ISSA – WG Digital Identity and Onboarding

Minutes of monthly meeting 13 June 2023

Participants:

Brett Lewis - Co-chair	Globe Tax
Calum Hill	Northern Trust
Colin Parry (Minutes)	ISSA
Florian Pfleiderer	Clearstream
Giles Elliott	TCS
Juliette Kennel	SWIFT
Kurt Ospelt	LLB
Oliver Maxwell	IHS Markit
Sivaraman Ramasamy	TCS

Apologies

Sonia Paston - Co-chair
Stuart MUIRHEAD
Kelly Robinson
Rupanshi Chugh
Rupert Booth

Agenda

a) Admin
b) ToR refresh
c) Problem statement
d) Conversation on solutions

Admin

Brett welcomed the attendees and Colin highlighted two changes Ro has left ISSA so Colin will be covering and the meeting times had been adjusted to help the Co-Chairs. New invitations have been sent out.

ToR refresh

To bring the group up to speed the DI&O is a large topic, millions have been spent by various organisations but the solution is not yet adopted enough to reduce the pain felt by the market. The first area of focus is on boarding. For a typical Asset Manager onboarding to the Global Custodian this can look like:

- KYC / AML / LEI
- Documentation
  - Articles of Incorporation
  - POAs
  - Tax Certificates

- Challenges with Documentation
  - Notary / Consularization
  - Renewals
  - Distribution of Documents to the sub custody markets

Global Custodian opening sub custody accounts

- Additional documents required
- Second KYC occurs in each market of investment

Sub Custodian getting approval for investor to invest (in some markets, India is a notable one (Korea is moving away from this?))

- Can be additional documents requested
- Those documents may need periodic refreshing

Sub Custodian opening account at CSD (for segregated @ CSD markets)

- Can be additional documents requested

The Documentation is a big part of the problem and there is no centralized source of the documents so if a COR is updated the entire custody chain needs to distribute the new document throughout the chain and into all of the markets where the Asset Manager has accounts or assets. Can look to centralize or digitize the documentation and processing.
These steps need to be understood and the biggest pain points identified. Approach is to map out the process flow (including all the required documents) looking for those bottlenecks.

The question was raised whether onboarding included KYC. It was felt that it should do and it was felt that KYC is seen in many areas of the chain and that technology and other solutions could allow the opportunity to improve both onboarding and KYC.

The list should also include tax certificates for withholding tax etc. i.e. all documents needed by a GC to onboard and service a client. Another step in the process was where a LDC required documentation that the GC had not asked for i.e. at this point the process became reactive to the client trading in a market and from a client view point feels duplicative.

Periodic renewals should therefore also be covered – when and why and suggestions for the automation of the process.

The WG should try to understand the scale of the issue in people and USD terms as very different figures are mentioned (and not necessarily substantiated). If we can map these costs to the key issues then we can logically derive the priority areas of focus. It is hard to get this data as much is subjective (sales saying they spend all day on KYC versus 100 hands spending 5 minutes a day).

There are benefits to be reaped. One way to look at this is at different packages of documentation. As they work was done it was found that the majority of effort was because much interaction is email and spreadsheets and not work flows. Solutions have been found for fund onboarding to the IBs and now the issues is becoming more obvious at the sub-custody stream.

Oliver had standardized the data points and then provided transparency. (ACTION Oliver to see if he can share these data points and the approach.) IM selects a GC and gives a list of market profiles which results in a set of documents being demanded. Clariant had found that standardization was not achievable and has struggled.

"Standardisation and customisation" is actually the challenge. The same documents can be re-used in many parts of the process if they can be seen within the tooling. This creates efficiency but different firms have different standard on things like validity i.e. Articles of Association can be any age versus must be a copy from the last year which creates additional complexity and client interaction. This was a struggle for KYC.com.
The group then talked about specific examples.
Onboarding is complete when the Risk Committee agrees to allow a client to "onboard". Presently within the firm there is no workflow but emails with documents attached, when the "Onboarding team" has all the documents they require then the request can go to the Risk Committee.

- List of documents is not consistent for all clients (diversified firms including a division of arms manufacturers need more)
- Redundancy in the documents that are required
- Back and forth between client service, sales, client and onboarding
- Heterogeneity between first line and second line requirements and what is good enough
- Client onboarded then leads to technical set up depending on what the client wants
- Product and Tech onboarding may require additional documentation

Requires a new Operating Model (OM) and help!
Critical issue is how big the onboarding processing team should be? Is there an optimal number or OM to solve this?
Observations were:

- That there needs to be a single team that is accountable for onboarding and equally importantly offboarding as KYC for unprofitable clients is a wasted cost.
- There is a growth in third party solutions – especially focused on retail and into the SME markets but no breakthrough solutions for institutional clients.
- Did anyone understand the cost in their firm? There is a perceived cost versus actual cost are sales actually spending 90% of their time onboarding or are they not good at sales.
- Standards are good if they are standards bit standards that continually change create additional inefficiency.

In a separate example the firm is acting as a buy side and recognise the issues! Observations:

- Every jurisdiction and institution has their own processes.
- Wolfsberg and ISSA are useful templates, but these are treated as de minimis, and then many bilateral issues follow, including an increasing number of sanctions questionnaires.
- KYC requirements have grown massively in the last five years.

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- The SWIFT KYC Registry is there but not used enough as more documents are required (coverage 60-70% of needed documents).
- KYC Registry standards are just not accepted practically.
- In particular beneficial owner requirements are growing.
- There is a difference in approach for firms domiciled in locality versus domiciled in Liechtenstein for example.
- Staffing high in Onboarding and KYC and also in the first line, additionally a compliance team sits in second line to help.

Can other countries provide a blueprint for success? Observations:
An Indian firm runs a standard process. 3 sets of KYC standards set by RBI (Central bank) , SEBI (Regulator) and local custodians. Solution is on technology platform with a digital signature available.

- This digital signature in itself causes issues. Indian signing digitally understood and known. However the global digital signatures are a different issue. So if a German entity sign the digital signature is it valid in Germany – how can the local firm know that DocuSign is approved but Signature Now is not? Who is the source of informing the firm that it is an official digital signature?
- Also all documents must be in English. If not then a translation must be provided but this must be attested by the Indian Consulate as a correct translation.
- Wet signatures are still required in places (although increasingly rare) then this can be used as the source for the digital signature
- Should the sourcing firm in country just accept the digital signature as valid or question the Certifying Agency?

The comment was made that there are also tax implications for onboarding – rates may vary for domestic versus foreign WHT. To claim the right rate the status of the asset owner must be proved.
In some instances special bonds are held in specific accounts and that may require annual KYC (or maybe even more frequent KYC and document renewal. Taxes are withheld at the local sub- custodian and they will also require an additional set of papers perhaps at the beneficial owner level. For omnibus accounts the processes are clearer. This topic needs further discussion.

The observation as made that AML and Sanctions checks are often performed after onboarding so this causes another turnoff document gathering. Part of this is the ultimate beneficial owner definition and we should take a view on this.

The WG need to return thoughts the questions for the present suppliers to answer. We need to get more input into these problems that we are asking about?

Follow ups

1. ACTION Oliver to see if he can share these data points and the approach
2. ACTION The WG need to return thoughts the questions for the present suppliers to answer. We need to get more input into these problems that we are asking about? To Sonia and Colin please.