

Message from the ISSA CEO Office

New ISSA Members

- 1 new Member joined ISSA in the 4th quarter 2015.

40 Years and Vibrant

Thoughts by Ray Parodi on ISSA's 40 years of history

Takeaways from Industry Conferences

- Lessons learnt from Argentina
- A delicate Balance between safety and innovation
- FATCA is dead. Long live GATCA?
- A miles stone has been reached in Corporate Action Automation
- Exchanges Initiatives in Africa
- Adaptation of EU regulations in the Nordics

Release of ISSA's Survey on Digitization of Corporate Action Information at Source

The report can be accessed on Page 6.

We welcome your feedback

We would very much welcome your comments whether the contents of this newsletter suit your requirements.
issa@issanet.org

Many thanks in advance!
The ISSA Secretariat



Message from the ISSA CEO Office

Dear ISSA Members and interested parties

ISSA is very pleased to inform that 40 years ago the foundation of an association catering to the needs of the global securities services providers was conceived. ISSA can be proud of its influencing role during the past four decades. Ray Parodi having been instrumental in shaping ISSA's roadmap as a Board Member and Vice Chairman for many years takes a look back and touches upon some of our objectives and achievements.

Furthermore, we are very happy that many senior experts from within and beyond the ISSA membership have volunteered to share in this Newsletter their conclusions taken from conference panels they have been part of.

Today, ISSA releases its Report on the status of Digitization at Source of Corporate Action event data, which is a summary of a survey conducted this year. The main conclusions are part of this Newsletter.

On November 18, the ISSA Board held a meeting in London. It was preceded by ISSA's second «Thought Leadership Event», this year jointly organized with afme. It was a content-rich gathering and based on the comments received, the ISSA Board likes to continue with such events.

Below, we share the highlights of the recent Board Meeting:

- Positive reactions from various industry and regulatory sources confirmed ISSA's direction with regard to the recently launched Financial Crime Compliance Principles. Also the need to support the institutions with additional input on the way of their implementation was confirmed.
- The Working Group on Collateral Management will release its second report to the ISSA members for comment during the 1st quarter 2016.
- Based on proposals by ISSA's Operating Committee, the Board approved
 - To initiate an update to the Report «Regulatory Impacts on the Securities Services Chain», originally published in June 2012.
 - To revisit the ISSA Report «Global Custody Risks» of May 1992.
 - To evaluate impacts of the «Distributed Ledger Technology (Blockchain)» for post trade processes.

Many institutions have already delegated experts into these new Working Groups.

- The Board also decided the key topics of the 18th ISSA Symposium in May 2016. Our members will receive a separate information before Christmas.

Approaching the festive season, we like to sincerely thank you for your great support of ISSA. We send you and your families our best wishes for a Merry Christmas and for a healthy and successful New Year.

ISSA CEO Office

New Member

In November 2015, HSH Nordbank AG, Germany, joined ISSA as a new member.

We welcome this institution and are looking forward to a mutually fruitful relationship.

Board of ISSA

40 Years and Vibrant



*Ray Parodi
Long-term Member of the ISSA
Board*

Reflecting on ISSA's upcoming 40th anniversary and having been a part of ISSA for more than a quarter of a century, I can tell you that ISSA is an organization to be proud of. At the outset, in the mid-1970's, it was just an idea shared by UBS and Citibank and later Deutsche Bank. The objective was to open communication channels and develop personal relationships among international banks to help increase overall industry effectiveness. As CSDs emerged and became a critical part of the process, more and more joined ISSA. In fact, it was an ISSA Symposium suggestion that - due to the importance and amount of work needed - CSDs form their own organization, which of course they did. The CSDs are organized in the World Forum of CSDs. ISSA regularly contributes to work done by this important organization and WFC likewise supports ISSA. As time progressed ISSA supported G-30 and actually wrote five of their initial recommendations. ISSA also continued its support of G-30 by monitoring key recommendations. Over time, there have been many ideas, good ideas, put forward.

They included those on mutual funds, corporate actions, and risk management, as well as a few that were not initially accepted. ISSA was the first organization to create a risk matrix to identify risks in the infrastructure of CSDs. An idea before its time, but the one which is now an ingrained part of industry risk management.

All entities need to evolve to remain vibrant. There was a period where despite efforts to broaden its participant base, ISSA's participants felt more should be done to increase its effectiveness. ISSA's Board and Secretariat listened and took steps to review its objectives and methods. As a result, its direction was restated to be more focused and clear. A new vitality is now evident in the present organization, work, professionalism and communications. The current projects and their results are as professional and comprehensive as anything in the industry. The embodied work, produced by participants and the ISSA Operating Committee, make major contributions toward resolving industry issues. The reports are well researched, prepared, written and distributed. There is close coordination with other industry organizations to provide standardization and facilitate acceptance.

Some ISSA objectives have consistently been highly valued over time. For example, regarding fostering relationships, I remember one Symposium in the past where the Chairmen of CEDEL (now Clearstream) and Euroclear (serious, unfriendly competitors) sat and worked together over breakfast to produce a solution to an industry problem. When I conducted the recent participant survey the one virtually universal comment was, «Please continue the Symposium. Meeting people is extremely valuable!». Clearly, after 40 years, the objectives of fostering professionalism and opening communications among industry participants are alive and better than ever. ISSA continues to fill an industry need and continues to impact effectiveness with important contributions to the industry.

I knew the original founders of ISSA very well and I know they would be very proud of where you all have taken the organization.

Congratulations!!

Takeaways from Industry Conferences

NeMa Americas

This year, the 3rd Annual Network Management Forum Americas took place in Miami from October 27 – 28, 2015. Two panelists representing ISSA member institutions share with us their takeaways.

A Delicate Balance



*Philippe Laurensy,
Managing Director, Euroclear*

The focus of my Innovation panel at the recent NeMa Americas conference in Miami was the flavor of the day in the FinTech space at present – virtual currencies, equities or bonds. The panel investigated the opportunities and challenges around these types of crypto issuance. The panelists all agreed that the speed at which new technology is coming to market is moving at such a rapid pace, that it is our responsibility to take a step back and evaluate the stability and robustness of this technology.

The general market consensus is that blockchain technology presents new opportunities but also new risks that need to be assessed and mitigated. The most unwavering advocates of this technology see a future in which the global economy has been revolutionized, with currency and therefore central banks made obsolete. One of the main concerns my panel and the market at large has around digital currencies like Bitcoin is that they are unregulated.

A recent White Paper issued by the European Central Securities Depositories Association said that given the inherently global nature of Bitcoin, international cooperation among financial regulators will be especially important to allow market players to benefit from these new developments, while ensuring that the potential risks posed by the virtual environment to the financial system are properly monitored and addressed. Essen-

tially the panel felt that there has to be a balance between transparency, monitoring and safety on one side and not stifling innovation on the other side. And it seems we have not found this balance as of yet.

Lessons Learnt from Argentina – What were the Key Operational Challenges for Network Managers & Investors?



*Martin Paladino
Settlement Manager
Caja de Valores SA,
Buenos Aires*

The panel was comprised of representatives from a local market infrastructure, a local custody provider and two foreign custodians holding securities in the Argentinian market. In the panel, a brief summary was made by the different market players impacted by the decision taken by the Argentinian Regulator in relation to Citibank's activities in the country. Operational issues and solutions that were tailored to reduce investors' impact were part of the agenda, which also covered contingency providers, political aspects, and other markets at risk which should be closely monitored by Network Managers.

I gave an overview of the depository's operational and legal structure in Argentina, and explained how this structure helped for a way out when Citibank's license was suspended: As beneficial owners' assets were segregated in their own sub-accounts at the CSD level, instructions could be received by Caja via Swift directly from foreign custodians. Also, the fact that the CSD maintains bank accounts in diverse currencies and different locations was a key factor to enable the execution of the transactions instructed by such custodians.

NeMa Asia

The 6th Annual Network Management Forum took place in Singapore from November 10 – 11, 2015. Two panelists representing ISSA member institutions share with us their takeaways.

FATCA is Dead. Long Live GATCA?



Ross McGill
Managing Director, GlobeTax

BEPS, FATCA and CRS are now common terms that most securities professionals recognize. They are drowning in tax regulation, which uses the global financial infrastructure to indirectly detect 'aggressive tax avoidance' or evasion. This is widely recognized as a sledgehammer to crack a nut with several unintended consequences. Some argue that the 221% increase in the number of Americans renouncing their citizenship¹ is one of the largest unintended consequences of FATCA. There is no doubt of the bad feeling it has caused to expatriates, the truly enormous cost to financial firms across the globe and the damage done to America's reputation through extra-territorial regulatory reach.

But the cause is history and we are now faced with the consequences. FATCA is evolving into GATCA - the general term for AEOI, of which both FATCA and CRS are examples.

The 2012 Tax Justice Network Report estimated the amount of tax evaded globally at \$280Bn annually based on estimated undisclosed assets of \$32Tn². The cost to industry of complying with GATCA reporting regimes is easily larger than the tax that's being foregone.

There are currently over 178,000 foreign financial institutions registered with the IRS under FATCA³ and the US has 112 bilateral IGAs⁴. In contrast the OECD has 99 countries signed or committed to annual AEOI between 2016 and 2018⁵. The difference is that the US took 5 years to get to 112, the OECD has taken less than two to get to 99.

¹ Source: Forbes.com

² Source: <http://www.taxjustice.net>

³ Source: <https://apps.irs.gov/app/fatcaFfiList/flu.jsf>

⁴ Includes 'in substance' IGAs as at Nov 13 2015

⁵ Source: OECD and Adj. Prof. Haydon Perryman

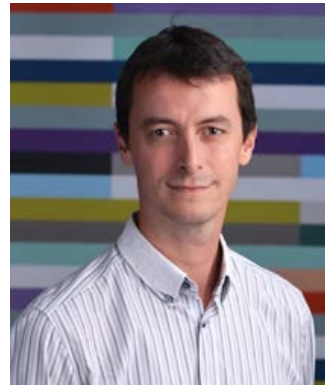
This gives around 10,000 permutations of datasets that financial firms will have to construct *each year* from their various databases of account holders. The more non-resident clients you have, the worse your headache will be. If governments want «big data» they're about to get it. The big questions? Will that data be meaningful and secure? Will it deliver its intended tax benefit and who will ultimately pay the compliance bill?

One positive consequence of all this increased awareness of tax, is that many more investors are electing to claim historic and current over-withheld tax back from these governments. GlobeTax's tax reclaim volumes alone have risen from just 1.2m in 2010 to over 5.6m in 2015⁶ and the firm repatriated over \$2.8Bn to investors in the last year. Performance and benchmarking in this area are coming under increased scrutiny.

Abbreviations

FATCA	US Foreign Account Tax Compliance Act
GATCA	Global FATCA
IGA	Intergovernmental Agreement
AEOI	Automatic Exchange of Information
BEPS	Base Erosion and Profit Shifting
CRS	Common Reporting Standard

Corporate Action Automation: A milestone has been reached!



Alexandre Kech
Head of Securities
Markets & Standards,
APAC, SWIFT

I had the *difficult* privilege to close the day, just before the cocktail, with a presentation on Corporate Action automation. It was opportune as two studies on the topic had just been completed, one by SWIFT and CitiIQ and another by ISSA.

It was even timelier as I just came back from the 19th Asia-Pacific CSD Group annual meeting in Taipei where many of my CSD

⁶ Source: GlobeTax.com

contacts expressed their interest in the Singapore and Australian use-cases I had shared with them at their previous seminar in May.

Why so much interest in SGX and ASX? Probably because they managed to implement together the three requirements for true golden copy corporate action automation, as highlighted by the SWIFT/CitiIQ survey and confirmed by ISSA's study: Issuer digitised data initial input, CSD/Exchange as the primary source, and ISO 20022.

- Issuer digitised data initial input: By involving the issuers with a carrot and a stick, SGX and ASX managed to do what many failed at in the past: Getting a golden copy corporate action announcement from the source! With a lot of patience and education, but also the providing of ISO 20022 based templates via the web with no technological footprint (the carrot), both entities managed to get quality formatted corporate action announcements to process internally and disseminate real-time to various data consumers via SWIFT and other channels.
- CSD/Exchange as the primary source: ASX and SGX being infrastructures with a regulatory mandate, they were able to leverage their listing rules (the stick) to get issuers to contribute to the industry automation effort.
- ISO 20022: The ISO standard, its underlying XML technology and SMPG issued market practices enabled a richer representation and straightforward management of corporate action data. The ISO 20022 extension mechanism has been critical to enable a complete structured capture of domestic data that used to be parked in a text field before.

There is no doubt in my mind that only the combination of the 3 ingredients above, with a dissemination leveraging existing secure and reliable communication channels such as SWIFT, can truly provide what the industry has been waiting for: A standardized and automated golden copy corporate action announcement process.

NeMa Africa

The 3rd NeMA Africa conference was held in London on 24 - 25 November 2015 with over 100 attendees.

Exchanges Initiatives



*John Falk
Partner
Bourse Consult, London*

The panel I moderated discussed «Exchange Initiatives in Africa – What is in the Pipeline?», with the debate mostly focussed on sub-Saharan exchanges.

With a quote from another recent conference, «Capital is a coward and goes where it is going to be treated best», opening the panel, the challenge was taken up on how to increase depth and liquidity in African exchanges. While there are 29 exchanges in Africa, the number of listed companies are below 500 if you exclude South Africa. With the recent significant growth of pension funds in Africa, representing \$379bn of assets, this should have helped exchange growth but these investors tend to have buy and hold policies.

Some exchanges are introducing ETF's and enabling stock lending and borrowing. Countries are seeing alternative exchanges arriving - South Africa, Kenya and Nigeria – and all of these initiatives are expected to help drive up trading volumes. There are also many regional initiatives between exchanges to encourage cross border trading but without the exchanges attracting further listings, trading volumes are low.

Given the above, international investors have a hard time in justifying investing into many of the African markets. The conference heard from the panel that the demand is there to invest but there is insufficient business to invest in. Being a NeMa conference, the question was asked could Network Managers help exchanges build their offerings? The unanimous answer was yes.

Big challenges remain for exchanges in Africa but the returning diaspora of highly experienced and qualified people back to their homelands mean that many exchanges are ready to move forward with new ideas.

Nordic Post Trade Conference, Oslo



Urs Stähli
ISSA Secretary

The organizers gave me the opportunity to present ISSA and its recently launched Financial Crime Compliance Principles (FCCP) to an interested and active audience. The Conference that took place October 27 – 28, 2015 was attended by some 100 representatives, predominantly from the Norwegian financial industry. The topic of FCCP fitted nicely into the focal themes of regulatory round-up and risk & network management. On the regulatory side it was also interesting to note how Norway, as a non-EU country, is addressing the adoption of EU directives and regulations and how it is positioning itself with respect to the European Capital Markets Union. In this context it was also worth while to learn how far other Nordic markets have progressed with those initiatives. Further topics of interest included the differing sourcing behaviors of three distinct buy-side companies.

Release of ISSA's Survey Results on Digitization of Corporate Action Information at Source

The 13 ISSA Principles on Corporate Actions and Proxy Voting, which were first published in May 2010 and enlarged in June 2012, cover the end to end flow of Corporate Action information from source, i.e. issuers, through to destination, i.e. investors.

The information often begins the journey in analog form (a pdf document, although

electronic and digital, does not support automated processing). In order for the financial industry to control, let alone minimize risk and cost, the information defining the Corporate Action event must become digitized at some stage of its journey. As recognized by the ISSA Principles, the industry, including issuers and investors, will be performing optimally only when the information is digitized at source.

Following ISSA's progress report on the implementation of the 13 Corporate Actions & Proxy Voting Principles released in September 2013, the ISSA Working Group – with the help of the WFC and the regional CSD Associations – conducted a new survey among the global CSD community this year. The survey focused on the status of Digitization of Corporate Action Information at Source in the various markets. The findings have been included in a report which has been released today and can be downloaded [here](#).

Some highlights:

- Over 50% of the respondents receive their Corporate Action notification from Issuers and Issuer Agents. This figure goes up to close to 80% when adding Stock Exchanges and Data Vendors as primary data source. Regional variations prevail.
- In a majority of countries, there is a local regulation ruling the distribution of Corporate Action data, whereby in approx. 40% of the cases the mandatory data source is the issuer or its agent.
- A vast majority is able to receive and transmit source information using automated technology, however, more than half of those who can are facing challenges attempting to digest information from the source.
- Many respondents believe that unless there are regulatory requirements, specifically the issuer community would stick to their current processes as they do not gain the same benefit the custodians and other players would from improving the market information process.
- In the course of 2016, ISSA will offer its Newsletter to showcase a number of markets that have successfully implemented solutions that make it indispensable for the issuer community to digitize Corporate Actions data at source.