

Introduction by the ISSA CEO Office

Governance Update

Change in the Operating
Committee

New ISSA Members

3 new Members joined ISSA
since July 2016.

Sibos Take aways

- Distributed Ledger
Technology
- Cyber ...
- Financial Crime Compliance

European Central Securities Depositories Association, ECSDA

New Study on the Registration
of Securities Holders

SIX Securities Services

CONNEXOR: The High-
Performance Infrastructure for
Reference Data

ISSA Thought Leadership Conference

This year's event will
take place on the
premises of HSBC Hong
Kong, in the afternoon
of November 7, 2016.
For details please refer
to ISSA's News section.

www.issanet.org



Sibos 2016 Geneva

Dear ISSA Members and interested parties,

As in the past, this year's **Sibos** provided the CEO Office with the excellent opportunity to meet a fair number of existing and potential members in order to discuss the various industry challenges and the progress of ISSA's work items. As last year, we received confirmation that ISSA is pursuing the right topics and that the membership welcomes their increased involvement in our activities. This is also evidenced by the fact that we constantly enlarge our constituency. Since our July Newsletter, we have added 3 institutions to our membership. In addition, the conference offered the opportunity for a get-together of the ISSA Working Group on Distributed Ledger Technology as many group members were present in Geneva.

This newsletter focuses on three take aways from Sibos on topics that are closely related to ISSA's work.

Later this month, ISSA's **Operating Committee** will hold its annual Workshop in London. The participants will take stock of the progress in ISSA's six Working Groups and agree on the next steps and deliverables. Furthermore, the Committee will discuss potential new work items. The results will subsequently be submitted to the ISSA Board for final decision on the way forward. ISSA's next Newsletter will provide a detailed status report on the various work items.

On the occasion of the ISSA Board meeting taking place in Asia, ISSA will hold this year's **Thought Leadership Event** in Hong Kong on November 7, 2016. Invitations have been extended to existing and potential member institutions.

This Newsletter offers a platform to **ECSDA**, the European Central Securities Depositories Association. Soraya Belghazi, ECSDA's Secretary General, informs about recent reports produced by this regional CSD Association. We also showcase a very interesting Corporate Actions solution in place in the Swiss Market, SIX's **CONNEXOR** platform.

With best personal regards,
CEO Office

Governance Update

Change of Operating Committee (OC) Members

- At the end of September, James Greig resigned from the Bank of New York Mellon and his function as ISSA OC Member. The appointment of a successor OC Member is still open.
- In October, Hannah Elson succeeded Ed Neeck as the representative of J.P. Morgan in the OC.

New Members

Since the last Newsletter in July, the following 3 members have joined our Association:

- Broadridge Financial Solutions Ltd, London
- VP Bank AG, Vaduz (Principality of Liechtenstein)
- Banque Pictet & Cie SA, Geneva

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

Board of ISSA

Sibos 2016 – Take aways

Geneva hosted this year's event with well over 8'300 delegates. We understand that this has been the second-largest attendance ever. A very diverse agenda was dealt with in more than 200 conference and open theatre sessions. Yet, three prominent focal areas dominated this year's agenda: Blockchain (Distributed Ledger Technology, DLT), Cyber-security and Financial Crime Compliance.

Distributed Ledger Technology

Much like at any industry conference these days, blockchain was again prominent in many Sibos sessions. It seems though that the extreme enthusiasm that prevailed at Sibos in Singapore last year has yielded to a more realistic appraisal of the opportunities and challenges of this fairly new technology. Whereas many see the technology as having the potential to disintermediate securities

market infrastructures like CCPs or CSDs and potentially also services provided by custodian banks, others are of the opinion that it will primarily enable the creation and support of niche products, services and processes.

Various industry consortia and joint ventures between FinTech companies and financial services providers have developed respectively are in the process of developing prototypes for many industries, not limited to payment, securities or trade finance services. Financial industry regulators show increased interest in DLT and the potential it might offer with regard to transparency and detailed regulatory reporting. In general, however, the feeling prevails that the benefits of blockchain for financial market processes will become visible on a larger scale only in the medium term.

On the occasion of Sibos, representatives of ISSA's Working Group on Distributed Ledger Technology discussed their work items going forward, after having looked in detail at the recommendations emanating from the ISSA Symposium held in Switzerland last May. In order to cope with the number of technical solutions in the offing, ISSA feels that the development of Business Guidance Principles is warranted. They should be considered as key elements to be followed by vendors and other parties involved in the development process and should reflect widely accepted industry standards. Another Work Stream will compile legal / regulatory background information about initiatives currently going on in various industry groups in order to identify potential gaps.

Cyber...

Cyber-attacks, Cyber-crime, Cyber-resilience, Cyber-security, Cyber-threats, a myriad of terms which boiled down to simply «Cyber» in the course of this year's conference. Cyber-security is a top priority for industry stakeholders as threats have become more pronounced and will continue to evolve. It is a fact that the number of Cyber-attackers has grown significantly. They are learning from each other, thus exponentially increasing the risk of attacks on financial institutions. It is therefore essential that financial market participants share information on risks and threats at a time when Cyber-criminals are closely cooperating among themselves.

Not surprisingly, Cyber has become a Board-level topic at SWIFT as it is for the entire financial community. Since news of a first attack emerged earlier this year, SWIFT has launched a customer security program, which is about establishing multiple lines of defense and controls. On the regulatory front, the «Guidance on cyber-resilience for financial market infrastructures» issued by CPMI/IOSCO in June 2016 aims to provide a shared understanding of the undertakings required to develop and maintain Cyber-resilience. One particular challenge emanating from a local regulator's guidance is the predicting of Cyber-attacks by leveraging multiple sources of intelligence.

Cyber was a topic at the ISSA Symposium in May this year in order to create broad awareness of the many nuances of this new reality. Echoing one commentator at Sibos: «Threats are a business rather than a technical issue», the upcoming Workshop of ISSA's Operating Committee will discuss the need for a new ISSA Working Group initiative on «Customer Cyber-Risk in Securities Processes».

Financial Crime Compliance

Much like Cyber-crime is a reality to cope with, there is also evidence that the fight against financial crime in general is here to stay. It has become a critical component of governmental policy. The biggest challenge the industry presently faces is how a greater level of collaboration between government and the private sector can be achieved in the fight against financial crime.

SWIFT is rapidly expanding its compliance services suite. Compliance is one pillar of their 2020 strategy, building three interconnected and complementary compliance utilities in the areas of Sanctions, KYC and Analytics / AML, as was impressively demonstrated during the conference. One area where industry utilities are well positioned to provide central services.

ISSA's «Financial Crime Compliance Principles for Securities Custody and Settlement» issued in August 2015 represent but a small yet important contribution to combatting financial crime. ISSA's Working Group is about to publish «Guidance in Drafting Contractual Terms to Support the

Implementation of the Principles» as well as a three part questionnaire to be used between a Global Custodian and its Sub-Custodian.

The next Sibos will be held in Toronto from October 16 – 19, 2017. For sure, these three focal topics will form part of the agenda again.

New ECSDA Study on the Registration of Securities Holders



*Soraya Belghazi
Secretary General
ECSDA*

ECSDA, the European Central Securities Depositories Association, represents 41 CSDs across Europe, including many ISSA members. The association has a permanent Secretariat in Brussels since 2010 and regularly issues topical reports on the CSD industry. Last year, ECSDA published a study on [account segregation practices at CSDs](#) which provided a useful complement to ISSA's Principles on Financial Crime Compliance for Securities Custody and Settlement. More recently, it has published an [overview of CSD links in Europe](#).

On 19 July 2016, ECSDA issued a special report on another interesting topic for ISSA members: [The registration of securities holders](#). The report looks at the processes in place in 38 European countries for recording ownership in the securities register. Here are some of the key findings:

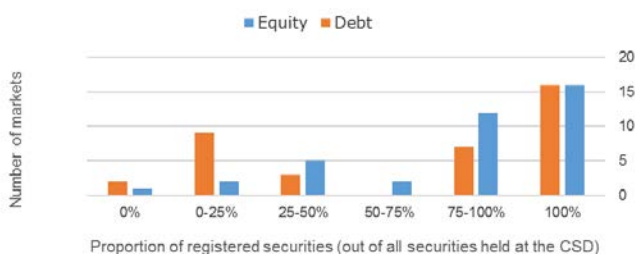
Registration grants a certain level of legal protection to securities holders

The recording of securities holdings in the register has legal effects. Although these differ across markets, registration typically means that the investor's rights over the securities are enforceable towards the issuer, such as the right to receive a dividend or interest payment.

Shares are more frequently subject to registration requirements than bonds

Registration requirements are generally associated with the holding of shares because companies have a strong interest in being able to identify their shareholders. Registration is mandatory for shares in roughly half of the markets surveyed, whereas it is only mandatory for debt instruments in around one third of the markets.

Bearer securities, which do not require the maintenance of a register, are still commonplace. The chart below shows the proportion of registered securities across European markets, based on the market value of all of securities held at the CSD:



The relation between registration and settlement varies across markets

Where beneficial owner accounts are maintained at the CSD, the register tends to be a direct reflection of CSD accounts, which means that the register is updated on a daily (or even intraday) basis to reflect the changes in CSD records following a securities transfer between accounts at the CSD. In other markets, the register is maintained separately from CSD accounts and may only be updated on an ad hoc basis, typically at the request of the issuer.

CSDs are not always involved in the maintenance of the register

Issuers are responsible for maintaining the list of their registered securities holders, but, in practice, they frequently outsource this task to a third party entity. In more than half of European markets, the CSD acts as the sole or primary registrar. In other cases, either the CSD updates the register jointly with its participants (banks maintaining accounts on behalf of investors) or it does not play any direct role in updating the register.

The information items contained in the register are not harmonized

Most registers include at a minimum the name of the securities holders, an address and the relevant securities balances. Other information items, such as an identification number or the nationality of the investor, are only required in certain countries.

CONNEXOR: The High-Performance Infrastructure for Reference Data



Jörg Rohner
Director
Head Custody Services &
Vault
SIX Securities Services

The creation of a financial product on and off exchange with all data incorporated is complex and needs to comply with the regulatory standards of the financial services industry. Reference data and information on corporate actions for financial products also need to be communicated to the market (investors, CSDs, vendors, etc.).

At SIX, we have streamlined our submission process to take advantage of digital STP improvements in financial data processing and management solutions. These improvements offer clients full digital management and diagnostics of a financial instrument via SIX's [CONNEXOR](#) services. The system automatically transmits all relevant product information straight through to related stakeholders in an easy to access digital format.

In post-trade processing, SIX Securities Services offers improved services for the maintenance of financial instruments. The CONNEXOR service enables issuers and main paying agents to streamline the transmission of corporate actions data and fulfil reporting obligations. Using CONNEXOR platforms,

clients get the benefit of automated capture, distribution and processing of corporate actions data. CONNEXOR offers stakeholders an efficient digital data processing infrastructure and

enables automated, cost-efficient management of reference data across the entire life cycle of a product. It supports our clients by providing the appropriate services for each phase:

