ISSA

International Securities Services Association

Newsletter

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We welcome your feedback

We would very much welcome your comments whether the contents of this newsletter suit your requirements.
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Many thanks in advance!
The ISSA Secretariat

Message from the ISSA CEO

Dear ISSA Members and interested parties

In this edition we put a special focus on important take aways from Sibos which was held from September 29 to October 2 in Boston. We are very grateful that a number of ISSA member exponents have volunteered to share with you their views on current challenges they have expressed or their impressions gained during the sessions. In addition we inform you about the next steps we have initiated related to «Compliance and Transparency along the Securities Services Value Chain».

Sibos 2014 was a great conference and we from the CEO office have used this platform to discuss our agenda with many current and potential ISSA members. We are very pleased that our intensified activities, mainly through the working group activities and the way we communicate the results, get unanimous positive feedback and increase the interest to evaluate a membership in ISSA. In one Sibos session with influential industry leaders, ISSA was mentioned several times as the organization best positioned to work on challenges affecting all stakeholders of the value chain. We take such statements as a clear mandate to continue with our work in an efficient and effective way and we are grateful to count on all your professional support which is critically important.

Thoughts at Sibos have confirmed that transparency in the securities business is seen as one of the current key topics. In his Sibos address, the Director of the Office of Foreign Assets Control (OFAC) made very clear statements about inefficiencies in the securities industry including the models used (omnibus versus segregated accounts). He communicated his expectations but he also offered support from the regulatory side to discuss any best practice proposals from the industry. As we have informed you already, ISSA is committed to work on these issues with special efforts. After our Symposium we decided to start with a small group of experts to design a straw-man of best practice principles – similar to the ones we know from the Wolfsberg Group on Correspondent Banking.
A dedicated workshop is scheduled to take place in the first week of November. The workshop results including our proposal for the next steps and time schedule will be discussed at the Board meeting in mid-November. The decisions taken will serve as the basis for the detailed working group activities to be launched in January 2015. It is self-evident that all of these activities are in line with our commitment to consider different views across the value chain and geographic regions.

Last but by no means least, I would like to draw your attention to the message from our new Operating Committee Chair, Irene Mermigidis.
I thank her for her readiness to assume this additional responsibility.

With my best personal regards,
Josef Landolt, CEO ISSA

Message from the Chair of the ISSA Operating Committee

Dear Colleagues

I joined the Operating Committee (OC) when it was created in 2011 and became responsible for a Working Group on «Communication Standards and Reference Data». Part of the Working Group were fellow OC members and industry experts and it was a very enriching and rewarding experience presenting the results at the May 2012 Symposium. I then moved on to the next challenge of supporting for the May 2014 Symposium with a pre-Working Group on «Transparency in the Securities Transaction and Custody Chains». Following the Symposium, ISSA is currently focusing on a number of topics that are important for our participants at this changing point of our industry model. Chairing the Operating Committee is a great opportunity for me to contribute actively to bringing together the industry experts of ISSA in view of transforming our participant opinions into an industry position.

As Chair of the Operating Committee I would like to ensure strong and close collaboration among the OC members and their sponsoring institutions for launching and managing ISSA's Working Group projects. I will also encourage active debate and agreement between the OC members. We need to maintain the work of each Working Group in line with the overall direction being given by the ISSA Board. And for this I will be counting on the support of the CEO Office. Our close collaboration will be essential for keeping the focus on the ISSA objectives for me in parallel with having a «day job»!

Finally, as ex-officio Board member I will be reporting the progress of the working groups to the Board while I will be able to seek advice, ask for direction or actively debate on current and future objectives of ISSA.
As OC Chair, I will actively participate in all of the Working Groups currently ongoing:

- Compliance and Transparency along the Securities Services Value Chain, chaired by Bob Almanas, SIX SIS
- Collateral Management Best Practices, chaired by Angus Fletcher, Deutsche Bank
- Corporate Actions, chaired by John Kirkpatrick, Citibank
- Risk Guide, a new group being set up where a chair will be nominated soon.

The next ISSA Newsletter will inform in more details about the progress of these Working Groups.

Irene Mermidigis
Managing Director
REGIS-TR
Chair ISSA Operating Committee

Governance up-date

Change in the Operating Committee

As of the end of September 2014, Stephen K. Pemberton, Managing Director, Head, Custody, Clearing & Collateral Services, was nominated as Standard Chartered Bank's representative in the Operating Committee. He succeeds Simon Cleary who assumed a different function within Standard Chartered Bank.

Change in Membership

ISSA welcomes Eurobank Ergasias SA, Athens, Greece, as new member institution, joining ISSA as of October 10, 2014:

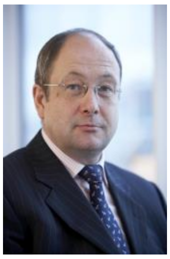
We thank all for their commitment to serve ISSA and we wish the nominated representatives all the best in their roles.

Board of ISSA

Sibos 2014 – Take aways

The 36th Sibos was held this year in Boston, with well over 7'000 attendees. Regulatory challenges and big data analytics continued to be prominent on the agenda. Other important themes included digitization, threats from the non-banking sector, standardization, banking utilities and infra-structure outsourcing. On various occasions, the need for closer collaboration among the service chain stakeholders was emphasized. Various ISSA member representatives acted as panelists in securities services related sessions. We have asked these panelists to share with us their take away from these sessions.

In Search of Operational Alpha



Markus H. Ruetimann
Group COO
Schroder Investment Management Ltd

During a lively debate, a panel of five fund management representatives outlined how their operating model fared the test of time. The debate explored whether outsourcing reduces operating risks and costs as well as whether regulatory compliance is easier to achieve in an insourced environment. The panel also cited regulations, globalization, changing investor behaviours and fee pressures as potential disruptions to the industry's future growth.

While the sourcing strategies among the five companies represented (BlackRock, Franklin Templeton, PIMCO, Schroders, State Street Global Advisors) varied greatly, the panel agreed on a number of points:

- A diversified sourcing strategy is vital in maintaining a reliable, agile and cost-competitive operating model.
- Business priorities and a firm's current talent pool and technological capabilities dictate which core processes are in-sourced, outsourced and/or co-sourced.
- Utilising all three sourcing options provides flexibility as circumstances and corporate priorities change at an often rapid pace.
- Outsourcing and co-sourcing have material merit as one can gain access to deeper skill pools and more advanced technologies as external providers have the financial and intellectual means, based on the necessity of remaining current with market and regulatory changes.
- Outsourcing is thus not just about cost management as it provides access to talent and ideas for improvement as well as diversification of operating risks.
- Highly specialist functions (e.g. data analytics, performance attribution, bespoke reporting, regulatory compliance, etc.) and those functions subject to constant change are best insourced. Creating operational alpha depends on speed, priority and control of the desired outcome. These attributes are more difficult to deliver in an outsourced environment.
- In contrast, outsourcing mature, routine processes frees up management bandwidth to focus on key corporate priorities.
- The debate about fixed versus variable costs cannot be won by either side. During a prolonged period of strong business growth, an in-house operation will be able to reduce operating costs significantly by advancing productivity and scalability. An outsource provider would have part of its revenues based on AuM. As the latter grow, the *ad valorem* fees grow too.

The question therefore is not simply «whether to outsource or not to outsource». The question is «what best suits the current and future operating model and how the operational and technological skills of third parties can be harvested to the maximum».

The Evolving Collateral Challenge

Mark Jennis
Managing Director Business Development, DTCC

The panel was led by Jeanene Timberlake from HFMTechnology and included representatives from BlackRock, RBS, BNP Paribas Securities Services, DTCC and a partner at Oliver Wyman. The latter kicked off the session with the latest results from his firm's collateral survey that looked at the impressions of a variety of market participants about the demand for collateral, preparedness for the new collateral regime, and priorities for future development.

The participants provided their reactions to some of the high points of the survey. Participants felt that while the survey was comprehensive and useful, it needed to greater reflect the various needs of the buy-side. It was noted that there is not a one-size fits all solution for the buy-side. Participants agreed with the study's findings that operational robustness was a key attribute for meeting the new requirements and while there has been much progress, there was still much work to be done improving operational capability. Industry collaboration, creation of standards and the move to greater transparency were also critical to solving many of the important challenges. Providers discussed plans to address buy-side issues including improving collateral record-keeping and tracking the status of settlements.

Regarding the sell-side, the need for greater interoperability between CSDs for products such as tri-party repo was considered crucial. The importance of collateral safety was also discussed including the need to support various segregation structures proposed by CCPs, clearing members and custodians. Participants agreed there were important roles available for all infrastructure providers including utilities. Despite much progress, participants did not feel that there would be any diminution in the collateral challenge at least in the near term.

A Global View of the Transformation in Corporate Action Processing

Andrew White, General Manager, ASX Limited, Sydney

Corporate Action processing has been automated in some jurisdictions, including the US. This Sibos session reviewed how this automation has been implemented, including the interaction between stakeholders, such as CSDs and custodians. Two custodians were involved in the panel discussion and were able to provide a summary of the process from their perspective and of the benefits that they are seeing from the automation of corporate action processing, especially in terms of the timeliness and quality of the information provided, and the straight-through nature of the automated process.

The global view emerging from the panel can be summarized as follows: Corporate Action processing has been implemented by DTCC in the US, and by a range of CSDs across the globe: ASX in Australia, KSEI in Indonesia, TSE and JASDEC in Japan, SGX in Singapore, MKK in Turkey. The benefits of such automation are immediately apparent: Issuers are positive about digitization at source and the benefits it brings them; and users of the information, including custodians, are getting that information in a straight-through process, within seconds. Ultimately this all leads to better investment decisions and better capital raising outcomes.

Polish Financial Sector – Leading Edge of Global Financial Innovation

Ph. D. Iwona Sroka
President & CEO
The Central Securites Depository of Poland KDPW

The panel session presented Poland's achievements in the financial sector – a branch of the Polish economy which was built up almost from nothing in the 25 years of transformation. During this period, phenomenal progress has been made that enabled the Polish financial sector to achieve a significant position in comparison with other European and global markets and to become an undisputed leader in certain innovative arrangements, notably in the area of retail payment systems.

Over the past 25 years, literally everything has changed. Poland went from state ownership to private companies. From having no capital market, payment clearing systems, independent central bank or proper supervision, to having a modern infrastructure.

The panel discussion was a great success and attracted a large audience. The speakers explained how Poland's success was achieved and discussed the reasons why the Polish financial market, being innovative, compliant with internationally recognised standards and secure, is also a safe location for investments.

It was a pleasure for me to present how the KDPW Group built Central Europe's leading clearing and settlement infrastructure. Thanks to services offered in KDPW (the Polish CSD) and KDPW_CCP (the clearing house) the quality and safety of the Polish financial market and its attractiveness to international investors have been strongly improved. KDPW Group offers the services of an authorised CCP, a registered Trade Repository, a Global Numbering Agency (ISIN, LEI) and is also preparing for CSD authorization.

In 2011, KDPW separated its clearing house from its central securities depository to create a more robust distinction between its two lines of business. KDPW now has 65 participants, while KDPW_CCP has 38. In April this year, KDPW_CCP became the third clearing house in the European Union to be authorized to clear OTC derivatives under the European Market Infrastructure Regulation. Our services are provided for the most dynamic economy in the region but we are interested in attracting more market participants, not only domestic but also foreign, to build economic scale.

Thanks to the right policies, regulations and supervisory standards, the Polish financial sector made it safely through the crisis, none of the banks defaulted and, importantly, the sector is growing.

And the Polish economy? According to European Union forecasts, Poland ranks third in expected GDP growth in 2014-2019 among all EU member states. This is a result of the expected faster economic growth in Poland, as well as the economic growth of Germany, Poland's main trade partner. The optimistic forecast is also driven by the anticipated increase of foreign investments.

TARGET2-Securities: What's next?

Jesús Benito
Chief Executive Officer
Iberclear, Madrid

Iberclear is fully committed to the new environment that CSDR and T2S imply for CSDs. CSDR is opening them up to a theoretical level-playing field competition. T2S is the tool to achieve it.

The Spanish market has embarked in a two-step approach reform. On the one hand, the post-trading equities system, currently very specific to Spain, will be fully harmonized with the European models in October 2015. CCPs for equities will be introduced in the market and a new settlement and registration platform, called ARCO, will be in production. On the other hand, Iberclear will migrate to T2S in wave 4.

Opening CSDs to competition will of course bring benefits for the European securities markets. Consolidation will happen in the long term. From a pure economic perspective, more than 30 CSDs in Europe seem too many. How many CSDs will exist? The question is relevant. It is not the same if only one CSD exists in the long term (monopoly) or two (duopoly), compared to the actual model where several different CSDs coexist.

However, assuming DG Competition will take duly care, the relevant question is which CSD model will succeed. If the final model is exclusively based on ICSD groups and/or global custodians' new entrants, then the CSD model based on a neutral and risk-free financial market infrastructure will be at stake. Theory is not always followed by reality. Is this reality what CSDR and T2S pretend? Time and market forces will tell.

Standards Power Lunch: Can Standards take the Pressure out of Collateral Management?

Both Andrew White from ASX and Mark Jennis from DTCC attended this event as speakers.

Standard messaging is being used to make connectivity between CCPs, CSDs and their customers easier and more straight-through. This has cost and compliance benefits. It also means that we can leverage where this works domestically to use it globally, giving customers –both custodians and buy-side– a standard process and a consolidated view of their collateral. In doing so, customers need to reflect on what processes remain non-standard and to understand the risk that exposes them to.

The panelists clarified how they face regulatory pressure particularly surrounding collateral reporting and asset protection. Regulatory pressure was considered challenging because of the differences between regions and jurisdictions. These differences made it difficult to harmonize reporting and asset protection protocols. Despite these challenges, the panelists felt there were opportunities to move forward such as standard processes regarding tri-party collateral management. Overall, there was a feeling that despite the uncertain regulatory environment, participants should be proactive and collaborative working with the various constituents to develop strategic solutions for the industry.

Innotribe provides Insights on Innovation to the Banking Industry

Fabian Vandenreydt
Head of Securities and Treasury Markets
SWIFT

Over the years, Innotribe has brought the innovation debate closer to the banking mainstream, helping SWIFT member institutions and the wider banking community identify and address innovation trends and opportunities within the financial industry.

New realities of banking have actually helped us with that: The ever-increasing pressure to comply with regulations, the rapid evolution of technology impacting banks' offerings and customer expectations, the necessity to maintain the highest levels of excellence whilst keeping costs to a minimum. But this is not only about money; it's about skills, and getting an outside in mentality to position your business at the forefront of the industry. In the past few years, we have seen acceleration in the announcements from banks about open innovation, working with startups, innovation captive funds, and so on.

It is essential for banks to understand and engage in innovations happening in and around the financial industry, and for startups to build successful relationships with potential customers, partners and investors. This is where the Innotribe Startup Challenge comes to the fore, with SWIFT playing to its key strengths as a community builder, bridging the gap between the fintech startup ecosystem and the financial community.

This year Startup Challenge has taken another huge step towards facilitating the dialogue on fintech innovation. Over 280 startups applied to the competition, and more than 500 bank operations and technology leaders, industry experts, innovators, investors, and venture capitalists, supported our 47 participants throughout the regional showcases. 15 of them made it to the Grand Finale at Sibos, and we were delighted having more than 230 decision makers of financial institutions joining us for fast paced competition, insights on innovative products, and the selection of our 2014 winners. A great success, as the Startup Challenge Grand Finale was one of Sibos' most attended sessions.

Looking at the possibilities the future holds whilst remaining relevant to current activeties can be challenging. So how can we make sure we address the right innovations within the financial industry?

This year, we did things a little differently by tagging the startups who applied to the Innotribe Startup Challenge. This allowed us to highlight the trends affecting the financial services industry and identify the areas where startups are innovating right now (see diagram on the next page). For 2014, the top 5 areas of innovation were Corporates, Investment Management, Big data, P2P Payments, and Compliance. We will continue to map key areas of focus throughout 2015, and in addition to the traditional Startup Challenge, we will also launch a series of vertical challenges to reward the startups innovating in areas that are most relevant to our community and core business.

This diagram represents the different areas of innovation identified during the 2014 Innotribe Startup Challenge, and their interconnections.