Issue 1, 2015

Sibos Issues

The official daily newspaper of Sibos 2015 Singapore I 12-15 October

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As Sibos 2015 in Singapore approaches, turn to the centre spread of this edition of Sibos Issues for all the information you need to book your place and plan your trip. After all, October is closer than you think!

Best wishes
Sven Bossu,
head of Sibos

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From Basel to 'business as usual'

"Look beyond the requirements and think about how they can help you do business."

Marion Leslie
managing director
pricing and reference services,
Thomson Reuters

New reporting requirements are forcing banks to take a more holistic view of data management.

Overhaul needed to help banks provide aggregated risk data to regulators.

On 11 March, around 30 major banks let out a collective sigh of relief. The Federal Reserve had released the results of its latest stress tests, confirming that most had passed, albeit some by the skin of their teeth. But the Comprehensive Capital Analysis and Review (CCAR) conducted by the US central bank is just one of several reporting hoops through which international banks must jump to maintain their presence in major markets. Earlier in March, the Basel Committee announced that all 224 large internationally active banks currently meet Basel III's risk-based capital minimum requirements, based on data as of

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REGULATION

No end in sight

As business models evolve and costs continue to rise under the shadow of Basel III, the need for flexibility is increasing the appeal of outsourcing.

"I see no reason to pull the brake on regulatory reforms," said Basel Committee chairman Stefan Ingves in a speech in Chicago last November. "We must not lose sight of the long-term benefits of limiting the costs to society that financial crises cause."

Such rhetoric is perhaps intended to remind banks that the commitment to regulatory reform remains as strong today as it ever has been; changes are unavoidable. With the Basel III package of capital and liquidity rules now well into the implementation phase, other major reforms are still looming, at both domestic and international levels.

The challenge for banks is to assess the cumulative impact of multiple sets of regulation that affect different regions and markets, and to make changes to their business models accordingly. But making that assessment on anything more than a short-term basis is difficult.

"There is still so much regulation to be implemented, and so little understanding of how all of the reforms fit together, that no one can really foresee what banks will actually look like in five years' time," says Kevin Nixon, risk and regulatory leader at Deloitte in Sydney and former managing director of regulatory affairs at the Institute of International Finance.

Moving the goalposts

That lack of clarity has its roots in what could be described as

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From Basel to 'business as usual'

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June 2014. This is a positive indicator of the financial stability of the global banking system, but it is part of an ongoing semi-annual review process which identified a €2 billion capital shortfall among 126 'Group 2' banks, and noted that only 80% of such banks have so far achieved the 100% liquidity coverage ratio target they are required to meet by 2019.

With the European Banking Authority conducting similar tests for European banks – and central banks and prudential regulatory authorities across the world examining banks in their jurisdictions – the message is clear: regular and increasingly rigorous reporting requirements are here to stay. This is placing strains on the data management infrastructures of international banks that they were not designed to withstand. Banks have been throwing bodies at the problem, but experts believe a more structured approach is well overdue.

According to Steven Hall, director, UK head of banking risk and Basel III, KPMG, policy-makers want banks to be in a position to provide good-quality data at both an aggregated and disaggregated level. "Banks must be able to aggregate risks within and across business units within the group, aggregate risks and exposures across risk types and be able to drill down," he says.

Historically, banks have taken a bottom-up approach to reporting to derive an aggregated view of risk, presented as a standard set of metrics to senior management. This involves a degree of reconciliation, checking and confirmation, and then potential adjustment at an overall level, explains Hall. "This approach does not lend itself to ad hoc queries from managers or regulators for a slightly different cut of the data or drilling down for further detail. Increasingly, banks must respond more quickly to requests from regulators for different types of stress test, for example, so that they can provide the requisite reporting at that disaggregated level," he explains.

Resource-intensive reporting

David O'Connell, senior analyst for wholesale banking at Aite Group, a consulting firm, flagged his concerns in a blog in March 2014 in response to the Federal Reserve's first round of CCAR tests, which raised objections to four banks' submissions. "Although the Fed used the term 'qualitative' nebulously to describe its objections, I'd bet the farm that data management and risk analysis were two primary issues," he wrote. Today, O'Connell is no less concerned.

"I'd love to say best practice is beginning to emerge, but I'm just not seeing it," he says. "Banks are discovering holes in the data that prevent them from reporting risks accurately, or they are finding data sets to be unstable. Overall, the effect of complying with stress tests is taking vital resources away from the core business."

Banks' efforts to monitor and report their risks are complicated by a number of recent trends, such as the wider range of activities and transactions for which they must collate and retrieve data, a rapid expansion in the volume and velocity of static data they produce and consume, and the broader variety of communication and data types they use in the price or decision discovery phase. "Voice and chat room interactions are being recorded and a variety of contextual data interactions must be retained. Banks need to consider how best to store and manage a disparate range of data sets, and analyse them, increasingly in real time," says Michael Cooper, chief technology officer, BT Global Banking & Financial Markets.

The challenge, it seems, is to create a data governance and management structure that can regularly and rapidly churn out holistic and granular reports from across disparate business lines and data sets in a more automated, resource-efficient fashion than banks are using today. It's a big ask, but there are a number of paths forward. The core task of establishing and maintaining a robust data architecture that can deliver aggregated risk data requires both clear leadership and wide stakeholder buy-in, suggests Marion Leslie, managing director pricing and reference services, Thomson Reuters.

"The chief data officer doesn't necessarily manage all the data assets, but has responsibility for knowing what they are and who owns them and the life cycle of the content, as well as understanding the data needs for reporting, etc.," she says.

Sharing responsibility

Leslie argues that business units and central functions can work together more closely to ensure data management requirements become an integral part of the IT strategy, while responsibilities for data management need to become embedded across different functions, including the front office.

Aite's O'Connell agrees, noting that "business requirements for applications used at the edges of the organisation need to be broadened to encompass the data requirements at the centre" and that banks continue to be dissatisfied with their investments in data warehousing. A greater responsibility for data quality in the front office is at the heart of a new concept – the 'digital back office' – developed by Gavin Slater, co-founder of technology solutions provider of Stream Financial, in response to the reporting and controls challenges faced by banking clients in the post-crisis era.

In short, Slater argues that the traditional operating model, whereby data is sent from the front to the back office for centralisation, compliance and control purposes, meets neither the needs of internal clients or external regulators, without costly manual workarounds. In particular, the process of data adjustment and aggregation under the prevailing model weakens the effectiveness of control monitoring and the accuracy and timeliness of reporting. In

"Banks must respond more quickly to requests from regulators for different types of stress test.

Steven Hall, director, UK head of banking risk and Basel III, KPMG

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the digital back office, recent advances in computing power are leveraged in a structure that implements the functionality required to support data management and calculations within the systems of each business unit, in accordance with standards and rules set centrally. Under this approach, the back office is still responsible for monitoring essential controls and on-demand aggregation of near-real-time data across business units. But the front office now provides the functionality to calculate metrics required for internal and external reporting.

"Under a federated approach, data can remain at the business unit or subsidiary level, fulfilling local requirements, but it must also be available to be queried and interpreted centrally under a set of common rules. This federated approach also gives banks the flexibility at the local level to adapt to new requirements from a regulator in a particular jurisdiction," explains Slater.

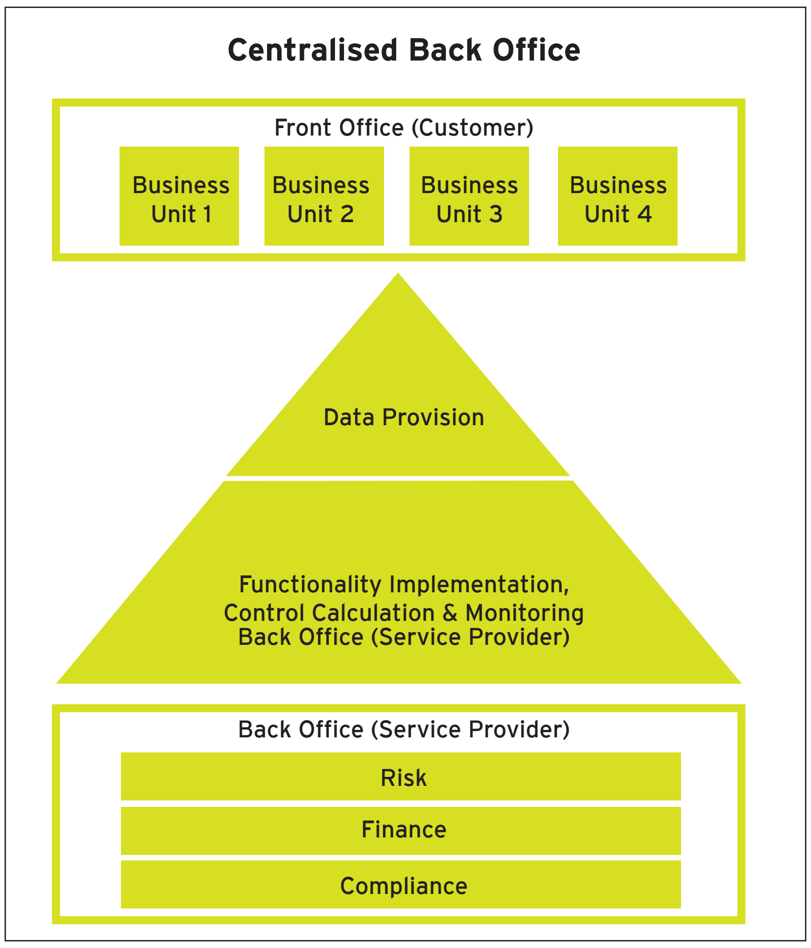
> **A federated approach gives banks the flexibility at the local level to adapt to new regulatory requirements.**
>
> **Gavin Slater,** co-founder, Stream Financial

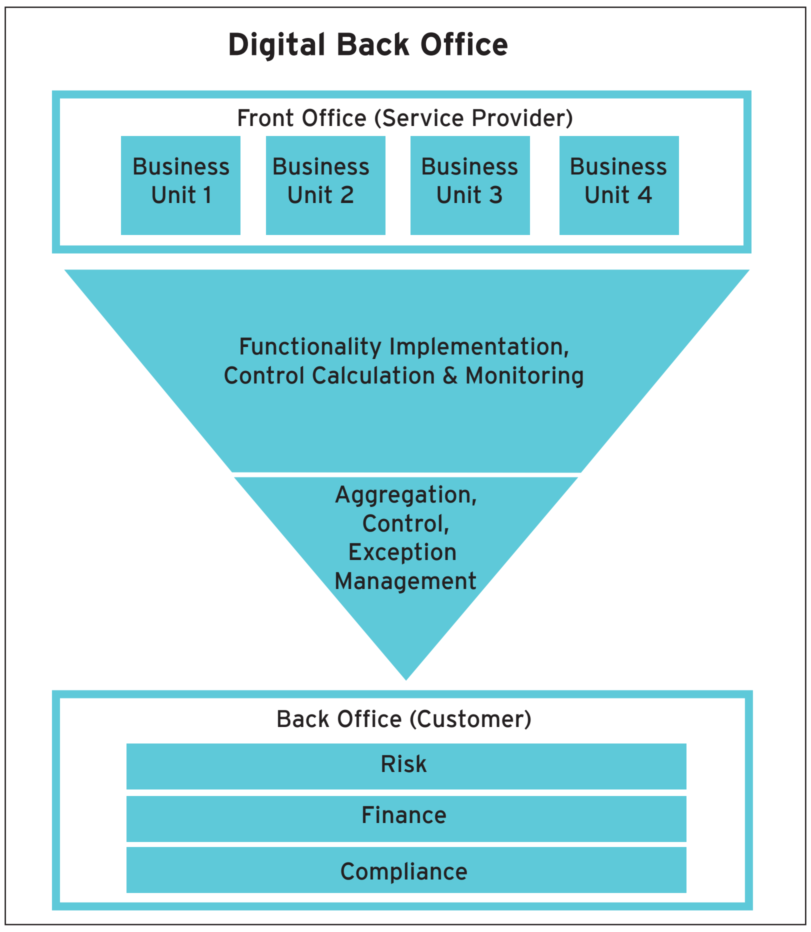
> **Overall, the effect of complying with stress tests is taking vital resources away from the core business.**
>
> **David O'Connell,** senior analyst, wholesale banking, Aite Group

Mindset shift

While more intense reporting requirements are certain to be a permanent part of the banking landscape – and as such demand a long-term and strategic response from individual firms – they must also be set alongside banks' responsibilities to their clients and their shareholders. As Aite's O'Connell implies, it is unsustainable and ultimately unprofitable for banks to continue to 'throw bodies at the problem'. For Leslie at Thomson Reuters, banks need a mindset shift, regarding regulatory requirements as not necessarily a cost but a growth enabler.

"Look beyond the requirements and think about how they can help you do business – forward-looking risk management can be an aide to decision making. Having the ability to aggregate data across the firm can generate insights about the internal performance of the firm, both overall and of individuals, while external views of the customer can 'become 360-degree', enabling the organisation to both understand and better serve the needs of the customer," she says. ■





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No one can really foresee what banks will actually look like in five years' time.

Kevin Nixon, risk and regulatory leader, Deloitte

the layering effect of regulation, resulting from the fact that problems highlighted by the financial crisis have been tackled on a case-by-case basis, with less consideration of the overall impact than might have been expected.

A clear example is the Basel Committee's efforts to strengthen the resilience of banks. While Basel III comprises onerous capital, liquidity and leverage ratios, the Basel Committee has pressed forward in recent months with further initiatives, including revisions to the capital framework for securitisation exposures and a fundamental review of trading book capital standards.

Meanwhile the Financial Stability Board (FSB), the international body established by the Group of 20 in 2009 to monitor and make recommendations about the global financial system, has consulted on proposals for minimum total loss-absorbing capacity, an additional tier of capital to be held by global systemically important banks to ensure they can be resolved without recourse to taxpayer funds.

Nixon compares this complex regulatory landscape to a set of powerful levers that have been lined up to tackle individual problems, but it is only now, several years into the reform programme, that bodies such as the FSB and the Basel Committee are turning their attention to the consequences of pulling those levers simultaneously.

One consequence, Nixon believes, will be a tendency for large banks to operate abroad as subsidiaries rather than branches. "Regulators want to ensure that all banks in their jurisdiction are sufficiently liquid and well capitalised, which is seen to be better achieved through a subsidiary than a branch. But while a subsidiary might be safer and easier to resolve, it does make it harder for banks to move money across borders," Nixon explains.

Flexible models

Meanwhile as local regulators implement globally-agreed standards in national jurisdictions, the risks of concentration and fragmentation stalk the markets hand-in-hand. Concentration of business among a smaller number of banks is a natural consequence of heightened barriers to entry. But for global markets such as OTC derivatives and foreign exchange, national interpretations of global principles lead to fragmentation of markets, with business often migrating to the most favourable regulatory regime.

Faced with such a complex web of regulations and consequences, most banks cannot escape the need to make fairly fundamental changes to their business models, while still having to satisfy shareholders and achieve revenue growth. But with the continuing uncertainty over exactly how the regulations will evolve, the need for flexibility is paramount.

"Over the past two years, firms have been trying to understand the direction of travel of regulation and formulate their business strategies accordingly, but I don't think anyone is really comfortable that they know where this will

The average age of securities processing systems in Europe is in excess of 18 years and the cost of upgrading them is just prohibitive.

Rob Scott, head of custody and collateral solutions, Commerzbank

all end. There has to be an element of flexibility built into business models so that they can address changing requirements," says John Lehner, chief executive of BNY Mellon Technology Solutions.

The increased costs and uncertainty facing banks could play to the strengths of firms such as BNY Mellon that offer

We must not lose sight of the long-term benefits of limiting the costs to society that financial crises cause.

Stefan Ingves, chairman, Basel Committee

No end in sight

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> **Variable cost models are now becoming attractive for a broader swathe of banks.**
>
> **Alan Cameron,** head of relationship management for international banks and brokers, BNP Paribas Securities Services

outsourced services. Most outsourcing providers might historically have targeted smaller banks that struggled to do everything in-house, but some larger banks are now considering strategic partnerships with outsourcing providers and technology vendors as a means of tackling the cost pressures they face.

"The cost of regulation is making it much more difficult for banks to reach their target return-on-equity, which has led to huge belt-tightening across the industry and a drive to outsource post-trade processes. Outsourcing allows them to move from a fixed cost model to a variable cost model, which tends to be particularly popular for smaller firms, but it is now becoming attractive for a broader swathe of banks," says Alan Cameron, head of relationship management for international banks and brokers at BNP Paribas Securities Services, also an outsourcing provider.

One example of a large bank that has outsourced its back-office securities processing is Societe Generale Corporate & Investment Banking, which in 2013 became the first client of Accenture Post-Trade Processing, a joint venture between Accenture and Broadridge Financial Solutions to help banks reduce their processing costs and adapt to new regulations and technology.

More recently, Deutsche Bank announced in February that it had entered into a 10-year multi-billion dollar agreement with Hewlett-Packard to modernise the bank's IT environment and reduce related infrastructure costs. HP will provide dedicated data centre services to Deutsche, and the bank plans to upgrade and reduce the number of its IT applications, migrating them onto the HP platform.

Tip of the iceberg?

SocGen and Deutsche Bank may be just the first of many large banks to look to outsourcing as a way of modernising and streamlining their technology to facilitate business growth.

"Everyone is struggling with cost as a result of regulation, and some of the big universal banks have been very proactive in offshoring headcount to low-cost locations. But the average age of securities processing systems in Europe is in excess of 18 years and the cost of upgrading them is just prohibitive, so there is a major focus on outsourcing," says Rob Scott, head of custody and collateral solutions at Commerzbank.

While the increase in costs might be a significant driver of any move towards outsourcing, the complexity of meeting jurisdictional or market-specific requirements using in-house technology also plays its part.

"Outsourcing used to be all about cost, and that is still a large part of the equation, but banks are also considering how they can access the people, expertise and technology to comply with complex requirements if they want to move into new products or markets. It can be a risk to the business to do that without any outside help," says Lehner of BNY Mellon Technology Solutions.

Whether or not banks opt for outsourcing as a means of modernising their technology and gaining efficiencies in a cash-strapped environment, there will be no escape from the impact of regulation this year.

"For the next three to four years, we will see two major trends," says Scott. "Banks will be redefining their strategies, which may include pulling out of some business, and then looking at better ways of managing service provision, whether through outsourcing or other strategic partnerships." ■

> **There has to be an element of flexibility built into business models so that they can address changing requirements.**
>
> **John Lehner,** chief executive, BNY Mellon Technology Solutions

The return of relationship banking

Knowing your customer is much more than a regulatory requirement; it's a business imperative.

We have fewer customers than we used to have, but we go much deeper with them.

Michael Cho, head of global financial institutions compliance, Wells Fargo

Rigorous due-diligence requirements can be a "significant impediment" to the bank-to-bank relationships that underpin global trade, says the Asian Development Bank's 'ADB Trade Finance Gap, Growth, and Jobs Survey' (ADB Brief no. 25) of December 2014. Compliance with today's anti-money laundering (AML) and know-your-customer (KYC) rules can be "the driver behind cancelled relationships," the survey continues.

"I don't think anyone's saying that financial institutions shouldn't improve their AML/KYC processes, but there are unintended consequences," says Steven Beck, head of trade finance, Asian Development Bank. So how should banks most effectively conduct their correspondent and other key banking relationships, given the in-depth and ongoing due diligence that they must apply?

In the current regulatory and geo-political climate, perhaps the answer is this simple: a customer worth knowing will quickly recognise the potential and actual benefits to such a deep investigative dialogue. Michael Cho, head of global financial institutions compliance, Wells Fargo, says, "The need for enhanced due diligence is not just a regulatory expectation any more, but something that the banks have truly come to appreciate."

For the larger US banks, as Cho goes on to explain, the ongoing tightening of rules on financial crime compliance has been a key regulatory theme for more than a decade. For the smaller firms with which those major banks have relationships, or those in less regulated jurisdictions, awareness levels are lower. "At first, the need to go out and ask a lot more questions was met with some resistance," says Cho. "Going out and truly knowing your customer means knowing a lot more today than just asking about their tools, their monitoring, their staffing, their governance. It becomes a matter of: do we know their customers' customers and their transactions and what risks their products go through?"

Taking a deep dive

Mark Gem, chief compliance officer at international central securities depository Clearstream, agrees that the need to understand one's own business and that of clients at a deeper level gives a different perspective: "Compliance forces you to ask very basic questions about the business model that in other roles, you just take for granted." But this can be a valuable experience suggests James Freis, chief compliance officer for Deutsche Börse Group (Clearstream's parent). "More so than ever before, banks need to understand about the source of a payment, who the customers are that are involved in the payment, and what is the type of activity that is behind the payment," he says.

There is scope for much deeper understanding between counterparties here. Cho continues, "Knowledge share is much better. One thing we've tried to focus on is doing business with people who believe what we believe, in terms of who they will and won't bank, and the controls they use." But this is not a matter of scale. "It doesn't mean that we will only do business with large banks, or banks that are the same size as us, but from a risk-appetite perspective, does a bank share our beliefs? If they don't, that may be okay, but it's going to take a lot more effort and cost on our part," Cho explains.

Does this imply that there might be regional differences in banks' approaches to KYC/AML? How do extra-territoriality concerns alter the responsibility of banks? "You do have to adapt regionally," says Cho. "Making sure that you have good understanding of local laws and local compliance, having a local legal team involved, is really important. The rules vary country by country, so you have to adjust country by country."

A burden on growth?

For the ADB's Beck, a key issue is the impact of financial crime compliance efforts on economic growth, particularly in emerging markets where information – and significant deal flow – may not be readily available. "A financial institution operating in multiple jurisdictions and having to spend a lot of money on due diligence, with a number of relationships in smaller markets that don't necessarily justify that cost, might be inclined to pull out of markets entirely. In a disproportionate way, this is damaging emerging markets," says Beck. On the one hand, central banks are working to stimulate economic growth via various forms of quantitative easing initiatives delivered through banks, he notes, while on the other, the same central banks and governments are unintentionally "impeding" banks' ability to deliver more liquidity into the market by adding to their regulatory burdens.

A financial institution with relationships in smaller markets that don't necessarily justify that cost might be inclined to pull out entirely.

Steven Beck, head of trade finance, Asian Development Bank

But if economic growth implies opportunity, just as an emerging market offers the prospect of greater deal flow in future, perhaps the appropriate long-term strategy is to engage – with correspondent banks, and with markets, and with the discussion itself. Commenting further on the stimulation/regulation balance, Beck says: "It's a difficult question as to where the line needs to be drawn. We're having the discussion to some extent, but it needs to come to the fore."

And in the meantime, what is the safe approach to due diligence?

"We should not lose sight of what KYC actually means – that you know your customer," says Clearstream's Gem. "If the relationship is deep and mutually beneficial, then the challenge will be simply evidencing how well you know your customer. If it's shallow and unilateral, you're going to have to invest in acquiring that knowledge from people who have no real incentive to give you what you need." Key word: relationship. Gems notes that senior relationship managers tend to find KYC easier than do their juniors. "If you are entertaining a relationship with a business partner as an equal, you find yourself naturally asking curious questions about their business," he adds.

If the relationship is deep and mutually beneficial, then the challenge will be simply evidencing how well you know your customer.

Mark Gem, chief compliance officer, Clearstream

Good for business

The safe approach to due diligence is to know your customer – but the safest approach to doing that is by nurturing a "deep and mutually beneficial" relationship. Happily, that also turns out to be the cost-effective approach because both sides will tend to have an incentive to share information. Gem suggests a positive change in tone. "Relationships are definitely more selective, there's no question about that, and I would like to think that they are deeper and richer," he says. On this point, Freis concurs: "Banks are being much more careful about choosing the relationships in which they want to be involved." Perhaps summing up the post-crisis zeitgeist, Cho says, "We have fewer customers than we used to have, but we go much deeper with them."

Knowing our clients is more than a regulatory requirement – a business model built on doing business with complete strangers contains greater, possibly unacceptable risks. But if it is to be meaningful, the KYC obligation needs to go beyond compliance. "Conduct needs to be seen, if not from an ethical then at least from a behavioural standard, rather than simply a legal standard," Gem observes. ■

Bridging the gap to real-time payments

Australia's New Payments Platform could provide the blueprint for retail payment transformation.

> NPP will be good for the Australian economy and good for Australian consumers and businesses.
>
> **Paul Lahiff,** chair, New Payments Platform

In a world where instant messaging, streaming movies and same-day delivery are commonplace, it seems almost archaic that most countries' retail payment systems can take hours or even days to finalise money transfers. In most places around the world this remains the case though increasingly banks are under pressure from regulators, customers, merchants and tech-savvy competitors to up their game and move towards real-time payments.

While the average consumer might be forgiven for thinking payments are already a real-time activity (you can swipe your credit or debit card and receive goods instantly), the reality is that beneficiaries are often left waiting for their money, something which is increasingly viewed as unacceptable in the digital age. A growing number of regulators are demanding banks upgrade their payments technology or agreements in order to support immediate fund transfers, anywhere and anytime. Simultaneously, banks are looking rather out of date compared to many new entrants to the payments space, with the likes of PayPal, Google and Amazon all offering instant transfers around the clock.

Marie-Christine Diaz, senior solution manager at SWIFT, sums up the main problems facing banks: "Existing payments systems have been in place for a long time and aren't really compatible with the rapid payments needed to support real-time or a 24/7 availability. When you speed up the transfer and extend the service availability it puts pressure on many of the underlying processes, such as identifying suspicious transactions or systems maintenance."

A complex undertaking

The complexity and costs involved in redesigning bank payment systems and operations from the ground up, while also being mindful of regulatory and legal obligations placed on banks, explain why even today, only a handful of countries have completed the transition to real-time payments.

Currently just 18 countries offer real-time retail payments, though they include some very large markets such as China, India and the UK, while 12 more are currently planning or developing their real-time payment systems, including the United States and the euro-zone.

SWIFT has entered the fray hoping to leverage banks' existing SWIFT messaging infrastructure and capabilities to help national banking systems support real-time retail payments, and is currently working with Australian banks.

The Reserve Bank of Australia (RBA) has acted as the main catalyst for the change, by publishing a report which identified gaps in the country's retail payment system, including timeliness, availability and data capacity for electronic payments. But there are also long-term strategic reasons for Australian banks to upgrade their payments infrastructures.

"Australian payments have become increasingly electronic and market-driven, and our existing payment methods have served us well," says Paul Lahiff, chair of New Payments Platform (NPP), Australia's new payment infrastructure provider. "We are embracing electronic payment methods – cards (particularly contactless or 'wave and pay' technology), BPAY, direct entry – and new technologies such as smartphones. Our world has become faster and the payments industry is responding. We need to upgrade the basic infrastructure so this evolution can continue. It is a long-term investment in supporting the Australia's economic future."

Linking the past, present and future

The project consists of four major technology components – provided by SWIFT and the RBA to NPPCo, the new Australian company that will own the NPP. The components will come together to enable all banks in Australia to clear and settle retail payments in real time:

- the private SWIFT network, which includes a domestic messaging channel enabling the exchange of a high volume of messages at low latency with data integrity;
- the SWIFT workflow engine which acts as a payment gateway, handling clearing and settlement flows in a lean way, message by message;
- an in-country addressing database, which allows payments to be routed to the beneficiary based on personal identifiers such as a mobile phone number or, e-mail address; and
- a fast settlement service (FSS) developed and operated by the RBA, which settles payments individually with finality and guarantees the payment irrevocability, on a 24/7 basis.

In addition to these technologies, the NPP uses message standards based on ISO 20022 to transfer richer purchase information, giving banks opportunities to develop value added services beyond the payment itself. Using ISO 20022 will mean the implementation is simpler and cheaper as most existing financial infrastructure and software today is based on or interoperable with this global message standard framework. Significantly, this should overcome any potential difficulties in communication and data transfer between parts of the Australian banking system built on modern technologies and standards and those still using legacy systems.

SWIFT hopes the Australian model will provide an example of how domestic banking systems can move to real-time retail payments relatively painlessly.

"While the rules and guidelines can vary from country to country, many of the solutions will be similar. We want our components to NPP to provide a basis for extending similar systems to other parts of the world," explains Carlo Palmers, senior market manager, SWIFT. "While banks differentiate with each other in terms of end-user services, they do not want to have to start from square one each time for their underlying payment infrastructure," adds Diaz.

> While the rules and guidelines can vary from country to country, many of the solutions will be similar.
>
> **Carlo Palmers,** senior market manager, SWIFT

Business benefits

Given the high costs and major infrastructure development required to support real-time payments, how will projects like NPP deliver real benefits to bank customers and the wider economy? "The NPP is the payments equivalent of a new highway or a new bridge," says Lahiff. "Such things are more than nice-to-haves – they're about supporting economic development. The NPP will deliver a new national infrastructure equipped to meet the evolving payments needs of Australians. This will be good for the Australian economy – accelerating the circulation of money through the economy – and good for Australian consumers and businesses – enabling new safe options for them to make payments faster."

Immediate payments should be particularly beneficial for small businesses, many of which have minimal credit facilities. Getting payments just in time means they can put that money to work again more quickly to expand their business, honour their liabilities and limit their stocks. With many countries around the world keen to strengthen their small and medium-sized enterprises, it seems inevitable that they will seek to remove obstacles such as out-dated payments infrastructure through regulation.

SWIFT expects the demand for real-time payments systems to increase and hopes its experience gained working in Australia and its global role in handling payments messaging and setting industry standards will enable it to bring similar projects to other parts of the world.

For Australia's NPP, the design phase is entering its final stages, with full details due in July 2015. However, the scale of the project means other aspects of the NPP have already begun, including industry test plans, connectivity and the development of new rules and operating procedures. The NPP is due to go live in the second half of 2017, still some two years away, highlighting an ambitious time-to-market never previously achieving when making the generational shift to real-time payments. ■

Get ready for Sibos

SINGAPORE
12 - 15 October 2015

It gives me great pleasure to introduce Sibos 2015 Singapore.

The Lion City, from the Sanskrit words simha (lion) and pura (city), offers an appealing blend of the vibrant bustle of a modern metropolis and the rich cultural heritage of Chinese, Malay and Indian influences. With a population of 5.4 million on an area of just 716.1 square km over 63 islands, Singapore is the second most densely populated area in the world after Monaco, yet remains exceptionally clean and safe, with a wide range of parks and four nature reserves.

Singapore has long been seen as a hub for digital innovation and is also a gateway to the APAC and ASEAN regions. Rated by the World Bank as the easiest place in the world to do business, as a host city it provides an exceptional venue for Sibos in 2015.

Sibos brings the global financial services and technology communities together. Last year's event in the great city of Boston, Massachusetts, saw more than 7,000 delegates from 144 countries attending. Over 200 sessions were held with 400 plus speakers, creating a superb platform from which to continue the industry debate at Sibos 2015 Singapore. And that's not all. Much like its host city, Sibos continues to innovate. We will be introducing a number of new initiatives throughout the conference and exhibition, designed to maximise your engagement and enjoyment during the week.

As well as hosting Sibos, 2015 has special significance for all Singaporeans, as the nation celebrates its 50th year of independence. We look forward to bringing you a Sibos that reinforces its position as the world's premier financial services event and is truly inclusive and unforgettable.

We look forward to welcoming you in Singapore.

Sven Bossu
Head of Sibos

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Following in the footsteps of giants

Can Asia's major financial centres profit from second mover advantage when implementing G-20 derivatives market reforms?

When the political leaders and central bankers of the Group of 20 identified the OTC derivatives markets as a major source of systemic risk in 2009, they gave the industry until the end of 2012 to implement key structural reforms. In the event, they were disappointed. Even the US, by far the world's biggest OTC derivatives market, struggled to introduce trade reporting, central clearing and electronic trading platforms in time. Other major markets – such as Japan and Europe – came next but experienced troubles along the way. Europe's 'big bang' approach to the introduction of central reporting in February 2014 caught market participants unprepared, resulting in many incomplete and unmatched trades in the months that followed. Japan implemented reporting before the global framework for legal entity identifiers – codes that identify individual counterparts to transactions – had been finalised and latterly had to re-jig its reporting framework to accommodate them.

Reporting requirements have increased the need to improve and automate matching and confirmation capabilities.

Simona Catanescu, director of post-trade markets, Asia-Pacific, SWIFT

Ex-Japan, Asia's other affected derivatives markets largely fall into two very different categories. First, mature international finance hubs such as Australia, Hong Kong and Singapore are closely bound by European and US precedent and have largely implemented trade reporting, but they are still engaged in market consultation exercises on central clearing. Fast-growing economies, typically with capital controls and less outward-looking financial markets, notably China and India, have also started reporting, but have already pushed ahead with central clearing of major asset classes.

Asia conducts a relatively small share of global OTC derivatives trading, roughly 8%, of which Japan accounts for around half. This means regulators in Asian markets have felt less pressure to rush into reforms – because the risks they present to the global financial system are lower than Europe and the US. "But it's also worth remembering that many Asian jurisdictions were not starting from the same point as Europe and US in terms of underlying legislation. Much more 'spadework' was required to pass legislation to allow for trade reporting and the creation of a trade repository, for example," observes Rebecca Terner Lentchner, head of policy and regulatory affairs for the Asia Securities Industry & Financial Markets Association (ASIFMA).

Balancing act

As such, implementing G-20 reforms has been a slow and painstaking business. Particularly for Asia's international finance hubs, reforming their OTC derivatives markets in the shadow of Europe and the US has required a balancing act. On the one hand, Australia, Hong Kong and Singapore have followed in the footsteps of their western counterparts – learning from their mistakes and building on their successes. On the other, market participants and infrastructure operators in these hubs have had to comply very precisely with European and US rules to continue trading on a global scale.

In terms of reporting, Australia, Hong Kong and Singapore have eschewed a 'big bang' approach and have introduced requirements gradually by asset class and by type and size of firm. But they have coordinated to ensure their reporting requirements are as similar as possible to the rules with which global market participants have already complied in Europe and the US. The Monetary Authority of Singapore, for example, introduced reporting requirements for OTC derivatives starting with interest rate swaps and credit default swaps (relatively low-volume instruments in Singapore), before mandating centralised reporting in the much bigger non-deliverable forward market.

Many Asian jurisdictions were not starting from the same point as Europe and US in terms of underlying legislation.

Rebecca Terner Lentchner, head of policy and regulatory affairs, ASIFMA

Simona Catanescu, director of post-trade markets, Asia-Pacific at SWIFT, says the staggered introduction of reporting requirements has led to growing levels of interest among market participants in post-trade automation. "Firms have been evaluating the solutions and vendors over the last 18 months. Reporting requirements have increased the need to improve and automate matching and confirmation capabilities."

Automation at the confirmation and matching stage helps the reporting process because it can provide market participants with greater certainty that they are sending clean transaction data to trade repositories that meets the regulator's requirements. "There is a long tail of small firms that still confirm trades by fax or voice. For many larger counterparties, it is more cost-effective to pay for the installation of a terminal at such firms than to allow them to maintain manual confirmation. These terminals allow smaller firms to generate a SWIFT confirmation message at the touch of a button, which its larger

Following in the footsteps of giants

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Costs will come back down again over time, if firms are permitted to offer cross-margining across different instruments.

John Warren, head of business development and post-trade processing, APAC, SunGard

counterparty can then process," says Catanescu. "From an internal perspective, those larger firms will also be looking to streamline and consolidate their matching capabilities, perhaps reducing multiple legacy systems involved in the process to just one or two."

Taking control

While a number of asset managers in Europe responded to the introduction of OTC derivatives reporting requirements by delegating responsibility to their broking counterparts, a number of factors have resulted in a different outcome in Asia. "Some brokers are happy to provide this as part of their competitive service offerings, but others worry about the liability aspect of reporting on behalf of clients," says Keith Noyes, regional director, Asia Pacific at the International Swaps and Derivatives Association.

In Singapore, SWIFT's Catanescu observes that buy-side firms are increasingly keen to exert greater control over their efforts to meet regulatory requirements, rather than delegate them to brokers, which may in any case only have a partial view of their derivatives activities. "Asset managers are working with vendors and IT boutiques to ensure compliance," she says.

In respect of central clearing, the relationship between east and west is more complex. While Asia's international finance hubs continue consulting on their frameworks for introducing central clearing, entities regulated in those jurisdictions have had to seek additional regulatory approvals in Europe and the US to do business with counterparts registered in those markets.

The central counterparties (CCPs) of the incumbent exchange groups of Australia, Hong Kong and Singapore have invested to gain qualified CCP (QCCP) status under the principles for financial market infrastructures laid out by the Committee on Payment and Settlement Systems and the International Organization of Securities, but that doesn't guarantee the right to compete globally.

To be recognised in Europe as a QCCP, foreign CCPs must apply for recognition to the European Securities and Markets Authority (ESMA), which involves determining country equivalence by the European Commission, an assessment of compliance with regulations and law that are 'equivalent' to the European Market Infrastructure Regulation, and the signing of a MoU between ESMA and the local competent regulatory authority. Failure to be recognised as a QCCP results in higher capital charges for users under Capital Requirements Directive IV.

"Ceding national law to other overseas authorities never sits well with any regulator. But financial markets regulators in the Asia-Pacific region are co-operative and are not in the business of regulatory arbitrage," says Terner Lentchner.

Costs and opportunities

Both ESMA and the US Commodity Futures Trading Commission have taken further steps to recognise the jurisdictions of major Asia financial hubs as equivalent in recent months, thereby easing the course of international derivatives trading relationships in the post-G20 environment.

But the emerging OTC derivatives trading environment is still far from complete, as Australia, Hong Kong, Singapore and others look to finalise their rules and timetable for central clearing. According to John Warren, head of business development and post-trade processing, APAC, SunGard, the reforms mean both costs and opportunities for brokers operating in the region. "Bilateral derivatives users understood the prevailing pricing structure, but mandated central clearing will increase costs. The increase in the number of CCPs clearing derivatives in Asia could have a negative impact from a liquidity and collateral perspective. But costs will come back down again over time, if firms are permitted to offer cross-margining across different instruments."

Singapore in particular could be a centre for competition and fragmentation, with the Intercontinental Exchange planning to launch ICE Clear Singapore in the first half of the year, and Frankfurt-based derivatives exchange Eurex hoping to establish a clearing house in the Lion City in 2016. Increasing competition could lead to an aggressive approach among CCPs to offering cross-margining opportunities to win market share, subject to regulatory approval.

Large or small, east or west, one of the major challenges for entities implementing the G-20's derivatives reforms programmes has been the requirement to comply with other planks of the post-crisis settlement in parallel, specifically Basel III. But for SunGard's Warren, the increased demand for collateral, driven in part by tougher risk capital requirements for banks under Basel, is creating opportunities too. "Banks must develop a cross-asset view of clients, providing a more cost-effective use of client assets across the full range of transactions. But firms in this region are different stages: those that have a more accurate view of their collateral due to projects conducted over the last 12-18 months are now focusing on optimisation. The opportunities differ across Asia, with the vanilla collateral eligible in Singapore offering less opportunity for optimisation than Japan, where there is a greater mix," he says. ■

Brokers worry about the liability aspect of reporting on behalf of clients.

Keith Noyes, regional director, Asia Pacific, ISDA

Sending out a global message

Banks, corporates and vendors are working together to override local payment difficulties.

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Companies need to move to a more flexible infrastructure.

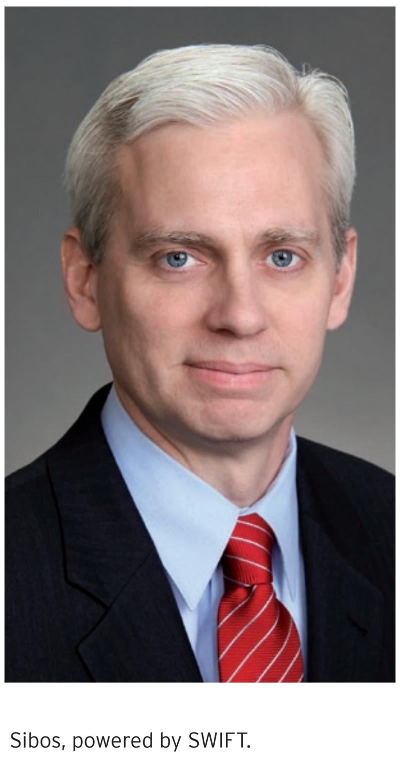
Fiona Hamilton, vice president, EMEA and Asia, Volante Technologies

A common global implementation of anything sounds like a proposition fraught with difficulty from the outset. We may live in an increasingly globalised world where business flows freely across national borders, yet most countries still seem to pride themselves on doing certain things differently. Voltage requirements and railway gauges still vary between countries, and domestic payment infrastructures continue to support a wide range of messaging formats. For large, multinational companies trying to do business with multiple banks and counterparts across the world, the lack of a globally standardised messaging format for payments remains a major pain point.

“It's a massive headache,” explains Fiona Hamilton, vice president, EMEA and Asia for financial messaging and data integration solutions provider Volante Technologies, referring to the host-to-host links and interfaces that large multinationals have had to maintain to communicate with their payment banks. “Companies need to move to a more flexible infrastructure so every time they choose to change payment banks they know it's not going to be a huge multi-year project.”

Help may be at hand with the ISO 20022 messaging framework starting to enjoy widespread adoption by banks, corporates and payment market infrastructures as the common XML standard. In the euro-zone, the European Commission's end-date regulation for the Single Euro Payments Area (SEPA) stipulated that corporates sending payments in the region must adopt the ISO 20022 XML standard. “SEPA changed the goal posts as a lot of the world's largest corporates had to move quickly to ISO 20022,” says Hamilton. Elsewhere, Brazil and China have announced support for ISO 20022 XML, and it is also the basis for Russia's new debit card scheme.

Yet, like any standard, ISO 20022 is open to interpretation and has the potential to support many different processes and practices. That is where the Common Global Implementation Market Practice group (CGI-MP) comes in. The group was initially established in 2009 by large multi-banked corporates which boasted highly centralised treasury operations but wanted to rationalise the number of messaging formats they had to deal with on a global basis. “Now within CGI-MP you see a much broader footprint of corporates



that have grown in size and global reach, and really need to standardise their banking interfaces,” says Tom Durkin, global head of integrated channels at Bank of America Merrill Lynch, a founding member of CGI-MP.

Democracy in action

CGI-MP is facilitated by SWIFT and comprises approximately 130 members, including more than 40 financial institutions and around 80 non-banks including corporates like Nike, IKEA, General Electric, Merck and vendors such as SAP, Volante and SunGard. CGI-MP's main remit is to broker agreement between banks, end-users and vendors through consultation and collaboration on common implementation templates for ISO 20022 financial messages in the payments domain. “We want to maintain the integrity of the standard and avoid fragmentation,” says Harri Rantanen, manager, formats and standards at SEB Merchant Banking, and co-convenor of the CGI-MP.

CGI-MP's current scope is divided into five working groups: credit transfer & payment status; cash management reporting; direct debit and mandates; electronic bank account management; and bank services billing. The working groups develop harmonisation guidelines for each message incorporating feedback from members. Four times a year, CGI-MP plenaries vote whether to accept these guidelines. “It is a democratic approach,” says Rantanen. “We have dedicated people working on the specific aspects of the message and then we have the common approach at the plenary level.”

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Harri Rantanen, manager, formats and standards, SEB Merchant Banking, and co-convenor, CGI-MP

One of CGI-MP's success stories, says Rantanen, is the significant progress made on messaging guidelines for credit transfers, with tens of different country-specific definitions included as an appendix to the base document. Whilst credit transfers are relatively straightforward, agreeing base harmonisation guidelines for more other payment messages, such as direct debits, could prove more challenging. “When you start talking about direct debit mandate management many countries still use paper mandates,” says David Blair, who has 25 years of management and treasury experience in global companies such as Nokia and Huawei, and has followed the CGI-MP closely since its inception. “That is not a CGI-MP problem, but it will require changes to market infrastructure.”

Bank services billing could also be an area where CGI-MP finds it difficult to build consensus. “CGI-MP will create the expectation that all banks will be able to do bank services billing because there is a standard,” he explains. But there is often little transparency around how banks bill their customers, he adds, and some may prefer to keep it that way.

Local nuances

Although CGI-MP is focused on harmonising the way the ISO 20022 messaging format is used in payments, Hamilton says domestic nuances are unlikely to disappear altogether. “It is the role of the market practice group to help corporates and banks understand these nuances,” she says. “As long as they know what they need to do in terms of the formatting and content of the message, then they can build a more flexible infrastructure that allows them to send a payment to a country without having to hard code these nuances into back-end processes.”

Rantanen says CGI-MP documentation is referred to in many corporate request for proposals as a requirement and measurement of the banks' and ERP vendors' ability to support the globally harmonised use of ISO 20022 in corporate-to-bank integration. It also forms the basis of many countries' efforts to define and document national and regional guidelines for the same purposes. “These guidelines should not be in conflict with those of the CGI-MP, otherwise the global use is jeopardised from the corporate point-of-view,” he explains.

Blair believes that the CGI-MP, under the auspices of SWIFT, is corporates' best hope of achieving standardisation. “Corporates benefit from using the same messaging across different banks and vendors have less complexity to handle,” he says. But more corporates should get involved, he adds, to ensure their voice is heard. “There's clearly a need in the corporate market place for more education and we want to leverage greater acceptance both on the bank and the vendor side,” says Durkin of BofAML.

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There's clearly a need in the corporate market place for more education.

Tom Durkin, global head of integrated channels, Bank of America Merrill Lynch

With so many varied and competing interests, reaching consensus between all parties in CGI-MP can be difficult at times. However, Rantanen says it still manages to get things done. “In the 25 years I've worked in the area of standards, I haven't experienced this kind of collaboration. Banks and vendors can still compete on service but not on ISO 20022 implementation.”

Participation in CGI-MP is voluntary and its shared benefits are sometimes hard to quantify for individual participants, making its work vulnerable at a time when banks and corporates must contend with heightened regulatory demands. “How do you continue to justify the importance of this [CGI-MP] when you're competing for investment dollars with regulatory-driven initiatives?” asks Durkin. “There needs to be a more cohesive message as to the importance of initiatives like this.” ■

Community challenge

ISO 20022 has caused a paradigm shift in how standards are adopted in securities and payments but the challenge of balancing flexibility with consistency remains.

As a standard, ISO 20022 has made its strongest impact on interactions between market infrastructures and their communities. "There is increasing evidence that ISO 20022 is being adopted for transformational projects," says Stephen Lindsay, head of standards, SWIFT. He identifies the Single Europe Payments Areas as the most successful and far-reaching ISO 20022 project to date, where 28 domestic legacy formats, some of which were getting a little creaky, were replaced with a single format for the whole of Europe for credit transfers. "Often," says Lindsay, "when introducing new standards, you don't necessarily solve the problem of legacy standards; you just introduce one more. We've now shown in the payments world that you can actually eliminate legacy standards once and for all by the use of ISO 20022, representing a real simplification of the system."

On the payments side, Lindsay also points to a move towards real-time retail payments. There are numerous schemes, either live or in preparation, moving domestic markets towards real time and the vast majority of those are adopting ISO 20022 as their standard.

> **We've now shown that you can eliminate legacy standards once and for all.**
>
> **Stephen Lindsay,** head of standards, SWIFT

Regulatory pipeline

For the securities industry, the attractions of ISO 20022 are, perhaps, less immediate. Many securities market participants and infrastructure operators went through a major upgrade to ISO 15022 relatively recently, achieving measurable improvement in straight-through processing (STP) rates in the process. In addition, says Edwin De Pauw, director and head of product management for Europe at international central securities depository Euroclear, the securities industry is confronting a regulatory pipeline that is likely to keep systems development resources within individual firms occupied for the near future. "ISO 15022 allowed the core back-office processes to achieve industry-specific objectives. Furthermore, the business case for moving to ISO 20022 was less obvious than in the payment industry where they were working on an older standard."

Nevertheless, says De Pauw, the promise of ISO 20022 remains compelling for the securities industry as a whole. "The idea of a standard that would apply across industries and services to provide end-to-end consistency in the messages and in how different business data are defined and formatted is clearly appealing," he says.

He sees the biggest opportunities for ISO 20022 in the securities industry as enabling major infrastructure projects such as TARGET2-Securities – the European Central Bank's cross-border securities settlement system – and in domestic market infrastructure projects, where the standard can be deployed from the outset.

Euroclear itself sees a similar business case in the funds market, which, De Pauw notes, is still significantly fax-based. "Advancing STP in the funds industry now demands a move direct to ISO 20022," says De Pauw. "What we have done with funds is to focus initially on the big players. Once we have a community of big players who represent large volumes, then take-up from the rest of the industry can actually be quite quick," he says.

> **The idea of a standard that would apply across industries and services to provide end-to-end consistency in the messages is clearly appealing.**
>
> **Edwin De Pauw,** director and head of product management, Europe, Euroclear

Keeping everyone onside

Both Lindsay and De Pauw acknowledge that the flexibility of XML-based messaging – a key element of ISO 20022 – is both a strength and a challenge. "In the MT world, it was a bit brutal, but fairly easy to maintain a common discipline," says Lindsay. "Because the MT standard originated in the many-to-many space, it really wouldn't work as a standard if you had different people on different versions at the same time. "

Traditionally, the annual SWIFT standards release in November more or less dictated the pace of adoption. This had the drawback of obliging users to invest in upgrades, regardless of the strength of the business case. It did, however, have the massive advantage of ensuring compatibility between any users on the network.

By contrast, says Lindsay, nearly all ISO 20022 implementations have been market-infrastructure-driven with the possible exception of investment funds. These means it is up to each market infrastructure and its community of users to decide on issues of version and market practice.

"XML messages bring a big advantage in that we don't need to go through the yearly release process to introduce new metadata and new data fields. That benefit certainly needs to be preserved," says De Pauw. "However, the drawback is that the same business objective can be reflected in multiple variants of XML messages." The challenge – across both payments and securities – is therefore in the trade-off between the benefits of flexibility and the benefits of a standard remaining universal.

"What we are seeing now is that global banks who have to engage with an increasing number of market infrastructures, all of them implementing ISO 20022, may find each infrastructure operator doing things their own way with their own release cycle and their own version management," says Lindsay.

He notes that the SWIFT's standards team is actively engaging with market infrastructures and other potential users of ISO 20022 to establish a consensus on how to balance flexibility with consistency. "We started last year with a meeting at Sibos for about 20 market infrastructures, where we discussed this question," says Lindsay. "There was enthusiasm around the room for SWIFT to take a coordinating role in addressing the issue."

Exploiting MyStandards

De Pauw sees the starting point of the exercise as exploiting the benefits of MyStandards, SWIFT's collaborative web-based platform. "We could document the different message content used from each infrastructure deployment to compare the different usages of ISO 20022 in the same message field. In doing so, we highlight where different routes have been taken for the same business objective," he comments.

Lindsay agrees. "The first thing we would want to do is to make sure that every market infrastructure had a presence on MyStandards, where they would publish both the versions of the messages that they use now and in the future," he says. "Ultimately, the notion that you have a completely harmonised standards landscape with data flowing seamlessly from one business process to another is a really desirable outcome." By Sibos 2015 in Singapore, Lindsay hopes to be able to point to significant progress in achieving buy-in for this approach, as a basis for further engagement with market infrastructures and their users. ■

Solutions emerge to collateral troubles

Standardisation and automation are at the heart of the industry's response to the collateral challenge.

There are two views on the securities industry's progress on collateral management: 'we've come a long way'; and 'there is still a lot of work to be done'. Despite the contradiction, both statements ring true.

Looking at how the market has evolved to make more efficient use of scarce collateral in the evolving post-crisis regulatory and macro-economic environment, there are causes for optimism.

Market participants have a much better understanding of the importance of real-time collateral management. The industry is rife with collaboration (notably among market infrastructure operators), and technology providers are scrambling to provide solutions to equip clients with the necessary tools to navigate through the collateral maze, more quickly and more efficiently.

"Firms, solution providers and outsourcers have been doing a lot over the last couple of years to strengthen their capabilities to be able to support efficient use of collateral and efficient operations to support more frequent calls," says Ted Leveroni, executive director of strategy and buy-side relations at the Depository Trust & Clearing Corporation (DTCC), a US post-trade utility. "That work is certainly on-going, but they have come a long way."

Call and response

Collateral management has become a central issue in the securities markets for a number of reasons, and is affecting market participants in different ways. Basel III's new capital and liquidity requirements oblige banks to hold more high-quality assets. A wider range of transaction types must be collateralised than pre-crisis, to minimise systemic risk. And central clearing obligations for OTC derivatives trades are forcing many investment managers to stump up collateral to meet regular margin calls for the first time.

The industry has responded via a rising number of alliances between market participants and infrastructure providers and widespread innovation from service providers and technology vendors. At the same time, challenges persist. There are, for example, no universal industry standards or best practice guidelines across all the organisations now looking to manage collateral more effectively. Moreover, many legacy processes and systems are still in place. Many large firms have not migrated from a sub-optimal, silo-based approach to collateral management, while many smaller ones rely on manual or semi-manual processes.

Concerns also continue to circulate about the scarcity of high-quality collateral, such as cash or AAA-rated government bonds, required to meet regulatory reforms which are widening the use of collateral. This supply and demand mismatch has made real-time collateral management more crucial to businesses than ever before. To handle this urgency, collateral management has made the transition from back-office administrative function to an essential part of trading, liquidity management, credit risk, and market risk processes.

The need for speed

As collateral becomes an integral part of these multiple operations, technological developments are coming to the fore to enable market participants to equip themselves with the most efficient real-time collateral management solutions possible.

Standardisation and automation are being touted as pre-requisites to the industry's ability to adapt to the new environment, helping firms to move more quickly than was necessary when collateral demands were fewer and less time-sensitive. Even the most sophisticated firms cannot carry on as they were.

"The main challenges are the same as they have been for a while in regards to data management and the standardisation of messaging, and the location of collateral," said Andrea More, managing director, collateral management, BNY Mellon Markets Group. "The collateral business is very old to some market players: investment banks and broker-dealers have over 20 years of collateral processes. For them it is a scale and automation game now."

For firms with high volumes of trades, automation is essential to enable collateral to be moved quicker and more frequently. Monitoring, managing and moving collateral via faxes, phones and excel spreadsheets is still commonplace among smaller institutions, but will be insufficient to enable regular users of centrally cleared swaps to meet intra-day margin calls from central counterparties (CCPs), some of which must be answered within hours. Low-volume users, however, may adapt at a slower pace.

"There are still firms using spread sheets and manual process to manage their collateral and there will always be firms that do that, which is fine if their volumes are low," said Leveroni.

Piling on the pressure

The pressure on securities markets participants will intensify this year. A number of Basel III deadlines must be met by banks during 2015, and a new margin regime for non-cleared derivatives transactions is scheduled for introduction in December. Margin requirements for centrally cleared swaps have already been adopted in the US under the Dodd-Frank Act, and similar rules come into force in Europe this year, under the European Market Infrastructure Regulation. Other jurisdictions are following close behind. The cumulative effect will be to increase the frequency with which firms have to move collateral around.

Regardless of the solutions and tools on offer, firms must first review their internal pro-

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>
> **Ted Leveroni,** executive director of strategy and buy-side relations, DTCC

> **If we can't agree on standards to automate collateral communication, we will be stuck with manual processes.**
>
> **Guillaume Boland,** senior marketing manager for securities, SWIFT

SECURITIES

Solutions emerge to collateral troubles

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cesses and workflows. "There are a number of different aspects to collateral automation," says More. "With the automation of collateral calls, you are aiming to reduce headcount and operational capacity, but automating the allocation of collateral involves a different group of individuals working toward a different requirement, i.e. decreasing liquidity windows and understanding when disputes arise relating to collateral posted with counterparties."

While securities market participants must make their own decisions on automating internal processes, help is also at hand from industry-level alliances and initiatives. The DTCC, for example, has collaborated with international central securities depository (ICSD) Euroclear to establish a joint venture, DTCC-Euroclear Global Collateral, through which the firms will deliver a Margin Transit Utility (MTU) and a Collateral Management Utility (CMU).

The MTU, slated for launch before the end of this year, is intended to provide straight-through processing of agreed margin calls, which will enable users to track and monitor their margin and collateral positions, while the CMU will support the mobilisation and allocation of high-grade assets for use as collateral, building on the Euroclear's existing Collateral Highway service.

Clearstream, also an ICSD, is working with securities depositories in Australia, Brazil, Canada, South Africa, and Spain on a project called Liquidity Alliance, which aims to support the movement of collateral by common clients through a more efficient exchange of information between members rather than centralising collateral by account transfer.

Banks are also working closely to accelerate collateral mobility. Goldman Sachs is reported to be leading a group of banks on a project aiming to create a mechanism to standardise the operational and logistical process of exchanging collateral.

> **It is a scale and automation game now.**
>
> **Andrea More,** managing director, collateral management, BNY Mellon Markets Group

Structural barriers

One of the structural barriers to the rapid movement of collateral is the variety of protocols and message standards used in different parts of the collateral management transaction chain.

"It's very hard to track collateral end-to-end when there are so many different message standards involved across the transaction chain. If we can't agree on standards to automate collateral communication, we will be stuck with manual processes," says Guillaume Boland, senior marketing manager for securities at SWIFT.

The ability to track collateral across the transaction chain will make it easier, for example, for an asset manager to quickly identify and recall suitable collateral and post it to a CCP in support of a cleared trade; without it, the asset manager's derivatives clearing costs could be steep.

At present, a buy-side firm might find and send collateral via CSV file -based communication with a broker, which could then use FpML to forward the assets to a CCP, which then sends a FIXML message to a custodian, leading to a SWIFT message being sent to the CSD. At higher volumes, these potential bumps in the road could slow collateral traffic to a standstill.

Increasing adoption of ISO 20022, a messaging framework that integrates with existing formats, can make a big difference to the speed of collateral movements, says Boland, by facilitating the automation and standardisation of communication between market participants on such tasks as collateral proposal, margin calls, dispute resolution and collateral reporting.

Boland reports a strong take-up in recent months by clearing brokers and CCPs of ISO 20022, and expects the standardisation work being conducted by clearing houses and their members to extend to the buy-side, potentially helping them keep tabs on their clients' assets in the new cleared era.

'Dramatic' improvements

The squeeze on collateral has come in stages as new regulatory requirements are put in place. This has made it hard for firms to time their response accurately, but it also means that the need to act has been known for some time. DTCC's Leveroni suggests the industry as a whole is well prepared.

"There has been more collaboration between industry participants over the past year than I have ever seen before," says Leveroni.

"The level of sophistication and automation has increased dramatically. There is a saying 'don't let a good crisis go to waste' and service providers certainly haven't. They have realised that if they have a skillset that can be put to go use they aren't letting that go to waste, rather they have invested and nurtured those resources." ■

INNOTRIBE

Opening the door to glittering prizes

Former winners explain the role of the Innotribe Startup Challenge in their firms' development.

Technology startups face several significant challenges if they want to break into the financial world. Securing the opportunity to pitch to financial institutions is an achievement for small companies with limited resources. Even if the company does get a foot in the door, banks and investment houses are conservative organisations in the main, which rely on rigorous procurement processes to weed out small fry suppliers that may pose risks to operations or reputation.

But for those with the ideas, skills and business models to go the distance, SWIFT is reaching out a helping hand with its Innotribe Startup Challenge. Launched in 2011 by Innotribe – the SWIFT initiative established to encourage collaborative innovation in financial services – the Startup Challenge introduces the products and ideas of start-up and early-stage companies to financial services executives. It is a year-round programme featuring regional showcases – this year in London, Cape Town, Singapore and New York City – where companies can pitch to potential investors and take part in discussions on emerging trends and innovation opportunities in the financial services market. Participants are also helped to refine the way they present their products and companies to investor groups and financial institutions.

The semi-finalists at the regional showcases are chosen by a pool of more than 500 judges from across the financial, technology and investment communities, including a number of SWIFT representatives. The winners from the regional challenge then compete for the Startup Challenge final during Sibos 2015 in Singapore.

The benefit of the challenge lies not only in the entrée to the banking world, but also in drawing the attention of venture capitalists and other early stage finance companies to the winners and finalists.

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>
> **Brian Maccaba,** chief executive, Waratek

Valuable guidance

"We grew so fast immediately after winning the Startup Challenge that we became cash flow positive and no longer needed need external funding," says Robert Bell, executive chairman of KlickEx, which came out as winner of the best startup category in 2013. An independent, New Zealand-based company, KlickEx provides web-based foreign exchange services. The firm brings together buyers and sellers of currencies in a low-cost, fast system aimed at individuals and small- and medium-sized businesses.

Bell says the entire Startup Challenge process, from the day the company started compiling its application right up until the final at Sibos 2013 in Dubai, was "one of the most valuable guidance programmes we've ever undertaken. The quality and diversity of advisers and mentors involved in the Innotribe Startup Challenge is unparalleled in the world of start-up guidance in financial technology. These are people who really understand banking and high-growth banking products."

Within three months of winning the Startup Challenge, KlickEx increased its revenues fivefold, largely based on word of mouth between central banks, says Bell. "I think our growth might have been even more amazing if SWIFT was more aggressive in backing the Challenge."

At present KlickEx is "throttling back" on its growth as it seeks out staff to help roll out its clearing system in new countries, particularly in the Pacific region. Finding people with the right level of expertise is difficult, says Bell.

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INNOTRIBE

Opening the door to glittering prizes

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Seal of approval

For Brian Maccaba, chief executive of Waratek, which won the Innovator category for early-stage firms in 2013: "Being a winner gives us tremendous credibility, which is significant in major financial institutions, particularly in the US and Europe. The Challenge was a fantastic experience for us, particularly as the prize is linked to a specific industry sector; it meant that banks were willing to talk to us because the SWIFT community had given us an award." In the same year, Waratek was named a 'Cool Vendor' by Gartner.

Based in Dublin, Waratek makes Java enterprise applications more secure and easier to manage. The Waratek Cloud Virtual Machine enables organisations to deploy multiple Java apps on a single server within cloud or data centre environments. The company is backed by 50 international investors, the largest being Mangrove Capital Partners, a leading venture capital firm.

In 2014, Singapore-based MatchMove won the Innovator category. The company's games, social networking and 'gamification' cloud-based platform is designed to help online businesses to increase revenues and user engagement. The secure and customisable platform can be rapidly deployed to offer full featured social networking, monetisation and e-commerce options, often in less than two weeks.

CEO Shailesh Naik first heard about the Innotribe Startup Challenge in online discussion platforms and magazines. While he says the company faces "the usual difficulties in finding the right strategic partner" for funding, the financial technology area is "hot" and the company has a proven team. "Located in a growth region like Asia and also with a business model that increases growth prospects means we were very fortunate to be oversubscribed three times during our last round," he says. Winning the Challenge helped in part because banks are very aware of Sibos and the Innotribe brand. "Winning the Challenge created comfort and credibility when we were meeting investors and banks for the first time," he says.

> **Innotribe is a high profile, credible discovery platform for global innovators.**
>
> **Shailesh Naik,** CEO, MatchMove

"Just do it"

Naik says firms looking to break into the financial services market should not think twice about applying to be part of the Startup Challenge. "Innotribe is a high profile, credible discovery platform for global innovators, and the access to other startups, great coaching and global visibility are extremely valuable: just do it."

His thoughts are echoed by other winners. Says Maccaba: "Winning the Challenge was one of the endorsing factors for us when we were raising funds. Mainstream financial institutions are a conservative group and our product is generic and not specifically targeted at the financial industry. Winning this award really helped to demonstrate to financial institutions just how innovative our solution is."

For KlickEx's Bell, the Challenge is a must for start-up companies with good ideas. "The way the world is moving at the moment means that financial services is an amazing and interesting area of innovation. If you have a viable minimum product I would say give it a go and enter the Startup Challenge. SWIFT will help you to connect to financial institutions and give you a platform to explain how your product can be used in their community." ■

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