Wed 14 Oct 2015

Sibos Issues

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sibos

WEDNESDAY PREVIEW

To improve your Sibos experience and help you navigate the conference, Sibos Issues now previews the key sessions of the day ahead

BIG ISSUE DEBATE

The return of risk

Geopolitical, regulatory and technology risks explored and examined at today's big issue debate.

Wu Jianmin, member, Foreign Policy Advisory Group, Chinese Foreign Ministry

Blythe Masters, CEO of Digital Asset Holdings

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change." While this quote can no longer be confidently credited to Charles Darwin, it retains its resonance as a response to risk and uncertainty.

Today's Big Issue Debate, 'Disruption, geopolitics, and finance: managing the risks', takes a close look at the drivers of change to the global capital markets, transaction banking businesses and, ultimately, the international financial system.

Geopolitical risks, unprecedented levels of regulatory reform and innovations in digital technology are changing banks' operating environment in unpredictable and unknowable ways. The task facing today's panellists is to flag the biggest risks and to identify possible strategies for survival and growth for the future.

Guided by Financial Times chief foreign affairs columnist Gideon Rachman, three experts in their respective fields will draw on their deep wells of experience, with the aim of helping Sibos delegates understand the risks to their particular businesses.

Blythe Masters, CEO of Digital Asset Holdings, a company that brings 21st century technology to existing financial infrastructure, gained experience in a wide variety of disciplines in 27 years at JP Morgan. Masters served as CFO of JP Morgan's investment bank and its head of global commodities business, before assuming responsibility for the corporate and investment banking unit's regulatory affairs, where she oversaw strategies to address the range of complex regulatory changes. Masters' experience in the regulatory sphere has also given her insight into the approach of regulators and policy makers on technological change in the banking sector, notably in the fields of counterparty exposure, cyber attacks, settlement and systemic risk.

Foreign affairs expertise is brought to the panel by Wu Jianmin, currently a member of the Foreign Policy Advisory Group of the Chinese Foreign Ministry, special research fellow of Counsellors' office of the State Council, member and vice president of the European Academy of Sciences and honorary president of the International Bureau of Exhibitions. Ambassador Wu has represented China in a number of European countries, to the European Community, and to the United Nations in New York.

Ambassador Wu's perspectives on foreign affairs will be accompanied by the thoughts of Robert Guest, foreign editor at The Economist, who will use his experience as a correspondent in South Africa and Washington to comment on the tools being used to pursue foreign policy objectives, including sanctions. ■

TO LEARN MORE ...

Disruption, geopolitics and finance: managing the risks
Wednesday 14 October –
11:30-12:30

INNOTRIBE

Which startups will step up to the Challenge?

Mentors explain what it takes for startups to succeed, at Sibos and beyond.

Identifying the "next big thing" in financial technology is a significant challenge for financial institutions, given the growing importance of technology in the development and delivery of financial services – and the thousands of startup companies that have proliferated in the past few years.

Startups face their own challenges, too, particularly in gaining access to decision-makers at financial institutions and to investors, such as venture capitalists and business angels. An idea may look good on paper or exist inside someone's head, but unless it can be articulated to a target market, it won't get far.

The 12 finalists in today's Innotribe Startup Challenge Finale have come through a near year-long process during which they have received coaching and advice from financial industry representatives, venture capitalists, marketing gurus and other ex-

continued on page 2

WHAT'S ON

Big Issue Debate/Plenary
Plenary room
11:30-12:30 Disruption, geopolitics and finance: Managing the risks

Compliance Forum
Conference room 2
08:00-09:00 SWIFT Institute meets the Compliance Forum
09:00-09:45 Securities transparency: Is this the next frontier?
10:15-11:15 Compliance back to the future

Corporate Forum
Conference room 1
08:30-09:00 Corporate Forum Opening Address Day 1: Shaping the future of treasury and trade
09:00-09:45 The future of corporate banking – What do corporate clients expect from banks?
10:15-11:15 Treasury management practices in Asia: Which key models prevail in the region?
14:00-15:15 ERP vs TMS vs Excel – Friends or rivals?
Standards Forum
15:45-17:00 Innovating in payments and cash management using ISO 20022

Standards Forum
09:00-09:45 A little less conversation, a little more action: Standards and effective compliance
10:15-11:15 Progress report: New ISO 20022 regulatory compliance initiatives
13:00-13:45 Compliance focus: Finding the needle by standardising the payments haystack
14:00-14:45 Beyond messages: ISO 20022, APIs and the PSD2

Innotribe
09:15-10:00 Innotribe day opening
12:45-13:45 Why banks need FinTech hubs
14:00-17:00 Innotribe Startup Challenge Finale
17:00-19:00 Innotribe 2015 Startup Challenge winner announcement

Diversity
Conference room 3
09:30-10:15 Despite what you heard, colour does matter
10:15-11:15 How to create and sustain a diverse talent pipeline

Payments
Conference room 4
10:15-11:15 Capturing new payments transactions opportunities from developing trade corridors

Securities
Workshop A
14:00-15:15 Asset servicing: Issuer to investor automation
Workshop C
15:45-17:00 The future outlook of funds distribution in Asia

SWIFT Institute
SWIFT stand
14:00-14:30 Risk management in the age of disruption
14:30-15:00 How and why China's domestic securitisation market will leapfrog the West
15:00-15:30 Transparency in securities transactions and custody chains

Correction

Yesterday's Sibos Issues mistakenly included a photo of Jo Van de Velde, head of product development at Euroclear, instead of Nathan Van de Velde of the University of Leuven, in an article on financial crime compliance (page 5).

INNOTRIBE

Which startups will step up to the Challenge?

continued from page 1

perts. Being involved in financial technology startups wasn't always this way, says Leda Glyptis, director, head of EMEA Innovation Centre, BNY Mellon. She joined BNY Mellon in 2010 from Great East London Software Company, a bespoke financial solutions provider. "I like to say I was involved in financial technology before it was famous," she says. "It was a difficult journey. There was no love and cookies like you get in Innotribe."

Glyptis, a Startup Challenge coach, believes one major risk for startup founders – who inevitably devote a great deal of time and energy to realising a personal vision – is that they can become "so close to their products that they forget to tell a story". It is important, she adds, for startups to think about the problem they are trying to solve. "If you ask an entrepreneur what problem their product or application is designed to solve, it is rare that they have an answer." It could be that they have not yet articulated an answer, or that they are so enthused by the capabilities of the technology they haven't thought of the use case.

Story time

The initial rounds of the Startup Challenge focus on validating the proposals' business models. After that, mentors and judges help the contestants to tell their story, Glyptis explains. Pitching to investors is difficult, she says, and startups need to tell a story that is memorable and also credible for the audience. "They have five minutes to persuade the Innotribe audience that they deserve to be a flourishing business. As Innotribe coaches, we ask them: 'What will you tell the audience?'"

"Startups can underestimate how complex the financial industry is and exhaust their resources by losing focus.

Mariano Belinky, managing partner, Santander InnoVentures

Another Challenge coach, Mike Sigal, chief executive of automated cash-forecasting and management tool Cashflower, agrees on the need for founders to develop a convincing narrative. "Startups often need advice on how to make their story understandable, interesting and compelling to financial industry players."

In the early stages of the Startup Challenge, says Marcus Treacher, head of innovation and global payments and cash management at HSBC, the critical element is to learn how to tell a story in a way that is understood by the people to whom they are speaking. In a very crowded financial technology marketplace, he says, startups have to be "clear and comfortable" about the kinds of people and organisations with which they can work.

But it's not a matter of mastering the art of product marketing. Sigal says startup companies have to appreciate that "when they are pitching to investors, those individuals are customers for the company's equity, not its product".

Rather, to make a story credible, the startup has to understand the nature of financial institutions and the regulatory obligations they increasingly have to fulfil.

continued on page 5

"I was involved in financial technology before it was famous. There was no love and cookies like you get in Innotribe.

Leda Glyptis, director, head of EMEA Innovation Centre, BNY Mellon

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Keeping the crown jewels safe

Corporate treasuries in Asia are making strategic and operational changes to manage uncertain market and regulatory conditions.

With volatility of asset values increasing and the US dollar in the ascendant against most currencies, particularly emerging market currencies, corporate treasurers are making strategic changes to their operations to better handle the resulting risk.

"We live in a very volatile environment today," says John Wong, group head of transaction banking, Maybank. "The escalating value of the renminbi has somewhat stopped now and we see more currencies devaluing against the dollar, so some clients will keep US dollars for longer."

Peter Wong, founding chairman of the International Association of CFOs and Corporate Treasurers (IACCT) in China and director of PwC, says the response by corporate treasurers needs to go beyond the tactical. "We're at the start of an appreciation of the US dollar before the Federal Reserve interest rate actually moves upward. As such, treasurers are being forced to take a more strategic view of the implications. It's strategic because currency fluctuations not only affect translation risk, but also economic risk," he explains.

Historically banks have sold corporate clients tailored derivatives to hedge specific risks arising from currency and interest rate movements, but during the financial crisis many of these contracts backfired. Around US$530 billion was estimated lost by 50,000 non-financial firms in 12 economies in 2008 as a result of trading in structured products, according to the International Monetary Fund (IMF). Ostensibly acquired as an insurance policy, these instruments became dangerous to hold in volatile markets.

A 2009 IMF report – 'Exotic Derivatives Losses in Emerging Markets: Questions of Suitability, Concerns for Stability' – recorded that 10% of Indonesia's exporters and 571 of Korea's small and medium-sized exporters were hit, with Indonesia's loss reckoned at US$3 billion. Sri Lanka's publicly-owned Ceylon Petroleum Company lost US$600 million, while China's Citic Pacific took a US$2.4 billion hit. Understandably, many corporates remain cautious about straying into the more exotic reaches of the derivatives markets. But not all.

"Corporates shouldn't touch structured notes with a barge pole," says David Blair, managing director of Acarate Consulting. "Western multinationals won't touch them. Emerging market companies use them because they or their management are not comfortable with using forwards, derivatives or options."

Many hands make light work

At many Asian corporates, boardroom understanding of risk management policies and processes overseen by treasury staff has evolved considerably post-crisis, in no small part as a result of those losses. That has had a positive effect of greater scrutiny by the c-suite leading to a more strategic consideration of the treasury function. Consequently, chief financial officers and treasurers are taking greater steps in financial risk management, but – as a cost centre – the treasury is often constrained in its efforts to upgrade operations and technology.

Maybank's Wong observes, "This is one of the weakest links in the whole treasury process. Among my clients, probably less than 20% have a treasury management system (TMS). I think there is a huge room for great improvement on this side. In the past, a TMS was mainly used to handle tasks such as placing day-to-day deposits, but now it has expanded more in terms of applications to provide cash-flow forecasting and FX hedging analysis."

To take advantage of the advanced functionality of today's TMSs, corporate treasurers also require more efficient, straight-through connectivity to support data flows to and from bank-supplied applications. According to Nicholas Soon, regional treasury manager at British American Tobacco Asia Pacific Treasury Service Centre, SWIFT connectivity can improve access to information and thus support independent decision-making in the treasury. "While [connecting] means more responsibility for us, it is also helping to manage counterparty risk," he says.

> **Treasurers are being forced to take a more strategic view.**
>
> **Peter Wong,** founding chairman, International Association of CFOs and Corporate Treasurers (China)

The SWIFT KYC Registry – a central utility for onboarding and other compliance-related documents – is also seen as valuable for corporates because it offers a lower cost model for handling know-your-customer (KYC) requirements than in-house development of similar systems. "It was initially aimed at banks, but nonetheless the corporates want in," says Blair. "A lot of treasurers think things like this are the best thing since sliced bread, because getting involved with KYC and bank account management operations add no value for treasurers."

Adapting to new realities

With the scope of banks' services to corporate treasurers increasingly defined by Basel III's capital adequacy rules and other regulatory controls – such as the restraints on proprietary trading under the US Dodd-Franck Act's Volcker Rule – Asian corporates are looking for support from a wider range of sources.

> **We need to innovate in terms of the systems we supply to support clients' supply chain, treasury and payments needs.**
>
> **John Wong,** group head of transaction banking, Maybank

The IACCT's Wong says, "Because proprietary trading is increasingly restricted, banks have to consider carefully how much FX capacity they can offer to clients. This is becoming a precious commodity. Therefore, it is becoming more challenging for corporates to find counterparties."

In the past, corporates may have sourced risk management solutions from a small number of core banking relationships. Now, they are now looking at mutualisation and diversity to manage risk.

Soon says, "We are trying to diversify our banking partners. In terms of our systems, we are trying to be more bank-agnostic. In terms of how we allot business, we are trying to use a wider spread of banking partners, rather than focussing on a few. Although, our cash management business is currently held by two banks, we are currently conducting a request for proposal which could increase our number of suppliers."

Spreading business can sometimes create tension with banks, which are often under pressure to realise greater profitability from clients in a low-yield environment. Blair says, "Banks want to lend, but then they want some FX flow, some cash management business, and so on. Even large corporates can struggle to do that with 15 banks."

In uncertain and evolving market conditions, however, new approaches are necessary. For Maybank's Wong, the challenges faced by corporate clients require changes from their transaction banks in three main areas. "Firstly, we need to deepen our understanding of clients' FX needs," he says. "Secondly, we need to work more closely on a national level with industries. Thirdly, we need to innovate in terms of the systems we supply to support clients' supply chain, treasury and payments needs." ■

TO LEARN MORE ...

Treasury management practices in Asia: which key models prevail in the region?
Wednesday 14 October – 10:15-11:15

INNOTRIBE

Which startups will step up to the Challenge?

continued from page 2

Startup companies' products cannot be commercialised without an understanding of this, says Sigal. "Startups often lack this understanding and that is one of the reasons Innotribe was created – it acts as a bridge between startups and the financial industry."

Welcome to my world

When considering an investment in a startup company, Santander InnoVentures, Santander's US$100m financial technology venture capital fund, asks three questions to "ascertain the strategic interest of the relationship", says managing partner Mariano Belinky. These questions are: what value does this company bring to our customers and to the bank; will the investment enable Santander to differentiate or do something better; and what value can Santander add to the startup? "Positive answers to these questions means the investment is worth considering, we then move forward into a broader due diligence exercise, that may or may not be ultimately conducive to an investment," he says.

The investment is of course one step in the journey. But to take that step successfully, startups have to show they are prepared for the long haul and not run out of steam. "A key feature of success for startups is focus," says Belinky. "Some startup companies are trying to reinvent the wheel or want to take on multiple geographies or products. They can underestimate how complex the financial industry is and exhaust their resources by losing focus. Regulation is one of these complexities: limits on access to customer data, or regulatory and licensing schemes are very specific to banking and need to be properly understood upfront."

In that sense, banks can bring a good value proposition to startups, he adds, not only in the form of capital and commercial collaboration, but also in terms of regulatory guidance and even testing with customers. Combined, these resources can help to create new intellectual property, he says.

Often, explains Glyptis, a startup company will have great belief in the technology and product, but they may not have thought sufficiently deeply about how to integrate the product into the market. A new idea or product has to be able stand up to competition, several of the Innotribe Challenge judges concur, which also requires that startups are flexible enough to make changes to the product or overall strategy should they be required. After all, the market won't stand still, challengers can arrive from many an unexpected quarter.

Evidently, turning an idea into a business is a challenge that requires multiple talents and inputs. But that is why competitions such as the Innotribe Startup Challenge exist. Since 2011, the Innotribe Startup Challenge has brought the SWIFT community in direct contact with more than 650 fintech startups from around the world, leading to multiple collaborations and partnerships.

"Many people in the startup world are genuinely fresh and are not steeped in the rules and regulations of financial institutions. At the same time, many established players find it harder to think outside the box," says Treacher. "Banking is a numbers and scale game and when we are looking at startups we are looking for ideas that can work reliably with significant values and volumes. There is a natural gap between where startups are and where banks are, and this generates a healthy exchange of ideas between the two." ■

> **When we are looking at startups we are looking for ideas that can work reliably with significant values and volumes.**
>
> **Marcus Treacher,** head of innovation and global payments and cash management, HSBC

TO LEARN MORE …

Innotribe Startp Challenge Finale
Wednesday 14 October – 14:00-17:00

Levelling the payments playing field

Differences in compliance expectations put banks at a disadvantage to new payment service providers. Will new rules go far enough?

Online payment providers have been springing up at a rapid rate in recent decades, with a notable recent surge accompanying the interest in cyber-currencies, in the wake of Bitcoin's launch and ensuing notoriety.

This trend does not seem to be slowing either, as advances and innovations such as ApplePay and blockchain-based technologies continue to gain momentum and popularity throughout the world. These developments have aided overall economic growth through the surge of online purchases and are now playing a growing role in the retail payment market.

As a result, major banks and financial institutions are exploring and investing in innovations with a view to maintaining and developing their own payments solutions. A critical consideration for such heavily regulated entities is the potential impact of new tools and technologies on their compliance obligations.

Consumer protection has been identified as one of the key areas where banks are at a regulatory disadvantage.

Cheryl Gurz, emerging technology segment manager, treasury services, BNY Mellon

Regime change required?

Part of the popularity of the blockchain – a chronological account of all Bitcoin (or other) transactions recorded in a public ledger – lies in its decentralised structure, which in theory removes the need for third-party validation, for example from a bank or clearing house. Because of this decentralisation and the fact it can be run by non-bank payment service providers (PSPs) or alternative payment providers (APPs), a blockchain-enabled payments process can be largely unregulated and devoid of many of the financial crime compliance checks to which the banking system is expected to adhere.

While payment services that are purpose-built for ecommerce have strong appeal, especially to millennials, they expose their customers to risks in a way that regulated entities do not – in part because these payment service providers are not always subject to the same level of regulation as banks and other financial institutions. "Consumer protection has been identified as one of the key areas where banks are at a regulatory disadvantage compared to APPs," says Cheryl Gurz, emerging technology segment manager, treasury services, BNY Mellon. In the US for example, APPs and banks also fall under different regulators. "As entities regulated by federal financial regulatory agencies, banks have to meet more rigorous data protection standards than the APPs, which are regulated by the Federal Trade Commission," explains Gurz.

Non-bank payment service providers are not always as heavily regulated in financial crime compliance disciplines such as anti-money laundering (AML), anti-terrorist financing (ATF) and know your customer (KYC). "In some jurisdictions, there is no fiduciary regulation for non-bank payment service providers," says Carolyn Burke, vice-president, international cards and Canadian payments regulatory initiatives, at the Royal Bank of Canada.

While they are not subject to the same rules as banks, tech-based challengers are still subject to regulatory oversight, depending on the kind of payments services they offer.

"Generally speaking, regulations governing payments have been a subset of regulation governing financial institutions. Non-bank payment service providers, which are typically technology companies performing payment functions, would not be covered by regulation specific to financial institutions," Burke adds. "This can lead to an environment where payment service providers that are not financial institutions may have regulation extended to them through their financial institution relationship."

Competitive disadvantage

A key attraction for many users of online payments is anonymity. This feature has helped to launch digital currencies and alternative online payment services over the past five years. Ultimately, the anonymity afforded by third-party payments services leaves them open to the risk of facilitating money laundering and terrorist financing, as well as increasing opportunities for other illegal activities.

In contrast, KYC rules mean banks must be fully aware of the nature and motivations of the other party in the relationships they form, finding out for example why an account is being set up and what it is being used for. Increasingly, banks are required to know their customers' customers too.

These regulatory requirements can be seen as putting banks at a disadvantage. While banks deploy resources to meet stringent financial crime compliance rules, their non-bank competitors in the payments market are focused on technological innovation and platform and communication enhancements.

"Banks also have to meet regulatory requirements related to privacy and data security as part of the ongoing programmes of examination, enforcement action, and other forms of oversight carried out by regulatory agencies," continues Gurz. "APPs, on the other hand, come under review and potential sanctions only if they experience an actual data breach."

Processing payments for third-party payment providers is relatively high risk for banks.

Patricia Jouan, head of compliance, financial crime, Societe Generale

The penalties and punishments for banks not meeting compliance requirements have been severe. Understandably, this tends to make them cautious about how they interact with and provide services to non-bank payment service providers.

"The growing trend of internet commerce and the emergence of non-bank payment services providers, combined with the evolution in ways to settle transactions, carry significant risk in terms of financial crime," says Patricia Jouan, head of compliance, financial crime at Societe Generale.

Working with the new PSPs requires banks to adjust their level of vigilance to ensure the end-beneficiaries are legitimate and not conducting any activities that would violate AML, ATF or sanctions rules. "Processing payments for third-party payment providers is relatively high risk for banks because the PSPs are themselves processing payments for someone else. At present, there is no regulatory framework for what is a high-risk area for banks," says Jouan.

Regulatory shift

For the time being, banks must ensure their KYC processes are strong when dealing with these non-bank payment providers.

But the supervisory framework for PSPs is beginning to change as regulators become more aware of the risks, notably in the area of anonymity and virtual currencies. Some PSPs are even taking it upon themselves to implement AML solutions in anticipation of greater regulatory scrutiny.

"Banks will be more comfortable establishing relationships with third-party PSPs once they are regulated. These providers will become more numerous as internet commerce grows, so regulation is inevitable," says Jouan.

"Banks need full confidence in their relationships with customers. If policies and procedures for fighting financial crime are not reviewed regularly, a bank can face significant challenges in terms of AML and sanctions regulations. The good news is that the current situation is likely to change because regulators are aware of the problems."

As regulators begin reappraising the regulatory framework for non-bank payment service providers, banks hope new rules will level the playing field, holding tech firms to the same standards as themselves.

"The question isn't whether the space will see more rules and regulations; it's more a matter of whether the rules and regulations in the space apply equally to all players," says Gurz. ■

TO LEARN MORE ...

SWIFT Institute meets the Compliance Forum
Wednesday 14 October – 08:00-09:00

Strengthening the securities value chain

Securities market players are getting to grips with the need for greater end-to-end transparency.

To guard against the risk of financial crime in the securities markets, regulators across major jurisdictions are putting together a robust framework that calls for greater transparency. There is also an increasing dialogue between regulators and the industry to develop a co-ordinated response across the securities value chain.

For many securities market participants, financial crime compliance can have a 'Russian doll'-like feel about it: once you've dealt with one layer, there always seems to be another waiting underneath. There has been a huge increase in the use of financial sanctions globally, accompanied by regulatory pressure on banks and other financial institutions to maintain strong defences against financial crime. Large fines have been levied against major financial institutions for taking insufficient measures to prevent sanctions breaches, which have served to underline regulators' vigilance and resolve.

The spotlight is falling on the securities industry, as concerns mount about the lack of transparency in securities holding chains. For the most part, regulators are looking to reinforce existing requirements, but they are also asking firms to go further than before, by identifying and monitoring counterparties and clients.

Layers of complexity

Despite understanding the need for such measures, meeting these requirements can be a tough ask for the securities market. Sanctions are both complex and far-reaching, according to Olivier Goffard, head of group compliance and ethics at Euroclear.

"In Russia, roughly 20 institutions have been sanctions-listed by the regulators," says Goffard. "It might sound easy to ensure we are not dealing with them, but if those 20 firms have a controlling stake of 50% or more in other institutions, these controlled institutions also have to be considered sanctioned as well. Out of those 20 Russian companies that have been listed, we came up with a list of many thousands of affiliated companies. So making those lists and making sure we are using the right providers is a drain on resources."

On top of the complexity of complying with sanctions requirements, firms are also challenged by the timeframe for making the necessary changes to their processes. Once decided, sanctions are enforced almost immediately, albeit with a small grace period.

New approaches to the imposition of sanctions are also being introduced. In the past, sanctions were more likely to be effected by freezing assets, whereas now there are more bans on financing which, for example, prohibit supporting the issuance of new securities that would benefit an entity named on a sanctions list. The evolution of new methods of imposing sanctions means firms must anticipate new requirements on a regular basis.

"You will no longer be able to rely on some categorical assumptions with regards to your counterparts.

James Freis, chief compliance officer, Deutsche Börse

A 360-degree view

At the core however, a fundamental expectation from regulators is that securities market firms conduct sufficient due diligence to ensure they know exactly who they are dealing with at every step of the process.

"Whether you are a global custodian, a bank, broker-dealer, or working in the funds industry, you have a contractual obligation to the next entity in an intermediated securities chain," says James Freis, chief compliance officer at Deutsche Börse.

"From a financial crime compliance perspective, we've seen that the risk can come from further down those tiers rather than the direct contractual counterpart: from the issuer side, through the intermediaries and the end-investor, and even the persons standing behind them. All of those entities or persons can be sources of risk for us. Having a 360-degree view of each organisation is essential. This is particularly challenging for those of us who work in a global and cross-border environment," he explains.

"The difficulty is identifying the beneficial owners.

Olivier Goffard, head of group compliance and ethics, Euroclear

In Europe, the Fourth Anti-Money Laundering (AML) Directive is also set to increase the workload for the securities market industry, in part through a requirement for regulated firms to set up registers to record the ultimate beneficial owners of businesses. The new regime will also bring into force new customer due diligence requirements and obligations to report suspicious transactions.

"The difficulty is identifying the beneficial owners in the sense of an end-investor. Moreover, how can we identify who that end-investor will be in all of the hundreds of thousands of transactions we process?" says Goffard.

The Fourth AML Directive represents part of a global effort to implement principles and recommendations on AML and counter terrorist funding laid out in 2012 by the Financial Action Task Force (FATF), an inter-governmental body. In particular, the rules on identifying the beneficial owners of legal entities will force securities participants to ask more questions and conduct further due diligence as to who stands behind their customer relationships.

"Fundamentally you will no longer be able to rely on some categorical assumptions with regards to your counterparts," says Freis. "The very fact that you are dealing with another bank that is a regulated entity and has similar obligations is not enough. You have to take a risk-based approach, understanding how that institution goes about its business and whether it is taking efforts similar to yours to measure its approach."

Come together

To help the global community of securities service providers, custodians and intermediaries step up to the new levels required by the evolving regulatory framework, the International Securities Services Association (ISSA) has created a set of 17 financial crime compliance principles.

ISSA said it believes that "the securities custody and settlement industry must now reassess and enhance the financial crime compliance framework within the cross-border intermediated securities supply chain".

The principles intend to provide global guidance on the establishment and maintenance of cross-border securities custody relationships, whilst countering the risks of money laundering, terrorist financing, market abuse, corruption, fraud and the evasion of sanctions.

"If you think about the securities business as a chain, chains are only as strong as their weakest link," Freis adds. "There is a dependency in this market on others in the chain, and people in this industry need to come together and strengthen this chain, and deliver the type of information flows that provide greater transparency." ■

TO LEARN MORE ...

Securities transparency: is this the next frontier
Wednesday 14 October – 09:00-09:45

Rising to the challenge

Regulatory and competitive changes are testing the ability of correspondent banks to adapt to new circumstances.

Correspondent banking has a history of reinvention. Not for the first time, it is being asked to rise to new challenges, in this case enhanced compliance and risk management requirements, as well as the potential opportunities and evolving competitive dynamics stemming from technological advances.

Yesterday's panel discussion – 'Re-inventing correspondent banking' – highlighted the challenges for banks in demonstrating the value of their payments services, in comparison with nimble but very lightly-regulated competitors. As panel members acknowledged, there is an urgent need to respond to evolving demand, but there is a resolve to invest in payments services, while maintaining the security levels that both customers and regulators expect.

"An indispensable link"

The discussion took place at a time when correspondent banking has been receiving a far higher press profile than it has traditionally been accustomed to. In the past few months, prominent central bankers have joined the debate on the future of the industry.

Earlier this year, writing in the Financial Times in his capacity as chair of the Financial Stability Board, Bank of England Governor Mark Carney, together with World Bank CFO Bertrand Badé, described correspondent banking as "an important service, and in many developing economies … more than that: an indispensable link to the international banking system." But they also acknowledged the challenges for correspondent banks posed by a financial crime regulatory framework that expects them to know their customer's customer, even when that customer is remote and information is scarce.

In May, Lesetja Kganyago, governor of the South African Reserve Bank, addressing delegates to the SWIFT African Regional Conference, observed that, "Concerns have been raised about the general reduction in correspondent banking relationships, and related financial services globally."

It is necessary not just to be able to process a payment, but also to understand its logic, purpose, and traceability.

Edouard de Lencquesaing, CEO, European Institute for Financial Regulation

Correspondent banking businesses today must deal with a more complex risk management environment; and, from an operational perspective, the potential of non-bank payment platforms using technology innovation to carve out their own market niches.

Does this require a rethink of the correspondent banking model? Not necessarily, says Edouard de Lencquesaing, CEO of the European Institute for Financial Regulation, a transaction-banking veteran who has also witnessed changes to the industry from within over the past few decades. "Correspondent banking has long been evolving between two cultures," he says. "At the centre of one was the relationship manager. At the centre of the other was the 'circuit engineer', the payment expert creating value in optimising payment circuits and minimising clearing constraints relating to timing and risk," he notes. Today, says de Lencquesaing, real-time payments and financial crime compliance priorities add to the complexities of this latter function. "It is necessary not just to be able to process a payment, but also to understand its logic, purpose, and traceability," he says.

Correspondent banks have already adjusted their operational infrastructure to meet stricter know your customer (KYC) requirements, says de Lencquesaing. Banks have largely shifted away from the classic decentralised approach to maintaining customer files, whereby each 'application' had its own reference file system, focusing on functional specificities. "Now there is a need for centralisation to ensure data integrity," he says. Noting that the move to real-time payments can actually create tensions with KYC compliance, de Lenquesaing nevertheless acknowledges the pressure on correspondent banks to maintain their capacity to reinvent themselves to tackle new competitive challenges. "New entrants are driving expectations in consumer payments, bringing ease of use, immediacy of transfer, transparency of pricing and end-to-end tracing capability," he says.

Strategic responses

The burden of financial crime compliance might rest heavier on correspondent banks than their less-regulated competitors, but this has not limited their capacity for adding value to clients, both individually and collectively. Initiatives such as the Single Euro Payments Area have simplified and 'domesticated' payments flows that would have previously passed through correspondent banking channels, but also offer opportunities for banks to build new services on top of their core functionality, as do the real-time payments projects springing up in various jurisdictions.

Looking at the overall operating environment for correspondent banks, Marcus Sehr, head of institutional cash, Global Transaction Banking, Deutsche Bank, sees the challenge as to define the business case for meeting a broader set of client requirements. "If you approach the business purely from a de-risking perspective, you may find that exiting segments of the business leaves you unable to provide comprehensively for client needs," he says. The de-risking route may appeal to players who are either not confident about managing the risk or who believe they do not have the appetite for the necessary investment. But Sehr insists commitment yields results: "Transaction banking is still a business that demands scale," he says.

Today, more than ever, scale also encompasses the ability to monitor, anticipate and respond to regulatory changes. Anyone who wants to stay in the business has to keep an ear to the ground. "The biggest demand from clients is to know how we read the regulatory roadmap," says Sehr. "Our clients count on us to provide clarity on which regulations are relevant, what it means specifically for them and then to provide the data to support their own compliance. To meet that demand, you need to be something of an all-rounder; not just good at the hundred-metre dash."

Moreover, a distinction should be made between the impact of competition on retail and wholesale payments, according to Christian Westerhaus, global co-head of client products & solutions, Global Transaction Banking, Deutsche Bank. "What we have defined as correspondent banking goes beyond the pure means of transporting the funds," he says. "You have to talk about reach. Do you connect to all the right clearing schemes? Do you have a holistic product suite?"

The biggest demand from clients is to know how we read the regulatory roadmap.

Marcus Sehr, head of institutional cash, Global Transaction Banking, Deutsche Bank

Emerging market demands

For Rob Green, head of group treasury payments market infrastructure, FirstRand, South Africa, correspondent banking has always evolved to meet the demands of the day. "The business has changed radically over the last 20 years and will no doubt adapt to new challenges arising from changing customer requirements, regulatory demands for greater transparency and the opportunities arising from real-time payment technologies," he says.

In addition, the demand from emerging markets for greater reach as well as access to credit and product will only increase, says Green. "As yesterday's panel session confirmed, the correspondent banking business remains attractive to scale providers so long as they keep their eye on what lies ahead for their customers," he adds. ■

We're not all the same!

Business leaders should embrace cultural diversity and use it to commercial advantage.

When James Sun was faced with an outrageously discriminatory comment from a casting director on Donald Trump's 'The Apprentice USA' his desire to be an ardent diversity advocate was born.

Not only did Sun become the first Asian-American contestant and finalist on the business-focused talent show, but his passion as a campaigner and speaker have since taken him on a new and unexpected path, sharing a new and refreshing approach to diversity with audiences across the world.

Sun's speeches focus on the value of differences in culture, race, and beliefs subscribing to the idea that we're all the same and should simply try to 'fit in'. He combines personal experiences with a study of human behaviour that analyses millions of data points around online ethnic social dynamics.

Return on investment

Sibos delegates will not only hear how Sun handled the casting director, but will also gain an insight into how to recognise diversity as a key strategic, business asset. In the past, companies have tended to regard diversity largely as a matter of internal policy, closely associated with recruitment and human resources issues, Sun observes. "However, there is a new trend of using diversity as an offensive weapon to gain market share. Due to globalisation, multinational companies have to embrace and understand cultural, geographic, and demographic positions in any market they want to be in. I will discuss how to leverage your people to achieve this goal and give real proof points for generating a return on investment."

In the finance sector, the Depository Trust & Clearing Corporation (DTCC), the US post-trade utility, has set an example as to how a multinational organisation can use the recruitment from a diverse talent pool as part of its efforts to generate a return on investment. The DTCC describes its diversity and inclusion policy as "sound business practice and … necessary as we move our business forward". In 2013, the DTCC was named a Best Place to Work by the Human Rights Campaign, a leading US LGBT (lesbian, gay, bisexual, and transgender) civil rights organisation.

At Sibos, Sun claims he will offer delegates with ambitions to become leaders of multinational companies a new strategic approach, using empirical evidence and data points to show how diversity can influence market growth strategies. Diversity should be viewed as an outward-looking strategy, led from the c-suite, he says. "Markets are shifting quickly and cultures are colliding. The CEO who understands this will be able to effectively lead their companies into the next 20 years."

Commercial awareness of demographic differences will only become more important, asserts Sun. Firms operating in globalised industries such as finance must take greater account of increased cultural diversity within the workforce. "Differences in work ethics and religious differences are hot-button topics worldwide. This increased cultural diversity also has produced many benefits as companies gain new insights into different cultures from a management and a marketing standpoint," says Sun.

Three priorities

In what ways should business leaders adapt to their strategies to turn cultural diversity to their advantage? Sun offers three priorities for consideration: First, financial leaders will need to improve their ability to foster and support cross-cultural business ventures (even in a domestic market). Second, they will need to develop leaders who are passionate about communicating and managing across cultures, and interested in unleashing the creativity and innovation potential of a culturally diverse workforce. And last, they will need to integrate and develop a diverse workforce, particularly in terms of culture and age differences. ■

"Multinational companies have to embrace and understand cultural, geographic, and demographic positions in any market they want to be in.

James Sun

TO LEARN MORE …

Despite what you heard, colour does matter
Wednesday 14 October
09:30-10:15

Are you aware of your 'blindspots'?

Acknowledging unconscious biases is a good starting point for embracing cultural diversity.

"We believe that to be successful we must cast our net broadly.

Professor Mahzarin Banaji

Another way in which awareness of diversity can help businesses, says Harvard University social psychologist Professor Mahzarin Banaji, is by recognising blindspots, or hidden biases, within people. Yesterday, Banaji hosted a workshop in which she called on "many decades of research" on the science of implicit bias to highlight how biases can get in the way of sound financial and personal decisions and why organisations fail to hire the best talent. Evidence of the need for banking executives to raise their awareness was to be found in the fact that Sibos delegates who submitted to Professor Banaji's tests in yesterday's session performed in line with past results.

"The concept of implicit bias is the idea that good and even smart people are not aware of the workings of their mind. As such they make errors in their decisions that lead to less than optimal choices," explains Banaji, whose workshops use hands-on tests to help attendees learn about the bias in their own minds and discuss the different ways in which they might try to 'outsmart' their own biases.

Awareness of unconscious biases is a good starting point for organisations looking to embrace cultural diversity, says Banaji, but those biases can be muted. Some inclinations in how we doing things are learned and habit forming, she points out, and not always in our own interest. "It used to be seen as okay to hire only one's friends and family members or those with some connection to us," says Banaji. "Now we don't do that as much. We believe that to be successful we must cast our net broadly because a diversity of talent cannot be found in our own inner circles.

"Awareness is the first step in determining whether a bias is even worth changing or not. A healthy bias, for instance, of preferring one's own place of work to that of a competitor, should not be removed."

Banaji adds that other biases that business leaders may want to correct can be discovered using tests available at implicit.harvard.edu "We can assess what needs to be changed and what does not by confronting the disparity between our conscious values and our performance on tests like the Implicit Association Test," she says. ■

Banks at risk

In a world of few certainties, banks must continue to evolve their early-warning systems.

The term 'Brave New World' – borrowed from Aldous Huxley's literary vision of a dystopian future – is often applied to significant changes in the corporate or financial ecosystem. In the world of risk management, a brand new environment really is taking shape. Financial organisations were once structured for stability and scale but are now having to radically think how they assess risk, challenged by new market entrants, changing regulation and emerging technologies.

Alan Laubsch, director of Financial Network Analytics, believes that the days of centralised structures and linear reporting lines to satisfy risk requirements are numbered, with banks seeking to build in employee-aware corporate cultures which go further than simply ticking compliance boxes. He says: "Traditional predict-and-control governance will fail to keep up with the increased complexity and pace. In this accelerating world, organisational agility and peripheral vision are essential."

This 'agility' is particularly important for established financial institutions that want to be able to withstand challenges from new competitors and new technologies. "Emerging start-ups increasingly threaten much larger entrenched incumbents," says Laubsch. "To compete, organisations must harness social intelligence to sense and respond to changes before irreversible tipping points are crossed."

And while banks might feel somewhat immune to market shocks because of the increased amount of capital they are now required to hold under Basel III, they still need to be aware of longer-term threats to their businesses. "Many banks are overwhelmed by complexity and internal systems. This puts them at great disadvantage to start-ups, which are often more effective at leveraging big data and designing for the customer experience," he says. "Banks must wake up from 'the matrix' to embrace the real world, to shift attention from inside to outside. To compete, banks must nurture a healthy innovative culture with external focus and launch innovative products that delight clients."

Learning from failure

Taking a lead from consumer electronics and internet giants, investing in "delightful" products should be the aim for financial organisations. But the risks to banks are not purely from being out-manoeuvred on product innovation. Developments in the financial markets over the past eight years have triggered a wave of new regulation and fired the starting pistol on a recruitment drive for compliance specialists. Compliance officers are being deployed across banks, many ensuring that new and existing products meet the needs of both regulators and clients. But it would be a mistake to overplay their role, says Laubsch.

"Banks must remember that compliance is not risk management. Risk management does not mean avoiding failure. Rather, it lies in the ability to learn quickly from small failures by acting quickly on ambiguous signals," he says. "As [popular economics author] Tim Harford puts it in his book 'Adapt' 'the art of success is to fail productively'. Given that failures will occur, it's critical to decouple risks, so that a single failure does not sink the ship."

Away from challenges stemming from regulation and innovation, shifts in and shocks to the geo-political landscape will always occupy the minds of risk managers. Huge monetary policy stimuli across the world coupled with lower energy prices have sheltered what remains a fragile recovery from a relapse into crisis. The US growth picture is looking positive and the green shoots are starting to emerge in Europe. However, the prospect of further difficulties in the emerging and recently developed markets is a very real threat, say economists.

> “To compete, banks must nurture a healthy innovative culture with external focus and launch innovative products that delight clients.
>
> **Alan Laubsch,** director, Financial Network Analytics

Shifts and shocks

Robert Bergqvist, chief economist at Nordic bank SEB, says the outlook for economies such as China is characterised by structural and cyclical slowdowns.

He explains: "Beijing's recent decision to devalue the Chinese yuan is partly based on growth concerns, although the People's Bank of China is also preparing for the yuan to become fifth reserve currency underpinning IMF-managed Special Drawing Rights."

Bergqvist warns that many central banks around the world now have limited room to make monetary policy more expansive because governments are already having to deal with exceptional levels of debt. "Anaemic growth and continued high unemployment rates have been increasing pressures for political actions, which gives energy to protectionism and political populism. Central banks have continued on their path of expansive policies, providing strong support to the financial / credit cycle, while the economic cycle is lacking strength. The increasing gap between cycles suggests rising risks for asset price correction with possible negative implications for the real economy," he says.

And, despite the recent volatility in global markets, Bergqvist suggests greater macro-economic risks are on the horizon for the coming 12 to 18 months. He says: "Events this part year confirm a higher probability that there will be periods of substantially worse market liquidity and diminished market depth.

"There are several driving forces. Firstly, the risk absorption capacity of the financial system is worse today than ever before, partly due to new regulation and requirements being imposed on financial institutions. Secondly, internal systems have been adapted to new risk management methods. Thirdly, there is a larger element of market players buying securities to hold until maturity and lastly, quantitative easing policies have forced a search for returns with a one-sided approach to risk."

In a complex and fast changing world, we should perhaps expect new sources of risk to emerge on a regular basis. But as Laubsch's vision for a brave new world for risk management suggests, the tools and the methodologies are available to help banks and other financial sector organisations to anticipate and respond. ■

TO LEARN MORE ...

Risk management in the age of disruption
Wednesday 14 October – 14:00-14:30

Investing by numbers

New approaches to securitisation are required if the market is to thrive in both established and new markets.

"The problem with securitisation is that you can't turn a letter into a number," says Ann Rutledge, founding principal of R&R Consulting, adjunct assistant professor of finance at the Hong Kong University of Science and Technology, former credit rating agency staffer, and global authority on securitisation.

Once a popular if arcane way of raising funds from investors, by effectively selling future cash flows generated by ring-fenced balance sheet assets, securitisation became a dirty word as the financial markets plunged into disarray in 2007-8.

Future payments from sub-prime mortgages were bundled together and marketed as gold-plated investment opportunities, despite the high risk of default by mortgage holders known colloquially as NINJAs (no income, no job or assets). Investors did not see the risks until it was too late, therefore incurring massive losses, because these structured transactions had been given the stamp of approval – a AAA-rating, typically only granted to the most solid of issuers, such as G-7 sovereigns – by credit rating agencies. Post-crisis, as the US authorities looked to reform the securitisation market, fingers were pointed at the conflicts of interest raised by the ratings agencies' business model; the issuer pays for the rating, so the agency, it is argued, is incentivised to assign high ratings to win future business.

Rutledge sees things differently. In a critique of the rating agency industry – 'A Real Fix for Credit Ratings' – co-authored with Bob Litan of the Brookings Institution, a Washington-based think tank, she points out that the 'issuer-pays' model had been in place for around 40 years before the collapse of the US sub-prime mortgage market provided a catalyst for a global financial crisis. Rather, Rutledge asserts that the letters-based scoring system that was grafted onto securitisation deals from the more vanilla government and corporate bond market is fundamentally unsuited to the evolving dynamics of complex asset-backed transactions. "Investors never saw what the agencies saw. The information on which the ratings were based never flowed into the market, so investors could not reverse engineer them," Rutledge says.

While a corporate bond pays out the same interest and principal payments per bond to all investors, Rutledge and Litan explain, structured credits are "backed by pools of receivables, such as mortgages or loans, frequently with different tranches with different claims on the cash flows generated". And because the credit quality of a securitisation or other structured product is driven by the cash collected on a specific pool of receivables or other assets: "that cash must be counted". For the US securitisation market to regain its previous levels of liquidity, Rutledge and Litan call for regulators to introduce a framework for delivering a single, transparent and numerical benchmark for securitisations and other structured credits. "Such benchmarks are a necessary component to a prudent system of capital regulation and for accurately informing investors of true credit risk, just as speed limits are a necessary component of vehicular traffic regulation," the joint paper declares.

New market, new approaches

Securitisation markets around the world share some common principles, but also differ according to legal and regulatory variations between jurisdictions, as well as investor comfort and appetite. While US reforms have helped market activity pick up since the crisis, Europe has not rebounded. However, industry initiatives to develop a more "simple, transparent, standardised" framework for European securitisation and new proposals contained in the European Commission's Capital Markets Union initiative may help to drive a recovery in the market.

In China, which has been slowly nurturing its own securitisation market for around a decade, Rutledge expects another path to be taken in pursuit of market liquidity and investor transparency. Rutledge, who has presented to regulators and legislators the world over and has set courses and exams on credit rating and structured finance, recently completed a paper for the SWIFT Institute about the prospects for a different kind of securitisation model in the Chinese financial markets.

Progress in China has been gradual since the late 1990s, when four asset management firms were formed by the government to acquire and resolve a portfolio of non-performing loans on the balance sheets of state-owned commercial banks. The legal underpinnings for investment in securities backed by loans and mortgages were put in place in the early-to-mid 2000s, but the global financial crisis called a halt to further developments in the Chinese securitisation market until 2012, when regulators developed a new framework with similarities to the US model, which was authorised and rolled out in 2013.

Activity has been brisk and innovative in the two years since - Chinese banks issued asset-backed securities worth RMB277 billion (US$43 billion) in 2014 – notwithstanding various bumps in the road as issuers explore the boundaries of the nascent Chinese market.

One difference to the traditional US model is that deals can be listed and traded on exchange, rather than bought direct and held to maturity by investors. A particularly high-profile deal was that listed on the Shenzhen Stock Exchange in September 2013 by the small loans subsidiary of Chinese e-commerce giant Alibaba Group, which raised RMB3 billion by securitising SME loans. In theory, this exchange-based approach also provides a numerical value on which potential investors can base their decision, albeit somewhat dependent on secondary market liquidity.

Ping An Bank was due to list Shanghai Stock Exchange's first-asset backed securitisation last June, until the central bank pulled the plug at short notice due to issues relating to the approval and registration process. Approval was finally granted to Ping An and other second-tier banks in early 2015, paving the way for banks to repackage loans, creating much-needed space on their balance sheets. Ping An finally issued RMB3.1 billion of collateralised loan obligations in February.

> "China doesn't have to make the same mistakes.
>
> **Ann Rutledge,** founding principal, R&R Consulting

Rutledge believes securitisations can play a positive role in the next phase of Chinese economic growth, by accelerating the velocity of cashflows in the economy, but says the country must find its own path. The inadequacies of current benchmarking processes for securitisations seen in the US and elsewhere, are not an inevitable part of the market. "Typically, China prefers to emulate what has worked in the West, but securitisation does not work in practice in the US and China doesn't have to make the same mistakes," she says. ■

TO LEARN MORE ...

How and why China's domestic securitisation market will leapfrog the west
Wednesday 14 October – 14:30-15:00

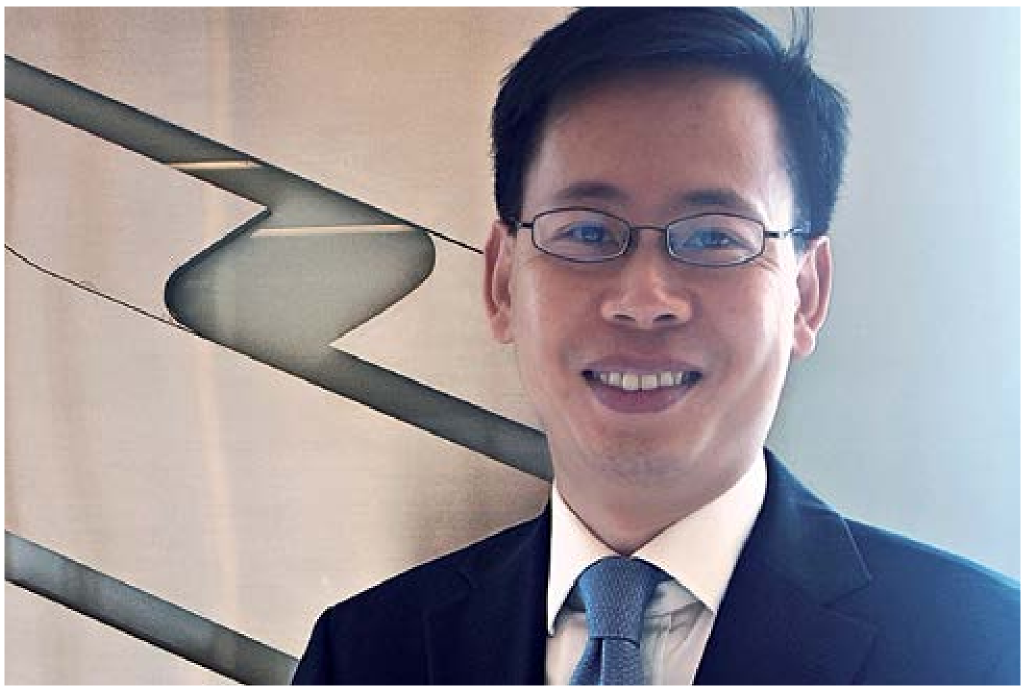
Getting the message

A wider appreciation of the costs of inefficiency is driving automation initiatives for corporate actions right across the globe.

A lack of automation in corporate actions continues to frustrate market participants, however positive developments in Asia are demonstrating the power of technology and standardisation to make meaningful progress.

Corporate actions events involve a chain of communications between issuers, agents, exchanges, central securities depositories (CSDs), clearing houses, custodians, registrars and ultimately investors. Their importance lies in the information they convey about the financial health of the issuer and / or the value of their stock, for example a dividend, a rights issue or a stock split.

With so many links in the chain, and so many different participants involved, it is perhaps understandable that the communication of corporate actions is automated to varying degrees between different participants and according to diverse technical formats and standards. But without integrated and automated processes in place, risks can stem from mistimed announcements or from misinterpretation of messages, leading to confusion and delays in the execution of corporate actions.



> **"Larger financial risks linked to delayed or inaccurate corporate action reporting.**

Jyi-chen Chueh, head of custody services, Standard Chartered Bank

Moreover, a lack of automation can have a snowball effect for each subsequent link in the chain, according to Jyi-chen Chueh, head of custody services at Standard Chartered Bank. "It amplifies the manual capture of information, increases the chances of interpretation discrepancies and requires additional and costly controls that slow down the overall flow of information," says Chueh. "This ultimately impacts investors, in terms of information timeliness, accuracy and completeness, which can translate into missed opportunities, and sometimes hard, financial losses."

A lack of automation between market infrastructures and investors could potentially have the most profound consequences. "As communication between these two occurs later in the chain, errors occurring at this point can have significant financial consequences," says Philippe Ruault, head of clearing and custody products, BNP Paribas Securities Services.

In addition, the rights of minority shareholders or foreign investors are often the source of various risks when using manual processes. For example, delivery of corporate actions event by physical mail poses a high risk that a shareholder will receive the initial information about an event after it has finished.

An end to the paper trail

There is now a huge drive to deliver automated corporate actions standards across multiple markets. "Existing procedures for corporate actions based on paperwork were inefficient and costly when measured against international standards," says Sergey Putyatinskiy, chief information officer at the National Securities Depository (NSD), the CSD to the Moscow Exchange.

The NSD has made a number of efforts in improving corporate actions processing and has signed a memorandum of understanding with the China Central Depository and Clearing to further advance efficiency. "The key points of our reforms are to organise corporate actions processing in a centralised manner via infrastructure organisations and to minimise paper documents by integrating technologies and standards, in particular to introduce e-voting and e-proxy voting technologies," says Putyatinskiy.

> **"Some smaller markets are not yet seeing high enough volumes to make a strong case to invest in automation.**

Philippe Ruault, head of clearing and custody products, BNP Paribas Securities Services

The NSD has also taken steps to introduce international formats for annual general meeting notifications.

Once considered a strictly back-office concern, the industry has seen an evolution of corporate actions reform that takes full account of the importance of getting information through to front-office consumers. "The industry has realised that corporate actions go beyond operational efficiency, as there are larger financial risks linked to delayed or inaccurate corporate action reporting," says Chueh.

This has attracted the attention of both regulators and industry associations. For example, the International Securities Services Association's 'Global Principles for Corporate Actions' – which details best practices for the processing of corporate actions – have been widely adopted. Furthermore a wide range of initiatives are under way, particularly in Asian jurisdictions, with the aim of upgrading their market infrastructure and stepping up their efforts to adopt corporate actions standards and automation.

Earlier this year, SWIFT announced it is working with banks and market infrastructures to develop a framework for using the ISO 20022 message standard to improve harmonisation and integration of corporate actions processes, amid concerns of fragmentation between jurisdictions. "Market infrastructure operators see this as a 'best in class' practice, often coupled with a need to meet regulatory requirements, but also an added value service differentiator for both issuers and investors," adds Chueh.

Banks are playing their part too. In 2013, Standard Chartered rolled out a new corporate actions platform across 49 countries in Asia, Africa and the Middle East. Last year, it was one of several banks to partner with the Singapore Exchange to implement an ISO 20022 corporate actions service between issuers, the exchange and local custodians. "The results have exceeded our initial expectations in terms of straight-through processing and processing turnaround time," says Chueh.

'Carrot and stick'

In addition to Singapore, Australia and Japan have both implemented corporate actions automation initiatives. As Asia continues to rollout enhancements to corporate actions processing, it poses the question: could these models be replicated through the rest of the world?

NSD's Putyatinskiy believes they can. "It's all about information exchange. The only question is gathering and sharing correct data about business cases, success stories, and in terms of corporate actions, the community has already started the wonderful work of harmonising ISO 20022," he says.

According to Chueh, the further adoption of more integrated automated models will depend on how successfully regulators and market infrastructures will engage with issuers with the right mix of 'carrot and stick' measures. "From a regulatory perspective, exchanges can look to leverage their market position and mandate issuers to use more electronic and standardised corporate actions communications tools," adds Chueh.

"As an added incentive, the CFO offices of issuers can reduce costs and increase efficiency by publishing their corporate events through the electronic platforms provided by the exchanges. In return, exchanges and CSDs can offer better cut-off times for publishing and provide additional reporting tools back to the issuers, delivering deeper insight on shareholder behaviour."

In Europe, initiatives toward higher rates of automation have typically been undertaken at a national level. However, a recent project has recently provided pan-European impetus, now that market infrastructures are obliged to comply with a certain level of automation and compliance with the European Corporate Joint Working Group standards before joining TARGET2 Securities, Europe's new securities settlement platform.

"The fact that larger markets have really been incentivised to automate is great news. Some smaller markets are not yet seeing high enough volumes to make a strong case to invest in automation, but as they grow we expect to see them adopt the automated process," says BNP Paribas's Ruault. ■

TO LEARN MORE ...

Asset servicing: issuer to investor automation
Wednesday 14 October – 14:00-15:15

Shine a light

Data standardisation is a pre-requisite to improving transparency and aggregation.

The drive for transparency and stability in financial markets is supported by a myriad of industry guidance, market rules, and international and national regulations. Harmonisation of data and processes, based on international standards, is also playing a key role in supporting these over-arching objectives.

The regulatory response to the financial crisis has been very far reaching. Overall, we have witnessed a significant increase in the oversight and regulation of financial institutions by national governments as well as the introduction of regional and global regulatory initiatives aimed at increasing transparency and reducing risks in global financial markets. Supervisory and rule-setting bodies ranging from the Financial Stability Board and the Basel Committee on Banking Supervision to the Financial Action Task Force have variously drafted new frameworks governing banks' capital and liquidity levels, derivatives trading, clearing and reporting, the prevention of money laundering and terrorist financing, benchmark-rate setting, and market infrastructure risk and default management, to name but a few.

For regulated financial institutions, the result has been a torrent of requirements to understand, implementation deadlines to meet and data to collect, monitor and report. Both the regulators and the regulated are in agreement that standards have a critical and very practical role to play in ensuring new rules can be implemented in a timely, comprehensive and effective way. But we are now seven years on from the collapse of Lehman Brothers that precipitated the crisis. Which standards are helping and how? Is it all still talk, or are there tangible results and valuable outcomes?

"A public good"

The publication of ISO 17442: 2012, the standard for the financial services legal entity identifier (LEI), was an early success. For the first time, the industry has a common, internationally agreed standard for identifying legal entities, using a unique 20 digit code. This makes it possible to accurately associate, aggregate and process data based on a legal entity owner, without the need to check name variations. Stephan Wolf, CEO of The Global Legal Entity Identifier Foundation (GLEIF), explains: "The LEI is not the goal in itself, but it helps to get transparency into the market." A governance framework and a Regulatory Oversight Committee (ROC) have been set up under a strictly neutral and federated charter, endorsed by the Financial Stability Board. GLEIF coordinates some 25 local operating units (LOUs) endorsed by the ROC to issue LEIs and maintain the associated reference data.

"The global framework built up around the legal entity identifier is an excellent example of a public and private collaboration on a global scale. Today, the global implementation of a single standard for the LEI, under a single oversight, governance and operating model, is a reality," says William Hodash, managing director for business development at the Depository Trust & Clearing Corporation, the US post-trade utility, who has been instrumental in establishing the Global Markets Entity Identifier (GMEI) utility together with SWIFT. The GMEI utility has issued some 190,000 of the 390,000 LEIs issued so far. "LEIs issued by any of the endorsed LOUs anywhere in the world are issued under the same operating principles and are accepted by all regulators that have recordkeeping and reporting rules requiring reporting parties and counterparties to be identified by LEIs, " says Hodash.

GLEIF's Wolf points out that the LEI is being increasingly widely adopted, as a result of national and regional implementations of regulation. He sees two additional dimensions to the future development of the LEI. First, more uses are being found for the existing identifier, way beyond its early adoption in trade reporting for OTC derivatives. For example, the European Insurance and Occupational Pension Authority has mandated the use of the LEI for all its reporting requirements by end-June 2016. "Another important step currently under consultation is the extension of the LEI to include hierarchical information (direct parent and ultimate parent), ensuring even deeper transparency," he says. This information is sought by regulators and others too. "Risk and compliance managers at banks are also very interested in this information," says Wolf.

> **The LEI is not the goal in itself, but it helps to get transparency into the market.**
>
> **Stephan Wolf,** CEO, The Global Legal Entity Identifier Foundation

Re-using existing standards

Collecting the data needed for market oversight and transparency is only part of the story. Aggregating and analysing the increasing volumes of transaction data now being reported is a challenging task for regulators and others – and international standards are critical to achieving this.

Next year, The European Central Bank (ECB) will start to receive daily reporting of money market transactions, initially from the 53 largest institutions in the euro area. The reporting requirements cover the whole spectrum of money market instruments – secured and unsecured, FX swaps and overnight index. "Our objectives for this reporting are for the ECB and other euro area central banks to have a clear understanding of the effect of monetary policy transmission mechanisms (for example, how changes in interest rates are feeding through) and to increase the overall transparency in the money markets", explains Jean-Marc Israël, head of division, monetary and financial statistics at the ECB. Until now, the ECB has only had annual reporting of full second-quarter money markets data, published with a three month lag, so this daily reporting closes an important gap.

Re-using existing international standards is fundamental to the project, explains ECB business project manager Josep Puigvert. "The reporting is based on an ISO 20022 XML schema and some 90% of the metadata elements are already in use by the reporting agents," he says, adding that this has greatly eased not only the development of the project, but also its acceptance in the market. "The market will have access to the aggregated data in the future, so there are real benefits for participants in terms of greater visibility and transparency." ■

ESMA backs ISO 20022 for MiFID reporting

The European Securities and Markets Authority (ESMA) has published its final report on regulatory technical standards for the second Markets in Financial Instruments Directive (MiFID II) and Markets in Financial Instruments Regulation (MiFIR). With assistance from external consultants, ESMA has conducted a study to assess which technical format is most appropriate for the transaction and reference data reporting under this regulation. Following the results of the study it has been concluded that ISO 20022 is most suitable due to the high level of compliance with envisaged legal requirements as well as its performance and extensibility capability. Based on the feedback to a public consultation paper, as well as results of the above study, ESMA has decided that transactions and instrument reference data should be reported under MiFIR in a common XML format and in accordance with ISO 20022 methodology.

Cities of the future

FinTech hubs are competing – but could soon be collaborating.

All around the globe, the number of financial technology ('FinTech') hubs has increased over the last few years. These centres of expertise, enthusiasm and innovation in the tech-savvy world are also magnets for banks looking to form more partnerships with technology startups.

Alongside the long-established global tech capital of Silicon Valley, London and New York have acquired reputations as FinTech innovation hubs. Now, strong economic growth and widening opportunities for financial services in Asia Pacific have pulled attention East. Sydney and Singapore in particular are making a name as thriving FinTech hubs, but competition is building across the region.

Startupbootcamp FinTech began in London two years ago and expanded to Singapore earlier this year. "It is good to bridge a corridor between two very interesting financial eco-systems," says Markus Gnirck, co-founder and COO.

Gnirck's FinTech accelerator, which is funded by financial services firms such as Lloyds Bank, Rabobank, UBS and Mastercard, supports early stage startups. It has taken 10 such firms specialising in payment, wealth, and block chain innovation into an intensive three-month programme. The aim is to equip the startups with the skills needed to present successfully to Startupbootcamp FinTech's partners and networks to secure funding from investors, venture capital and institutions.

> **Hubs are special because you have the involvement of the government, the regulator and institutions themselves.**
>
> **Markus Gnirck,** co-founder and COO, Startupbootcamp FinTech

Understanding innovation

In Asia, Gnirck is working to increase the interest that banks are showing in FinTech firms. For Asian bankers, one important route to innovation is by connecting to the growing number of entrepreneurial ecosystems that are springing up in aspiring FinTech hubs across Asia and beyond. "This is where we come in," says Gnirck. "We work closely with the innovation departments where there is already a notion of FinTech, an understanding of innovation and a willingness to talk to entrepreneurs to see if what they have built meets their internal challenges."

Once banks have started to make contacts and build relationships in the FinTech space, they soon gravitate toward the startups working in the areas most likely to address their particular needs, which might range from achieving internal efficiencies to developing new revenue streams to reaching new customers. But they may still need support in developing those burgeoning relationships in a way that adds real value to their customers and shareholders.

"Banks may realise they do not have the infrastructure to handle innovation that comes in from outside in terms of procurement and risk management – it's not that easy to onboard the technology. We work with people who actually understand this," says Gnirck.

FinTech hubs appeal to banks because they provide access both to new ideas and the processes to leverage them, but hubs have also caught the attention of governments and investors, enabling a healthy mix of stakeholders. "Hubs are special because you have the involvement of the government, the regulator and institutions themselves," says Gnirck.

According to Gnirck, Singapore has a number of the key attributes that any would-be FinTech hub would envy. First, it is a major financial market centre with established links all around the world. Second, it has an educated and entrepreneurial talent pool from which to draw the founders of tomorrow's startups. Third, it has the funding sources such as business angels and venture capitalists (VCs) to see startups through their early stages. "Finally, it has mentors and experts that are willing to spend time, ideally pro-bono, to help and to give advice to entrepreneurs at any stage, depending on the expertise they can offer," he explains.

Healthy competition

Singapore recently received a government commitment of S$225 million (US$167 million) to grow its FinTech ecosystem. The investment will be used to attract foreign players in financial services to base their innovation labs in Singapore.

Governments elsewhere are also showing support for their hubs. The New South Wales government has rallied behind its FinTech hub in Sydney, collaborating with partners including Amazon, American Express, HSBC and Suncorp Bank to found a new startup space called Stone and Chalk. PwC recently estimated Australia's technology startups could be contributing 4% of GDP by 2033.

But Asia isn't having it all its own way. Amsterdam, Berlin and Madrid were included alongside Sydney and Singapore in a list of 'dark horse' hubs drawn up earlier this year. The UK government has endorsed London's FinTech hub, backing a 'FinTech Manifesto' drafted by Innovate Finance, an advocacy organisation representing the FinTech community. In addition to leading a delegation to Asia to attract global partners, UK prime minister David Cameron said that Innovate Finance manifesto's objective to create 100,000 jobs "will ensure [UK is] a world leader in the development of financial services technologies".

Located in Canary Wharf, London's financial district, Innovate Finance aims to create an inclusive community globally. The organisation lobbies government and regulators on behalf of members, advocating FinTech's disruptive potential in providing solutions to the real economy. It has policy groups focused on digital and financial services inclusion, focused on ensuring that the needs of consumers are met in areas such as the peer-to-peer lending space, and that SMEs are being served by the universal banks. It also has a policy group on digital currency, block chain, and cyber-related topics.

> **UK FinTech players are really looking to connect up to a global network.**
>
> **Lawrence Wintermeyer,** CEO, Innovate Finance

Going global

Innovate Finance CEO Lawrence Wintermeyer believes there is potential for FinTech hubs around the world to create an interconnected and inclusive global community, supporting collaboration in order to attract funding and to create more innovative solutions. "A lot of the capital is global. And a lot of the UK FinTech players – whether in the remittance or peer-to-peer space – have innovative solutions that look for scale, and quite often they are looking to the East," he says. "They are really looking to connect up to a global network."

But Wintermeyer has further ambitions for FinTech hubs. In light of the global nature of post-crisis financial regulation, he believes regulators should develop a framework to enable global FinTech hubs to work collaboratively in developing solutions to regulatory problems. "On a practical level, digital is global," he says. "Given this, it would be sensible for FinTech hubs to have a regulatory role that helps to use technology to improve transparency on know your customer and anti-money laundering compliance. We are trying to drag as many regulators to the table as possible and learn how to be more inclusive and to help solve as many global problems as possible." ■

TO LEARN MORE ...

Why banks need FinTech hubs
Wednesday 14 October – 12:45-13:45

Sibos showcases local artistic talent

As in previous years, the concept of collaboration has been widely aired in Sibos sessions this year. If its exact meaning leaves some delegates scratching their heads, then spare a thought for the artist tasked to visualise the concept.

Three young Singaporean artists have had a go – Razeen, aged 11; Husnul, aged 12; and Syahmi, aged 12 – and the result is striking. A 1.5 metre long robotic arm, decorated in gold and reaching out to represent the workings of the business world. It can be viewed outside the Sibos Restaurant on level 5.

The 'Lets Work Together' installation is one of 20 conceptual art projects displayed around the convention centre. Other projects visualise concepts ranging from global currencies to social media galaxy and global security.

All of the installations were created by local artists, aged between nine and 22, through a partnership between Sibos and the Business Times Budding Artists Fund (BT BAF). The BT BAF is a Singaporean initiative that aims to provide young people from financially disadvantaged families with an opportunity to pursue arts training and nurture their artistic talents.

"It's a local charity that believes that if a child is talented and interested in art, they should be given the opportunity to develop that talent – that's why we support this charity at Sibos," says Sven Bossu, head of Sibos.

The art projects are available to purchase, and funds raised will be used to support BT BAF and partner beneficiaries. Delegates wishing to buy one of the installations should email their bid to art@sibos.com. The auction closes today, Wednesday, at 7pm. ■

Seatbelts fastened for ISO 20022 harmonisation

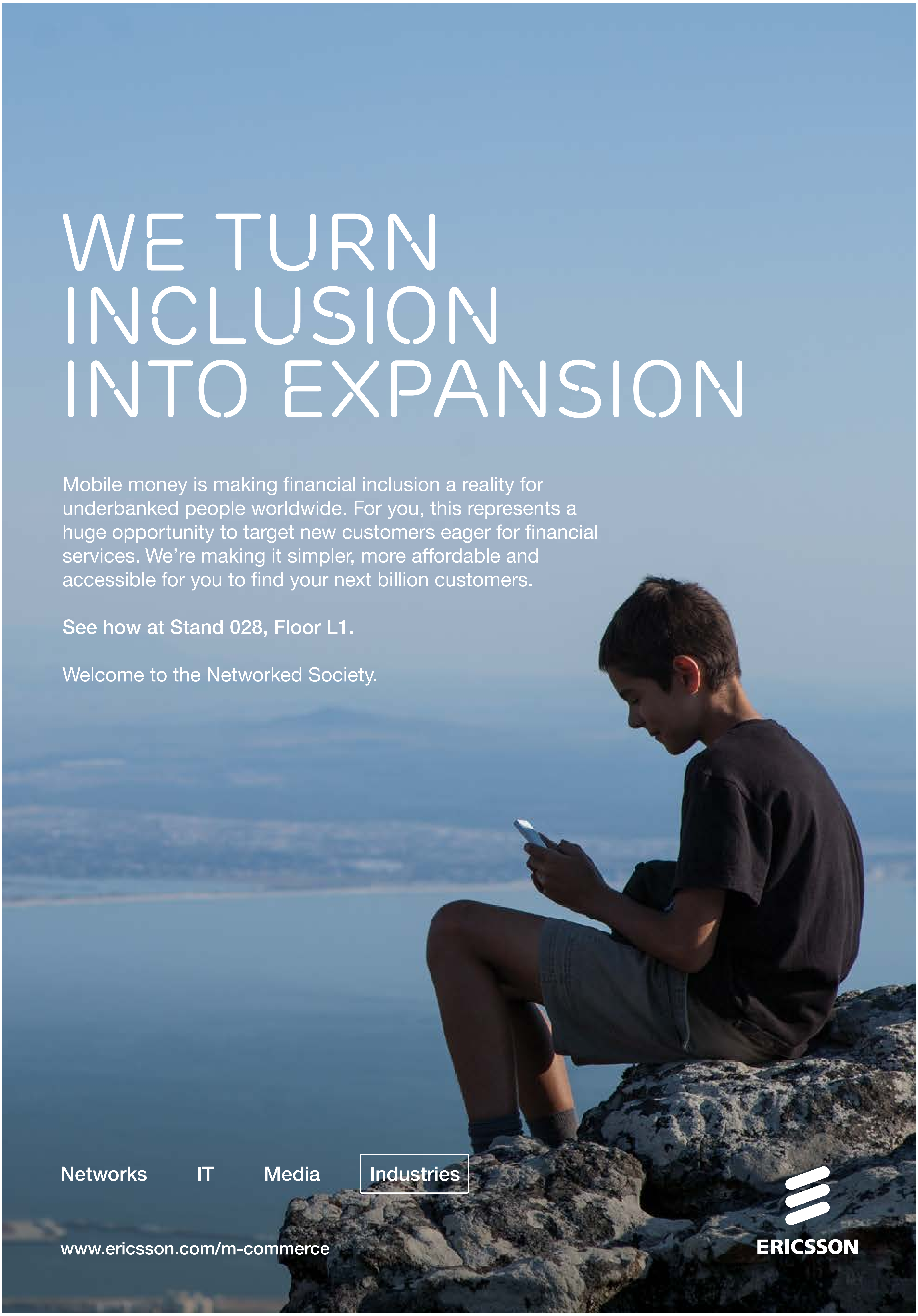
Successive rounds of applause were heard in the early evening at the Standards Forum yesterday as representatives of 12 financial market infrastructures came together to publicly endorse a charter for consistent implementation of ISO 20022.

"ISO 20022 is a very flexible standard. That's one of its strengths, but if it's used in too many diverging ways it starts to lose its value as a standard," said Stephen Lindsay, head of standards at SWIFT.

Discussions about a possible charter began at Sibos 2014 in Boston, and 23 market infrastructures have been working on the initiative over the past year. As Sibos delegates gathered at the SWIFT Standards Forum to celebrate the endorsement of the charter by a subset of those market infrastructure operators, there were calls for the initiative to expand to include banks.

"This is really a good start. The next step now is to include the banks and the participants," said Göran Fors, head of sales and market development for asset servicing at SEB.

SWIFT announced the endorsement of the charter on Monday as the cooperative continues to pursue consistent implementation of ISO 20022. FMIs endorsing the charter include Clearstream, CLS, Euroclear, Hong Kong Interbank Clearing, National Settlement Depository of Russia, VP Securities Denmark, ACH Colombia, Bank of Canada, Canadian Payments Association, Australian Securities Exchange and the Southern African Development Community. ■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