

## Introduction by the ISSA CEO Office

### Governance Update

- Changes in the ISSA Board
- Change in the Operating Committee

### New ISSA Members

4 new Members joined ISSA in June 2016.

### Chairman's Address

Tom Zeeb, our new Chairman, provides his thoughts about ISSA's role in addressing the industry's challenges

### Vice Chairman Operating Committee

- Rationale for this newly created position
- Welcome to James Greig

### 18<sup>th</sup> ISSA Symposium

Read a summary on these topics:

- Cyber-Crime
- Transformative Technologies
- Inherent Risks within the Global Custody Chain
- Financial Crime Compliance Principles
- Regulatory Impact on the Securities Services Chain

The 19<sup>th</sup> Symposium will take place in the week of June 11-15, 2018.

### ISSA's Second Report on Collateral Management

- ISSA is pleased to release today its report on Cross Border Mobilisation of Collateral.
- Be sure to download the report from ISSA's website.

### Corporate Actions Reform in Russia

An insight by Maria Krasnova into the Russian market's recently implemented process changes.



Dear ISSA Members and interested parties,

At the ISSA Symposium in May 2016 **Tom Zeeb**, CEO of SIX Securities Services, took over the ISSA Chair position from **Stephen Lomas**. You will find the new Chairman's address in this Newsletter.

In addition, ISSA established a new position of a Vice Chair within its Operating Committee: **James Greig**, Associate General Counsel of Bank of New York Mellon was nominated to assume this role. A special note in this edition explains the rationale for such approach.

The Symposium itself was a great success related to content and participation and we have received very positive feedback. The selected topics have found the interest of more than 100 senior experts across the globe and the securities services value chain. Again the Symposium served as an excellent opportunity for networking. By this Newsletter we inform you about some important findings. A more detailed report (written by **Dominic Hobson**) will be available soon.

We are happy to announce the publication of the second report on Collateral Management. A summary contained in this Newsletter gives an excellent overview of the purpose and the chapters of the report. On this occasion, the ISSA community thanks **Angus Fletcher** from Deutsche Bank and the entire Working Group for their efforts and commitment.

We also showcase the «Corporate Actions Reform in Russia and Process Changes as of July 1, 2016» in this Newsletter. The insight is provided by **Maria Krasnova**, Vice President at National Settlement Depository Russia.

Lastly, we are pleased to inform you that we can welcome a couple of new ISSA members (see separate box). It is obvious that the value of being a member and having the opportunity to be part of our focused activities and to use the network offered are key drivers to join ISSA.

We do hope that you enjoy reading this new edition and as always you are most welcome to send us your feedback as well as recommendations about topics you may wish to be addressed.

We take the opportunity to wish you all a nice summer holiday season and we are looking forward to staying in contact with you.

With best personal regards,  
CEO Office

## Governance Update

### Changes in the Board:

In line with the rotation plan foreseen by ISSA's Articles of Association, the following changes took place on May 25, 2016:

- Stephen Lomas, Deutsche Bank, resigned as ISSA's Chairman, having acted in this capacity for two successful years.
- Thomas Zeeb, SIX Securities Services, having acted as ISSA's Vice Chairman for the past two years, assumed the function as ISSA Chairman.
- Lee Waite, Citibank, assumed the position of Vice Chairman.

### Change in the Operating Committee:

See separate note on page 3.

### New Members

In June 2016, the following 4 new members joined our Association:

- Depozitarul Central S.A., Bucharest, Romania
- McKinsey & Company, Inc., Frankfurt, Germany
- Banque Internationale à Luxembourg, Luxembourg
- Thomas Murray Network Management Limited, London, United Kingdom

We welcome these organisations and are looking forward to a mutually fruitful relationship.

*Board of ISSA*

## ISSA Chairman's Address

Dear Colleagues,

When we embarked on restructuring ISSA some 3 years ago, our goal was to create a structure which was sustainable over the long term. We also aimed to be more

focused than in the past on defining and formulating positions on issues affecting our entire industry, irrespective of the role our members play in the value chain. This was launched with the Symposium 2014 under the leadership of Stephen Lomas and the response to the work done on Financial Crime Compliance and Collateral Management has been tremendous.

I would like to pay tribute to all the hard work done by Stephen and the CEO Office in getting us to this point and for having organized an extremely well structured Symposium this year again. Membership is at an all-time high, reflecting the relevance of the topics that we are addressing.

The number of issues facing our industry continue to blur the lines between our respective institutions' roles. We all have a vested interest in ensuring that, as an industry, we cannot only define a position, but also propose some principles for addressing these issues going forward. As expected, technology is taking an augmented role in shaping our service models. Therefore the industry increasingly relies on close collaboration between market participants to reduce costs and risks, while continuing to provide robust and reliable services to our clients.

You will see in this issue of the Newsletter a summary of the topics raised in the Symposium and how we propose to take these forward.

I am delighted to be leading ISSA in this next phase of our development and look forward to working not only with a very talented and committed Board and CEO Office, but also with all of you to move these issues forward over the next two years.



*Tom Zeeb, ISSA Chairman*

## Vice Chairman Operating Committee

At its meeting of May 24, 2016, the ISSA Board decided to establish the position of Vice Chair for the Operating Committee, following the structure of the ISSA Board. This will allow a ready step-in for the Operating Committee Chair. It enhances the possibility to guide all Working Groups and attending their meetings / calls and it provides for a smooth transfer of responsibilities from the Operating Committee Chair to the successor.



*James Greig  
Associate General Counsel  
Head, Office of Public Policy  
and Regulatory Affairs  
Bank of New York Mellon*

We congratulate James Greig on his nomination to Operating Committee Vice Chair. He will succeed Irene Mermigidis as Operating Committee Chair in 2017.

## 18th ISSA Symposium

From 24 to 27 May 2016, a record of 108 senior delegates from ISSA member and non-member institutions took part in our biennial event, held as usual at the Wolfsberg Conference Center in Ermatingen, Switzerland. The agenda focused on key levers for the next generation in Securities Services and particularly on the impacts of transformative technologies. Risks inherent within the Global Custody Chain formed a second main topic.

In line with ISSA's proven conference concept, the issues were presented by prominent experts and the key questions were subsequently discussed in panels and in various breakout sessions. A total of 65 institutions from 26 countries were present and offered quite some diverse views in the various discussions. The major topics are summarized on the following pages. A more detailed «Account of Proceedings», written by Dominic Hobson, will soon be made

available on our homepage. Our readers will get a special mail alert to this effect.

## Cyber-Crime

Cyber-crime is a growth industry. A recent analysis by McAfee and the Center for Strategic and International Studies estimates that the annual losses to the global economy from cyber-crime amount to USD 475 bln to USD575 bln. Resolving the issues created by cyber-attacks is time-consuming and expensive. Such attacks are inspired and driven by a wide variety of reasons, but money and espionage vastly outweigh ideological, grudge-based or frivolous motivations.

Another study noted that the proportion of cyber-attacks that are detected externally rather than internally is also rising. The range and nature of the adversaries certainly makes cyber-risks multi-faceted and financial services firms need to understand the risks better. To defend their businesses effectively against these adversaries, banks and Financial Market Infrastructures need to adopt the same methods.

In the past, organisations facing cyber-attacks did not discuss the threats they were facing, the events they were investigating, or the incidents they were managing. Today, however, businesses are increasingly willing to share knowledge of such threats. Companies now maintain a continuous dialogue with both their competitors and their clients. Platforms have emerged where financial services businesses can share information about threats and vulnerabilities they have detected, and in standardised formats.

## Transformative Technologies

It remains unclear whether distributed ledger or blockchain technology is genuinely transformative or over-hyped. However, capital is being invested in this technology on a noticeable scale. The Symposium attendees were told that more than 60 potential use cases have been identified, whereas many of the most advanced lie in financial services, mostly focusing on cost reduction.

At present, banks regard their databases as crucial, but vulnerable. They are concerned chiefly to protect unencrypted databases from being penetrated by third parties. Contemporary databases also tend to be owned and controlled by a single entity, which retains the sole right to edit the data,

including the rectification of errors. Every organization in financial services maintains its own proprietary database, necessitating a secondary industry of its own just to reconcile the data held in each of them. Distributed ledger technologies have the potential to greatly improve this proprietary, fragmented and rather inefficient collection of proprietary databases. They can instead create a mutualized database infrastructure.

The Symposium discussed the potential benefits and obstacles to the adoption of distributed ledger technologies. In six different breakout groups, the following distinct topics were discussed:

- Issuance of assets into a distributed ledger, identifying benefits and inhibitors as well as the legal regime governing such process.
- Transactional aspects of trading and settling assets in a distributed ledger, dividing their deliberations between trading support and the values and principles which should govern the adoption and use of distributed ledgers in transaction processing.
- Securities lifecycle events and asset servicing issues arising from the use of distributed ledgers, dividing their discussion between proxy voting and income collection / corporate actions.

The detailed findings of each breakout group are contained in the «Account of Proceedings» to be made available later.

ISSA's Working Group on «Distributed Ledger Technology» is now tasked to agree on the key themes highlighted at the Symposium, prioritize the needs and define the Working Group output and deliverables for each issue.

### **Inherent Risks within the Global Custody Chain**

In November 2015, the ISSA Board formed a Working Group to update its 1992 Report on Global Custody Risks. The industry has experienced a great deal of change since 1992, an update was therefore long overdue. It was the Working Group's ambition not to describe best practice, but to educate the reader in the scope and nature of the risks run by custodian banks. Ten broad categories of risk have been included.

A draft of the update report was released to the registered attendees prior to the Symposium. At the event itself, four breakout groups provided feedback on the scope, purpose and value of the document as a whole and gave detailed comments on different sections of the document. Their suggestions for general and specific revisions to the document are now being considered by the Working Group.

### **Financial Crime Compliance Principles**

In August 2015, ISSA published its 17 «Financial Crime Compliance Principles for Securities Custody and Settlement» aimed at mitigating the regulatory risk in connection with financial crime. These principles focus on offering custodian banks practical advice on how to counter money laundering, terrorist financing, market abuse, corruption, fraud and the evasion of sanctions by a single practical technique: Transparency of ownership and control in custody arrangements.

The Symposium agreed that putting the principles into operational practice is the next step. ISSA will, however, not monitor adoption by its members, though they are expected to share their implementation progress at periodic engagement sessions. Yet, ISSA is providing guidance to legal drafting teams. The principles that require contractual force have been identified and the drafting of specimen language is under way. It will be completed by Fall 2016.

### **Regulatory Impact on the Securities Services Chain**

The ISSA Working Group on the Regulatory Impact on the Securities Services Chain published its first report in June 2012 and a separate report on Shadow Banking in February 2014. Last November, the ISSA Board mandated the Working Group to provide members with an update on grounds that, while most of the Group of Twenty (G20) requirements are now in place in the major markets, detailed rules are still awaited in many jurisdictions and there are also regional and local variations in implementation.

The Symposium took note that the new report being produced will review all regulatory developments since June 2012,

with a view to explaining why some regulatory initiatives have changed and others have not. It will pay particular attention to any unintended consequences. Its geographic reach will be expanded to Latin America and it will also take a forward-looking approach in an effort to detect what regulatory challenges are likely to come next.

The new report is scheduled to become available in the first quarter 2017.

### **Collateral Management Best Practices**

The Symposium attendees were briefed on ISSA's second report on Collateral Management, which is being published as of today. Refer in this connection to our separate chapter further below.

### **Working Group Progress**

ISSA continues to periodically inform by means of its Newsletters and its homepage about the progress made in its six Working Groups.

### **Next Symposium**

Our 19<sup>th</sup> event will take place in the week of June 11 to 15, 2018. The exact dates will be communicated towards the end of this year.

## **ISSA's Second Report on Collateral Management - Cross Border Mobilisation of Collateral**

### **Introduction**

ISSA has just published its second Report on Collateral Management, dealing with the aspect of Cross Border Mobilisation of Collateral. The purpose of this new report is to provide information on the emerging topic of collateral mobility and the various models, services and tools that are being offered to the market. The paper is designed to be informative but neutral, providing model information and guidance for those parties who are looking to engage with collateral providers. The report can be accessed on [ISSA's Homepage](#).

Following on its report on «Best Practices of Collateral Management for Cleared and Bilaterally Traded Products» published in March 2014, ISSA decided to focus on the aspect of collateral mobility, a particular aspect of the collateral management

landscape. This new report has been compiled by ISSA's Working Group «Collateral Management Best Practices» under the lead of Angus Fletcher, Deutsche Bank. It comprised a team of experts drawn from ISSA member firms and third parties.

### **Scope of ISSA's Report on Cross Border Mobilisation of Collateral**

The body of this report covers the following:

- What is meant by collateral mobility and why is it becoming such an important topic to be addressed?
- What are the typical collateral mobility models that are available in the market, what benefits do they bring, and what challenges are associated with each of these models?
- What are the regulatory and industry driven initiatives that are aiding and / or obstructing the free movement of collateral on a cross border basis?
- A set of standard due diligence questions to determine whether an organization has a need to consider collateral mobility, and if so, a set of likely due diligence questions to consider when approaching collateral mobility service providers.

The report is not designed to be a beauty parade of collateral mobility service providers, nor is it exhaustive in the models documented.

### **Content of the Chapters**

The report is divided into six chapters:

- **Chapter one** covers key definitions as they relate to collateral mobility, and the background as to why collateral mobility has become such a hot topic.
- **Chapter two** examines the various industry models that exist and are emerging specifically to facilitate collateral mobility, providing flows for each of the models and highlighting the benefits and potential risks within the models.
- **Chapter three** provides views on the regulatory and industry initiatives and trends that are both aiding and hindering collateral mobility on a cross border basis. It also provides suggestions for how market players could feasibly improve and remove existing obstacles. Special attention is drawn to the six distinct ISSA recommendations mentioned in this chapter.

- **Chapter four** rounds off the paper by providing a practical set of questions that any firm should take into consideration when assessing whether they should take advantage of the collateral mobility services available in the market. The questions are split into «internal» and «external» questions.
- **Chapter five** provides a choice of hyperlinks beyond those referenced directly in the report.
- **Chapter six** lists those specialists that have contributed to the completion of the report.

Our readers are encouraged to make the report available to internal and external parties.

ISSA's Operating Committee is tasked to evaluate further potential work items by the end of October 2016. Periodic updates will be posted to ISSA's website.

## Corporate Actions Reform in Russia: Process Changes as of July 1, 2016



*Maria Krasnova  
Vice President  
Director of Corporate Governance,  
Risk Management & Legal Affairs  
National Settlement Depository  
Russia*

A series of significant improvements in Russian Corporate Actions practices are the latest steps aimed at bringing Russia's financial market infrastructure in line with international standards. The Corporate Actions Reform initiated in 2013 by Russia's National Settlement Depository (NSD) with the support of the regulator, issuers, registrars and clients came to fruition on 1 July 2016, when the set of laws and regulations establishing the legal basis for a

modern approach to corporate actions came into force.

In order to ensure that both domestic and international infrastructures benefit from the reforms and to facilitate straight-through processing wherever possible, NSD chose to design new processes based on international standards developed by the global securities industry, including Global Principles for Corporate Actions Processing and Proxy Voting endorsed by ISSA.

ISO formats were chosen to support automatic information processing. Even though ISO 20022 will become the basic standard for Corporate Actions processing in the Russian market, use of ISO 15022 will also be possible for international constituencies.

There are three key elements of the reform:

- The Russian CSD becomes an official center of Corporate Action information, receiving information electronically directly from issuers and then distributing it via participants and on its website. In case of a discrepancy between information distributed by the CSD and any other information, the CSD's information will prevail.
- Customers of custodians will only be able to participate in Corporate Actions through their custodians. Custodians will send electronic instructions on behalf of their customers through an intermediated chain up to the issuer.
- Securities holders will be able to participate in general meetings in four different ways. Two of them remain the same: A securities holder physically being present at a meeting or sending a completed paper ballot by post. Two new ones are added: e-proxy voting – sending an electronic ballot through custodians; and e-voting – direct voting of an investor via a dedicated website.

All these changes are meant to reduce direct and indirect costs, improve transparency of our processes and thereby reduce the perceived risks of participation.