and technical backgrounds, and have an in-depth understanding of middle- and back-office processing. Their extensive knowledge of SmartStream solutions and third party vendor products is reinforced by continuous training. Personnel are experienced at liaising with client project teams and are skilled at supporting organisations with complex technical environments.

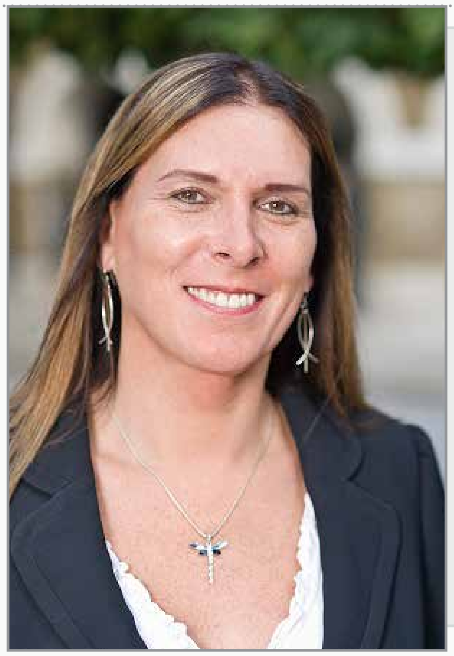
A reconciliations on-boarding service is offered by the Centre of Excellence. This guarantees to cut the time associated with the on-boarding of new reconciliations, enabling clients to manage the rising volume of reconciliations in the most efficient manner possible.

Clients are already experiencing the benefits of using the faster on-boarding service. Take the case of a Tier 1 global financial institution currently using the facility. The company has seen significant improvements in processing efficiencies: auto-match rates have improved by 97%, while STP rates have improved too. It is now also able to provide a greater depth of transaction details to its clients and so has improved customer service levels. By using the Centre's analytical capacities, it has weeded out many processing inefficiencies. One such example is the reduction in its exceptions rate, which has been cut by 67%.

A managed service is also delivered by the Centre of Excellence. Operating on a multi-tenant basis, and overseen by highly trained resources, the service covers the entire, end-to-end reconciliations management process. It encompasses faster reconciliations on-boarding, as well as the hosting of SmartStream's market-leading solutions. Upfront implementation costs and time are minimal, making it an ideal option for firms looking to respond promptly and cost-effectively to new regulation or business changes. This is well illustrated by the example of a recent client, a global broker, which, following regulatory focus on brokerage clearing and execution, chose to make use of the Centre's managed service for its internal and external brokerage – and ETD – reconciliations.

Developed in close consultation with clients, the SmartStream Centre of Excellence was created in direct response to a growing appetite for a new type of operating model.

Developed in close consultation with clients, the SmartStream Centre of Excellence was created in direct response to a growing appetite for a new type of operating model – one which could lift from financial institutions the management burden linked with reconciliations processing, leaving them free to focus on their core business. Given the current pressure on firms to cut operating costs, as well as the need to respond rapidly to incoming regulation, the demand for this type of operating model will grow significantly during coming years.



Harmony in the Standards World?

Fiona Hamilton, Vice President of EMEA Operations,Volante Technologies

With much fanfare SWIFT announced an ISO 20022 Harmonization Charter at Sibos 2015 in Singapore. Driven by the rapid proliferation of adoption of ISO 20022 across the industry, whether in payments, securities or other asset classes, a number of payments associations, central banks, securities and payments processors have signed up to a framework for sharing usage information and more. There are currently more than 200 initiatives round the world where ISO 20022 has been chosen as the basis for new services or as the desired syntax to migrate to for legacy services.

Is this a case of "be careful of what you wish for"?

So this laudable intention on the face of it seems like a good thing but as with everything in the standards world, the devil is in the detail.

For many years, myself and many others have been writing articles and participating on panel sessions that pondered or lamented the glacial adoption of ISO 20022 compliant messages by the financial industry. Then suddenly within the space of a couple of years the main issue seems to be that it is being widely adopted. Is this a case of "be careful of what you wish for"?

The answer to that question very much depends on what you thought ISO 20022 was going to bring to the table. If you thought that ISO 20022 was a set of messages that would cover every financial transaction from "cradle to grave" with all contents codified, then you plainly didn't read the small print! ISO 20022 is a methodology based on modelling the concepts behind transactions, such as what an account is or what a currency is. From these concepts you can then base more specific usages such as a Cash Account from which in turn you can derive message components and elements which will then end up in the message artefact, which is usually an XML schema that defines the structure and content of an XML instance document (message). It should be noted that the message structure does not have to be XML but in practice this is the case with most implementations.

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So far so good. It is great that when you see something that is based on the concept of an account, regardless of what it is called, you can know its general structure and what it means. The deviations, however, start at that message derivation stage and that largely is where the proliferation of differing implementations and usage comes in. It is important, however, to understand that this was always part of the overall design of the standards. In fact it is actually one of its strengths. Built into the naming conventions of the message schemas derived from the business data dictionary are the concepts of versions and variants. The ISO 20022

The ISO 20022 methodology is highly influenced by Unified Modelling Language (UML) and more generally in practices associated with "agile" development.

methodology is highly influenced by Unified Modelling Language (UML) and more generally in practices associated with "agile" development. As such the aims are to facilitate rapid development of solutions highly tailored to the end user/system requirements.

So if I wish to create a variant of a published message schema which restricts usage, I am perfectly at liberty to do so. Likewise if I don't find a published message that fits the bill I can also create my own schema that constructs a message structure that does. As long as I base it on the underlying components in the business data dictionary and inherit those properties of length, type, etc. then my message will still be ISO 20022-compliant – it just won't be based on a published message. This being the approach that infrastructure such as T2S has taken.

So, given that inherent flexibility it is hardly surprising that the number of variations encountered across the world is multiplying rapidly. It's not an accident; it is built into the standard! The ISO 20022 standard embraces commercial and context specific reality. You should be in a position to create messages which best allow you to communicate the information specific to your service whilst still retaining a basic commonality of understanding with other implementations based on the fact that the underlying business components are the same. Indeed, although SWIFT are driving the charter they too have for years been implementing their own MX messages which are often different than the published ISO 20022 messages, not to mention that in some cases some of the Swift Solution sets use implementations that are neither published ISO versions nor the versions that are published as MX. Therein lies the reality.

SWIFT have been doing a sterling job at creating and maintaining message standards for decades but even they have embraced the fact that ISO 20022 allows you to work at your own speed and to implement innovative services without waiting for the leviathan which is the ISO process itself to catch up. Of course you can submit your new versions to ISO but there is no guarantee that they will be accepted given the broad base of agreement, not to mention time and effort that is needed for acceptance.

So with regards to the tenets of the charter it is certainly a good idea to share non-IP-related usage information and, where commonality exists, to adopt them as a standard usage pattern and publish those guidelines in the public domain. This certainly goes some way to facilitating interoperability. This is especially useful where you have many parties at similar stages in adoption within a fairly narrow spectrum of usage, as demonstrated by the ISO 20022 Real Time Payments Group or CGI-MP in the Corporate to Bank Payments and Cash Management space. So long as interested parties come together at an appropriately early stage then very often you can arrive at some sort of Pareto's Law (80/20 rule) - based consensus pretty quickly, and indeed just the act of talking with peers can be very beneficial. What you do need is strong chairing of

That reality is that the standards are there to facilitate effective transfer of information but they are also there to support innovation in services and the commercial imperative to get those services to market as quickly as possible to realise revenue.

these groups to stop the process getting bogged down into specifics of implementation. It is at that stage that you simply have to agree that you will be implementing the messages differently in some ways. So what you end up with is three-tiered. Firstly agreement on which base version you are basing the commonly agreed content, secondly the publicly available usage guidelines for

those common usages and lastly IP-related usage guidelines which are not publically available and are retained by the party in question.

Those of us deeply rooted within the standards world do have a tendency to be somewhat pedantic; however, we must also be realists. That reality is that the standards are there to facilitate effective transfer of information but they are also there to support innovation in services and the commercial imperative to get those services to market as quickly as possible to realise revenue.

In short, agree what can quickly be agreed, write it up and publish it and then get on with the job in hand. Don't spend years trying to come up with a panacea that works for all; it simply won't happen. Indeed even the first of those three tiers is likely to only hold for a short time as the commercial imperative to take advantage of newer versions to facilitate additional services or improvements to existing ones will always trump the desire to be the same a everyone else.

This point does, however, seem at odds with another tenet of the charter which states "FMIs (Financial Market Infrastructures) align publication of advance information and standards cutover dates to SWIFT's MT/FIN maintenance cycle which is already entrenched in industry practice and aligned with budget and software development cycles". It may surprise some but the whole of Financial Services does not revolve around SWIFT. Of course for those involved in supporting SWIFT within their organisations, life often does revolve around that Feb – Nov cycle but it's certainly not how the FIX, FpML, EDI, etc world is aligned. These standards facilitate multiple concurrent versions and variations and are often different depending on bilateral agreement or network provider. I would argue that given ISO 20022's inherent multi-version capabilities and the fact that it is not dependent on a single network provider like MT FIN, it is much closer in modus operandi to those other standards than MT FIN. To be honest, I haven't met many banks that have said to me "what I love is being forced to spend money on an annual immovable migration to new versions of messages from which I gain no business benefit whatsoever".

Those of us deeply rooted within the standards world do have a tendency to be somewhat pedantic; however, we must also be realists. That reality is that the standards are there to facilitate effective transfer of information but they are also there to support innovation in services and the commercial imperative to get those services to market as quickly as possible to realise revenue. To suggest that we would all benefit from saving up all of our changes and new services to one golden date in the year seems utterly nonsensical to me. ISO 20022 is not network-dependent; whilst it obviously makes sense for a value added network to impose tight version control, that cannot and should not be extrapolated to the entire ISO 20022-based ecosystem.

Perhaps we should all take a step back and look at how other standards manage to have this flexibility of versions and variants without all the hand wringing and cries of woe. For me this flexibility is actually a strength, and provided FMIs document in as open a way as possible how they use the standard and provide real examples, then the technology is there to handle multi-version end points. Don't stifle the innovation, embrace it. By all means share information but set a time limit for it and then get on with implementing – aiming for total agreement is a classic case of the law of diminishing returns.

Harmony doesn't require total agreement on everything after all.

We should all take a step back and look at how other standards manage to have this flexibility of versions and variants without all the hand wringing and cries of woe.

REMIT: Wholesale Energy Market Integrity and Transparency Regulation

ISS Magazine talks to KELER's Director of Strategy and Client Relations, Péter Csiszér about REMIT; the issues it raises and the solutions it offers.

ISS Magazine (ISS): For the benefit of readers who might not be familiar with the energy markets, what is REMIT?

Following the financial crisis of 2008, the need to ensure increased market transparency has become of high importance and a tendency to reconsider the existing rules, regulations in a number of fields began to evolve. In addition to the capital market, new regulations were adopted to the energy market as well.

The Regulation on Wholesale Energy Market Integrity and Transparency (REMIT, Regulation (EU) No. 1227/2011 of the European Parliament and of the Council) entered into force on December 28 2011. The main objectives of REMIT are to ensure market integrity through trade monitoring and access to fundamental data and to hinder market abuse.

The main objectives of REMIT are to ensure market integrity through trade monitoring and access to fundamental data and to hinder market abuse.

First, it introduced prohibitions for market manipulation and insider trading and gave supervisory and authority powers to take actions against breaches to so-called National Regulatory Authorities (NRA).

Finally, the provisions of REMIT stipulate data reporting obligation for the market participants of wholesale energy market within the European Union which just took effect recently, in Oct 2015.

ISS: What is the timeline for its full implementation?

The obligation of data submission on standardised contracts and orders concluded on Organised Market Places, has been effective from October 7 2015. The obligation of transmission of the standardised and non-standardised contracts concluded outside of organised markets shall become effective from April 7 2016. Similarly to EMIR, REMIT also requires backloading, data must be submitted on trades already concluded but still valid on the effective date of the reporting obligation within 3 month of the same date. That is, for standardised deals till January 7 2016, for OTC deals till July 7 2016.

One of its main aims is to ensure that wholesale energy market prices are open and transparent.

ISS: How well do you think it achieves that aim?

As the first effective date of the reporting obligation, October 7, is only applicable to the wholesale energy deals concluded on Organised Market Places it hardly makes any difference for the time being – prices on OMPs are public and transparent. Overall, to measure any other aspects would be also be quite early after slightly more than a month of data collection under REMIT. As a comparison: reporting under EMIR has been effective for 18 months by now and such results have not yet been reflected.

In terms of pricing, the level of transparency shall be more of a question once OTC deals become the subject of reporting, following April 7 2016. After that it will be a more interesting question to look at what information the reported data reveals on OTC pricing levels.

ISS: What new institutions have had to be created to ensure it functions properly?

REMIT does not require the foundation of brand new institutions; however it introduces several definitions. As a result, new roles and responsibilities have been assigned to market participants and regulators on different levels.

The Agency for the Cooperation of Energy Regulators (ACER) has been appointed to cover the monitoring framework of the regulation. ACER takes on a central role on an EU level collecting and reviewing the trading data reported.

One of the objectives of REMIT was to authorise bodies on a national level for the enforcement of the regulation's provisions: these National Regulatory Authorities (NRAs) are normally already existing and operating institutions such as national regulators concerned in energy market matters in each EU Member State. NRAs have established national registers of market participants.

NRAs shall form the basis of the Centralised European Register for Market Participants (CEREMP), the centralised register developed by ACER. This system is also available to NRAs as a means for registering market participants in their own Member State.

Finally, the role of the Registered Reporting Mechanism (RRMs) has been introduced by REMIT which refers to the market participant, organised market place or third-party, reporting directly to ACER who fulfilled all requirements to be admitted to report on behalf of other market participants. Organised market places have been obliged to register as RRMs. Other third-party institutions, such as KELER, may offer REMIT reporting as part of their service range.

ISS: How does it actually work?

The provisions of REMIT stipulate data reporting obligation for the market participants of wholesale energy market. Precondition of reporting to the Agency is to get registered at the competent NRA. If a participant is trading in more than one EU state, it is sufficient for it to get registered only once, at one of the member states' NRA.

The data submission itself shall happen by delegating the reporting to a competent RRM which might be an Orginased Market Place the participant is trading at, or especially where more than one OMP is involved, a third-party RRM covering all markets could be a practical choice.

RRMs have their own infrastructure including system capacities, links to ACER's system and their rates significantly variable throughout the EU. While certain OMPs are in a position to offer automatic reporting of the trading data in their possession, others define conditions for reporting other markets' deals.

KELER as a third-party RRM offers the latter with the introduction of three different memberships (general for third party reporting, individual for a single entities' reporting and indirect with monitoring functions) for fixed, monthly fees and offers its own Trade Reporting system for uploading reports.

REMIT does not require the foundation of brand new institutions, however it introduces several definitions. As a result, new roles and responsibilities have been assigned to market participants and regulators on different levels.

Market players are obliged to choose an RRM, but free to choose their reporting service provider. If one is already in contractual relationship with an RRM it is also possible to change the provider any time. If a market participants decides to change its selected RRM based on more beneficial service offering and rates it can do that simply by amending Section 5 of the ACER (CEREMP) registration form.

ISS: What is the REMIT portal?

REMIT portal is a website operated by ACER as a single entry point to a compilation of information and applications in relation to the legislation and its implementing acts. The officially registered participants, Organised Market Places and RRMs are published here as well.

In addition, many of the OMPs and third-party RRMs launched their own sites or incorporated REMIT-related guidance into their existing webpages so market participants can find relevant sources on the various reporting service offerings as well. KELER has also gathered both general and specific information on REMIT and its own reporting service on a site dedicated to the topic. (KELER's site is available @ https://english.remit.keler.hu/.)

REMIT affects everyone who participates in, or whose conduct affects wholesale energy markets within, the European Union. It makes no difference whether or not the person is resident within the EU.

ISS: Is REMIT limited to the European Union or does it impact markets and providers elsewhere?

REMIT affects everyone who participates in, or whose conduct affects wholesale energy markets within, the European Union. It makes no difference whether or not the person is resident within the EU. Any market participants entering into transactions including orders to trade in one or more wholesale energy markets in the Union covered by REMIT and affected by the reporting obligation.

ISS: How confident can we be that regulators and other agencies work closely and effectively together to detect and investigate market abuse?

As the EU level central authority, ACER established its own system, ARIS, in order to effectively gather and maintain the reported data from the RRMs. Once trading data is submitted, the so called 'SMART' module of ARIS will perform the validation: it is supposed to match and analyse the details or identify discrepancies.

The different modules of ARIS can be adapted by the NRAs so that they become linked directly to ACER's database. This link guarantees the effective flow of information between the regulators. Once SMART identifies a discrepancy as a sign of market abuse it notifies the respective NRA to take action. Such intervention could range from investigations to financial sanctions. The level of sanctions may vary by state; it is the responsibility of the competent NRA to define the penalties. For instance, in Hungary, the financial sanctions levied by the Hungarian NRA, the 'MEKH', could vary from EUR 30,000 to EUR 1,500,000.

ISS: How is REMIT enforced? What sanctions are available? What kind of penalties might we see?

Member states have different approaches in bringing in legislation and in defining the levels of their sanctions. In most cases typically civil sanctions, from investigation to financial penalties, apply but certain states introduced criminal sanctions as well (for instance UK for the use of inside information and market manipulation defined by Article 3 and 5 of REMIT).

Member states have different approaches in bringing in legislation and in defining the levels of their sanctions.

As already noted, in Hungary, the NRA may impose a charge of EUR 30,000 to EUR 1,500,000 if it identifies a breach of REMIT.

Overall, each EU member state itself is supposed to set out its own quidelines for market monitoring, investigatory and enforcement powers.

ISS: Speaking honestly, openly, transparently and accurately, is REMIT anything more than a typical European Union regulatory and bureaucratic solution in search of a non-existent problem?

REMIT should be considered as a strategic approach to trade reporting which is worth contributing to, but later on the effectiveness of data validation and the level of enforcement will have to support that.

International Securities Services Magazine Roundtable

T2S

ISS Magazine talks to Mike Clarke at Deutsche Bank, Isabelle Olivier at SWIFT, and James Woods at BNP Paribas about early implementation of T2S.

Mike Clarke
Director, Global, Product Management
Deutsche Bank

Isabelle Olivier
Head of Clearing and Settlement, EMEA
SWIFT

James Woods
Head of Clearing, Settlement & Custody Business
BNP Paribas, Italy

ISS: What has been your experience so far in the early days of T2S implementation?

Mike Clarke, director, global, product management at Deutsche Bank: Our experience so far has been positive. Our clients were back to pre-T2S levels of settlement by September 2 - a fantastic achievement in itself - and some of our broker-dealer clients were achieving 100 percent settlement from this date.

There was an enormous amount of preparation and co-operation within the community. On a project of this scale, this was essential to ensure a smooth go-live. There were multiple dress rehearsals and a long testing period.
- Isabelle Olivier

We are also seeing a substantial volume of transactions settling during the night-time settlement cycle, close to 90 percent of the transaction volume on average, which again shows the efficiency of the platform.

There were a few challenges in the first few days on standard settlement instructions not being updated, and challenges for central counterparties in the amount of liquidity that is required, but not anything that would detract from the overall positive experience for Deutsche Bank and our clients.”

Isabelle Olivier, head of clearing and settlement, EMEA, at SWIFT: The migration went very smoothly for SWIFT and the players that opted for our T2S VAN (value added network) solution – and operations have run efficiently since then. There has since been some fine-tuning of the settlement engine by T2S, which is expected in a project of this scale.

The first phase of the migration went live on June 22 with BOGS, Depozitarul Central, Malta Stock Exchange and SIX-SIS, with limited volumes and the basic set of functionalities. If you think of this in terms of Formula 1, for example, the first phase was the warm-up lap to ensure that engines are running properly before the cars move to full speed. The second phase of the migration on August 31 with Monte Titoli demonstrated that the platform was ready for higher volumes and that enhanced functionalities, such as auto-collateral, were working as expected.

Mike Clarke

Director, Global Product Management Investor Services, Global Transaction Banking - Deutsche Bank

Mike Clarke is based in London within Deutsche Bank’s Global Transaction Banking division in the Product Management group associated with Investor Services.

Mike is the Global Product Manager responsible for Client and Product solutions in Europe post T2S. He has over 20 years of financial experience, previously working at Broadridge Financial Solutions, and Pershing Ltd, where he has had Global product management and product delivery roles in post-trade services.

Mike specializes in developing business related analysis in regard to securities trading and post-trading environments, providing product management leadership throughout the clearing & settlement, custody landscape in Europe.

James Woods, head of clearing, settlement & custody business at BNP Paribas, Italy: While the smaller markets migrated without a hitch in June, all eyes were on Italy given that it represented more than 90 percent of Wave 1 volumes. Considering the complexity of the Italian market, the transition went smoothly and all issues were promptly addressed. Given the size of the Italian market, with more than EUR 3 trillion of assets under custody, the smooth transition represented a solid step forward in rolling out the new platform.

The delay in the Italian migration has proven to be a prudent decision as it provided the market with the necessary time to carry out adequate testing. A few days after the migration the settlement rate increased sharply and we processed almost half a million settlements in the first week. The system is functioning as planned and BNP Paribas is in the perfect position to assist both domestic Italian banks and international players with their post-trade business across Europe.

Deutsche Bank

Deutsche Bank provides commercial and investment banking, retail banking, transaction banking and asset and wealth management products and services to corporations, governments, institutional investors, small and medium-sized businesses, and private individuals. Deutsche Bank is Germany’s leading bank, with a strong position in Europe and a significant presence in the Americas and Asia Pacific.

While the smaller markets migrated without a hitch in June, all eyes were on Italy given that it represented more than 90 percent of Wave 1 volumes.
- James Woods

ISS: Has it been successful?

Mike Clarke: On the whole, we can consider T2S a success so far. The platform already has roughly 15 percent of the volumes of the T2S markets live on the platform without a major issue.

The fact that four markets went live as scheduled in the first wave, on such a large multi-year programme of work, is a great achievement. Even though we did see a delay in the Italian migration, this delay was for the right reasons, namely to ensure that the market was fully ready, and to ensure a smooth migration. That decision has been validated to a great extent by the smoothness we experienced in the transition of the Italian market.

Isabelle Olivier: Yes, very successful indeed considering the size and scope of this major European project.

James Woods: Yes. Both the Italian market migration and the BNP management of this major market change have widely been acknowledged as successful. All the milestones were met on time and the migration was completed ahead of schedule, with the "point of no return" reached several hours ahead of schedule. Considering that this has been one of the largest post-trade changes in the past 30 years and the market has had challenges in the past with adaptation projects, this was a clear success.

There is a combination of many reasons for the success. This has been a massive undertaking, a programme of work that has run over a number of years.
- Mike Clarke

BNP Paribas migrated 60,000 positions, accounting for a quarter of the total positions migrated to the platform in Italy. Our ability to manage the complexity of this market change, while shielding our clients where possible, was noted. Over the migration weekend itself, we were able to successfully complete the necessary tasks and highlight issues to the market while at the same time keeping our clients fully informed along the way. The weekend of the migration we were on the phone with clients and sent over 20 detailed communications of how the migration was progressing. This way our clients knew where to focus their attention on the first morning of T2S.

ISS: Why has it been successful? People? IT? Preparation? Or lack of market volume?

Mike Clarke: There is a combination of many reasons for the success. This has been a massive undertaking, a programme of work that has run over a number of years. There are a few items we would highlight for the success.

Programme governance: The governance of the programme from the start has been inclusive, from the advisory board containing observers, to the inclusion of National User Groups and specific Task Forces. This has allowed for open communication and feedback into all stages of the programme.

Preparation: The preparation for go-live, with a number of dress rehearsal weekends, allowed the market to test the transition, test their internal processes and procedures allowing issues to be ironed out and addressed prior to the migration itself.

Pragmatism: The decision to delay the Italian migration, and allow market participants to complete their testing, ensured that we could have a greater level of stability after the migration.

People: We saw a number of small problems in the market requiring that a quick resolution be addressed immediately, through flexibility and pragmatism across all parties.

Isabelle Olivier: There was an enormous amount of preparation and co-operation within the community. On a project of this scale, this was essential to ensure a smooth go-live. There were multiple dress rehearsals and a long

James Woods

Head of Clearing, Settlement & Custody Services - BNP Paribas Securities Services, Italy

In his role, he manages the Banks and Broker segment across six markets and has the overall business oversight for the sub-custody offer in Italy. James is Deputy Regional Manager for the Italy, Switzerland and Mediterranean Basin.

Prior to BNP Paribas, James worked at Citibank, where he held several positions within Network Management, Product Management and Marketing. Before leaving New York to join BNP Paribas in Milan, James was Managing Director of a Technology Consulting firm, accountable for business strategy and operations in the Eastern Region of the USA.

testing period. From SWIFT's perspective as a T2S VAN provider, we focused on very efficient co-ordination between SWIFT, the Eurosystem and our clients, which ensured a problem-free migration. The volumes on the platform are already strong but, clearly, as the next implementation phases take place, these will further demonstrate the scalability of the new settlement platform.

BNP Paribas Securities Services, a wholly-owned subsidiary of the BNP Paribas Group, is a leading global custodian and securities services provider. It provides integrated solutions for all participants in the investment cycle, from the buy-side and sell-side to corporates and issuers.

Covering over 100 markets, with our own offices in 34 countries, the BNP Paribas network is one of the most extensive in the industry. We bring together local insight and a global network to enable clients to maximize their market and investment opportunities worldwide. adapt and its ability to innovate.

James Woods: A combination of factors contributed to our successful migration. They were Preparation, Staffing and Communication.

Preparation:
A common point made by BNP Paribas clients was that we meticulously planned our role in the migration. From the outset the BNP Paribas approach was to ensure engagement with both our client and market partners. For clients, BNP Paribas hosted several webinars and a number of bilateral workshops and supported clients with their testing and preparation activities ahead of the migration weekend. In addition, we implemented operational workarounds to avoid any impact on clients relating to the de-scoping of some CSD functionalities. To the market, we distributed a complete list of our clients' SSIs.

Staffing:
As with any major migration, you cannot prepare for everything. Therefore, having fully trained and experienced local experts to deal with the on-the-ground challenges was essential.

Moreover, our established position in the European market provided us with a large talent pool to call upon. There were over 80 BNP Paribas employees involved in the entire T2S project, and more than 200 worked on the weekend of the Italian migration. We found that this provided us with the resources to support clients, monitor market developments and quickly respond to any unexpected issues.

Communication:
As sophisticated institutions, our clients demanded specific details of the changes being introduced by T2S, such as what will be the new normal of matching practices in T2S. We kept them up to date via a robust communication program and acted on their feedback.

BNP Paribas successfully lobbied for further standardisation and harmonisation in the market and the agreement of shared market practices, such as the one for the use of optional and additional fields. Having an ongoing dialogue on the T2S project with other players enabled us to jointly focus on the challenges presented by the migration in an effective manner.

ISS: What reaction are you hearing from institutional investors? Have they welcomed it? How have they benefited from it? Greater safety? Less cost?

Mike Clarke: Yes, I think we are seeing investors welcoming the change; however, the larger benefits are not likely to really materialise until the later waves when more markets join the platform.

We are seeing a level of interest from the community in two channels: seeking asset protection and a change in buying behaviour. We are seeing institutions demanding a greater level of segregation and protection as a result of regulations. This has led to a number of global custodians seeking to have accounts at the CSD (central securities depository) held in their name directly, potentially then being operated by a sub-custodian. In this account operator model the assets are more easily accessible in the event of the default of the sub-custodian.

The players that have adopted a "wait and see" approach are still observing the early adopters and analysing the practical benefits of T2S; it is likely they will wait for the next waves to take place before making any strategic decisions.
- Isabelle Olivier

We have also seen a change in how institutional investors buy services. Historically, these institutions may have used a global custodian, with the appointment of a direct custodian only where volumes warranted. Now we are seeing institutional investors look at the T2S markets as a whole, with the possibility of going direct to this consolidated set of markets. This change in buying behaviour will provide price competition and ultimately a cost benefit to the client.

Isabelle Olivier: Those institutional investors that have already migrated activities to T2S have been very positive about the migration and the functioning of the platform since the go-live. The players that have adopted a "wait and see" approach are still observing the early adopters and analysing the practical benefits of T2S; it is likely they will wait for the next waves to take place before making any strategic decisions.

The delay in the Italian migration has proven to be a prudent decision as it provided the market with the necessary time to carry out adequate testing.

- James Woods

Those institutions using advanced functionalities such as auto-collateral are already seeing benefits, mainly in terms of liquidity. But further benefits will be realised as other major markets migrate to the platform, including benefiting from a single pool of liquidity for more markets, driving settlement harmonisation and easier securities movement.

In my view, the CSD platforms already offered a safe environment for critical operations, so, I would not say that T2S offers "greater safety". Lower costs? Not yet. All the institutions directly involved with T2S have made significant investments to adapt to the new platform. The expectation is that cost benefits as well as other advantages will materialise in the longer term.

James Woods: Although the migration to T2S has been mainly seen as an operational adaptation by the majority of our clients, the response from institutional investors has been overwhelmingly positive.

Institutional investors expect to benefit mainly from the harmonisation and efficiencies that T2S will contribute to the settlement process once all the migration waves have been completed. T2S also increases the flexibility in moving collateral. It internalises the settlement and harmonising processing cycles across the various CSDs. This makes it easier to transfer securities cross-border, thereby reducing the fragmentation and overcollateralisation in the market.

Institutional investors and other market participants, nonetheless, acknowledge that T2S has not had a significant impact on asset servicing and they will continue to require local market expertise in this area. Although we are still in the early stages, the advanced T2S functionalities, such as auto-collateralisation and partial settlement at different points during the day, are already delivering some benefits to buy and sell-side institutions. For the time being, however, T2S has been an expensive project for all institutions involved and uncertainty still remains as to how CSDs will adapt their pricing.

Isabelle Olivier

Head of Clearing & Settlement, EMEA & T2S Program Director - SWIFT

Isabelle Olivier joined SWIFT in 2001 as Securities Business Manager, and in 2004 moved to Italy to manage the SWIFT office in Milan, as Head of South East Europe.

Since January 2013, Isabelle has been leading the Clearing & Settlement team responsible to support and develop the SWIFT Securities business in EMEA, and is the TARGET2-Securities (T2S) Program Director at SWIFT.

Before joining SWIFT, Isabelle worked for 7 years for Euroclear Bank in Belgium, covering various Operations Management functions.

Isabelle holds a Commercial Engineering degree from the IAG University of Louvain-la-Neuve and a Masters in European Management (CEMS) obtained at the Italian Università Bocconi in Milan.

ISS: What lessons can you learn from this first wave of implementation to help the next wave?

Mike Clarke: We believe there are a number of lessons to be learned from the first wave. First and foremost is the need to continue to balance the overarching project goal with market readiness, and ensure that we have completed the required testing to ensure a successful migration. This means a full and stable community testing window. Second, we need to ensure we have open communication throughout the value chain to ensure that any changes to SSIs or message requirements are clearly communicated if issues arise. And finally, we need participants and CCPs to understand and plan for the impact of the change in settlement process from moving to the T2S platform and that it is accounted for in their liquidity requirement calculations

SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 10,500 banking organisations, securities institutions and corporate customers in 215 countries and territories.

SWIFT enables its users to exchange automated, standardised financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies.

SWIFT also brings the financial community together to work collaboratively to shape market practice, define standards and debate issues of mutual interest. For more information about SWIFT, please visit http://www.swift.com/.

Isabelle Olivier: The need for complete and thorough preparation, a clear understanding and oversight of processes, and military precision execution. In my view, these are the key ingredients for a successful migration in such important projects.

James Woods: There are several lessons that we have learnt from the Italian migration. The process demonstrated that it is important that all players involved in the migration, whether directly or indirectly connected to T2S, are fully aware of the change to the SSIs. In the future we will work to ensure that there is a co-ordinated approach at the market level to distribute and communicate the SSIs.

Moreover, this experience highlighted the importance of all participants to act in the interest of the entire market. It is important to involve all market associations and to provide a sufficient testing period so as to verify proper functioning of all the system's features. In the future all infrastructure systems must be completely stable so that market participants are able to perform their testing. Further, given their usefulness, migration weekend dress rehearsals should be performed until all the critical milestones are met on time. In addition, sufficient preparation should be made in order to prevent last-minute changes from previously defined functionalities/services.

ISS: Is there anything obvious you would like to speak about but we haven't mentioned?

Mike Clarke: As we move forward into the next waves of the migration, we need remember not to lose sight of the benefits T2S will bring. The recent announcement of delay by Euroclear in relation to the Wave 2 migration is a disappointment in some respects, but shows that pragmatism and market stability are core considerations in the rollout, as they rightly should be in such a fundamental change to the European landscape.

On the whole, we can consider T2S a success so far. The platform already has roughly 15 percent of the volumes of the T2S markets live on the platform without a major issue.

- Mike Clarke

Given the nature of this large scale change, at Deutsche Bank we have taken the approach to view T2S in conjunction with the wider regulatory picture to help our clients in finding the most appropriate solution to optimise the benefits of T2S, but also addressing the demands of regulations such as AIFMD, UCITS V, EMIR or MiFID 2 with innovative account structures and component based solutions.

Isabelle Olivier: SWIFT is very happy to actively support the financial community in this major market transformation. It is a privilege to be part of this strategically important project for the European community.

James Woods: The transition of the Wave 1 markets to T2S is now complete and the system is up and running. However, a number of functionalities, which were initially delayed by the Italian CSD, have still to be implemented by the CSD. We cannot hold off in making local progress until all the waves are completed. Therefore, we strongly believe that a clear governance structure with the active involvement of the users needs to be set in place by the local CSDs in order to manage new developments and software releases. The objective is to ensure that any change to the current system is shared and agreed with the community and market participants have the possibility to contribute from the early stages of the process.

T2S Roundtable
Continued with Mehdi Manaa...

International Securities Services Magazine Roundtable

T2S

ISS Magazine talks to Mehdi Manaa, Head of the Market Infrastructure Development Division, ECB about early implementation of T2S.

Mehdi Manaa
Head of the Market Infrastructure Development Division and T2S Programme Manager, ECB

ISS: What will the impact of T2S be on competition within the euro area for new markets such as China?

Mehdi Manaa, European Central Bank (ECB): T2S is live and Europe now has a new single securities settlement platform. Since the launch, five central securities depositories (CSDs) have connected to the platform and over the next two years the remaining 16 markets will join. T2S is therefore no longer an idea, it is a reality. By definition, T2S should create more competition within Europe as market participants can access the whole European securities market via the new single securities settlement platform.

By offering a single gateway to Europe, T2S has the potential to attract international investors. What the impact beyond Europe will be is a question that we have discussed with representatives from around the world in our recent publication "T2S – 360° around the globe". Many of the contributors agreed that the harmonisation and efficiency that T2S delivers make it easier for international investors to access the European capital markets.

ISS: Once the T2S project has been completed, will the T2S platform be the sole settlement platform?

Mehdi Manaa: T2S is an option being made available to the market; participation is not mandatory. CSDs are therefore free to join and are permitted to maintain their original system if they see a valid reason for doing so. However, what we have seen is that most of the CSDs joining have terminated or plan to terminate their original systems. The exceptions to that are the CSDs from non-euro area countries, which have decided to join with their euro-denominated transactions only. This means that SIX SIS from Switzerland, Depozitarul Central from Romania and KELER from Hungary will use their original platforms for settlement in their local currencies. The multicurrency dimension of T2S will only come into play as of 2018 when it will be possible to settle transactions in Danish krone.

Mehdi Manaa

Head of the Market Infrastructure Development Division and T2S Programme Manager, ECB

Mehdi Manaa is Head of the Market Infrastructure Development Division at the European Central Bank, where he has worked since 2007.

Mehdi is also the T2S Programme Manager and has been involved in the T2S Programme from its inception. Formerly, he worked mainly for Euroclear France (previously Sicovam S.A.) and Euronext, where he held various positions and was involved in several projects.

ISS: The T2S project is designed to make cross-border settlement as efficient and safe as domestic settlement in the T2S markets. How achievable is this goal in terms of these three specified criteria: fostering the creation of a single rule book for post-trade processes in the T2S Community? protecting the "lean T2S" concept, i.e. the exclusion of national specificities from the T2S operational blueprint? contributing to financial integration in Europe?

Mehdi Manaa: The goal is already achieved with the launch of the T2S platform. T2S is a lean system and the participants operate based on a single rulebook with a single set of rules, standards and tariffs. The work of the T2S Community towards post-trade harmonisation was initiated by the market to harmonise practices beyond pure settlement. This work is often considered one of the greatest benefits of the T2S project. The T2S harmonisation agenda seeks to tackle the remaining barriers to cross-border settlement and to create a single rulebook for post-trading. The progress is regularly assessed and published in the T2S Harmonisation Progress Report. However, there is still a lot to be done before we enjoy a fully harmonised post-trade market. But I believe that T2S, the post-trade harmonisation agenda and the European Commission's project to build a capital markets union are making a significant contribution to deeper financial market integration in Europe.

ISS: How realistic is it that the integrated infrastructure provided by T2S will bring about the technical and operational harmonisation seen as the key ingredient for the creation of a single market for settlement services in Europe?

Mehdi Manaa: T2S has been a reality since its launch in June 2015. Europe now has a pan-European single securities settlement platform in operation and the participants operate on this technical platform with one set of rules and standards.

ISS: Where are we as regards the legal and regulatory harmonisation agenda currently pursued by EU legislators?

Mehdi Manaa: T2S, the post-trade harmonisation agenda and the regulatory agenda have gone hand-in-hand. On September 17 2014 the CSD Regulation came into force and put in place a common regulatory framework for the European CSDs. The CSD Regulation thereby provided the legal framework for T2S's technical operations. It also gave further momentum to the post-trade harmonisation efforts. Over the last few years, the T2S Community has put a lot of effort into creating a single rulebook for post-trade processes (messaging protocols, operating hours, regulatory and legal rules, etc.) across the 21 European markets that will connect to T2S. Thanks to the fruitful collaboration with the market, we have achieved great progress in this area. Before T2S and the CSD Regulation, issuers and investors had to navigate over 30 different securities settlement systems. Now, it is much easier for the CSDs to offer the same services across national

By offering a single gateway to Europe, T2S has the potential to attract international investors.

borders, meaning wider choice and lower costs for issuers and investors.

ISS: The ECB is claiming that T2S alone will help break down six of the 15 Giovannini barriers. How realistic is this?

Mehdi Manaa: This is more than realistic. It is already the reality. With its launch, T2S removed six of the Giovannini barriers, such as national differences on operating hours and national differences in information technology and interfaces for the T2S countries. Together, T2S and the CSD Regulation removed nine of the 15 Giovannini barriers. For instance, there will no longer be national differences in the settlement period or national restrictions

> *There is still a lot to be done before we enjoy a fully harmonised post-trade market.*

on the location of securities. The European capital markets union has the potential to build on the momentum gained by the T2S harmonisation agenda and address the remaining barriers to cross-border clearing and settlement, such as withholding tax procedures and conflicts of law.

ISS: EUR 400 million is the approximate cost of developing the T2S platform. Does it represent value for money?

Mehdi Manaa: I would very much say that it does. Yes, EUR 400 million is the cost of developing the T2S platform, but what would have been the alternative cost if all CSDs had kept their original systems? Technical updates would have been needed in all systems and the fragmentation emerging from the lack of a single system would have remained. I strongly believe that the benefits of having a common European securities settlement engine outnumber and justify the costs for developing and running the T2S platform. With T2S, we will be one step closer to an integrated financial market in Europe and the price of that is hard to measure. T2S will not only increase competition in Europe, it will also improve conditions for issuers and investors and provide banks with significant liquidity and collateral savings.

ISS: Are we on track to offer settlement in T2S at a low price, as intended?

Mehdi Manaa: T2S has already lowered settlement costs. The CSDs operating on the platform are currently charged 15 cents per instruction. How T2S will affect settlement prices for end users will be seen after full migration is complete.

ISS: T2S was launched back in 2006 when the environment was very different from now. What effect has the huge decline in settlement volumes since the financial crisis had on the T2S project?

Mehdi Manaa: The business case for T2S is in my view even stronger today given the decline in settlement volume. Having a single settlement engine is an optimisation compared with keeping over 30 different settlement systems in full operation across Europe. So although the environment changed drastically after 2006, T2S is still very much justified.

EUROPEAN CENTRAL BANK
EUROSYSTEM

The European Central Bank (ECB) is the central bank for Europe's single currency, the euro. The ECB's main task is to maintain the euro's purchasing power and price stability in the euro area. The euro area comprises the 19 European Union countries that have introduced the euro since 1999.

The ECB defines and implements monetary policy for the euro area and carries out a number of other tasks, including the promotion of the smooth operation of payment systems.

ISS: Higher fees remain a measure of last resort for the ECB, which will be considered only after 2018. How likely is it that fees will be raised?

Mehdi Manaa: The T2S pricing structure is based on volume projections. If actual volumes are more than 10 percent below the initial projections, this could lead to a re-think of the pricing policy, at the earliest one year after the last migration wave (i.e. not before 2018). If this is necessary, it will be done in a transparent way. However, as history has shown, it is difficult to predict the future in the financial world, as changes in the economic outlook can result in high investment volatility.

People

A round up of industry moves from the last quarter

December
Jupiter AM recruits Jason Pidcock to manage its Asian Income Fund

November
Ali Sheikh Awarded Hedge Fund Post At Northern Trust

November
Vet Smita Conjeevaram Joins SS&C Board

November
HSBC SS appoints Glenn Kennedy as the head of trustee and fiduciary services, Asia

October
Palamon Capital Partners appoints Katherine Ireland as an associate principal.

December
Fitzgerald To Be Global Head JP Morgan Fund Services

November
Tim Fitzpatrick To Be New CHAPS CEO

October
Broadridge Expands EMEA Team with Kimberly Jewell, Mike Thrower and Peter Morris

For all of the latest news and updates inpost trade, visit www.ISS-MAG.com, and sign up to our tri-weekly newsletter every Monday, Wednesday and Friday