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BIG ISSUE DEBATE

Stay calm: internationalise the RMB

Each new step in the internationalisation of the renminbi is leading to a redoubling of interest in the currency.

Andrew Sheng, distinguished fellow, Asia Global Institute

Today's Big Issue Debate (BID) on the renminbi (RMB) could not be more timely: what better time than the month in which SWIFT's RMB tracker revealed the currency had entered the top four of world payment currencies by value, and a week to the day since the launch of the much-heralded China International Payments System (CIPS)?

The internationalisation of RMB has been described as the most significant financial market development since the formation of the euro. If the media interest in the currency is anything to go by, it will be significantly more important, as the Chinese currency's ascent has, if anything, been even more closely followed than the European currency's debut. Each SWIFT RMB tracker release leads to acres of print coverage, not only in Asia, but all around the world.

The Sibos edition RMB Tracker showed that in reaching the top four of world payment currencies by value in August 2015, the RMB had not only overtaken the Japanese yen, but also reached a record high share of 2.79% in global payments. The Japanese yen is now trailing the RMB 2.76% to 2.79% so the gap between currencies is minor; the volatility in the Chinese market in August likely played a significant role in its increased usage.

Even so, the RMB has further established itself as the dominant currency for trade finance behind the USD, and has become the number one currency for Asia Pacific intra-regional payments with China and Hong Kong. The use of additional offshore clearing centres outside of Hong Kong – all of them vying for an important role in RMB clearing – has played a key role in driving RMB adoption, with most showing impressive growth in volume.

Seven engines

Ever since the People's Bank of China (PBOC) introduced a series of policy measures in 2009 to facilitate the expansion of the nascent RMB offshore market and to overcome the constraints of the currency's limited convertibility, excitement around its the currency's internationalisation has been tangible. Today's debate will discuss just how fast this game-changer is upon us.

The PBOC has shown strong commitment to its 2009 policy by applying a "seven-engines" approach: expanding currency swap contract coverage and amounts; launching new offshore RMB clearing centres; establishing more free trade zones; further liberalising of capital account items; introducing new RMB investment schemes; setting up new multinational financial institutions, and widening RMB trading bands.

Full internationalisation of the RMB however requires the currency to be fully liberalised and convertible – the ongoing efforts towards which have been hindered by recent volatility in Chinese equities. Views are mixed on the impact this will have.

"Progress on planned reforms will likely be delayed, but the Shenzhen-Hong Kong Stock Connect (SZHK) link and the increase in Qualified Foreign Institutional Investor (QFII)/Renminbi Qualified Foreign Institutional Investor (RQFII) quotas will push forward with haste," says Aaron Boesky, CEO of

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ASEAN

Putting the building blocks in place

Meaningful progress on financial market integration expected over next decade.

When one thinks of emerging markets growth stories over recent decades, the BRIC countries inevitably come to mind. Think of Asia specifically, and China and India dominate. But it would be hard to over-estimate the impressive and sustained growth trajectory of the member states of the Association of Southeast Asian Nations (ASEAN), already collectively the seventh biggest economy in the world.

With a population of 625 million and a GDP of US$3.6 trillion, ASEAN is a microcosm of Asia: hi-tech and under-developed; super-wealthy and poverty-stricken; rich in natural resources, but challenged by a diverse topography and unpredictable climate.

Such contrasts have helped to inform the ASEAN economic integration agenda, which emphasises further reduction in the effort and costs of trading within the region, as well as supporting trade and investment flows, both domestic and international. A single currency is not on the cards, nor is any serious relinquishment of sovereignty, and many aspects of cross-border coordination and harmonisation that Europeans now take for granted are in their infancy. But there is undeniably a sense of common purpose and identity across ASEAN, bolstered in recent years by increased levels of intra-regional trade and the ambitions of a

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WHAT'S ON

Big Issue Debate/Plenary

11:30-12:30	Renminbi: The real game changer
16:00-17:15	Sibos: closing plenary

Corporate Forum

Conference room 1

08:00-09:00	Compliance Forum Opening Address Day 2: Designing the industry's digital trade agenda
09:00-09:45	Progressing the digital trade agenda: Are banks on board?
10:15-11:15	Alternative financing models: Opportunities of threats for banks?

Conference room 5

14:00-15:15	Bank readiness in trade finance: The voice of the corporate and banking community

Standards Forum

10:15-11:15	Raising the bar for data quality in trade reporting: A solution in sight?
13:00-13:45	Bringing efficiency to RMB payments - ISO 20022 for CIPS
14:00-14:45	Closing panel: Making ISO 20022 work for you

Innotribe

09:15-10:00	Accelerating and scaling expertise with cognitive computing from IBM Research and Watson
10:15-11:15	Voice of the customer 3.0
12:45-13:45	Thinking machines and jobs: How banks can respond to the opportunity
14:00-15:00	Analytics for a real-time world
15:15-15:45	Innotribe closing keynote: Machines are not the answer

ASEAN

Conference room 2

09:00-09:30	ASEAN Day Opening
09:30-10:00	ASEAN leaders in conversation
10:00-11:15	ASEAN banking conversation

Conference room 1

14:00-15:45	ASEAN financial and economic integration workshop

Conference room 3

14:00-15:45	ASEAN exchanges and securities workshop

Payments

Conference room 3

10:15-11:15	Intraday liquidity reporting: How has the industry progressed?

Securities

Conference room 4

10:15-11:15	Capital market harmonisation: How to align market liberalisation and regulatory supervision?

Workshop C

14:00-15:15	Securities financing: A necessary evil for corporates and asset managers?

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BIG ISSUE DEBATE

Stay calm: internationalise the RMB

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China A share specialists Marco Polo Pure Fund Management.

"China is amongst the top three countries for most of our multinational clients. Irrespective of a slowdown, that picture is unlikely to change. We will continue to see adoption of RMB as a trade and treasury currency," says Amol Gupte, region head for treasury and trade solutions, Asia Pacific, Citi, also speaking today. "The speed of adoption could go up or down a little, but the fundamental direction stays intact."

Ongoing reforms

In terms of its currency regime or management framework, the PBOC recently switched the RMB from its former dollar peg to a managed float. This is a step closer to free market exchange and a move that was welcomed by the US Treasury Department and the International Monetary Fund (IMF).

The move towards a market-oriented direction for daily fixing should help increase the chances of the RMB's inclusion in the IMF's Special Drawing Rights (SDR) basket. Whilst the SDR is a notional currency and accounting unit, its inclusion in the basket would serve as an official endorsement of the RMB's progress. But China's ambitions in this direction witnessed a recent setback. Shortly after the move to a managed float, the IMF pushed back until September 2016 its decision on whether the RMB would be included in its basket of reserve currencies. It is possible that the delay has been made to allow China more time to comply more fully with IMF requirements and implement more reforms towards making the RMB fully exchangeable.

What is likely to happen next in the journey? Firstly, say observers, an expansion of the Qualified Domestic Institutional Investor (QDII) quota, which will allow Chinese mutual funds to invest in products linked to foreign assets. Secondly, its sequel, dubbed 'QDII2', which will allow Chinese households to invest in overseas securities and physical assets. A pilot scheme is understood to be close to launch across six cities in China.

There is probably going to be further growth of the QFII and RQFII quotas as well, which allow for more foreign participation in China's stock and bond markets. Also en route are the SZHK, following the success of the link between the Hong Kong and Shanghai bourses, and implementation of a mutual fund recognition agreement, which will allow eligible mutual funds from China and Hong Kong to be sold in both markets.

CIPS and beyond

The PBOC launch last week of the cross-border payment CIPS system is widely heralded as one of the most critical steps in RMB internationalisation – not least as it is set to further facilitate clearing transactions, boost liquidity, cut transaction costs and reduce processing times.

The CIPS will be used to support cross-border goods and services trade settlement, direct investment, as well as financing and individual fund transfers, according to the PBOC's announcement. A total of 19 banks have been selected to participant in the system, including eight Chinese subsidiaries of foreign banks.

Reporting on the news, Reuters said the new system will "put the yuan on a more even footing with other major global currencies like the dollar, helping to promote the currency in global trade and raising global profile of the yuan". All this just as the IMF continues to ponder whether to grant RMB elite status as a reserve currency, alongside the dollar, sterling, euro and yen.

"Will current turmoil in the A share market disrupt the internationalisation of the RMB?" asks Andrew Sheng, distinguished fellow of the Asia Global Institute and one of the panellists in today's BID. Tantalisingly, he doesn't answer: "It's a question that will impact not only on international currency markets, but which is already putting huge pressure on global financial markets." ■

TO LEARN MORE ...

Renminbi: the real game changer
Thursday 15 October – 11:30-12:30

Bringing efficiency to RMB payments – ISO 20022 for CIPS
Thursday 15 October – 13:00-13:45

CLOSING PLENARY

Menon's message

The closing address at this year's Sibos will be given by Ravi Menon, managing director of the Monetary Authority of Singapore (MAS), the country's central bank and integrated financial regulator.

Appointed managing director in 2011, Menon has spent 16 years at MAS, but his experience and expertise stretch right across Singapore's financial and governmental circles and beyond, to international financial sector policy making.

Menon is a member of the steering committee of the Financial Stability Board (FSB), the international body for coordinating and overseeing the implementation of financial market regulation. He is chair of the FSB's standing committee on standards implementation.

Closer to home, Menon has held a number of positions of responsibility for Singapore's financial and economic development. Previously permanent secretary at the Ministry of Trade & Industry between 2007 and 2011, Menon chaired the Asia Pacific Economic Cooperation senior officials meetings in 2009. He was also deputy secretary at the Ministry of Finance from 2003 to 2007, where he was responsible for fiscal policy and government reserves.

During his career at MAS, Menon gained a wealth of experience across many areas of the financial sector, including monetary policy, econometric forecasting, banking regulation and liberalisation, and integrated supervision of complex financial institutions. He holds a master's in public administration from Harvard University and a bachelor of social science in economics from the National University of Singapore. Menon is also a recipient of Singapore's Public Administration Medal (Gold).

At the closing plenary at Sibos, Menon will share his thoughts on the future prospects for Singapore as an international finance hub in developing its capabilities as a global fintech centre. ■

TO LEARN MORE ...

Sibos: closing plenary
Thursday 14 October – 16:00-17:15

Putting the building blocks in place

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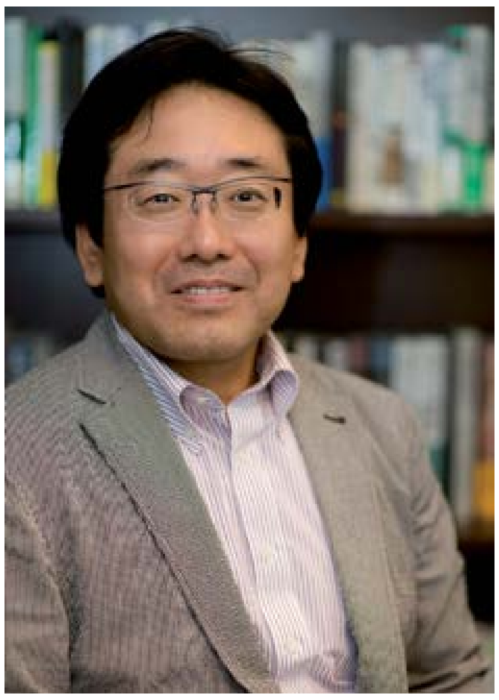

GDP growth was a healthy 4.7% in 2014, according to the IMF.

Since the global financial crisis of 2008, the supply chains that criss-cross the ASEAN region – many built up in support of Chinese, Japanese and Korean manufacturing capacity – have helped to bind member countries together, as well as their businesses and communities. "When the world was in turmoil, trading within ASEAN and with China grew," says Thomas Tan, head of global transaction banking at Malaysian banking group CIMB.

Intra-ASEAN trade doubled from US$261 billion in 2004 to US$598 billion in 2011 and now accounts for around a quarter of the bloc's total trading in goods and services, compared with around 10% before the currency crisis. The value of Chinese trade with ASEAN has almost trebled from US$140 billion in 2006 to US$350 billion in 2013, making China the region's largest single trading partner.

Supporting trade and investment

Although the main focus of the ASEAN Economic Community has been trade facilitation, it has also pushed harmonisation and integration in the finance sector through a series of financial services liberalisation packages. Much more remains to be done, however. "ASEAN integration is driven primarily by intra-regional trade, but this leads to financial market integration: the flow of goods needs to be supported by the flow of finance," says Yamadera, who adds that the focus on trade also gives ASEAN an open, outward looking perspective which he contrasts to 'Fortress Europe'.

"Greater economic and financial integration across ASEAN will make the cross-border flow of goods, services and capital easier," says Tan, noting also that increased harmonisation and standardisation of banking rules and processes across the region would help banks to support clients as they expand to new markets. "Currently we need to undertake different account opening and onboarding processes in Malaysia, Indonesia and Thailand and so on. The introduction of a 'passporting' system would make it much easier for us to bring customers to new markets," he says.

Total foreign direct investment inflows into ASEAN grew by an annual 15.7% to US$136 billion in 2014, having risen from just over US$80 billion in 2007. Greater inward investment would further support trade growth by speeding the implementation of much-needed power and transport infrastructure projects. Many argue that greater harmonisation of ASEAN's capital markets infrastructure could help to attract investment, but CIMB's Tan believes it may be some time until such integration efforts have a significant influence on foreign capital inflows. "For the moment, inward investment is a wider

> **"ASEAN integration is driven primarily by intra-regional trade, but this leads to financial market integration.**
>
> **Satoru Yamadera,** principal financial sector specialist, Asian Development Bank

burgeoning middle class. "At the bilateral level there are territorial disputes, and there is scope for interests to conflict as economies grow, but there is nevertheless a strong understanding of the merits of collective action," says Satoru Yamadera, principal financial sector specialist in the sustainable development and climate change department of the Asian Development Bank.

Path of progress

Formed in 1967 for security reasons by Indonesia, Malaysia, Philippines, Singapore and Thailand, ASEAN expanded further into Indo-China in the 1990s, encompassing Cambodia, Laos, Myanmar and Vietnam (Brunei joined in 1984). Its founding aims of mutual support, assistance and cooperation were strengthened by the ASEAN Charter of 2008, which committed the bloc to the creation of a single free-trade area and "a more vigorous role in Asian and global affairs" in the words of Indonesia's then-president, Susilo Bambang Yudhoyono.

Economically and financially, the region weathered and was subsequently reshaped by the currency crisis of the late 1990s. The devastating economic impact of a rapid and substantial withdrawal of foreign capital led to a series of policy responses that have sown the seeds of today's success. Over-reliance on foreign short-term debt had to be replaced by more stable, longer-term sources of funding, which led to the establishment of the ASEAN+3 Bond Market Forum to harmonise and standardise cross-border debt market transactions. Thanks to this and other collective measures, ASEAN's central banks are now buoyed by high levels of foreign reserves, its banking systems are well capitalised and its economies are experiencing steady growth. ASEAN's collective GDP per capita almost doubled between 2000 and 2011, and regional

> **"The next step is to map out and articulate a regional financial architecture.**
>
> **Lisa Robins,** head of global transaction banking, Asia-Pacific, Deutsche Bank

issue. A number of ASEAN members are still emerging markets and are competing for investment. Agencies such as the International Monetary fund and the Asian Development Bank all play a role, as increasingly are the Chinese, both through the China-ASEAN Investment Cooperation Fund and other investment projects, for example those in the Mekong delta," says Tan.

The ADB's Yamadera agrees that while financial market integration can support inward investment, more fundamental and complex changes to the legal structure and public finances of ASEAN's member states are also required in order to effect a step change in the investment environment. Ideally, infrastructure investment would utilise domestic savings pools, but this would require a level of standardisation and harmonisation across member states that is far from straightforward. "It is important to respect sovereignty while harmonising as much as possible," he says.

Maintaining momentum

To maintain ASEAN's momentum, further progress must be made on reducing both the tariff and non-tariff barriers to trade and investment, such as the harmonisation of regulatory frameworks and the development of common market infrastructures, including the securities settlement link which currently operates between Singapore, Malaysia and Thailand, says Lisa Robins, head of global transaction banking, Asia-Pacific, Deutsche Bank. "ASEAN has made good progress on establishing an infrastructure to encourage the freer flow of trade, to support supply chains and to attract investment. The next step is to map out and articulate a regional financial architecture. But with so many differences in language and regulation, for example, you can't just snap your fingers and expect it to happen," she says.

Robins says the private sector can play a big role in the ongoing efforts toward greater integration:

"An increase in the level of public/private discourse can help regional bodies to resolve differences in market practice across ASEAN and build the roadmap for regional financial market infrastructures. Another more qualitative challenge is to tackle the forces that can slow integration, such as fears of losing a competitive edge."

While some call for an acceleration of ASEAN financial market integration, noting for example the fact that only three countries are actively using ASEAN Link between securities exchanges, the ADB's Yamadera prefers to look on the positive side. "I think it's a good success story. 30 to 40 years ago, all global trade was north-south. But here's a southern trading block that is prospering through economic liberalisation. The challenge for the future is to ensure the people keep feeling sufficient benefit to enable further progress," he says. ■

TO LEARN MORE ...

ASEAN day opening
Thursday 15 October – 09:00-09:30

ASEAN leaders in conversation
Thursday 15 October – 09:30-10:00

ASEAN banking conversation
Thursday 15 October – 10:00-11:15

ASEAN financial and economic integration workshop
Thursday 15 October – 14:00-15:45

ASEAN exchanges and securities workshop
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"When the world was in turmoil, trading within ASEAN and with China grew.

Thomas Tan, head of global transaction banking, CIMB

Can corporates rejuvenate the repo market?

Changes in collateral supply and demand are providing new opportunities for corporates.

Post-crisis regulatory reforms designed to reduce risk in the financial markets have spurred a major increase in demand for eligible collateral, notably among banks, asset managers and owners. Industry estimates vary about how much additional collateral will be required as the rollout of new regulations continues to ratchet up demand. But a study by Oliver Wyman and Morgan Stanley has claimed the market will need to find an extra US$1.4 trillion by 2018.

Sourcing this collateral is going to be an enormous task across the market. But one promising source of cash collateral is the corporate sector. For an increasing number of corporates, the repo market is emerging as a popular way of raising non-cash assets. While some corporates might look to use the repo markets to switch cash for securities to support margin calls as OTC derivatives move to central clearing, many others simply see repo as an alternative to time deposits at banks, the traditional home for their short-term cash.

"We see a growing number of non-traditional cash providers, amongst others corporates, willing to use Euroclear Bank as tri-party collateral repo agent," says Olivier Grimonpont, head of collateral services at Euroclear.

"Also, following the financial crisis, with low long-term interest rates and growing concerns around the risks associated with banks' funding, several corporates now go direct to the capital markets rather than through the traditional bank loans."

A market transformed

Much of the post-crisis upsurge in collateral demand stems from OTC derivatives reforms – which require high-quality collateral (broadly speaking, cash or government bonds) to be posted as margin at central counterparties by derivatives users including asset managers, insurance firms and pension funds – and Basel III, the new capital and liquidity framework that forces banks to increase their level of high-quality liquid assets, as defined by the Basel Committee.

The repo market – where banks have typically looked to meet their short-term funding requirements by lending out securities for cash via repurchase or 'repo' transactions – is now undergoing a transformation to meet the more disparate needs of a wider range of participants. Pascal Morosini, head of global securities financing sales and relationship management at Clearstream, explains the appeal of the repo markets to corporates: "Corporates have started to appreciate the increased risk of bank bail-in and that unsecured deposits, whilst convenient, do not offer the most secure investment option," he says. "Unlike time deposits, tri-party repos are backed with specific collateral which fully secures the re-invested cash. As a result, a repo affords greater protection for the corporate treasurer from the default of its banking partner, in particular if the collateral management is outsourced to an independent tri-party agent."

Non-banks tend to access the repo market via the services of tri-party agents, as this removes much of the administrative burden of repo transactions, such as day-to-day valuations and the selection and substitution of collateral assets. In short, tri-party repo transactions give corporate treasurers more control, as deals can be customised to their precise risk appetite and cash flows. "Concerns around taking certain sovereign debt as collateral, for example, can easily be sidestepped by requiring the use of highly-rated corporate bonds or major index equities as collateral alternatives, or a combination of different asset classes," says Euroclear's Grimonpont.

'White knights'

The growing interest of corporates in repo as an alternative to bank deposits, commercial paper or certificates of deposits is injecting more liquidity into a market once confined to central banks, money market funds, commercial and investment banks. "Liquidity from this new source is already alleviating a perceived scarcity of collateral," says Grimonpont. "Corporates should not be seen as 'white knights' equipped to single-handedly save the financial world, but they will certainly contribute to its new equilibrium."

Considering the pressure banks are under to diversify their sources of funding and to prove they have access to stable, long-term cash, many have become eager to undertake repos to access corporate holdings. Basel III may have increased banks appetite for collateral, but it has diminished their returns from the repo market business, causing some to curtail their participation levels. Clearstream's Morosini says the increased presence of corporates has the capacity to mitigate liquidity concerns.

"Banks need to continue to educate the corporates on the changes that have been imposed on them and the impact this has on capital and the costs of an unsecured transaction versus a secured transaction to a corporate," he explains. "Going forward, pricing transparency as well as relationships will become more important. For this reason, it is imperative that corporates understand what products their banks can offer them based upon the liquidity and yield parameters they stipulate and implement streamlined workflows around this."

If safety and liquidity are the foremost priorities of corporates when engaging with the repo markets, yield too is a factor, even though it can be hard to find in a low-to-negative interest rate environment.

"Banks and their corporate clients can proactively negotiate terms that give the option of additional yield.

Pascal Morosini, head of global securities financing sales and relationship management, Clearstream

"Banks are looking to maximise the use of available inventory at a time when balance sheets are constrained and there is a greater focus on reducing leverage and cost of capital," says Morosini. "As a result of this trade-off opportunity, banks and their corporate clients can proactively negotiate terms that give corporates the option of additional yield – most likely versus term funding – as well as ensuring consistent access to liquidity."

Threshold threat

If corporates see repo today as part of their cash investment strategy, they may soon see it also as a way of meeting margin obligations. Many European firms, for example, face the prospect of posting collateral to support centrally cleared swaps from Q3 2016.

Under the European Market Infrastructure Regulation (EMIR), corporates are subject to different requirements depending on whether they meet clearing thresholds. For example, if its trading activity exceeds €3 billion in gross notional value for interest rate and FX, a corporate will be regarded as an non-financial counterparty (NFC) – and therefore subject to additional reporting requirements, the clearing obligation, bilateral margin requirements, and stricter operational rules. However, transactions designed to reduce risk to commercial or treasury financing activity do not count towards the threshold.

"The regulations prescribe different entity classifications and this allows a corporate to determine when and how they are impacted. From September 2016, these corporates will also be obliged to provide trading counterparties with variation margin to offset the risks associated with their derivative contracts," adds Morosini.

"Furthermore, between 2016-19 they also will be required to lodge initial margin. Tri-party repo and collateral management is at the forefront of their thinking, as it presents a safe and secure option to manage the risks and opportunities that they now face." ■

"Liquidity from corporates is already alleviating a perceived scarcity of collateral.

Olivier Grimonpont, head of collateral services, Euroclear

TO LEARN MORE ...

Securities financing: a necessary evil for corporates and asset managers?
Thursday 15 October
14:00-15:15

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Lion City's financial infrastructure: robust at 50

Confined geographically, Singapore built its capital markets capabilities to attract global business. In the fifty years since its birth, the gambit has worked.

Singapore celebrated its 50th birthday as a nation in mid-2015. A former colony, Singapore joined with other former territories of the British Empire to form Malaysia in 1963, but it left Malaysia two years later to become an independent and sovereign democratic nation.

The last five decades have witnessed Singapore's evolution to become the most developed country in Southeast Asia. It sports the third highest per-capita gross domestic product globally and has been ranked on occasions as the most open economy in the world.

Singapore's development during its early years of independence, as one of the so-called four 'Asian Tigers' (along with Hong Kong, South Korea and Taiwan), was built on a foundation of good governance, political stability and a pro-business mentality. It also benefited historically from its geographical location, being situated at the heart of Asian and European trade routes.

Singapore's plan to become a financial hub was initiated in the 1960s when it became the first Asian capital to allow a foreign bank to operate an offshore banking unit. This move helped to drive the cross-border flow of funds in Asia.

Singapore built high-quality physical infrastructure in order to lure big financial institutions, creating large flooring areas for dealing rooms and installing fast communications connectivity. Incentives to incoming firms have helped Singapore to attract international asset management firms from the 1990s through to today.

Singapore is now one of the world's leading foreign exchange trading centres. It is a leading insurance jurisdiction, with over 150 insurance companies and a pan-Asian asset management hub with S$2.4 trillion under management. It is also home to more than 100 regional treasury centres.

Building mid-life equity

As it hits middle age, Singapore still has to face up to a number of challenges as it looks to maintain its profile as a global financial hub. The local stock market, the Singapore Exchange (SGX), has found it tough to be competitive in all arenas.

> **There's a lot of planning for the projects we implement at the Singapore Exchange.**
>
> **Jenny Chiam,** head of securities, Singapore Exchange

In equities, the lack of a diverse economic hinterland means Singapore is one of the less exciting markets in Asia. Nevertheless, the exchange still continues to modernise and introduce innovations to galvanise turnover and volumes.

"There's a lot of planning for the projects we implement at the Singapore Exchange. To get the infrastructure working at 100%, there is a need for an exponentially huge amount of work," says Jenny Chiam, senior vice president and head of securities at SGX. "Among the highlights recently in market microstructure have been the use of dynamic circuit breakers, the continued drive to investor education and board lot size changes."

Shanghai-Hong Kong Stock Connect, known as the ASEAN link, has not yet lived up to initial expectations. The trading infrastructure has been solid, but moves to establish a supporting post-trade linking system have been slow. So far, only the Singapore, Malaysian and Thai stock exchanges are live and delivering cross-border trading on the platform, but these three are pushing forward. In September, the three issued a handbook for issuers looking to offer shares or plain debt securities on a cross-jurisdictional basis via a single prospectus.

Derivatives gateway

To diversify beyond domestic confinement, SGX has spread its wings by aggressively and successfully building its derivatives offerings (prior to 1999, Singapore's stock and derivatives markets were separate entities). The exchange presents itself to international investors and financial intermediaries as a gateway to Asia, by virtue of products that synthetically access numerous Asian markets. Derivatives now account for a third of exchange revenue.

Changes in the regulatory landscape, in particular those requiring greater transparency for OTC derivative transactions under G20-led reforms, are leading to the appearance of new central counterparties (CCPs) to centrally clear trades that were previously handled bilaterally.

"Singapore could potentially be the Asian centre for CCPs, adding to the depth of the financial services industry as a whole," says Alvaro Patron, head of financial markets for Singapore at Standard Chartered Bank. "SGX has taken the lead as the pioneer central clearing house in Asia and is constantly improving its infrastructure to increase efficiency and costs for market participants."

Private banking motors on

Whilst Singapore is the sixth largest private banking hub in the world (and tussling with Hong Kong for the number five slot), it has to wrestle with certain recent changes in the industry and the possibility that European banks could decide to exit private banking business in the region.

Obstacles to further growth include salaries and expenses, which are high for firms offering private banking services,

"

Singapore has an excellent infrastructure for private banking, with a very open architecture for fund distribution.

Philippa Allen, CEO, ComplianceAsia

"

Singapore could potentially be the Asian centre for CCPs, adding to the depth of the financial services industry as a whole.

Alvaro Patron, head of financial markets, Singapore, Standard Chartered Bank

In 2014, SGX handled 27 IPOs, compared to 122 on Hong Kong Exchanges & Clearing and was even exceeded by the Stock Exchange of Thailand, which had 41 IPOs. Nearly half of SGX's IPOs are from companies outside of Singapore, as a result of SGX's ongoing strategy of drumming up offshore business to complement the limited flow of listings from the domestic economy. Equity turnover fell in Singapore by 25% last year. Nevertheless, the incentives introduced by SGX, such as those reduced lot sizes, may now be bearing fruit. In August 2015, equity turnover was up 16% month on month and 34% year on year.

The Southeast Asian version of the

together with a stricter line by the country's regulator, the Monetary Authority of Singapore, which has been tightening regulation on matters such as client due diligence and on-boarding. The regulator also now requires private bankers to be licensed and pass exams. Good thing or bad thing?

"Singapore has an excellent infrastructure for private banking, with a very open architecture for fund distribution by Asian standards and is taking the role as the leader of regional fund passporting," says Philippa Allen, CEO of ComplianceAsia. "The new private banking regulation is a good thing, as staff need to understand product and client dealings."

Thus equipped with banking secrecy and data protection rules, Allen says Singapore could move ahead of Hong Kong for distribution and client facing work, but she expects Hong Kong to remain the leading centre for product development.

Positioning for AEC

The establishment of the ASEAN Economic Community (AEC) later this year is going to lead to the removal of restrictions on trade, investments, people and capital flows. The biggest and most profitable banks in the region are based in Singapore, and those firms, DBS Bank, Overseas-Chinese Banking Corporation (OCBC) and United Overseas Bank, should win some new lending opportunities as a result of the AEC's implementation.

Singapore's banks are active in nearly all ASEAN markets and have been acquiring businesses around the region, for example OCBC's purchase of Hong Kong's Wing Hang Bank and its recent acquisition of ING's Asian private banking unit. DBS has bought the private banking arms of Societe Generale in Singapore and Hong Kong.

Singapore has prospered due to its educated workforce, its pro-business government and the fact that financial business people can maintain a good standard of living within a decent environment. As for further growth, that is more of a challenge. As other Asian markets become more sophisticated and offer better products and post-trade services, the need for a user-friendly gateway entry point may become less necessary. However, Singapore has refined its access product offering to such an extent that it should be protected for the next decade at least. Moreover, it has half a century of experience and expertise in building and serving financial markets. The smart money may well stay on – and in – Singapore. ■

Tipping point for trade finance

Digitisation of trade processes is gaining ground, but has it reached critical mass?

Like many other business practices traditionally defined by a paper trail, trade finance is increasingly moving into the digital realm and a growing array of technologies are now supporting corporates in realising new efficiencies.

That said, it's still an evolving area, as reflected by the changing nature of the trade debate at Sibos over recent years. While some years ago much of the talk may have been around how to implement new products and standards to support digitisation, this year may see the focus shift to the challenges of increasing momentum.

> **We have moved to a new phase in digitisation. It's about bringing this to all clients to help reduce costs.**
>
> **Claudio Camozzo,** co-head of global transaction banking, Unicredit

"Digitising trade is a concept that has been around for a while, but it hasn't picked up until recently," says Per Norman, head of treasury and risk management at BillerudKorsnäs, a Swedish renewable packaging manufacturer. "Many of the larger corporates have set up their own digital trade infrastructure and in the last few years this has begun to trickle down to the smaller corporates, which is driving further development."

'Trickle down' is not an uncommon phenomenon. In many areas of technology development, it has tended to be the very largest firms that have been able to deploy the capital required to stay at the cutting edge of innovation, while subsequent refinements and improvements then help push down costs, leading, eventually, to a commoditisation of the whole process.

The cost of digitising trade finance processes has reduced, helping to boost levels of uptake, but some believe adoption rates are still far too slow, lagging other areas, such as retail banking. In a recent blog, Ray Zabarte, head of trade services, global transaction services, at the Royal Bank of Scotland, issued a call for action. For the digital revolution in trade finance to truly begin, he said, participants need to change their view of the world and accept that paper-intensive, manual processes are a thing of the past.

Widening the scope

Signs of greater urgency are evident, with some banks putting a greater emphasis on customer engagement to drive trade digitisation. Claudio Camozzo, co-head of global transaction banking at Unicredit, says extending reach and talking to a wider range of customers is now a key focus for the bank. "We have moved to a new phase in digitisation," he says, "it's about bringing this to all clients to help reduce costs. Small corporates in particular need more support and we want to be close to those clients to give advice and explain the benefits."

> **Providers are starting to build up the critical mass they need to lower the bar to entry. I think we will see digitisation become commonplace in time.**
>
> **Per Norman,** head of treasury and risk management, BillerudKorsnäs

To date, the uptake of digitisation has varied across different elements of the trade finance value chain. Digitisation of certain trade processes is considered relatively commonplace and largely standardised, while others are in a much earlier stage of development. "There are some really good digital instruments out there today, particularly around risk financing," Norman explains. "In terms of the way we communicate with our banks, SWIFT has played a major role by giving us standards that keep costs down."

But there remain doubts about whether current levels of demand are really sufficient to support expectations of widespread take-up in the near future. Thierry Roehm, global head of trade services at Societe Generale, says: "Demand from clients for digital solutions is not strong at present. The market is moving, but not as fast as many have expected. I think we're still five years away from significant movement in this area."

For Roehm, the biggest upcoming driver of change is likely to be increased focus on compliance: digital solutions can not only help reduce errors and improve record keeping, but can also aid risk management.

> **The market is moving, but not as fast as many have expected.**
>
> **Thierry Roehm,** global head of trade services, Societe Generale

While such services are undoubtedly helping to drive efficiency for corporate treasurers, driving paper out of every aspect of trade finance remains a challenge. To achieve this, service providers are pioneering new ways of dealing with documentation, innovating to accommodate legal frameworks that were designed long before digital technology was in widespread use. "There's definitely a business case for digital documents, but right now the price of adopting this kind of technology is still quite high," says Norman at BillerudKorsnäs. "However, providers are starting to build up the critical mass they need to lower the bar to entry. I think we will see digitisation become commonplace in time."

Building a business case

Anne-Claire Gorge, global head of product management, trade services and finance, Societe Generale, says that greater levels of standardisation would drive progress toward digital documentation. "There are quite a large number of actors in this field at the moment and a lack of agreement on many things. Right now if you're using just one firm to provide your digital documents and your partner is using another then you're not getting the benefit," she says.

According to Gorge, the biggest take-up of digital trade initiatives has been among commodity traders, which are typically willing to make the necessary investments because of the critical importance to their business models of efficient processing of payments and documents. By contrast, most corporate treasurers find it harder to build a convincing business case, especially if they are competing for budget against projects related to the firm's core business.

Clearly there is stull much to do to for corporates to fully realise cost and efficiency benefits of digital trade finance. Are banks on board? As Societe Generale's Roehm suggests, it is not just the banks that need to recognise the need for change. Individual corporates must also analyse their own needs and make the business case for joining a digital revolution in trade finance that is fast overcoming technical challenges and gaining critical mass. ■

TO LEARN MORE ...

Designing the industry's digital trade agenda
Thursday 15 October – 08:30-0900

Progressing the digital trade agenda: are the banks on board?
Thursday 15 October – 09:00-09:45

2015: A finance odyssey

Banks are putting decision-making technology to its fullest possible use – but where does the ideal balance lie between man and machine?

> **Artificial Intelligence will progressively increase banks' capacity to advise clients, to analyse situations and to support the relationship manager.**

Christophe Chazot, group head of innovation, HSBC

On business television channel CNBC, the Kensho system – 'the next-generation analytics and knowledge platform for investment professionals' – can be found answering viewers' questions, such as "Which sectors perform best three months before and after a rate hike?"

Kensho's combination of a natural language input, massive parallel processing of structured and unstructured data and machine learning capabilities, is a close approximation of what might be described as artificial intelligence (AI). Increasingly, questions are being asked of machines. Technologies that can learn, take positions and make decisions can be found supporting decision-making by humans within financial services today.

Daniel McAuley, co-founder of Wharton FinTech, a student-led initiative at Wharton School of the University of Pennsylvania focused on financial technology innovation and investment, expects discussions of artificial intelligence at today's Innotribe sessions to contain two threads.

"The first is around domain-specific tools for people to use, such as algorithms that help to make decisions which are non-threatening," he says. "They are benign, in that there is no threat to anyone's livelihood, making the world a better place and controlling costs. The other thread is around more generalised AI; systems that can adapt and mimic thought process and creativity."

Technology has been used to make trading decisions in securities markets without human intervention since the late 1990s. Ten years ago Chris Marsh, head of Advanced Execution Services, Europe, at Credit Suisse, told 'The Banker' magazine that these algorithms could be described "as the financial equivalent of [TV show] 'Robot Wars'".

In a previous career, McAuley built algorithms for hedge funds which evaluated corporate executives' financial incentives. He says: "[Incentives] were often in the form of stock, and we evaluated what those incentives could tell you about executives' sentiment towards their firms. Our systems adapted every day, using a constant supply of data to update their understanding of what they were doing and what it meant. Yet these still had a very pronounced involvement of a human being."

Phone a (digital) friend

The last decade has not seen robots taking over the banks – although US broker Knight Capital was nearly bankrupted in 45 minutes by a misfiring market-making algorithm in August 2012. Despite such setbacks, the use of smart technology has increased.

Christophe Chazot, group head of innovation at HSBC, says: "Artificial Intelligence will progressively increase banks' capacity to advise clients, to analyse situations and to support the relationship manager dealing with our clients. This is a goal that should be important for us as bankers, to help our clients to do better."

Robo-advisors – so-called because they can automatically create investment portfolios for clients in lieu of flesh-and-blood financial advisors – have become a big story in the US over the last 12 months. Independent firms such as Wealthfront and Betterment are garnering considerable attention, while traditional retail brokerage players like Charles Schwab are also ramping up the market for these systems, which typically determine a customer's needs via a questionnaire and feedback, and are able to operate at a very low cost compared with the human alternative.

Analyst firm Aite reports that these start-ups have increased their assets under management (AUM) from US$2 billion at the end of 2013 to US$5 billion at the end of 2014; total digital wealth management AUM is expected to increase to US$55-60 billion this year, up from US$16 billion in 2014.

CNBC's Kensho is more sophisticated than these investment algorithms, although its parent company (also called Kensho), is also chasing the same goal of better, automated investment decisions, and has created an investment advisor, named Warren, after Warren Buffet. It is conceived of along the same lines as IBM's cognitive computing program whose own system, Watson, is able to answer natural language queries in order to offer the user an enormous wealth of information and is being used

> **Our research is driven by the desire to build learning systems that can collaborate and work with humans.**

Sridhar Iyengar, IBM distinguished engineer, IBM TJ Watson Research Center

in the medical profession to support diagnosis.

Sridhar Iyengar, IBM distinguished engineer at IBM TJ Watson Research Center, says, "These are capabilities that help augment and build human intelligence. Our research is driven by the desire to build learning systems that can collaborate and work with humans, so that the knowledge and the intelligence that humans have, or all sorts of experts have, can be scaled to a much larger number of users. Ultimately, the rest of the community can benefit from the extra augmented intelligence."

The capacity to support a natural language search across a range of sources is already accessible to the public via online search engines which can leverage structured and unstructured data in a very short space of time. The key difference is the capacity to identify three good answers rather than one million, ranked in likely preference.

Says Iyengar: "While in Watson we use search, we also use deep learning, various coding algorithms, and deep language processing to better understand the question. Even though we do use key words to optimise some searches, we really want to get to the core of what the question was asking."

Responsible robots

The gap that exists between truly autonomous artificial intelligence and the level of decision-making – or perhaps more correctly decision-support – capabilities being offered at present, is authority.

"It is very hard for a human being, particularly when they have spent their career within a financial institution, to relinquish that decision-making control to an algorithm," says McAuley.

Research conducted at Wharton School of the University of Pennsylvania revealed two things, he notes. One is that when an algorithm disagrees with a human being, the human being is likely to ignore the decision and go with his or her instinct.

The second, which has been studied by Cade Massey, a professor at Wharton, is that when a human makes an error he/she will be given the benefit of the doubt by a human observer, but when an algorithm makes an error, its decision-making ability is discounted, even when the performance of both parties is visible, comparable, and shows the algorithm to make better judgements.

"The human being holding the authority doesn't want to deal with the cognitive dissonance," says McAuley. "There are lots of applications where algorithms could be helping out, but human beings don't want to listen."

However, notes HSBC's Chazot, there is a level of product maturity beyond which a use of this technology might become a less conscious, more instinctive choice, driven by its capability.

"If voice recognition only worked 75% of the time, you wouldn't use it. But my mother, who is 75, uses the Siri personal assistant extensively. Most of her interaction when she communicates with her grandchildren is going to be with voice recognition. She has leapfrogged touchscreen, because the technology was sufficiently mature." ■

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Voice of the customer 3.0
Thursday 15 October
10:15-11:15

Thinking machines and jobs: how banks can respond to the opportunity
Thursday 15 October
12:45-13:45

Innotribe closing keynote: Machines are not the answer
Thursday 15 October
15:15-15:45

Making the most of standards

Corporates are using ISO 20022 to achieve greater transparency and control, while the standard's flexibility also helps market infrastructure initiatives gain acceptance.

Across the financial industry, there are many different use cases for the standardisation of information and transaction flows. The ability to share and interpret more data more quickly – by removing the legacy barriers to internal and external communication flows – leads to better decisions and better outcomes in any number of processes and activities. It is therefore unsurprising that ISO 20022 forms the basis for information exchange in the vast majority of new services and initiatives being developed by banks and market structure operators.

In the corporate space, ISO 20022 already has a positive track record. Many firms first discovered the universal financial message framework via the Single Euro Payments Area, where it underpins the standardised credit transfer and direct debit formats, meaning that participants no longer need to worry about standards differences in euro payments within Europe. Since then, increased use of ISO 20022-based messages has helped to improve efficiency and reduce rates of manual intervention at payment factories, in-house banks and other structures used by large corporates to centralise and automate payments flows.

"And firms involved in the increase in M&A activity over the past 12-18 months have found it easier to realign their relationships if they're already using ISO 20022-based platforms to interact with their banks, as the onboarding processes is considerably smoother," says Tom Durkin, global head of integrated channels at Bank of America Merrill Lynch.

In addition, ISO 20022 is increasingly the basis for new value-added services improving the speed and quality of treasury decision making. ISO 20022 is the backbone for this data," Durkin explains.

From the banks' perspective, this growing appreciation of the benefits of ISO 20022 in the corporate space increases motivation to further develop their capabilities. "Supporting ISO 20022 enhances our competitiveness," says Durkin. "Some banks were cautious about supporting universal message standards, because of the impact on client portability, but those days are gone. Embracing ISO 20022 has helped our business growth to blossom."

Robust, but flexible

IFX Forum, a message standards body focused largely on transaction banking services, is using ISO 20022 as the basis of its members' efforts to tie more detailed remittance data to payments. From a reconciliation perspective, it is much simpler for corporates' accounts receivable departments to match incoming payments messages to outstanding invoices if the payment contains remittance data, such as invoice numbers, in a standardised format. But the range of invoice and payment-related procedures across different countries and industries – not to mention the differing levels of automation across multinational corporates to small businesses – makes it extremely hard to develop tools and mechanisms with sufficient flexibility to gain popular appeal and critical mass. "The remittance data carried by payments messages needs to be robust and standardised enough to be understood and recognised by systems and users, but it must also be flexible enough to accommodate industry practices," says Rich Urban, president of IFX Forum. The need for inclusivity also makes remittance data reconciliation a suitable challenge for a message framework designed to accommodate multiple different practices and definitions, such as ISO 20022.

> **Some banks were cautious about supporting universal message standards, because of the impact on client portability, but those days are gone.**
>
> **Tom Durkin,** global head of integrated channels, Bank of America Merrill Lynch

According to Urban, the initial impetus for IFX Forum's work on remittance data came in the mid-2000s from a wish by member banks' international corporate clients to exchange a standardised 'payment kernel' on a cross-border basis, but expedience forced them to set aside the remittance aspect. In its renewed efforts to support and facilitate automated, synchronised flows of remittance and payments data, IFX Forum has been sensitive to existing remittance practices and payments channels, both in the US, where the majority of its members are based, and internationally. To ensure its ISO 20022-based proposal "adheres to existing standard conventions and rules", IFX Forum worked closely with US government bodies and NACHA, the US electronic payments association, as well as ISO's Payments Standards Evaluation Group and other standard-setting bodies.

Though industry consensus is building and banks see an opportunity to differentiate through added-value transaction services, there are still a lot of challenges to the end-goal of including remittance and payment data in the same message. The limitations of existing channels and systems can be overcome by migration to ISO 20022, but banks also face many competing priorities, for example the increasing pressure to deliver retail-level payments in near real-time, as consumers come to expect greater speed from service providers in the digital age.

"To achieve adoption," says Urban, "you have to live in today. Lots of remittance data is still recorded on paper. No matter how much bigger firms would like to automate, many smaller firms and consumers find it more convenient to write on a check stub. That's why existing business practices have been accommodated in the ISO 20022 standards we have developed. Our remittance standards support a lot of use cases."

Urban accepts that patience is required, as the industry includes both early movers and laggards, but says the existence of flexible ISO 20022-based standards for sharing remittance data means that banks and their customers can adopt an industry-approved approach as and when their individual business cases mature.

for corporates, and the starting point for their efforts to increase control and transparency over their finances. For example, as well as seeking greater transparency and enhanced levels of automation, corporates – in line with the retail market – expect faster, near-real time payments. The vast majority of real-time retail payments initiatives are based on ISO 20022. But this is just one element of the corporate treasury's liquidity management dashboard. "As treasury workstation providers compete to offer data visualisation and analytics packages, these need to be fuelled by high-quality, high-integrity, complete data sets, in order to fulfil their intended purpose of

IFX Forum is also working with Nexo, an industry utility for operators of automated teller machines, to support migration to ISO 20022, as 'hole in the wall' cash machines continue to add a greater range of functionality to their traditional cash withdrawal and balance enquiry capabilities.

Compromise and coexistence

Banks are already working on ways of leveraging the work undertaken by IFX Forum to deliver differentiating services. But for market infrastructure operators, ISO 20022 is less of a path to market share growth than a means of ensuring

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No matter how much bigger firms would like to automate, many smaller firms and consumers find it more convenient to write on a check stub.

Rich Urban, president, IFX Forum

widespread market acceptance of a new initiative and meeting its objectives – often defined by regulatory or other supervisory authorities – as efficiently as possible.

TARGET2-Securities, the single securities settlement platform launched by the European Central Bank earlier this year, initially gained approval in 2008, when ISO 15022 was the message standard of choice in the back offices of securities market participants. According to Siegfried Vonderau, head of division for TARGET2 / TARGET2-Securities services management at Deutsche Bundesbank, this created a number of opportunities and challenges. “The decision was taken to only use ISO 20022 messages within T2S, partly because its predecessor was too limited in scope for our expected needs, but also because it was already clear that ISO 20022 could be deployed effectively in both the payments and securities markets,” he explains.

This dual acceptance was important because T2S is designed to sit between Europe’s central securities depositories and its national central banks, effecting settlement on a delivery versus payment basis for securities transactions in central bank money. The decision to use ISO 20022 was beneficial to T2S because it enabled the project to use and shape a wide range of message formats (T2S uses around 130 messages, while TARGET2, the pan-European real-time gross settlement system for high-value euro payments, uses less than 20). However, a compromise was required because some market participants were concerned that a minority of end-users would not be able to accommodate ISO 20022 immediately. As such, although all directly connected participants in T2S must be able to process ISO 20022 messages, the content of the messages has been structured to facilitate translation into ISO 15022 if required. “T2S supports coexistence of message formats for the time being, but we have not compromised the richness of the information carried,” explains Vonderau.

Accommodating such compromises is one of the strengths of ISO 20022 and one of the reasons why it has become the messaging standard of choice across the payments and securities sectors. From Vonderau’s perspective, the ability to share and interpret more data more quickly is a critical element of the standard’s appeal, particularly at a time when there is such a strong regulatory emphasis on transparency to minimise systemic risk. “The evolving regulatory framework of the financial markets is leading to a large number of initiatives focused on data collection and analysis. The next level for ISO 20022 will be catering for these needs.” ■

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Closing panel: making ISO 20022 work for you

Thursday 15 October – 14:00-14:45

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The evolving regulatory framework is leading to a large number of initiatives focused on data collection and analysis.

Siegfried Vonderau, head of division for TARGET2 / TARGET2-Securities services management, Deutsche Bundesbank

A pause for thought

International regulatory coordination reached a high watermark post-crisis, is it also reaching its limits?

> **Success has depended on public institutions and the private sector cooperating closely with a pragmatic and practical approach.**
>
> **Stephanie Marelle,** head of clearing and custody, Hong Kong, BNP Paribas Securities Services

Harmonising capital markets has consistently remained a key plank of the G-20 agenda since the financial crisis, however the pros and cons of achieving this through a rules-based or a principles-based approach has split the industry.

To a large extent at the international level, alignment of capital market supervision has been "sporadic at best," says Sean Tuffy, head of regulatory intelligence, Brown Brothers Harriman. One needs only look at the continued differences between Europe and the US over cross-border regulation of the over-the-counter (OTC) derivatives market for evidence of how local interpretation of global objectives can lead to all-but-irreconcilable disagreements between jurisdictions.

At the highest level, the regulatory response to the global financial crisis has underlined that principles are now set at the global level – by the Group of 20, the Financial Stability Board (FSB), the International Organisation of Securities Commissions (ISOCO), and the Basel Committee on Banking Supervision – not by national authorities. Through the efforts of these agencies, standards for banking capital adequacy, trade reporting, central clearing, and recovery and resolution for banks and market infrastructures are now widely accepted across the world.

> **International investors increasingly expect to be able to use international standards and international business processes.**
>
> **Jo Van de Velde,** head of product management, Euroclear

But for true capital markets harmonisation, approaches to the implementation of those global principles also has to be aligned. "There has always been a tension between rules-based and principles-based approach to regulation. I think it's this tension that is at the heart of many of the examples of misaligned regulation," says Tuffy.

This is a view shared by Stephanie Marelle, head of clearing and custody, Hong Kong, at BNP Paribas Securities Services, who calls for a focus on "upgrading the infrastructure of financial markets and implementing the current round of regulation, rather than instigating a further regulatory overhaul".

Pragmatic and practical

Is greater alignment of the capital markets regulatory framework at the international level either desirable or achievable? At a regional level, a number of examples of increased harmonisation have resulted, to a large degree, from public-private partnership, rather than top-down imposition of regulation.

For example, European securities markets migrated to T+2 settlement in Q3 2014 and embarked on the adoption of a single securities settlement platform in Q2 2015 (TARGET2-Securities, T2S), making significant progress toward the elimination of the Giovannini barriers to post-trade securities market harmonisation. T2S, operated by the European Central Bank, and European legislation, in the form of the Central Securities Depository Regulation, are driving the reform agenda, but the emerging landscape is the result of detailed levels of consultation over the best part of a decade, in which new stakeholder arrangements were established to ensure ongoing commitment and buy-in from across the industry.

In the Asia-Pacific region, markets are taking initial steps towards harmonisation by connecting stock exchanges to enable trading activity across jurisdictions. The most significant of these is the Shanghai-Hong Kong Stock Connect programme.

"Our experience shows that harmonising post-trade infrastructure, rather than legislation, is the essential ingredient to make this a success and should form the focus of change in this region in the coming years," says Marelle. "Success has depended on public institutions and the private sector cooperating closely with a pragmatic and practical approach."

Both of these projects could be said to harbour underlying political objectives. From an international perspective, harmonisation of market practice and regulatory convergence are often closely linked to the need to expand investment flows and to attract external investment capital to a region, particularly in emerging markets. It is here that a more rules-based approach has been adopted.

"International investors increasingly expect to be able to use international standards and international business processes, and to be subject to consistent regulation when accessing local markets," says Jo Van de Velde, head of product management, Euroclear. "In a globalising economy, national policy-makers now not only have to implement global regulatory initiatives, but in addition find that they have to consider using international best practices to avoid the potentially destabilising effects of regulatory arbitrage." As such, room for interpretation is counter-productive, an element of rules-based regulation is required.

In Europe, a rules-based approach has been adopted in the case of the Alternative Investment Fund Manager Directive (AIFMD), which has aligned frameworks between markets on key aspects such as reporting and the move to full depository solutions for hedge funds.

With AIFMD, however, overcoming country-based regulatory silos and the recognition of third-country frameworks is proving to be time consuming and costly.

Work in progress

An important part of achieving capital markets harmonisation is understanding how to find efficiencies and growth opportunities. Whether a rules-based approach at an international or global level can achieve this is debatable, according to BNP Paribas' Marelle.

"Breaking down borders and promoting cross-border activity is key and makes capital markets harmonisation essential. Further regulatory alignment is certainly not the optimal response to this challenge, at least until market players have absorbed the profound effects of the current wave of change," says Marelle.

Marelle argues that the industry is progressively moving towards capital markets harmonisation without the need of a more formal international regulatory framework. "We are a long way from even beginning to establish such a framework and frankly we are yet to find it necessary," she adds.

Arguably, a rules-based international framework for capital markets regulation is not pragmatic and flexible enough to effectively oversee local capital markets. "Regulators know their markets nuances and legislate accordingly – a one-size-fits-all solution is neither practical nor necessarily desirable," says Marelle.

While the Basel banking rules have been the closest to representing an international framework, even these have not been implemented uniformly across the globe. There are good reasons for this, including different legal bases to local regulatory frameworks, and different risk levels across diverse markets. Moreover, the sheer scale of the post-crisis regulatory reform process has inevitably thrown up numerous examples of unforeseen consequences, and regulatory initiatives pulling the markets in different directions. To keep the regulatory reform train on the tracks, the guidelines from the FSB, IOSCO, Basel Committee et al, have had to remain just that: guidelines.

"The challenge with creating an international regulatory framework is there are no supranational regulators to enforce the rules and ensure harmonisation. As there is never likely to be a single, global, supranational regulator, there will always be instances in which there is not complete harmonisation," says Tuffy.

The importance of local jurisdictions is also highlighted by Euroclear's Van de Velde. "Harmonisation and liberalisation are worthwhile goals, and important for the development of international markets, but an individual country's interests must come first."

The tension between national and international regulatory priorities will continue, thus dictating that market practice in different jurisdictions will vary, leaving the market to find means of harmonising and simplifying the processes in pursuit of value and opportunity. The crisis demanded an international response, but it also highlighted both the reach and the limitations of standard-setters.

Tuffy believes global organisations such as the FSB and IOSCO can play a key role in ensuring that basic principles are agreed for regulation, but adds the caveat that domestic regulators should work to improve current levels of co-operation.

"What is essential is close communication between regulators and an approach in which synergies and best practices between regulatory initiatives are thoroughly investigated ahead of regulations being drawn up," agrees Marelle. ■

TO LEARN MORE ...

Capital market harmonisation: how to align market liberalisation and regulatory supervision
Thursday 15 October – 10:15-11:15

Singapore banking at crossroads

Understanding the importance of technological innovation and harnessing demographically driven growth are key to Singapore continuing to develop as a major banking centre, according to local banking executives attending Sibos.

As the country celebrates 50 years as an independent state, its local banks, and the global players that have made it their regional headquarters, are looking to the future and expanding their operations to meet Asia's increasingly diverse financial needs.

A number of the region's huge population centres, China and India, as well as Indonesia and Malaysia, are seeing significant increases in the proportion of people using bank accounts.

Meanwhile, the growing affluent middle classes in these countries are increasingly requiring wealth management and private banking services.

And the millennial generation is accessing financial services and products online and especially via mobile devices at an ever faster rate.

"The Asian markets is where we're see an economic trend from West to East. Asian economies are set to grow to 50% of GDP globally," says Neo Bock Cheng, head of global transaction banking at Singapore's OCBC Bank.

"As banks, we're increasingly placing ourselves to leverage technology and make banking much more real time and 24/7. In Asia, on the one hand, we have what I call an 'ageing population', but we also have a lot of millennials that use technology," he said.

Gregory Roath, BNY Mellon's Singapore country head and head of global client management for the Asia Pacific region, agreed.

"Singapore understands the importance of technology and staying attuned of technological advancements in order to innovate and evolve as a centre for financial excellence," he added. "Singapore already has a strong reputation for quality education which makes the country well placed to align its talent pool to the emerging need within the fintech, innovation and technology field."

Urbanisation in Asian countries is creating new first-time customers for banking services, according to Soh Ee Fong, head of GTS – services & fiduciary services, deputy global head of financial institutions, institutional banking group, DBS Bank.

One of Singapore's oldest, DBS Bank is seeing the strongest growth in demand for its transaction banking business in the region's developing economies, and for wealth management in the area's more mature markets, she observes.

Public-private partnership

The Singaporean government and regulators are working in tandem with the industry to bring more banking and financial service sector business to the country.

Says OCBC's Cheng: "Our government is very pro-business. There are tax incentives in the Global Traders Programme, which is designed to bring commodity traders to Singapore. In addition, our legal system is very reliable."

One key to the growth and success of Singapore's banking sector has been its ability to deliver competitive services to a range of clients, from local retail and business customers, to offshore private banking clients and financial institutions globally. The significance of Singapore's home-grown banking sector on the international stage is on display at Sibos, with the 'Singapore Village' on Level 2 of the exhibition centre showcasing its major players.

This "community of banks" is built on "stability and reliability", claims Ong Ang Ai Boon, director, Association of Banks in Singapore.

Looking to the future, major state infrastructure plans in China require financing from the markets, with Singapore ideally placed to be at the centre of these deals.

"Our banks are in the right place at the right time," concludes OCBC's Cheng. "This is the time for us to continue to do more." ■

Hail Hyperledger!

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Hyperledger has won the 2015 Innotribe Startup Challenge, demonstrating the potential of blockchain-based technologies to improve critical banking processes. "This has been a fantastic competition and I'd like to thank the Innotribe team for organising it. Fantastic exposure, great coaching; it's been a really enjoyable experience," said Hyperledger founder Dan O'Prey, pictured above at yesterday's award ceremony. Hyperledger is in discussions with banks, intending to deliver a distributed ledger platform tailored for regulated financial institutions to eliminate reconciliation costs, prevent trade breaks and reduce settlement times and risk.

Hyperledger is a US-based firm with just 23 employees. Founded last year, the firm was acquired in May by Digital Asset Holdings. Digital Asset's CEO, Blythe Masters, also made an appearance at Sibos yesterday, in the Big Issue Debate, 'Disruption, geopolitics and finance'. In addition to the exposure gained to its target audience of banking executives, success in the Innotribe Startup Challenge also earns the winner USD 50,000.


Michael Sagalyn, business development leader, social business, IBM

Hyperledger's victory came after a typically hard-fought Startup Challenge finale. Despite a strictly imposed time limit, the 12 finalists all gave comprehensive presentations, then faced penetrating questions from the audience. First to present were Bitspark, introducing a cash-in, cash-out remittance platform built on blockchain technology for money transfer operators and financial institutions, followed by Hyperledger and iwiafrica, designed to enable businesses to transact with their unbanked customers via mobile devices. "There are many payment providers globally, but most of them require the customer to have a bank account," said Allan Rwakatungu, CEO, iwiafrica. Next up was Jewel Paymentech, focusing on using machine learning to facilitate the management of merchant risk.

Electronic voting was immediate, following each finalist's Q&A. After a short break came several more concepts: Notafy, an app to reduce the cost of messaging customers by replacing SMS with instant messaging; Pariti, which deploys an app to "put people back in control of their finances and set them on a journey to a more secure financial future"; Revolut, which enables money exchange at interbank rates and distribution through social networking; Sedicii, which removes the need to transmit, exchange or indeed store personal data during identity authentication; and SizeUp, which uses big data to enable financial institutions to empower their small-business customers. "If you're a banker operating in any of the countries shaded blue on this map, we need to talk to you," said Anatalio Ubalde, CEO and founder, SizeUp, showing a map of the world ... shaded entirely in blue.

Presentations continued with Token, a "novel consumer lending model based on mobile network infrastructure"; Trusting Social, which uses deep learning applied to big data to achieve "Credit Scoring 2.0"; and YueDiligence an interactive web-based tool that focuses on increasing due diligence efficiency for entrepreneurs, investors and service providers through process automation. "The problem is the information gap between investors and entrepreneurs," said Keet van Zyl, CEO, YueDiligence. By this stage, no such gap existed between the finalists and their audience – the applause was prolonged.

The event had begun with brief addresses from sponsors of the Startup Challenge and closed with a ceremonial award from SWIFT's chief marketing officer, Christian Sarafidis, on behalf of Innotribe. A key theme that emerged through the afternoon, for both sponsors and finalists, was co-operation: the future belongs to the banks and entrepreneurs who can most effectively work together. "Start-ups are not your outsourced R&D; they are businesses in their own right," said Adizah Tejani, head of ecosystem development, Level39, a UK-based incubator. Making a similar point, Michael Sagalyn, business development leader, social business, IBM (pictured), spontaneously invented a new concept in relationship management. "Really, what we need, we could call co-operation as a service," he said. ■