ISSA

International Securities Services Association

Newsletter

October 2013

Message from the ISSA Chairman

Dear ISSA Members,

I am pleased to present to you our latest newsletter and I do hope the content gives you again some value add information. In this edition we provide you with short updates related to our working group and marketing activities and we put a special focus on some take aways from Sibos.

With regard to the Working Group activities, the group leaders presented their updates on the occasion of the Operating Committee meeting of October 8. The Committee was pleased to take note that ISSA will be able to release new reports before year end according to the schedule. The Board will discuss the content as well at its forthcoming meeting in early November. In terms of ISSA's Global Principles for Corporate Actions and Proxy Voting, a progress update report on their implementation was published already in September. See our Special Newsletter. http://www.issanet.org/e/3/nl.html

At Sibos we used the platform to follow-up on important industry matters and to get in contact with many ISSA members and target parties who have signalled a special interest in our Association. We are very grateful that a number of ISSA member exponents have volunteered to share with you some take aways from Sibos. This is complemented by a key-address of Frederic Hannequart with some insights into the «Drivers of Change».

As concerns additional marketing opportunities for ISSA, the Board has mandated us to evaluate additional tasks with some dedicated support of specialists from ISSA sponsors. Our goal is to build a better awareness of ISSA's activities and to be more readily recognised as an industry platform for the discussion of strategic and tactical issues of our industry. All this should help to find supplementary opportunities to be in contact with you as members and to make sure that your issues are better heard. We will discuss the ideas with the Board in our November meeting and I will be happy to give you a more concrete update in our next newsletter.

Last but not least we have started with the preparation of our forthcoming 17th ISSA Symposium which will take place on May 20-23 at Wolfsberg, Switzerland. I am sure we will be able to present to you a challenging agenda before year end.

With kind regards,

Josef Landolt, ISSA Chairman

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

Governance update

Change in the Operating Committee

- Anita Yin Hai Leung, Nomura International (Hong Kong) Limited, will represent Nomura International plc in the Operating Committee. She replaces Mark Morris in this function.
- BNP Paribas Securities Services has nominated Laurence Caron-Habib, Head of public affairs, into the ISSA Operating Committee. She succeeds Florance Fontan in this role.

Change in Membership

As of mid August 2013, Landesbank Baden-Württemberg, Stuttgart, joined ISSA as a new member.

We thank all for their commitment to serve ISSA and we wish the nominated representatives all the best in their roles.

Board of ISSA

The Drivers of Change

Frederic Hannequart, Chairman of Euroclear Bank; Member of the ISSA Board

Are we driving change or is change driving us?

At this year's Sibos, capital market experts once again turned the focus of their discussions on the changes affecting, if not driving, the post-trade industry. What can firms expect of their service providers in the future Target2-Securities (T2S) environment? Will we ever achieve harmonized capital market rules and practices? How will regulations change the European securities infrastructure?

I believe that Europe is undoubtedly moving towards a more unified capital market, particularly in terms of its infrastructure. This unity is being shaped by three main streams:

- The first consists of regulatory measures such as CSDR, MiFID2 and EMIR – all designed to boost risk mitigation and bring greater safety to our markets. While past events have clearly shown the need for more stringent regulation, one needs to be mindful of the unintended consequences and contradictory effects of certain legislative combinations. Our regulators need to accurately distinguish between the different types of infrastructure providers, for example, the role a CCP plays versus that of a CSD. Regulators also need to find the right balance between common sense day-to-day operational efficiency and risk aversion.

- The second stream centers around technical consolidation of systems, and here T2S serves as a prime example. The debate has shifted from whether T2S will actually be launched, to what capital market infrastructure services providers and their clients will need to do to operate effectively within it. For some, it could involve drastic changes to their business models.

- It is the third stream where the most effort is still required. European-wide harmonization of market rules and practices - from corporate actions to taxation mechanisms - is not progressing rapidly enough. There is no fixed schedule for the harmonization of securities tax structures, and given the current economic and political environment, it does not appear to be a pressing priority. Even with T2S, market participants will not achieve the cost, risk management and efficiency gains that are possible with standardized market rules and practices.

As post-trade practitioners, we will focus on the second and third streams, as we can influence the outcome to some extent and achieve change. However, most changes to the business models of our customers emanate from the first stream, namely the blast of legislative measures affecting front offices, intermediaries and the buy-side they service. Here, we can do what we can to relieve our clients of some of the burdens associated with the need to comply with new legislation, as well as with Basel III requirements. Collateral management is a good example.

It will be those post-trade service providers that are sufficiently agile and flexible to see opportunities in these changes that will remain relevant to their clients.

At this point in our evolution, legislation is the driving force. It was inevitable. The challenge now is to channel these changes to deliver the right results.

Frederic Hannequart

Sibos 2013 - Take aways

This year's Sibos took place in Dubai, the first time the conference has been held in the Middle East, with more than 7'600 delegates attending. As in previous conferences, the regulatory debate was on the forefront, particularly with regard to implications, implementation and practicalities of regulatory driven change. Other important themes included cyber security, mobile banking, big data analytics and new service models, above all in retail banking and as a consequence of regulatory developments. Various ISSA member representatives acted as panellists in securities services related sessions with a relevance to the topics addressed by ISSA's working groups. We have asked these panellists to share with us their take away from these sessions.

Let's get practical: MyStandards* for the community

Brian Crabtree, Director of Market Practice, Standards and SWIFT, Citi Transaction Services; Member of the ISSA Operating Committee

One year after its launch, many organisations have adopted MyStandards to define and distribute their messaging formats to their communities. The Sibos session had the intention to explore how Mystandards is already changing the industry dynamics around standards and how new offerings like the MyStandards Readiness Portal could go even further in this respect. Facilitating new business relationships, helping absorb change (like regulatory change) and driving harmonization across the industry are some of the facets of where this is going.
Brian Crabtree, speaker on that session, summarizes the outcome of the discussion in the following three take aways:

- «The industry does not compete on standards.
- Once a critical mass is achieved, MyStandards could become a means to estimate the financial cost of implementing standards changes.
- MyStandards could democratize the standards development process and bring transparency to the proposal and review phases.»

*) MyStandards: This SWIFT service is a collaborative web-based platform to better manage standards definition and financial industry usage in a more efficient way.
http://www.swift.com/products_services/my_standards_home

Asset servicing: Why is the pace of automation suddenly accelerating?

Andrew White, General Manager, ASX Limited, Sydney; ISSA Member

The pace of Corporate Action automation is moving fast. In this Sibos session the focus was on the key drivers of this acceleration. T2S, European Standards implementation leading to local markets migrations and regulatory change are the obvious ones, but there are other factors at play, such as sophisticated clients needing more innovative services and Corporate Actions (CA) gaining importance in front offices. Andrew White, as one of the speakers, consolidates the result of the panel discussions as follows:

«The straight-through-processing of Corporate Actions in an international standard like ISO 20022 adds value to all financial market users: Issuers get a better process and better results in terms of capital raisings, custodians get richer data faster and in standard format, which takes costs out of their business, and end investors get the right information at the right time, enabling them to make better investment decisions.»

CPSS-IOSCO Principles for Financial Market Infrastructures

Monica Singer, CEO of Strate; Member of the ISSA Operating Committee

The Principles for Financial Market Infrastructures (PFMIs) were issued by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) in April 2012 in order to foster the safety, efficiency and resilience of the FMIs. Jurisdictions around the world are currently in the process of implementing them into their regulatory frameworks to foster the safety, efficiency and resilience of their FMIs.

Speaking at the CPSS-IOSCO panel discussion, Monica Singer argued that the Principle route is the only one that works where she believes that CPSS-IOSCO cannot, realistically, prescribe things (as would be the case with legislation), but rather identifies best practice considerations that help a local market identify areas to focus on in order to provide a robust FMI. According to Singer, the Principles have put all FMIs on par with one another – from Central Counterparties to CSDs to CLS (Continuous Linked Settlement) - giving them equal weight and encouraging them to comply with the same set of Principles for the benefit of the global financial market.
She outlined that the South African Central Securities Depository (CSD) strongly advocates the Principles. There is already legislation in place to support the PFMIs called the Financial Markets Act, which became operational at the beginning of June 2013: «Strate complied with international best practice before the Principles were drafted by CPSS-IOSCO and when these Principles were published, they affirmed that we were on the right track. In addition, Strate strongly believes that we all have a responsibility to work with and educate the local market and our international counterparts as we are all interdependent and have an impact on one another».

She adds that she believes that for Strate, the adoption of CPSS-IOSCO Principles is not about regulation, but rather about following best practice: «According to the CPSS-IOSCO, FMIs were a 'source of strength' during the financial crisis, able to settle obligations when due, thereby giving market participants the confidence to continue transacting. CSDs can use their adoption of the Principles to promote confidence within their market.»
She also explains that if the FMI is highly rated in its PFMI Assessment, it provides a strong platform to support efforts to attract funds and investment into the country. This is essential for all markets and particularly emerging markets looking to strengthen an important contributor of economic growth: «The PFMIs provide a framework that is flexible and enabling with no right or wrong answers, which could become a valuable learning exercise for the entire industry, from regulators to FMIs. The assessment becomes a living document and a guiding light for CSDs and the industries they serve. Your responses will evolve and change as your organization and environment changes.»

Securities regulation

Angus Fletcher, Head of Market Advocacy & Business Strategy, Deutsche Bank; Head of ISSA's Working Group on Collateral Management

New securities regulations are continuing to be implemented in many markets, with a particular focus on the clearing and reporting of OTC Derivatives. Among other aspects, the panel discussed the impact of the regulatory development on the market players and their service provision as well as the challenges faced by globally active industry participants. In this session, Angus Fletcher acted as a panellist. He recapitulates the discussion's outcome as follows:

«There continues to be a raft of Securities legislation impacting the global financial industry at various stages of maturity, with no end in sight. Although the key objectives of the regulation are generally aligned by global regulators (and largely understood and supported by the industry), the devil is in the implementation, with much of the focus for financial players centering on how to handle extra territorial inconsistencies, contradictory approaches and different implementation timelines.»

Custodian banks: Is it time to reinvent the model?

Göran Fors, Global Head of Custody Services, SEB Group, Stockholm; ISSA Member

Traditional income sources for custodian banks have all but dried up, business volumes have declined, costs for custodians, as for most market players, have risen due to regulatory requirements. This panel discussed the various challenges faced by the custodian industry. Göran Fors was speaking on this panel, he summarizes the discussion as follows:

«The model is not broken and we do not have to re-invent the model BUT the industry has to change! We live under heavy regulation and strong cost pressure. This in combination with lack of growth and declining margins, which is a bit like being between a rock and a hard place. That is rather an uncomfortable position and means that we need to take some action in order to change our model for the future.
Changing the business model for custody will mean more consolidation and partnerships. It will mean new service models that address the increasing need for risk mitigation. Crucial is also that we allow for changes in fee structures that will result in a more stable revenue stream for custodians. Revenues in the custody industry have to a large extent reached levels that will not be sustainable for the future and increases of fees will be necessary going forward».

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