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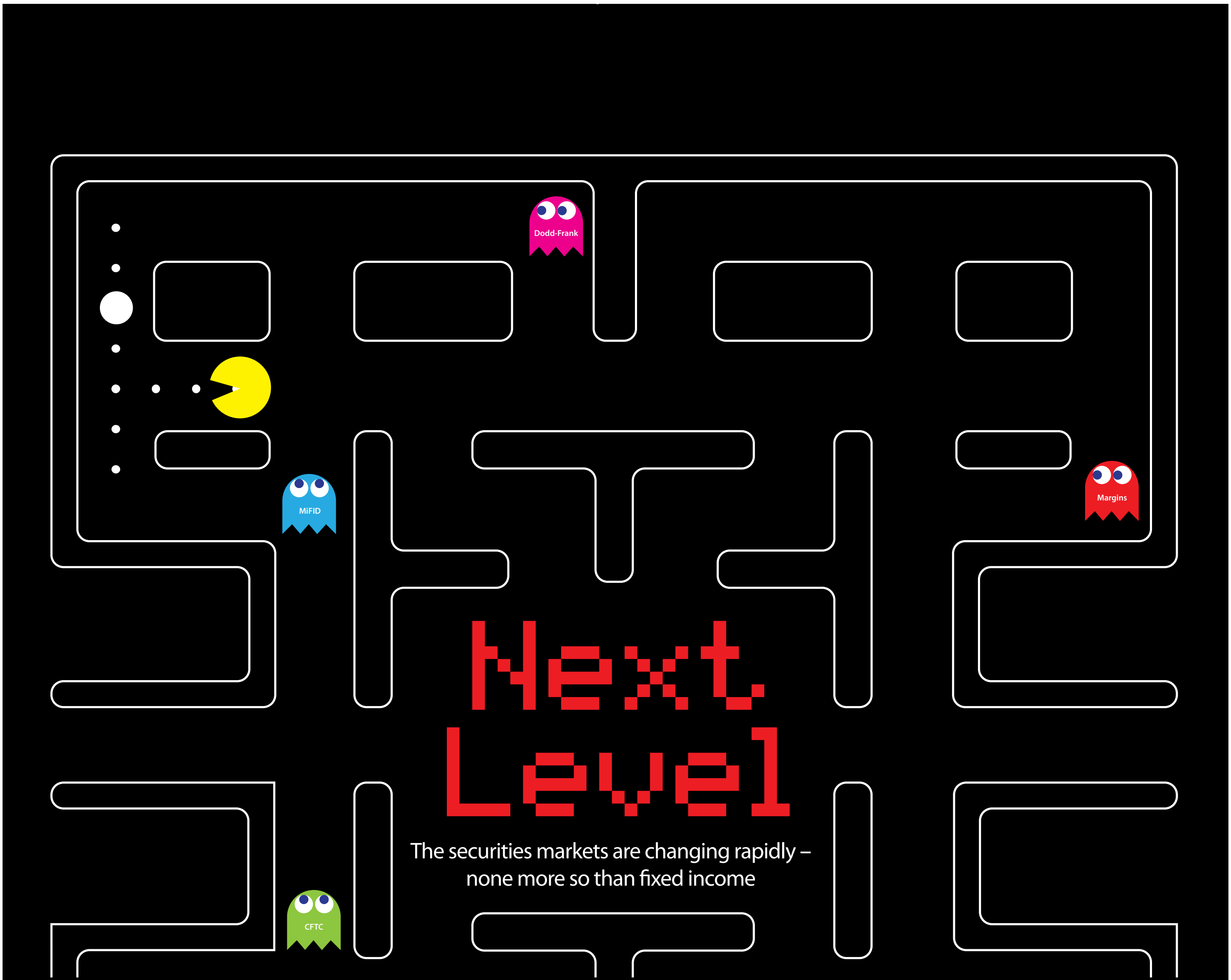
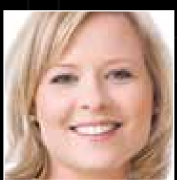


Next Level

The securities markets are changing rapidly – none more so than fixed income



SEPA: STILL A LONG WAY TO GO

Citi's Ruth Wandhofer says there are new challenges ahead – and old ones that will take years to resolve

THE GATHERING STORM

The balance between capital adequacy and collateral demands from regulators is out of kilter and a cause for concern

STARS OF THE SOUTH

South America´s f inancial markets are dominated by Brazil, but other countries are also developing rapidly

INTERVIEW: THOMAS ZEEB

The chief executive of Six Securities Services outlines the opportunites he sees in Europe's evolving post-trade landscape

CONTENTS


16


26


32

OUTSIDE BACK COVER – REGTECH

The latest edition of the collaboration between *Banking Technology* and JWG examining the technology impact of regulatory compliance looks at what new risk data requirements mean, some good news for fund managers facing AIFMD, potential implementation confusion on RRP standards and how regulators are raising the bar for KYC systems and controls.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Subscription enquiries: Customer Service Dept, Informa UK Ltd, Sheepen Place, Colchester, CO3 3LP. Tel: +44 (0)207 017 5533, Fax: +44 (0)20 7017 4783, Email: telecoms.enquiries@informa.com Annual Subscription: UK £690, Europe €860, US/rest of world $1,235.

Banking Technology is published 10 times a year by Informa Business Information, a trading division of Informa UK Ltd, 37-41 Mortimer Street, London, W1T 3JH, UK.

PRINTER Wyndeham Grange,
Southwick, UK.

ISSN 0266-0865
www.bankingtech.com

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Crossing the divide

A frequent complaint around most editorial offices is the number of "announcements" that are barely-disguised – often blatant, these days – plugs for the senders' products, services or other interests. "Malware worries online bank users" says a vendor of anti-malware software hoping to sell its wares to banks, for instance.

So it is with some trepidation that I start this month's homily, which might easily be construed as promoting the interests of this magazine rather than the interests of its readers. Before we start, then, let me put in a pre-emptive defence: what I'm about to advocate is in all our interests. Really.

For a long time now, there has been something of a *froideur* between financial services IT people and the IT vendors. After decades of employing armies of in-house developers, some institutions have developed an aloofness when it comes to vendors and vendor systems. Maybe the same thing applies in other industries – pharmaceutical people and aerospace, for instance – but I don't think so. It certainly wasn't true a few decades back when I was working in the IT press.

Over the past few years, certainly since the Lehman Brothers event, IT vendors and consultants have been increasingly voluble in pointing out that maybe there are good reasons for banks to look again at the situation. Cost reduction would be one, time to market another. As it happens, these are both things that all companies want, aren't they?

Okay, it is a bit of a stretch to imagine that banks – anyone, for that matter – is going to nod thoughtfully and say, "Yes, Bannister, you're quite right: those IT people who have been helping us go over budget and over deadline for years are just the people we should turn to help us reduce costs and speed time to market. While we're at it, shall we put everything into this Cloud that everyone says is off-limits to the financial services industry?"

Sorry, but yes; yes you should. I know it's not a green field site, and there are innumerable calls on budgets, and impossibly complex interrelated systems issues – not to mention the human toll of the inevitable redundancies.

The thing is, so do lots of the vendors/consultants: they do it all the time, and just sometimes that means they might have picked up some know-how along the way – been there, done that, stood in it.

Not all of them, of course, Even as I write, my inbox is filling up with pre-digested quotes from software companies who have advice for the major UK bank whose smartphone app has fallen over for the third time this week.

The problem is, as my wife often says, "it's all advice and no help". ***BT***

David Bannister, editor

News in FOCUS

Strong growth for supply chain finance

Supply Chain Finance has continued to exhibit strong growth in the last two years, according to research from Demica, which shows average annual growth rates between 30% and 40% at major international banks. Technology will also contribute to the development of the market with the growth of e-invoicing systems seen as a significant market accelerator by the majority of the banking community.

The supply chain finance market is expected to continue to expand strongly to the end of the decade, although the pace of growth will moderate to 20-30% per annum by 2015, and 10% per annum by 2020. Demica's research, conducted amongst global banks and "a qualitative sample" of international corporates, shows a rising demand for this facility and its increasingly significant role in banks' trade finance portfolio.

Survey respondents say that the highest growth of supply chain finance currently originates from the US and Western Europe, in particular the UK and Germany. Eastern Europe, India and China are considered the top three regions with future market potential. The driving forces behind the rapid growth of supply chain finance are: the provision of liquidity to suppliers, working capital optimisation as well as enabling payment discounts and/or lower financing costs for suppliers.

Almost 90% of the bank respondents regard supply chain finance as a need-to-have financial product for corporate buyers, with more than three quarters of them considering it an added-value product. In the medium term, bank financiers expect domestic supply chain finance programmes to become an absolute "must have" for corporates, while intensified competition will standardise and commoditise the domestic service offering. *BT*

Curtains for Europe's Financial Transaction Tax?

EC officials say it's too early to speculate, but opposition to the controversial FFT is gaining ground. Elliott Holley reports

Further uncertainty in European financial markets has been prompted by reports that the European Commission is considering watering down proposals from 11 member states for a Financial Transaction Tax – but any revisions may have to wait until September, following elections in Germany, according to sources close to the subject.

The 'Tobin Tax' was originally intended as a Europe-wide tax that would apply to all 27 member states, set at 0.1% for shares and bonds. However, the measure failed to gain unanimous approval from EU members, prompting a core group of 11 countries – Germany, France, Italy, Spain, Austria, Portugal, Belgium, Estonia, Greece, Slovakia and Slovenia – to push ahead with the proposal.

At the end of last month, Thomson Reuters reported that EC officials are considering reducing the levy to 0.01% - which would mean the tax is likely to generate far less revenue than the approximately €35 billion originally envisaged.

The European Commission refused to confirm to Banking Technology whether the tax will be scaled back to the level reported, stating that it is far too early to speculate as to the outcome of the final negotiations between the 11 countries that have signed up to the EC's financial transaction tax proposal. However, a spokesperson for the Commission did admit that the proposal was unlikely to make its intended 1 January 2014 deadline.

The original purpose of the tax was partly to act as a political tool as European leaders needed to be 'seen to be doing something' about the financial crisis; a tax on financial transactions was supported on the grounds that it would be a means of making the financial services industry pay a fair reparation for cost of the financial crisis it had helped to generate.

However, the tax was thoroughly derided by financial market participants

and major financial institutions such as asset managers, who argued that its cost would simply be passed on to the end consumer rather than paid by the large global banks – and that it might simply further depress lending and economic activity in an already strained economic environment.

"Tackling youth unemployment would be better served by encouraging financial services firms to offer apprentice schemes rather than crushing banking institutions," said Rebecca Healey, senior analyst at research house TABB Group (*pictured*). "Even a revised FTT will not collect the funds it claims – it fundamentally goes against market behaviour. If the tax is reduced and imposed purely on equities and bonds, the incentive remains for market participants to shift to alternatives, either in terms of asset class or geography."

Even once a final decision has been reached, it will be up to the individual nation states to transpose the rules into their national law. The UK is not a member of the financial transaction tax, and has lobbied strongly against the proposals, on the grounds that they would be harmful to London's prospects as a global financial centre. In April, the UK government lodged a formal complaint against the FTT at the EU Court of Justice – a complaint that was widely seen as an effort to derail the whole process.

"The UK had concerns about the extraterritorial impact of the proposals, especially on non-member states," a spokesperson for the UK Treasury told Banking Technology. "Despite the reports, no concrete proposal has actually been set down on paper – what we have so far is unofficial talk. Until a new proposal is formally drawn up, the UK objection still stands."

According to Healey, the countries involved in the tax would have little say in how the funds are spent, and where – questions that have provoked further concern in the UK and the Netherlands.

In addition, discrepancies among national governments remain and are unlikely to be resolved, with France interested in scaling back the tax on derivatives markets while controversially extending the levy to currency trades at the same time as Italy remains committed to excluding bonds from the tax. But since part of the original motive was to punish the banks for risky financial speculation, exempting derivatives from the tax would seem to undermine the entire scheme – especially since the executive committee of the EC estimated that the FTT could lead to 75% reduction in the volume of derivatives trading, she added.

"While shrinking economies and rising unemployment continue to challenge European governments, some nation states will continue to push for an FTT," said Healey. "Arguments that financial trading is under-taxed relative to the rest of the economy may be technically correct, but the idea the FTT is beneficial, as banks derive excessive profit from trading, shows how little the proponents understand capital markets today."

Other observers have highlighted the emerging divisions within Europe revealed by the arguments over the financial transaction tax. According to Tom White, research analyst at JWG Group, the most likely outcome will be a splitting down of the tax across jurisdictions, assets and timelines – creating further uncertainty for financial institutions.

"Clearly even if the FTT fails at the European level, some member states are still going to proceed with their version of it (Germany, Italy), obvious implication being a very complex European tax system for banks, especially since those taxes will have extraterritorial implications around the EU for any banks conducting trades in those countries," said White. "Firms will need to have a very clear idea of where their trades are taking place and the implications of that, which may require upgrades to trade capture processes and trading algorithms."

With Germany's political leaders publicly committed to a financial transaction tax in one form or another and an election looming in September, the final decision on Europe's financial transaction tax looks likely to be held in waiting until Autumn at the earliest. ***BT***

Swift GETC reaches Asia Pacific

Hong Kong-based CLSA has gone live on Swift's Global Electronic Trade Confirmation solution for the automation of allocation and confirmation processes, becoming the first Asian broker to adopt the service.

The firm is aiming to achieve higher levels of operational efficiency in post-trade processes across asset classes, while preserving its investment in straight through processing and matching solutions.

"CLSA's ability to offer Swift's GETC solution allows us to support our diverse and wide-ranging client base as they continue to strive for improved workflow capabilities and cost efficiencies," said Tom Garside, CLSA's head of operations, Asia. "Not only does GETC enable CLSA to meet our clients' needs, it also allows us to implement greater STP whilst driving down our cost base."

Swift's GETC solution uses existing message types (MT509, MT513, MT514, MT515 and MT517) to provide operational control through the genereration of trade confirmation messages that can be exchanged between institutions. ***BT***

New derivatives market starts trading in London

Nasdaq OMX NLX , the new London market offering a range of both short-term interest rate and long-term interest rate euro- and sterling-denominated listed derivative products launched at the end of last month.

NLX will launch trading of futures products in 3-month EURIBOR, 3-month Sterling, Long Gilt, 2-year Schatz, 5-year Bobl and 10-year Bund. All products will be cleared through LCH.Clearnet.

"We have worked closely with the regulators in our application process and would like to thank them for their efforts and support to create this new market," said Charlotte Crosswell, chief executive of NLX. "NLX has collaborated with the market to develop a unique proposition that brings much needed competition to European interest rate derivatives.We look forward to launching a market that provides ease of access, efficiency and the flexibility to respond to customer demand and list new products rapidly."

Alberto Pravettoni, chief executive of LCH.Clearnet's Repo and Exchanges business said: "We are delighted with this milestone, which further demonstrates the regulatory drive for an open, transparent and competitive market place."

NLX "aims to enhance the competitive landscape by providing highly competitive execution and clearing fees and significant margin efficiencies" using Nasdaq OMX's Genium Inet technology and its partnership with LCH.Clearnet.

It is supported by a range of founding participants including banks, clearing, brokerage and trading firms who will contribute to the provision of liquidity and open interest at NLX. participant banks and clearing firms include BNP Paribas, Citi, GH Financials, Nomura, Royal Bank of Scotland and UBS. Brokerage and trading firms include: DRW Trading Group, Financial Market Engineering, Getco Europe, The Kyte Group, Marex Financial, MET Traders, Newedge, OSTC and Tower Trading Group. ***BT***

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News in BRIEF

Java virtualisation specialist **Waratek**, one of the finalists in the Swift-backed Innotribe Challenge at this year's Sibos in Dubai, has formed a partnership with Asia market access specialist Intralink to expand into Asia Pacific. As well as the Innotribe final, the Waratek CloudVM for Java offering has been selected for the Fintech Innovation Lab, based in London's Canary Wharf, and the company was recently named as a "Cool Vendor" for Application and Integration Platforms by Gartner.The Waratek software overcomes some of the difficulties associated with running Java application in a virtualised environment, particularly in shared multitenancy environments.

South Africa's Standard Bank has introduced a new mobile banking tool called AccessBanking, which aims to reach unbanked customers in the country. The Standard Bank mobile service consists of an AccessAccount, which is a banking account based on a mobile platform built by German software company SAP. That platform includes both SAP and third-party back-end systems, the purpose of which is to allow users to create mobile apps. With the app, sales agents can open an account for new customers within minutes.

OTC Markets Group and **Exchange Data International**, a provider of back- and front-office financial and securities data, have developed an OTC Corporate Actions Data Service that will provide comprehensive corporate action data for companies trading on the OTCQX, OTCQB and OTC Pink marketplaces. The OTC Corporate Actions Data Service will publish information on all securities, including data on the underlying securities for American Depositary Receipts and foreign ordinaries traded in the US market. In addition to standard corporate action data such as symbol changes and dividend announcements, the service will provide information on actions initiated by depository banks including book closings and openings.

UBS has gone live as a liquidity provider bank to FXSpotStream's price aggregation service from its sites in New York, London and Tokyo and client trading with UBS via the service has commenced. UBS is the eighth bank connected to the service, adding to the liquidity available BAML, Citi, Commerzbank, Goldman Sachs, HSBC, JP Morgan and Morgan Stanley.

Saxo Bank, the multi-asset online trading and investment specialist, has launched Saxo TV, fronted by former Bloomberg TV News anchor Owen Thomas, to provide on-demand business and financial analysis. Saxo TV is integrated with TradingFloor.com, Saxo Bank's social financial investment community and will offer "unique content and insight into the market, from the market".

EMVCo, the EMV standards body jointly owned by American Express, JCB, MasterCard and Visa, has announced China UnionPay as its latest member. UnionPay now has an equal interest in the standards body. EMVCo's management structure has been amended to accommodate UnionPay representation on the organisation's Executive Committee and Board of Managers, in addition to equal participation in its working groups.

Bangladesh's **Sonali Bank** has adopted a core banking system from Indian technology company Polaris Financial Technology, in a move that it says will transform it into the most modern bank in the country. Sonali Bank is the largest state-owned bank in Bangladesh. Sonali Bank required customisation, delivery, installation, implementation and maintenance of fully centralised online real time banking system as well as migration of data and training to the bank's employees on ORTB in all its branches, subsidiaries and joint ventures around the globe.

Nasdaq Dubai is planning to open an Islamic finance exchange for trading Islamic sukuk bonds as well as conventional bonds. The new Nasdaq Dubai platform will be available to institutional investors as well as high-net worth individuals and will be opened in the coming weeks. The tradable securities will comprise 12 sukuk and bonds with a nominal value of $10.9 billion. For the first time, prices of listed sukuk and bonds will be visible on the same screen-based. Trades will be automatically routed for settlement at Euroclear Bank. "The opening of the platform will be an important step in Dubai's growth as a global leader in innovation in the Sukuk and bond sectors," said Hamed Ali, acting chief executive at Nasdaq Dubai. "We look forward to creating further depth in the fixed income market and will collaborate with investors and other participants to steadily develop and enhance the platform."

BPC Banking Technologies has implemented a new person-to-person money transfer service for Alfa-Bank, available on ATMs and via internet banking. The P2P service delivers card-to-card transfers for MasterCard and Visa cardholders in Azerbaijan, Armenia, Belarus, Kazakhstan, Moldova, Russia and Ukraine. Alfa-Bank cardholders can make P2P transfers, in rubles or US dollars, via the ATM network, to recipients with cards issued by any CIS bank.

A legal framework for the standardised clearing of OTC derivatives has been established in Germany with the approval of standardised documentation. The Deutsche Kreditwirtschaft – the German Banking Industry Committee – has published the framework agreement, called the CRV – Clearing-Rahmenvereinbarung – for use by German banks and their buy-side customers with immediate effect. The document offers users of a central counterparty a uniform, binding contractual basis in German and under German law, setting out the legal relationship between clearing members and their customers in OTC derivatives clearing. *BT*

T2S – don't hold your breath

The scale of the task of implementing Target2 Securities – not to mention the cost – make *Heather McKenzie* fear for the timescales of the project

Usually in this column I write about the lack of readiness among payments industry participants with regard to the Single Euro Payments Area. This month some variety, albeit on the same theme; it seems financial institutions aren't ready for Target2 Securities either.

T2S is an important project for the Eurosystem and for Europe and will become a key component of the enduring European market infrastructure. The system is designed to address the costly fragmentation of securities settlement market infrastructure and to achieve greater technical harmonisation.

At an address in Frankfurt in May 2012, which marked the first signings by central securities depositories (CSDs) of the T2S Framework Agreement (which sets out the rights and obligations of the CSDs under T2S) Mario Draghi, President of the European Central Bank, said: "The fundamental objective of T2S is to contribute to making Europe a better place to invest, by fostering a single market in post-trade services. It will make financial markets safer and more efficient, and it will increase transparency in the post-trade environment."

Draghi pointed out that financial market integration must be complemented and supported by the integration of the underlying infrastructure – T2S brings an operational dimension to integration. It provides the integrated infrastructure necessary for creating a single market for settlement services in Europe.

From a practical point of view, T2S is a state-of-the art settlement solution that provides core, neutral and borderless services across Europe. The system will offer delivery versus payment settlement in central bank money in several European currencies. The CSDs will connect to T2S and provide their users with a single pipe into all other CSDs in the system. This will allow users to aggregate their settlement activity, reducing costs and fragmentation.

Now for the bad news: a report issued by Celent, in conjunction with Swift, has found some "major discrepancies" among market participants when it comes to their readiness for T2S. The implementation of T2S, along with the impact of the European Commission's CSD Regulation, will put pressure on market participants to review their back office system capabilities, says Celent.

The author of the report, *The European Post-Trade Ecosystem under T2S: Dealing with Complexity*, Axel Pierron, says: "We have found that while most market participants have a good high-level understanding of the T2S platform, there are some significant gaps in the industry's T2S adaptation plan."

Of the organisations researched by Celent, post-trade services providers including CSDs and custodian banks were the best prepared. This is not surprising given they are also the organisations that will face the biggest impact. Banks and broker dealers are less prepared.

Celent measured readiness based on a number of factors, including an understanding of the T2S timeline and content; whether an operational review of all businesses affected by T2S had been undertaken; if infrastructure supporting messaging services had been reviewed, and whether the affects on processes, operations and messaging had been mapped out. Budget allocation and finalisation of message costs was also examined. On these final points banks and broker dealers were particularly sluggish in preparations.

The report has identified a number of short-term challenges that the banks, CSDs and custodians face. It estimates that €7 million will be required for a market player to modify its existing back office systems in order to be ready for T2S on a basic level (a communication hub plus adaptation layers). Top dollar will be paid out by firms that decide to use T2S as a catalyst for a back office systems revamp – €27 million could be the order of the day in this scenario.

Celent found that the vast majority of market players have opted to connect to T2S via a value-added network service, rather than implementing their own dedicated links. Currently Swift and SIA/Colt are the approved network service providers for T2S.

The report also found that the additional sources of revenue that could be captured by CSDs to compensate for their declining settlement revenue – something that was used to try to persuade CSDs to sign up for the system – are likely to be restricted to only a handful of players. "In fact, tension and competition between international CSDs and tier one custodians are likely to increase in the future around liquidity and collateral management as both types of market participants ramp up their offerings," says the report. While the international CSDs such as Clearstream and Euroclear are developing industry-wide collateral management solutions, tier one custodians are reconsidering the possibility of expanding into CSD activity, especially with the implementation of the interoperability element under the Commission's CSD Regulation and the development by BNY Mellon of its own CSD.

I'd end by mentioning the T2S implementation date but as will soon be proved with SEPA, dates just don't seem to matter anymore. ***BT***

Can branches survive in a cashless future?

UK building societies face a choice between two different visions of the future of retail financial services, it emerged at the Building Societies Association annual conference. *Elliott Holley* reports

On the one hand are those who envision a cashless, branchless future where society has transcended the need for physical interaction with coins, notes – and staff. On the other is a vision in which cash endures and the branch becomes a centre of financial expertise, where consumers can go for face-to-face help and advice on the really important financial questions relating to getting a house and saving for their future.

Riding into battle on behalf of the enduring branch model, Chris Pilling, chief executive at the Yorkshire Building Society, pointed out that recent studies found having a convenient branch is second most important reason for choosing a new bank, second only to cash incentives; even more tellingly, one third of customers would not even consider a bank that doesn't have branches, he said.

Yorkshire Building Society has opened branches in Wetherby, Ripon and several other places in the last year and is planning to open one in Harrogate this year. The building society is not alone; Metro Bank, Virgin Money, and Handelsbanken are also opening branches, said Pilling. Metro's target is to open 200 branches by 2020.

"Branches are centres of serving the community, where valued financial advice on the important decisions is delivered by experts customers can trust," he said. "Even in cashless Sweden, Handelsbanken has just been voted bank of the year. It has refused to restrict cash because it knows this is not what customers want. People matter more than technology and the best businesses know this."

However, a riposte was swiftly delivered by Mark Mullen, chief executive at HSBC's branchless banking subsidiary First Direct, who pointed out that it was entirely possible to run a branchless bank; his firm has operated without branches since it was founded in 1989, and does not plan to cease operations any time soon.

"I believe we are successful because we don't have branches," said Mullen. "We concentrate our expertise in one place, in a way that a typical bank branch can't match. You'll never have to wait because your bank manager is out to lunch at First Direct, nor will you ever have to wait for an underwriter. They say we're a telephone brand. But that's just a means to an end. The real end is to bank 24/7, for 365 days a year – and you won't get that with a branch."

At the heart of Mullen's argument was a simple question: are customers using branches because they want to, or because there is no other way of doing what they want to do? Historically, the bank branch model, in which customers come to the branch and often serve themselves using an ATM, was designed for the convenience of the bank, not the customer.

"Customers who use digital banking are more engaged than those that don't," he said. "Why is that? It's because customers who have access to their money online or via a mobile phone have more control, and that's what makes them happy. If you want your customers to be happy, close those branches as quick as you can."

Stephen Mitcham, chief executive at the Cambridge Building Society, countered that customers still value their local branch network, even if they use it less than they once did. "If you ever want to know whether people care about their branch, try closing it down," he said. "If you want to be vilified by your local community, give it a go. We had more people write to us complaining about plans to close branches than we had doing transactions there. Do they want to visit a branch? No. But they want the reassurance that it is there."

The other thread of debate running through the session was whether the UK might move to a cashless society. Chief advocate of the enduring presence of cash was Pilling at Yorkshire Building Society, who reminded delegates that cash has been in continuous use ever since it first appeared in the ancient kingdom of Lydia in Anatolia in 650BC – a period of 2,663 years. Chief detractor was Samee Zafar, director at financial consultancy Edgar Dunn & Company.

"When we talk of the 'war on cash', there are really two separate battles," said Zafar. "The war for mid- and high-value payments is already finished. People have moved from cash to credit and debit cards. The war still being fought is for low-value payments. But over the next 10-12 years, low value payments are going to go the same way as high value, because of mobile. If you're at John Lewis and you've 50 store cards, the phone will bring up the right one for you. If you have a £2 voucher for Tesco and you can't find it, the wallet will bring it up. These things will completely change the way we look at low value payments in the future. Cash will become a rarity rather than a common thing." ***BT***

Biting the bullet

A forthcoming report urges banks to consider outsourcing their payments infrastructures. *David Bannister* got a sneak preview

Banks need to cross a psychological barrier and embrace the concept of outsourcing their payments operations if they are to compete on product innovation and customer service rather than simply on cost.

Many working in the payments side of banks, particularly in Europe, fear that outsourcing or adopting cloud computing will lead to a loss of control, says Gareth Lodge (right), senior analyst at Celent, in a forthcoming report, *Thinking the Unthinkable: banks relinquishing control of their payments infrastructure.*

The full report will be formally launched during payment system specialist Clear2Pay's user group meeting in Madrid next month. Clear2Pay sponsored the report and gave a preview to a selected audience at a private event during the EBAday conference in Berlin recently.

"As a stakeholder in the payments space we thought that we ought to talk about outsourcing in payments in more depth. It is now a board level topic," said Michel Akkermans, chief executive of Clear2Pay.

Lodge cited a European Central Bank study in 2004 that showed that banks consider payments operations too important to cede control over, according to 72% of respondents. Nine years later, delegates at the International Payments Summit in London this year were saying much the same thing, citing more nebulous fears such as "doing it badly" or "separating service responsibility and accountability" as objections to outsourcing payments infrastructures.

All of which is "odd on a number of levels", Lodge said, because the concept of outsourcing is already well entrenched in the rest of the banking system: "In cards it is considered odd not to outsource."

"According to a study presented to the ECB, outsourcing in the US is prevalent in every payment type and every stage of making a payment. Indeed, there are well over 100 entities regulated to do so. Let's not forget that's what companies like First Data do, and have done successfully for many years."

The outsourcing debate is also further obscured by continuing misunderstanding and fear about the adoption of cloud computing – or Software as a Service, or Application Service Hosting – by financial institutions. Again this is odd: "Forms of cloud already exist in payments. Networks such as Swift or BT Radianz or, indeed, just about any payments network, are in essence clouds. The banks don't own these networks, at least in the case of BT Radianz; nor can the banks say exactly where the data is stored or processed, yet they implicitly trust these networks."

Overcoming these reservations would address, at a stroke, one of the main issues cited by those working in this area: cost, and the commoditisation of payments. As a rule of thumb, said Lodge, roughly a quarter of bank revenues come from payments, but they account for one-third of costs. "If you can make savings here the effect will be great," he added.

More importantly, by freeing themselves from concentrating on costs and margins, they would be able to address other areas that may actually yield competitive advantage.

Lodge cited a study of international businesses that concluded that the most successful only succeded in one of three areas: operational efficiency, product innovation or "customer intimacy" – delivering "world-class customer service".

"I would argue that if the payments industry is trying to operate on the model of "sufficiently good quality" and every bank is competing on the same basis, differentiation will be on price alone and is going to be difficult," said Lodge.

"A radical change would be to move to one of the other elements – product innovation/customer intimacy," he said. "Find someone to deliver the operational efficiency improvement that you can't deliver yourself, and then concentrate on one of the other two. Outsourcing – in the broadest sense – is about how we could start actually doing it."

Farsighted banking organisations are already doing this, he said, naming Commonwealth Bank of Australia and Deutsche Bank's Global Transaction Banking division. Both of these were founders of the Enterprise Cloud Buyers Council, and show that many of the commonly raised objections to cloud computing in financial services are largely myths.

"Acknowledging that cloud has actually been more widely adopted than is known should go a long way toward overcoming some of these barriers in banking," Lodge said. ***BT***

Notch one up for the War on Cash

The latest figures from UK retailers show a significant move to debit cards and new mechanisms like PayPal as consumers shy away from cash and credit cards

Signs that consumers may finally be embracing new payment methods come in the latest survey of UK payments by the British Retail Consortium, which showed a 10% drop in the value of cash payments during 2012. Debit cards and new mechanisms like PayPal are the winners.

Paying with cash is still the most popular choice for customers in the UK but the pace of change in the ways people are choosing to buy is accelerating, says the BRC.

Among retailers, the cost of processing credit cards remains the biggest complaint

The BRC's *Cost of Payment Collection Survey* shows that, while over half of transactions (54.4%) are paid in cash, use has declined as a percentage both of number of transactions (down 6.7%) and money spent (down 9.7%). This is the first time in the survey's 13 year history that both measures have seen a decline, says the BRC.

The survey, which covers nearly 10 billion retail payments in 2012, reveals credit and charge card use was down by 3.4% as a percentage of transactions. In contrast, transactions made on debit cards were up by 3.2%.

Use of alternative payment methods more than doubled on the previous year, driven by manufacturers' money-off coupons and the rapid growth of comparatively new ways to pay such as PayPal and online payments. They now account for 5% of all transactions.

The survey also shows banks continue to levy unjustifiably high charges on retailers for handling card payments. The average cost to a retailer of having a credit or charge card payment processed was 25 times higher than for cash (38p versus 1.5p). Credit and charge cards account for only 10.6% of transactions but over half (50.1%) of costs, and total costs associated with those cards were up by 7%, even though use is down on the previous year.

> *Credit and charge cards account for only 10.6% of transactions but 50.1% of costs, and total costs associated with those cards were up by 7%, even though use is down on the previous year*

"New ways to pay and new ways to shop are shaping the retail landscape like never before. Changing customer preferences are driving the increase in debit card use – they're helping people to manage their money better and are a natural fit for online shopping and self-service checkouts," said Helen Dickinson, director general of the British Retail Consortium. "Cash is still the most popular way to pay, but our survey shows how rapidly alternative and emerging methods are gaining ground, with growth more than doubling on the previous year, albeit from a low base. These methods will be the ones to watch in the future, and retailers are investing heavily to make sure their customers have choice and convenience in ways to pay, whether in-store, at home or on the move.

Dickinson said that credit card costs remain an issue for merchants: "Against a backdrop of greater retail efficiency and innovation, the one jarring note is that charges remain disproportionately high. They continue to rise even though credit card use has fallen. It beggars belief that retailers incur average charges of 38p per credit and charge card transaction, 25 times more than for cash," she said.

"Retailers have been arguing this in court for more than a decade now, and a resolution to the case is long overdue. The right conclusion would reduce these excessive costs for retailers and support their ability to invest and innovate."

Peter Turner, chief executive of CreditCall, said that the rise of alternative payment methods was a stand-out result in the survey this year.

"As long as there is trade, there will always be a need for some form of cash exchange or, at the very least, an exchange of a 'token'. What's interesting about these results is the rise of alternative payments. If we take it a step further, there are some major implications here for the future of payments. With the creation of virtual communities, particularly on social media platforms, it stands to reason that payments could follow a similar trend. We could see ever more cash alternatives in the form of virtual currencies – and it's already happening with Bitcoin," he said.

"If virtual currencies find increasing favour, we should consider how they are ultimately governed. They will naturally fall outside traditional geographical and political boundaries and instead be defined by online territories. So could we see a future where those who control the internet also control payments, currencies and customer data – giving them the real power?" ***BT***

Mobile banking at "tipping point"

Research from VocaLink suggests that consumers still want a mobile banking service from their banks. *Elliott Holley* reports

One in four customers in the UK is now using mobile banking services– and bank-driven systems are leading the way, according to new research by mobile payments specialist VocaLink.

The firm's research suggests 60% of people in the UK have a smartphone, rising to 80% in the 16-24 age bracket. One in four users already have banking or financial apps, which are mostly used for checking balances, accessing bank details and viewing transactions. Of those with a smartphone, some 27% of respondents are using their smartphones for mobile banking, while 20% are using them to make payments.

VocaLink operates the proxy service that underpins the Barclays Pingit mobile payment service and will be rolled out by all UK banks next year under the auspices of the Payments Council.

The Payments Council pushed back the introduction of its planned Mobile Payments Service until "spring 2014" – a year after its previously expected introduction, and two years after Barclays broke from the rest of the UK banks and launched its Pingit service.

The delay comes despite commitments from financial institutions that represent 90% of current accounts in the UK, with Barclays, Cumberland Building Society, Danske Bank, HSBC Bank, Lloyds Banking Group, Metro Bank, Royal Bank of Scotland and Santander lining up to pledge their support.

The lengthened deadline is said to be to ensure that the service is "as ubiquitous as possible" when it does launch. "The extra time is to ensure that we have that ubiquity – although the institutions that have committed represent 90% of current accounts, we are not looking at this being limited to current accounts," said a spokesman. "We want to attract innovative payment services providers."

Despite recent mishaps such as the attacks on NatWest customers last October and the Eurograbber attack in December, in which criminals stole £30 million from 30,000 accounts in four European countries, customers still trust their banks. Some 35% of respondents said they were more likely to pay for items using a mobile if the service was provided by their bank, while 63% of those already making mobile payments would trust their banks to provide this service.

The biggest competition to banks appears to come from the supermarkets such as Sainsbury's, M&S and Tesco, each of which have launched banking services in recent years. Some 46% of survey respondents said they would trust supermarkets as mobile payment providers, rising to 52% of smartphone users.

In September, seven-day account switching rules come into force in the UK, meaning that banks will have to switch customer accounts to a competitor on request within a maximum period of seven days. The new rules are driving banks to focus on customer retention, says VocaLink, which will be behind the system – and mobile channels are increasingly recognised by banks as a good means of engaging with the customer.

Of those who said they were likely to use a mobile payment service, 81% were more likely to do so if it was offered by their bank; 67% of those saying they would use the service say it would encourage more shopping on their mobile phone (32%) and the new method would be used instead of debit cards (45%), credit cards (35%) and PayPal (28%).

VocaLink notes that the advantages of mobile payment systems are that they may be more cost effective for the bank, the transaction becomes more visible in banking systems versus for example cash, and the customer data associated with a digital transaction can be used by the bank in enhancing customer retention, for example by providing more customised services, promotions and offers.

"This robust consumer market research indicates that there is real appetite for mobile payments," said Paul Stoddart, head of strategy and business development at VocaLink and author of the study. "All the indicators point towards the time being right for a genuinely ubiquitous solution, based on the huge increases in smartphone adoption. There are significant commercial growth opportunities for early adopters – provided they can deliver a sufficiently ubiquitous and functional solution. This will require appropriate collaboration between stakeholders including retailers, banks and telcos. Given the extraordinarily rapid growth in ownership and their use as app platforms, smartphones look set to outpace other payment solutions. VocaLink believes the mobile payments battle will be played out on the small touch screen in the near future."

Elsewhere in Europe, Spanish banks La Caixa and Santander are currently planning together with telecoms firm Telefónica to create a joint venture offering mobile payment services and a digital wallet designed to relegate conventional payment methods to the history books. Users of the new service will be able to gather all their credit cards into the new digital wallet; they will also be able to send and receive funds via their mobile phone. The plans are similar to a separate mobile payments project between MasterCard and Telefónica in Brazil, which launched earlier this month. ***BT***

Moving beyond the core

Temenos has transformed in the past few years and recent acquisitions are likely to take it further along that road. *David Bannister* went to its client forum to hear more

The extent to which a targeted series of acquisitions over the past few years have moved Temenos from being simply a core banking system vendor to a fully-fledged financial technology specialist became clear at its annual user event last month, this year held in Abu Dhabi.

Just ahead of the event, the company completed its acquisition of TriNovus, a US compliance systems vendor, on which its expansion in the hitherto elusive North American market will largely depend.

Front and centre at the event, however, was the Temenos Connect framework. This comes from the acquisition in September last year of Edge IPK and underpins the Insight development framework that will form the basis of the company's future product and service offerings.

Beyond this is what amounts to a fundamental shift in the company's approach to the problems that its customers face and how it plans to approach a changing market with this changed product set.

Celebrating 20 years in business, Temenos is at the start of a third phase in its history, said David Arnott, who took over as chief executive at the end of last year.

In the early days of the company, it was essentially selling core systems as replacements for an older generation – notably those of arch-rival Misys – or to the burgeoning opportunities for new systems in emerging markets such as South East Asia.

At the centre of that remains the difficulty of core systems replacement, and it seems that Temenos has taken the view that while institutions will have to bite that bullet sooner or later, there are more pressing problems facing them on a day-to-day basis. While many argue that ageing core systems are hampering banks' attempts to modernise and innovate, Temenos is saying that some things can't wait: sure, it would be nice to have a single-core integrated back-end system, but that isn't what is needed right now.

Its solution is what it calls "progressive renovation". Sort out the channels and the product sets using modern technology while also "integrating seamlessy to an efficient back-end over time", said Arnott. "Getting into new channels is the real pain, and the real pain of that is disparate systems." Putting the appropriate systems in place to take a faster route to market used to be a recipe for increasing that disparity, but modern architectures lend themselves to a more gradualist approach. A component-based architecture can provide a building block approach that makes it easier for larger banks to implement specific parts progressively, making it easier to keep systems up to date. Rather than a rip and replace" approach to upgrades or maintenance, components can be tweaked, replaced or augmented on an individual basis.

The company has been enthusiastically adopting such an architecture across its systems at a technical level for some time and now, it seems, has reached the point where it is reflected in the way it sells them – even its flagship T24 core banking system has become a suite of products.

"Two or three years ago, you had to buy T24 in toto; now you can buy modules," said Arnott, introducing the other software products that it has been building up around T24 over the past few years, and for which it is claiming significant improvements in development time and speed to market, alongside a functionality such as data analytics, customer segmentation and social networking that were previously difficult for smaller banks to implement.

A prime example of this is the Connect suite of front office products. These are essentially templates covering internet banking, mobile banking and customer onboarding, built using Temenos' User Experience Platform technology to give productivity improvement in building new apps and interfaces.

Conceptually these are similar to the Model Bank idea that the company has been using to speed implementations of T24 for several years now – simply that there is a great deal of commonality across the main functionality of any bank systems, so the more that can be standardised and run out-of-the-box, the less customisation there will have to be.

Connect gives basic functionality for personal and corporate mobile banking applications, including corporate payments and trade finance. More are in the pipeline, said Mark Winterburn, group product director, including advisory and personal financial management for wealth management clients, and a client relationship management iPad app due in October.

Connect is part of the Temenos integration framework, which offers pre-integration of other vendors' components with Temenos applications, and to integrate them into existing systems as part of that "progressive renovation" approach. The company says that it can "significantly cut implementation times", citing Commercial Bank of Africa, which launched its M-Shwari banking services in three months compared to the original plan of a year.

One of the new modules has at least some of its roots in the acquisition several years ago of business intelligence capabilities that became its Insight product line which has been enhanced with broader customer and operational intelligence and works alongside the new relationship-based pricing module, providing tools to build personalised pricing to retain their most valuable customers, such as the most profitable and most loyal.

But perhaps the most significant recent development is the Trinovus acquisition, announced at the end of March.

"While in the context of the overall vendor landscape it is a relatively low-key deal, it is a significant strategic move for Temenos: it provides credibility, mindshare, and capability to help it crack the US market, a market in which non-US providers have found it tough to gain any traction so far," said Daniel Mayo, practice leader for Ovum's global financial services technology team. "TriNovus provides Temenos with a client base of 800 banks in the US, which will be valuable in helping it increase its mindshare in this market – although cross-selling is much easier said than done. Perhaps more significantly, TriNovus's focus on compliance services and software-as-a-service core processing addresses two other pain points faced by US entrants: the need to demonstrate the ability to meet US market requirements, and the development of a sufficient customer base to provide a credible SaaS model."

Russell Taylor, regional director for North America, certainly thinks that Temenos will be able to use the TriNovus operation and the TriComply product to increase business in the US, which has always proved elusive for the non-US core banking suppliers.

Temenos, of course, is no longer projecting itself as simply a core banking provider, and it is the other solutions that Taylor thinks will prove attractive to the 18,000 banks and credit unions that are in his target universe – not the large Tier 1 banks where incumbent suppliers such as FIS and Fiserv dominate. The progressive renovation approach will play particularly well among the smaller institutions where compliance is a massive burden, while the ability to deliver the modular elements of T24 and associated products using a software as a service model will de-risk the decision for potential customers.

After several years of – alongside its rivals – hammering on the front door of the US market, it looks as though Temenos might have spotted an alternative way in that will be much more likely to succeed.

There remain new areas to develop, said Arnott. One of these is the payments systems market. A few years ago it looked specifically at buying such a system – Logica and Misys were both in the acquisition frame at one stage – but Temenos management at the time felt that existing systems were ageing and there was little advantage in buying one rather than simply developing interfaces.

Things have moved on, however, and Arnott said that such a move is back on the agenda, although he declined to talk about specific plans or potential acquisitions.

Perhaps by the time of next year's client conference the position will have become clearer. ***BT***

The Temenos Connect development environment gives basic functionality for personal and corporate mobile banking applications, including corporate payments and trade finance. More are in the pipeline. Using these templates significantly reduces time to market for banks through straighforward customisation and integration processes.

Identity and mobile figure large at payments and cards event

The recent Cards and Payments Middle East conference was co-located with parallel events focussing on mobile and identity. It was a good fit, report *David Bannister* and *Tom Groenfeldt*

The UAE government is supporting the expansion of mobile services through an identification authority that will provide secure authentication of individuals using such services.

Dr Ali Mohamed Al-Khouri, director general, Emirates Identity Authority, told the Cards and Payments Middle East conference in Dubai that the government has tens of strategic initiatives around what he called an identity management infrastructure to enable identification and authentication of individuals with multi-factor authentication including biometrics, digital certificates, one-time passwords and digital signatures.

"These will provide a new level of customer experience," he said. With secure identity authentication, individuals in the UAE will access government and private sector services. Through its integration platform, more than 15 government organisations will connect with the identity management infrastructure to improve the efficiency and effectiveness of the public sector.

"The UAE will support a digital economy to make us among the best countries in the world," he added.

Just in time too, said Brett King, a banking consultant, author and founder of the Moven mobile banking service front-end. He told the conference that the Gulf States had 227% mobile penetration – residents carry more than one mobile device.

The growing use of mobile, especially among Gen Y, will require bankers to rethink their business model, he said. "Gen Y will turn to mobile banking first; you don't have five or 10 years to get it right," he added. "This is happening right now. It is the fastest growing segment in retail banking and payments today."

By 2016 the average retail banking customer will have 300 digital interactions for each one in the branch, he added. "The branch is not going to save you. You have to have a digital relationship with your customers."

The debit card is the most used transaction tool today, but it is dumb, or the bank services behind it are dumb, said King. "How about a service that can give your balance before and after the transaction, delivered to your mobile phone," he asked. Moven can provide running monthly totals of payments, on a mobile. He gives the example of being surprised to learn he had spent $687 on taxis in New York in one month; if asked, he would have estimated the amount at $200 or so.

"This is where we can have control over our savings and spending," he added. "Banks have made a lot of money on our ignorance, how much you are putting against your balance with each credit card payment? They don't want you to know. Utility is key but context makes utility something special."

In Dubai, a gold-plated metal credit card says more about you than cash ever can. The High Concept Card Lab also produces a range of high-tech cards.

The Cards & Payments Middle East event in Dubai attracted 200 exhibitors and nearly 5,000 delegates, alongside related identity and mobile technologies events that brought together some of the main themes in banking and payments in a region that is rapidly embracing mobile.

The United Arab Emirates has an extensive project to create “an identity management infrastructure” to support a digital economy. Mobile registration vans are part of the programme, which features multi-factor authentication, including biometrics and digital signatures.

Another speaker, Ed McLaughlin, chief emerging payments officer for MasterCard, echoed this, saying that young people like his daughter don’t think of text messages as technology; it’s just the way they communicate.

“The concept of a stamp is completely baffling to her. Consumers are moving from off-line to intelligent connected devices and that is changing how we learn, how we get information, how we entertain ourselves and most importantly how we connect to family, friends, governments and community.”

Consumers will use a variety of devices – PCs for content creation, cards and devices like PayPass for shopping, internet-connected refrigerators and thermostats, plus tablets and smart TVs for entertainment, he said.

“It’s not about the specific device, rather it is about how we can use these new capabilities to provide consumers with richer, more secure more convenient shopping experiences and bring the benefits of financial inclusion to billions of consumers we could not reach before,” he said.

Banks, card companies and vendors demonstrated a wide range of products and services developed for the varied needs of the Middle East and Islamic finance market, from the top-end überwealthy to the huge unbanked and migrant worker remittances markets.

“Consumers want all of this connected, and connecting is at the heart of what MasterCard does.”

It is also important to be flexible in product design. In the UAE, MasterCard has worked with Al Hilal Bank Qibia in Dubai to develop a Sharia-compliant card.

The account has many unique benefits, said McLaughlin. It does not allow transactions that are not compliant and a small percentage of each transaction goes to alms giving. Users can round up local retail transactions and credit it to Red Crescent or other charities and the card provides travel benefits during haj, where a majority of the spending is still in cash: the card includes a digital compass, which will show the direction of Mecca with the press of the button.

In Egypt, where 65% of the population is unbanked, MasterCard is working with the central bank to reduce reliance on cash and promoting safer electronic payments, he added. Now MasterCard provides a payroll card for state employees and prepaid cards for individuals receiving benefits like pensions. This provides greater transparency and peace of mind because it ensures that payments are on time. It is the largest public sector payroll program in the Middle East.

“During the political unrest, the only public sector employees to receive their payments on time were those in the program,” he said. ***BT***

Turkish vendors made a strong showing at the show, reflecting the country’s strong position in banking in the wider region. A sister event takes place in Istanbul in September.

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German financial institutions commit to Step2 for mass payments

The Euro Bankers Association's annual EBAday conference in Berlin saw announcements from the organisation on the progress of its major projects, reports *David Bannister*

EBA Clearing's STEP2 platform will gradually take over the processing of a major part of the German mass payment volumes from the second half of this year. Representatives of major German financial institutions from the private, savings and cooperative banking sectors announced their participation during the EBAday conference in Berlin at the end of last month.

STEP2 will support at "least seven important players" in the German payments market in exchanging national credit transfers and direct debits in the SEPA formats.

In the course of this changeover from legacy to SEPA formats, EBA Clearing's Pan-European Automated Clearing House will progressively replace the direct bilateral exchange of national mass payments currently taking place between the individual financial institutions (known domestically as *garagenclearing*).

In analogy to their current bilateral exchange approach, the institutions will pre-sort their files by receiving bank, which facilitates faster and more efficient processing. The participating institutions are already using STEP2 for the settlement of their present SEPA volumes.

"As a pan-European system, STEP2 enables banks to channel all their euro retail transactions within Europe through one clearing system," says Christian Rhino, divisional board member, banking operations, Commerzbank. "Concentrating our mass payments on one central platform allows us to minimise our administrative and monitoring efforts and to improve our liquidity management in this area."

Wolf-Rüdiger Braun, head of division operation services at Landesbank Baden-Württemberg, one of the banks manking the announcement, said: "With STEP2, EBA Clearing offers a highly efficient solution that fulfils all the requirements for processing mass payments in the Single Euro Payments Area."

"We are looking forward to connecting the German savings banking sector, in co-operation with the other Landesbanken, to this cost-effective and future-oriented infrastructure," said Markus Jörg, head of cash management, Helaba.

"STEP2 was designed as a scalable and flexible system to optimally support the migration of cross-border and domestic volumes to the SEPA formats," said Gilbert Lichter, chief executive, EBA Clearing. "We welcome the decision of our German STEP2 Participants to also use the platform for their domestic payments. The necessary preparations for a smooth changeover of the processes of all the parties involved have already started and are expected to lead to a successful migration over the coming months."

EBA Clearing is currently implementing final STEP2 functionality enhancements ahead the SEPA migration end-date of 1 February 2014. The processing speed and capacity of STEP2 have already been increased over the last few months and a third processing site will start operating in a test mode in November, which will "further contribute to improving the technical and operational robustness" of STEP2 in preparation for the settlement of higher volumes and future regulatory requirements.

"These preparations are putting EBA Clearing in a position to provide the European financial industry with a clearing infrastructure for SEPA transactions that meets the high resilience requirements for systemically important payment systems in time for the migration end-date," a statement said. "Furthermore, STEP2 users will shortly be able to rely on a German-speaking customer support service, which will be integrated into the existing EBA Clearing office in Frankfurt."

"With the creation of a remote third site, we are completing our resilience enhancement programme, so that we can offer to our STEP2 users the highest level of operational robustness for processing their SEPA payments. In conjunction with the pan-European reach of the platform, this enables us to provide the banks in SEPA with an effective basis for developing their payments business," said Lichter.

Gian Bruno Mazzi, managing director at Italian financial systems house, which is providing technical support for the project, said: "We're fully committed to ensuring the

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required speed and capacity for processing the very large domestic transaction volumes that will progressively migrate to the STEP2 SEPA Services until the migration end-date. Through the implementation of the third site and the significant reduction of the Recovery Time Objective for STEP2, we're further strengthening the resilience of EBA CLEARING's Pan- European ACH, in line with the new Principles for Financial Market Infrastructures."

As a pan-European platform for mass payments in euro, STEP2 is a central component of the SEPA payment infrastructure. The system has been live since 2003 and ensures the full reachability of all payment service providers that offer SEPA Credit Transfers and Direct Debits.

Apart from cross-border payments, the platform also processes the domestic payment traffic of the banking communities in Finland, Luxembourg and Ireland as well as of many major banks in other countries, e.g. Italy. More than 4,700 financial institutions in 32 countries can be reached via STEP2.

Volunteers wanted for MyBank e-mandate pilots

EBA Clearing is looking for banks and service providers to pilot the e-mandate capabilities of its MyBank service. The aim of the pilot is to test the MyBank E-mandate solution for SEPA Core Direct Debits with regard to reliability, security and usability.

The testing will involve banks, service providers and corporates which will ensure in co-operation that the different components of the MyBank E-mandate solution work together seamlessly before the solution will be rolled out.

Service providers can participate in the testing either directly or through a partnership with a participating bank. Banks are invited to join the pilot with a corporate customer to ensure that the end-to-end testing fully meets the requirements and expectations of all stakeholders.

"Direct Debits are a very attractive and cost-effective payment method for online shopping. That is why Ecommerce Europe has been calling for a pan- European e-authorisation solution based on the SEPA instruments," said Wijnand Jongen, vice-president (operations), chair of the executive committee, ecommerce europe. "E-merchants across Europe look forward to being offered such a solution by their payment service provider."

"E-merchants, public institutions and other billers are eagerly awaiting an e-mandate solution that can be used to electronically collect SEPA Direct Debits from customers all across Europe," said Ivo De Meersman, general manager, group payments, KBC. "Such a solution will also enable billers to streamline and automate key processes around SDD mandate management."

MyBank went live in March, with Banca Sella announcing that the first two transactions were successfully processed for online purchases made through the websites of Olio Carli, the Italian leader in mail order marketing of olive oil and other foodstuffs, and Monclick, an Italian online retailer of consumer electronics.

By the end of the year, the MyBank solution will be made available to "millions of online shoppers and thousands of e-merchants in Italy alone".

Mybank enables customers to pay for their online shopping via the online banking of their financial service supplier. Ten banking groups, representing a total of 28 individual participating institutions, were part of the first participant group and have started to roll out the solution to their retail customers and e-merchants across Europe.

At this stage, the solution enables online shoppers to initiate SEPA Credit Transfers via their regular online or mobile banking interface without the need to disclose personal bank account or payment details to any third parties. How this will work in other countries where different payment mechanisms are the norm is not clear, and was the subject of debate during a number of panel sessions.

"The MyBank solution will generate important cost savings for public agencies, utility companies and other billers. It will help them to further automate their billing processes while facilitating their customers' payment initiation through their online banking," said Gilbert Lichter, chief executive of EBA Clearing. MyBank is geared at supporting the initiation of e-payments via the SEPA instruments. The solution is expandable and may at a later stage also be used for transactions in other currencies or for e-identity services. ***BT***

Interested parties can register for the MyBank E-mandate Pilot until 17th July 2013. The pilot will be kicked off in October 2013 and will run until February 2014.

SEPA: still a long way to go

The first SEPA end date is nine months away, but there will be much to sort out for years to come Citi's *Ruth Wandhöfer* talked to *David Bannister* during the recent EBAday event

As the first deadline for implementation of the Single Euro Payments Area approaches in February 2014, you could be forgiven for thinking that it is pretty much all over – or at least will be by October 2016, when the second deadline arrives.

Don't count on it, cautions Ruth Wandhöfer, global head, regulatory & market strategy, Citi Transaction Services. "I see two themes – the old challenges, which arguably people should have been getting on with for quite some time – SEPA in terms of bank operations and making sure that customers are ready, and new problems that are arising as things change," she says.

As of 1 February 2014 in Eurozone countries and 31 October 2016 in non-Eurozone countries, banks and corporates will be required to use SEPA formats for euro payments and direct debits. Any organisation making or receiving payments is likely to be affected by this new regulation, yet a large number of organisations of all sizes have not yet begun their SEPA migration, say many observers.

SEPA formats require the use of XML, which is where Wandhöfer sees the first hurdle. "It is challenging for regulators. On the one hand they don't really understand the technology requirements. It is very difficult, as a supervisor, to assess whether the new platforms are XML compliant," she says. "Will we move to a fully harmonised environment? Clearly not – this will take much more time. Banks will be polishing their systems after the end-date."

How this translates into practice is also unlikely to be uniform across the European Union because it's a question for individual member states, which have the responsibility for making sure that their banks and payment service providers are ready.

There is also the fact that there is still quite a lot of wiggle room, or as Wandhöfer bluntly puts it: "No one really understands the actual SEPA rulebooks – which make up the basis of the technical standards implementation – in the same way."

All of that, however, is part of the old set of challenges.

The new game changers for banks, as she sees it, started when the Payment Services Directive came into force in 2009. "The PSD introduced non-bank payment service providers into the market, which meant more competition for banks, for example in payment processing, and cards acquiring and issuing etc. In addition, it has emerged that some new entrants are starting to offer services without being regulated, given their new business models were developed quite purposefully outside the law," she says. "That becomes even more relevant when you look at the question of where banking, in terms of payment services, stands over the next few years."

Aside from the emergence of new players, several other threads run through Wandhöfer's views: the differences between the consumer and SME markets and the large multinational corporates that Citi Transaction Services largely deals with, and the interplay between those and the types of instruments that will prevail in the future.

"The business-to-business space has been overlooked a little bit in the SEPA debate because most bank's discussions have been more retail and e-commerce focused," she says. "Looking at it from the large corporate space, the benefits of SEPA on paper are very clear [but] when it comes to implementation it is more uncertain what is going to happen, particularly with SEPA Direct Debit. With credit transfers it has been easier, although not all banks have been able to handle the additional options provided by XML, given their recourse to conversion processes."

The issue is that with Direct Debits, the debtor banks have to have a product capability in place to process the instrument, where some have clearly not been ready. Wandhöfer says that this can cause collections to fail.

"We are encouraging all of our large multinational corporates to reach out to their debtors and creditors and tell them that they will be doing SEPA from 1 February and tell them to ensure that their bank is ready," she says.

The other part of the SEPA agenda is at the consumer/merchant end of the scale, and the complications here are likely to be even greater. It is also an area that some banks have

"Several German corporates have started voicing risks of cash flow and liquidity problems if they move from domestic direct debits to SEPA"

not paid much attention to for many years.

"This last mile where the seller/merchant and payment provider is interacting with the consumer has been really overtaken by many different niche players," she says. "This has been a sort of disintermediation – banks didn't necessarily continue evolving their consumer offerings in this space and clearly the absence of a pan-European e-commerce payment process outside of cards is a sign of this."

The banks, it can be argued, gave up that part of the chain a long time ago with the creation of the credit card schemes. Ironically, it is the cost of credit cards that most exercises the merchants and consumers.

It could be, however, that legislation on card interchange fees could remove or significantly reduce that cost barrier. "All of the complaints of the past few years have taken us to the point where in June or July we're actively expecting EU regulation reducing those interchange fees," says Wandhöfer. "Arguably a payment solution for online or e-commerce is potentially not necessary if the card business gets cheaper – merchants can do what they want to do more cheaply, which is what they want. Perhaps all of that fuss will have gone away …"

That would remove the complication of rolling out a pan-European e-commerce scheme, which even with SEPA would be complicated. "Creating such a new scheme and process flow is not going to be easy because you need investment money and technology, and many banks are clearly struggling with the Eurozone crisis and SEPA itself and, of course, Basel III," she says.

Moreover, there is a great deal of uncertainty about what is actually required in the e-commerce payment space. Many, for instance, think of real-time payments as an instant end-to-end irrevocable transfer, but this is not necessarily the case and arguably not even required.

"Very often we talk about real-time payments when what the consumer and merchant in an e-commerce transaction actually want is a payment guarantee," she says. "You don't necessarily have to have settlement in real-time: If that were to happen everywhere it could actually increase risk."

More subtly, there are big differences in the payment habits of consumers (and the preferences of merchants) across Europe. In the consumer/merchant payment space across Germany and Austria, for instance, it is common to use something called an ELV – Elektronisches Lastschriftverfahren or Electronic Debit Procedure – which allows the consumer to authorise a merchant to collect money from their bank account at POS.

Wandhöfer says that it stems directly from a large German merchant working with a large German bank on a solution that was cheaper than cards. "The merchant said. 'I know all my customers and I'm not going to sell to anyone I don't know, so I'm happy to take the counterparty risk', " she says. "The consumer comes into the shop, at the point-of-sale the merchant reads the mag stripe and initiates a one-off direct debit where the customer signs a mandate giving the authorisation to the merchant to debit their account."

It's also the sort of thing that the SEPA schemes have not been designed for. "That's why the ELV scheme has been exempted from SEPA 2014, and it's unlikely to dissolve into a SEPA-compliant direct debit by 2016, by the way," she says.

There have been suggestions that the ELV may stay around and even spread to other countries as a one off instrument that creates the immediate ability to collect, based on the consumer one-off mandate.

Unfortunately, SEPA requires a timeline, currently five days under the core SDD scheme, for presenting the collection to the debtor bank before same day settlement happens on D.

That, says Wandhöfer, "means that the timeline for processing a direct debit is much longer than in an ELV transaction and hence cannot be used in an immediate POS context. At the same time several German corporates have started voicing risks of cash flow and liquidity problems if they move from domestic direct debits to SEPA."

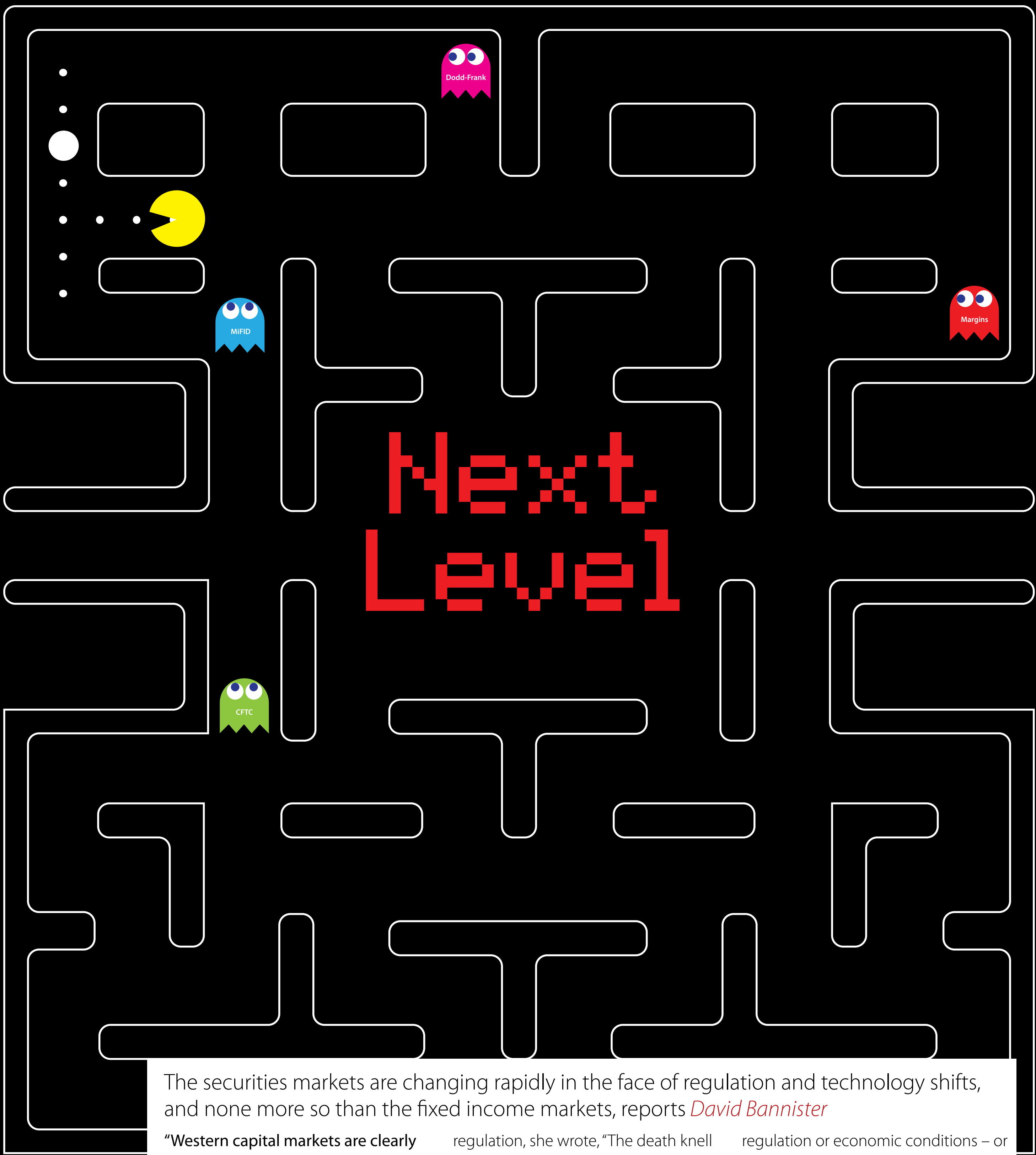
Similarly, while merchants might be happy to use the ELV mechanism for known customers – loyalty card holders, perhaps – the wider it is operated, the less likely they are to be comfortable; German merchants only take cards that are that are branded with the EC-cash logo.

There is also the small fact that "banks don't like ELV because they don't make any money from it," she points out.

Meanwhile, it "remains to be seen what will happen with Direct Debit," she says. "Will people be moved to a direct payment, the great Finnish example, which is actually a Direct Debit in disguise"? How will the industry align?"

These are questions that we may well still be asking after the 2016 deadline. ***BT***

Ruth Wandhöfer will be one of the keynote speakers and moderators at the European Payments conference on 4-5 July 2013 in Amsterdam. More details: www.icbi-events.com



Next Level

The securities markets are changing rapidly in the face of regulation and technology shifts, and none more so than the fixed income markets, reports *David Bannister*

"Western capital markets are clearly approaching their long-predicted suicide at a rapid clip …" read one comment on a recent post on the Tabb Forum site by analyst Rebecca Healey.

To be fair, the tone matched Healey's: commenting on the latest iteration of the European Commission's Markets in Financial Instruments regulation, she wrote, "The death knell has just been sounded for European cash markets … European regulators have re-introduced a volume cap mechanism that will have a draconian effect on dark trading in Europe."

Suicide and death? Have we come to this? Perhaps not, but there is hardly an area of the securities industry that is not reeling from the effects of regulation or economic conditions – or more usually a combination of both.

In Europe, and potentially elsewhere, the equities markets face uncertainties such as the Financial Transaction Tax – currently the subject of furious back-pedalling in Europe's corridors of power – though exchange indices are pushing ever higher.

Meanwhile, MiFID II is hovering, and Dodd-Frank looms.

But by far the most rapidly changing market is fixed income, which is being particularly affected by changes in the shifting balance between collateral management and capital adequacy (*The Gathering Storm, page 26*).

Says Bradley Wood, partner, GreySpark Partners: "In general it is probably the asset class that is undergoing the most market structure change, not least because of regulation like Dodd Frank but there is still, and will continue to be, growth and evolution. The market is not going to die – just look at the amount of debt that governments are issuing to realise that there is going to be a fixed income market."

But while he says that it is not going to disappear, he adds that it will most definitely change. "In a sense it will follow the path that the equities market has already taken," he says. "It has moved to a more electronic all-to-all type of market structure, and with the advent of MiFID there was a fragmentation of liquidity. There is an analogous thing happening in fixed income with the emergence of SEFs – Swap Execution Facilities – liquidity is fragmented. That poses both challenges and opportunities for trading. As an asset class, sourcing liquidity becomes more difficult, but the opportunity to take directional views or to arbitrage those fragmented markets potentially increases – when different markets are perhaps not pricing things optimally, opportunities present themselves."

Mark Hepsworth, president, pricing and reference data, Interactive Data says agrees about the shifts, stressing the illiquidity as the main challenge. "The big issues with fixed income are, one it is an OTC asset class and two, it's huge and relatively illiquid – we estimate that less than 2% of the bond universe trades on a daily basis. There are some bonds out there that may not trade for months or trade by appointment only," he says.

"There is a lot happening in this space, but the main thing is the lack of liquidity in fixed income trading. What is happening is that the sell side is dramatically pulling back on inventory. The drivers for that are capital adequacy requirements. The old paradigm was that the sell side was willing to buy bonds back or hold onto them if they couldn't find an immediate seller. They are much less willing to do that now. The buy side still may want to get into bonds, but the real issue is how will they get out of them when they want to?"

"The real problem is determining where fixed income starts and stops, and when it becomes the derivatives and futures market. That's not an easy distinction to make – it's like deciding when politics takes over from regulation."

Bob Fuller, Fixnetix

Hespworth is less convinced about the move to electronic trading. "Will this market go, completely electronic? Our view is that this isn't going to happen any time soon," he says. "I think what we see is people trying hard to leverage technology as much as possible, trying hard to automate as much of the process as possible, and to serve up as much information as possible to a human trader and let them focus on where they add real value. We still think that human contact is going to be very important particularly when you get the more illiquid end of the spectrum. There are still going to be conversations taking place between buyers and sellers."

"The fixed income capital markets are going through an evolution in terms of how things are going to get done in future," says Hepsworth. "The market is looking for a new way of doing things. The ECNs have definitely a role to play – MarketAxess is developing strongly because of that – but it's not a simple case that this is going to look like equities and everything is going to go electronic. Liquidity is the main thing. We don't think this is an asset class that you can just automate by transferring technology, it's more a question of automating as much as possible."

Bob Fuller, a director at trading systems specialist Fixnetix, says that as well as the issue of illiquidity, the fixed income market straddles a wider field than simple equities or FX.

"Fixed income is going through big changes, but it is still largely a voice market that is not going to change in the short term – 95% of the business is high-touch," says Bob Fuller, director of trading systems specialist Fixnetix. "The real problem is determining where fixed income starts and stops, and when it becomes the derivatives and futures market. That's not an easy distinction to make – it's like deciding when politics takes over from regulation."

GreySpark's Wood says that a shift is already happening. "We're beginning to see, with 'electronification' and the push towards electronic trading generally, a change in the way banks are structured," he says. "Voice-based salespersons will decrease in number, but they are expensive people to keep on the payroll. If you can get rid of them and replace them with a clever piece of software, It is not necessarily a bad thing."

A traditional argument for keeping voice traders is that some fixed income instruments are notoriously illiquid and voice traders can create markets for them. Brad disagrees: "That's true up to a point. I think we'll see different banks morph into different kinds of organisation – there will be the big flow monsters where it's all about volume and the per ticket profit they make is small but the cost per trade is managed down through the use of technology. Those flow guys will minimise on the number of voice traders they have. On the other side you will see more specialisation with niche operators who work in specific sectors, or specific types of bond, or have a strong research element – these are areas where you might see a bit of innovation and you might see less of a focus on electronic and more on human relationships. Those types of relationships will still exist, but only a certain niche type of bank and certainly only for a certain type of client."

A recent Tabb Group report says that there is a shift in the market, with new liquidity pools emerging. Electronic volumes are now 22% of the cash market, it observes, but points out that "electronic is no longer a voice equivalent on the screen. Innovative protocols and new order flow networks have a place in the new fixed income universe. Many asset managers and exchange traded fund market makers find it more efficient to execute odd-lot sized trades across alternative trading systems".

Because of this, "the line between institutional and retail blurs as comingled flows make for attractive pools of liquidity for many participants".

Driving all of this is the way in which assets on the balance sheet are treated from a capital adequacy perspective. "Basel III and all of the new regulations around capital are going to make capital requirements more punitive if you are holding a large inventory of debt. Banks are going to be loath to warehouse as much of this stuff on the balance sheets as they previously would have been," says Wood. "Previously, their risk appetites would have been larger: they would have sat on large amounts of inventory and they would have risk managed that inventory by trading on the market and hedging appropriately. The the cost of doing that is more punitive under Basel three than it was previously so the ability to make money in that warehousing model is going to be diminished and will become more of a flow or agency based mode of operation – again, not dissimilar to what we see in equities today."

The scale of the change is quite staggering. Figures from the US Federal Reserve show that the aggregate bond inventories at the larger US investment banks have dropped more than 75% since 2008, when they peaked above $200 billion. Currently the figure is some $45 billion.

He says that this will change the role of traders. "That will mean that traders in banks will need to be able to source liquidity for clients and pass it through in the most cost efficient manner, rather than relying on their in-house inventory. The nature of their work will become more about finding liquidity than hedging risk, which

> *"I think we'll see different banks morph into different kinds of organisation – there will be the big flow monsters where it's all about volume and the per ticket profit they make is small"*
>
> **Bradley Wood,** GreySpark

will have an impact on the way they trade – it will become easier because the risk management side is where the challenge is," he says. "If all you're doing is finding liquidity, then the way you make money is by trying to predict what type of position or which way your client might want go so you can earn a few basis points off a particular trade."

This means that some other trading strategies from other asset classes will migrate to fixed income. "Certainly this means you will see some buy-side interest in this asset class from a statistical arbitrage perspective, and you might see things like algo trading and HFT which are normally the preserve of equities and FX. We may see a bit of that starting to happen in the sector as well, which is interesting. It may create some moneymaking opportunities and it will certainly have an impact on the way trading operates and the way banks work," says Wood. "Those kinds of trading technologies and trading approaches we are beginning to see more of in the fixed income space – things like smart order routing or what some equities houses refer to as direct strategy access, which is effectively algo trading where people want to take a position but don't want to move the market or they want to use some VWAP algorithm."

For the most part, "fixed income products almost always rely on a quote based mechanism whereas equities trading hardly ever does, it is almost always order book trading," says Wood. The shift from quote-based trading to order-based trading is going to affect the way instruments are priced, which is reflected in the shift that information providers like Interactive Data are making towards intraday pricing, though that is as much being driven by the effects of regulation as anything else.

But in a market where instruments, or at least some instruments, are traded only occasionally – "by appointment", as Hepworth put it – how do you price them in any meaningful way?

"It's the same issues in doing it at the end of day, says Hepsworth. "There are three key components that we need to create fixed income pricing: technology and models we have developed, and which we are honing on a regular basis. Secondly, is essential to collect as much market colour as possible. We are receiving information from sell-side pricelists and our buy-side clients give us a lot of market information because it's in their interest to help us – we currently have about four million data points coming in on a daily basis, which is a significant amount of the market. The third part is the human evaluators: we have about 200 fixed income professionals around the world who help us filter through the market, and help to verify and create our price."

The bulk of evaluators are based in New York City "which is the fixed income centre of the universe" says Hepsworth, but local nuances and local relationships are important. There are also teams in London, Frankfurt, Hong Kong, Tokyo and Melbourne. "It is important to get as much local colour as possible – a lot of people are focused on Dim Sum bonds at the moment, for instance," he says.

There remains a potential issue with this says Wood. "In the same way that you have a danger with rating agencies who have a conflict of interest and every bond they are rating, there will be some bonds that are not traded frequently that are not easy to price," he says.

In general though, he says "having more information on balance is going to be better than less". It will also allow firms to develop more sophisticated approaches to customer tiering – separating different clients into layers that get different treatment depending on their value to the business. "If you look at Dodd Frank, for instance, one of the mandates is to provide a mid-price for SEF-traded products. The mid-price is designed to be un-tiered so if you have gold, silver, bronze tiered clients, you can give them a different spread but the mid-price needs to be fixed," says Wood. "Banks are investing a large amount in CRM and customer behaviour analytics for client segmentation to get a better understanding of who their clients are, where the profit pools are in the buy-side and who they should be targeting. Previously that has been down to individual relationships and one sales guy moving from Bank A to Bank B could have a significant impact."

"I think this is a good thing: you put more control in the hands of clients. Clients are becoming better informed and some of them maybe would make good use of this data, others less so. But on balance, it has to be better to give them more data than they hitherto have had; it will make them more sophisticated in selecting with whom they do business, which has to be good for competition and that has to be good for the evolution of the market."

Interactive Data's Hepsworth says that there are some other issues that better pricing information is going affect more flow moves to platforms. "With ECNs, such as Blackrock's Aladdin folding in with MarketAxess, there are issues around areas like best execution – people will need to demonstrate that it was a fair price they were trading at," he says. "The buy side and the sell side are both looking for a new paradigm. When you add those dynamics the reason we are going to bring real-time fixed income prices into the market is in reaction to two use cases: one is in the pre-trade world, where the feedback from the market is that they will find it helpful to have an additional independent reference point on the value of the bond before they trade; it would help them to automate the process around RFQ more and be helpful in getting the conversation going. We are also seeing our core back-office clients are looking to move more towards continuous pricing more intraday snapping of data to have more of a real-time view of the value of portfolios. Provided that what you give is an accurate price, more is better."

Other information providers are also rising to the challenge of improving information in the sector. Following MarketAxess' acquisition of Xtrakter in February, end-of-data pricing data for Eurobonds is now also available to premium subscribers to its BondTicker service, which provides market data on a wide range of credit instruments including US high-grade, high yield, emerging markets, CDS and Eurobonds, including 144As, underwritten instruments that have become more popular in recent years as they have become more liquid.

Given the importance of the debt markets to the real economy, there has been concern that regulation might kill things stone dead and that would have dire repercussions throughout the rest of the economy. The signs are, however, that the market is adapting to a new way of operating, and the regulators are starting to recognise the links. "What we have clearly seen was an initial surge of regulation, but they are dampening things down," says Hepsworth. "As it comes to implementation they have realised it is not as straightforward as they thought: Main Street and economies need fuelling through capital markets, and let's not throw the baby out with the bathwater." ***BT***

ALADDIN: LIGHTING A LAMP?

One of the most interesting events in the fixed income world has been the recently announced alliance between BlackRock's Aladdin Trading Network and MarketAxess. The combination is specifically intended to target liquidity fragmentation and aims to improve pricing across credit markets.

MarketAxess will run electronic trading and broker dealer operations, which will be connected to BlackRock's enterprise investment system, Aladdin, which hosts $14 trillion in client assets. BlackRock will provide "buy side leadership, input on strategic direction, and innovations in trade execution capabilities for clients".

The alliance evolves the Aladdin Trading Network into a fixed income trading portal, consolidating fragmented liquidity and expanding access from within Aladdin to the broader marketplace.

"This partnership enables Aladdin clients to tap into a deeper liquidity pool without ever having to leave Aladdin, while maintaining their existing trade workflow," said Ryan Stork, managing director and global head of BlackRock's Aladdin business. "Aladdin Trading Network serves to improve liquidity and enhance the Aladdin value proposition, and this alliance is a critical step forward in evolving open trading solutions on behalf of our clients."

Richard Prager, managing director and head of BlackRock's Trading & Liquidity Strategies Group, said: "Our two firms have a long-standing relationship, complementary strengths and a shared belief that the gradual shift towards more open trading in fixed income will require broad participation from the buy side and behavioural change among investors. The beta launch of Aladdin Trading Network in 2012 allowed us to test our trading approach within the Aladdin community and prove the model with clients. Our alliance with MarketAxess is a logical evolution and we continue to anticipate changing trading practices and pursue innovative liquidity solutions across asset classes."

"Through this strategic alliance with BlackRock we are delivering on our commitment to provide an independent, comprehensive electronic trading platform to address liquidity challenges in the credit markets," said Richard McVey, chief executive of MarketAxess. "The work with BlackRock will comprise our full range of e-trading options including multi-dealer RFQ, Market Lists, Client Axes and electronic order matching. We will benefit from BlackRock's influence and thought leadership in developing new solutions for credit trading, and from seamlessly connecting to their extensive Aladdin community. We think this alliance further validates the advantages of the MarketAxess platform as the logical venue for credit market liquidity to converge and help reduce fragmentation."

Project planning for technology integration is already in process, while the pair are engaged in finalising the details of the business arrangements.

The gathering storm

The balance between capital adequacy and collateral demands from regulators is out of kilter and a cause for great concern, reports *Elliott Holley*

Recent months have seen rising tensions over the seemingly insurmountable demands for collateral prompted by tough new financial regulation. With US Treasury estimates ranging as high as to $11.2 trillion in stressed market conditions, some observers are deeply concerned that the industry could be in danger of sliding into a black hole of collateral shortages and further crisis.

According to research house Celent, the full cost to fully upgrade the financial industry's infrastructure to make efficient use of collateral could reach $53 billion – and even then, asset managers can expect to swallow a 20% increase in the cost of collateralisation as high-quality, in-demand assets begin to dry up. Added to that is an expected by dramatic rise in margin calls – up to seven times, according to some estimates.

The cause of all this additional cost pressure is of course regulation, much of which attempts to strengthen the resilience of banks and correct the systemic weaknesses exposed during the financial crisis. Basel III requires banks to deleverage and set aside more capital; Dodd-Frank in the US and EMIR in Europe require the bulk of OTC derivatives to be standardised, centrally cleared and reported and where possible traded on exchange-style platforms.

SIX Securities Services has warned that changes prompted by the new regulatory environment may result in commoditisation of collateral management – with potentially deleterious effects for market participants as different providers descend into undifferentiated price competition, reducing the quality of risk mitigation that collateral management then provides.

"Collateral management is far more than just providing a view of, and netting, multiple streams of collateral across silos," said Robert Almanas, head of securities finance solutions, SIX Securities Services. "Collateral management controls counterparty risk exposure more efficiently and ensures that market and operational risks are mitigated. Tri-party collateral management systems completely ring-fence a financial institution's assets, protecting them from co-mingling and, in the event of a default, allow segregated assets to be easily identified and returned to their owners."

In March, Almanas warned that a decision by the Basel Committee on Banking Supervision to include assets rated as low as BBB-minus bonds in the definition of high-quality liquid collateral risked sowing the seeds of the next financial crisis. Calling into question the concept of a collateral shortfall, Almanas asked whether it is the case that there is not enough collateral, or whether it is just that the industry needed to use collateral more efficiently. Breaking down siloes and resolving inefficient use of collateral should be a priority, he added.

So what can be done about it?

Fishing for solutions

The new rules have already prompted several organisations to develop their own solutions, designed to maximise the efficiency of collateral. In April, Standard Chartered enlisted

Clearstream and Euroclear to a new scheme designed to help investors margin their exposures from a single, larger collateral pool. Meanwhile, Citi has recently introduced segregated collateral custody accounts to help improve the efficiency of collateral and formed its own deals with Clearstream and Euroclear. In addition, in January the central securities depositories of Germany, Spain, Brazil, South Africa and Australia formed a Liquidity Alliance that aims to tackle the global collateral shortfall.

Yet according to Saheed Awan, global head of collateral management and securities finance at Euroclear, the doom-laden figures pointing to a collateral apocalypse are unhelpful, and may be misleading. Citing estimates by the IMF and the Bank for International Settlements, he suggests the true figure is likely to total between $4-6 trillion to cover the cost of Basel III, the clearing of OTC derivatives and the increased margin required for the remaining non-cleared contracts.

"There is a lot of scaremongering going on," he said. "The truth is that there is enough collateral out there to meet the needs of CCPs and banks – it's just that a lot of it is currently locked away in silos. The real problem is not so much the amount of collateral – it's the five to sevenfold increase in the frequency of margin calls, which means that people need to mobilise their collateral much more quickly. We are working with Asian banks and CSDs and international depositories like the DTCC to unblock that collateral and move it where it's needed."

According to the Celent research, firms cited a need to focus on collateral efficiency (67%) and operational efficiency (62%), with an emphasis on improving efficiency at the core around margining processes. Despite the ongoing rollout of the regulation by stages in Europe and the US, many firms are still not ready; some 48% of respondents have not completed operational preparations to cope with margin call increases or new regulation, while of those that have, firms cited margin call inefficiencies (43%) and limitations of existing systems (38%) as the most significant remaining challenges. The number one competitive advantage will be the degree of automation and efficiency in how firms manage collateral, concludes the document.

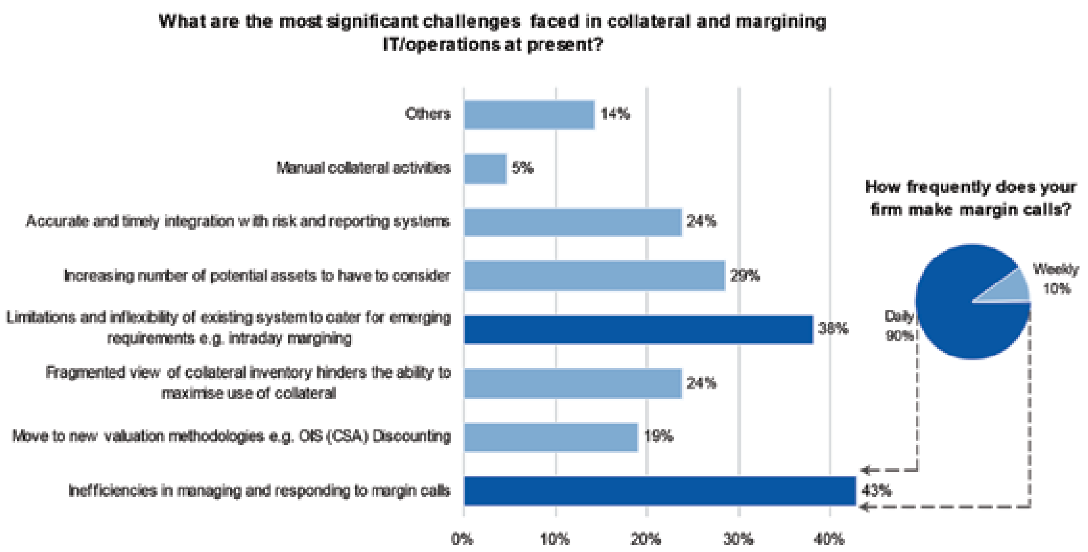
"The differentiator between winners and losers will entail frontline strategy decisions that are enabled by timely collateral inventory information and margining operations, as opposed to firms that may face limitations on what/how/where they trade", said Cubillas Ding, research director at Celent and author of the report.

Euroclear's deal with the DTCC consists of a margin transfer utility, which is designed to link up the entire chain from the buy-side to the payment systems to the clearing members and the CCPs. The firm aims to use the industry-wide utility structure to achieve high levels of STP, which can then be used to handle the increased level of margin calls. The project is due to go live in Q1 2014.

Casting the net

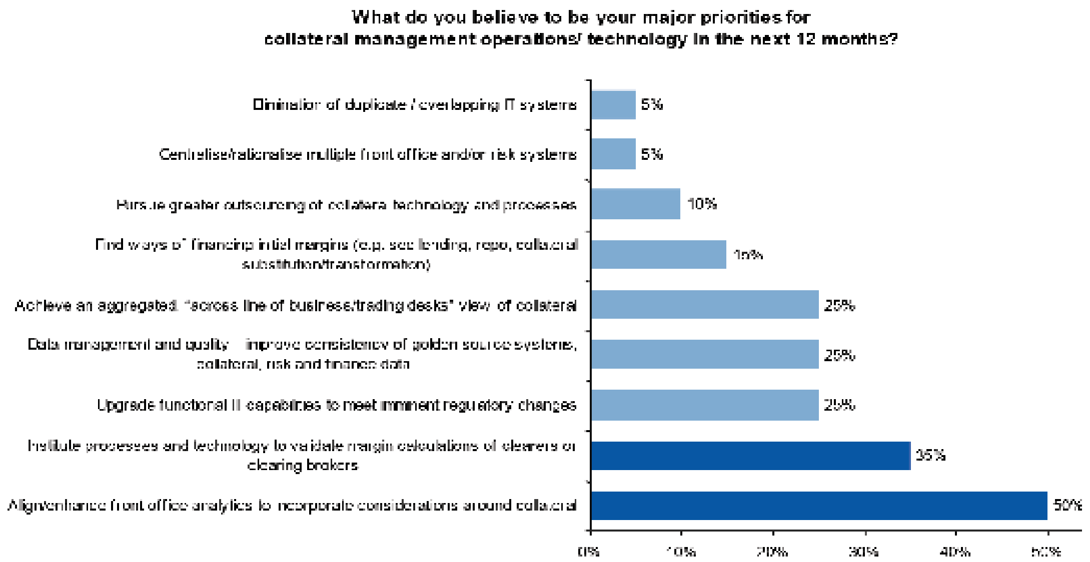
However, the collateral crunch cannot be entirely written off. Awan at Euroclear acknowledges that there is a second part to the dilemma. The velocity of collateral will probably reduce because of the regulations, he says – meaning that where previously market participants have been able to re-use collateral further down the settlement chain, under the new

MOST SIGNIFICANT CHALLENGES IN COLLATERAL AND MARGINING IT/OPERATIONS



Source: Celent Collateral Management Buy Side Study 2013

NEAR-TERM PRIORITIES FOR COLLATERAL OPERATIONS AND TECHNOLOGY IN THE NEXT 12 MONTHS



Source: Celent Collateral Management Buy Side Study 2013

regulations collateral will be held in place, in segregated accounts, with no possibility of re-use.

"When CCPs receive collateral, it's just held there as initial margin," he said. "On top of that, the buy-side is insisting that their initial margin should be segregated away from both their clearing broker and also the clearing house, in a third-party trustee structure. The AFMD rules, which take effect in July, state that collateral placed by hedge funds can no longer be held by the prime broker. It has to be segregated away into a depository. All this means that more collateral has to be unblocked to fill the gap."

Euroclear is currently targeting the major global central banks, including the US Federal Reserve, the Bank of England and the European Central Bank, in a bid to access the collateral they hold. According to Awan, the central banks have been buying huge quantities of high-grade assets, including government bonds, as part of their quantitative easing programmes. Euroclear offers to lend out those high-quality assets as collateral, theoretically earning a return for the central bank while simultaneously easing the global shortage of high-grade collateral. He suggests that hedge funds and pension funds also stand to make significant returns next year by participating in lending programmes when high-quality coverage is in high demand.

The other main challenge is that there are different collateral frameworks in the market, he said. The ECB has a very wide list of eligible collateral, include triple B minus bonds. The central banks are fairly loose in their criteria for acceptable collateral, since they are trying to provide more liquidity; at the same time, the regulators are trying to drive more business towards central clearing counterparts. But since the CCPs are very strict on the collateral they will accept, and impose tough haircuts even on the high quality securities the cost to use CCPs remains relatively high. That means that it would be wise to consider other sources of collateral, he suggests.

"Most people define collateral in terms of the rating of the collateral," said Awan. "But the market needs to look at collateral in terms of liquidity. You only need collateral when there's a bankruptcy – and if there is a bankruptcy, you need to sell that collateral very quickly. What sells the fastest? Liquid assets. Yet some of the most liquid assets in the world – blue chip, highly capitalised equity, like an apple stock or GSK – are rejected by most institutions. That doesn't make sense to me. Would you not rather take that equity, rather than some of the sovereign debt we have currently in the marketplace? If equities were accepted more widely, there would be no talk of a collateral crisis."

At present, equities have a relatively high-risk weighting on bank balance sheets, making them unattractive versus bonds, while CCPs would need regulatory approval to accept new kinds of collateral. However, according to Awan, BIS is already looking into encouraging regulators to change that state of affairs.

The technical standards for EMIR came into force on 22 March, after which CCPs will have six months to apply for registration. Once that takes place, a 90-day period will follow in which market participants are given notice that they must clear all products covered by the new rules. It is estimated that market participants will be bound by mandatory clearing obligations by Q1 next year. ***BT***

See also Interview with Six Securities Services chief executive Thomas Zeeb, Page 32

Stars of the south

South America's financial markets are dominated by Brazil, but other countries are also developing rapidly, as Elliott Holley explains.

Brazil, according to a long-standing joke, is the country of the future and always will be. Founded by a mixture of Portuguese explorers and colonists, indigenous peoples, and European and African immigrants, Latin America's largest country boasts a population of 200 million and a GDP that eclipsed that of the UK in 2011.

The country's banking infrastructure reflects both its rapid rise in recent years and its historic status as an emerging market. Even after nearly two decades of economic expansion under Fernando Henrique Cardoso (1995-2003) and Luiz Inácio Lula da Silva (2003-2011), the percentage of Brazilians who do not use banking services is still close to 40% according to economic think tank IPEA, and 55% of employees in Brazil are paid in cash according to research from the Brazilian Central Bank. In total, regional bank Banco Panamericano estimates that there are at least 75 million people with no access to banking services in Brazil.

Nevertheless, Latin America's largest nation harbours grand ambitions for the near future. It will host the FIFA World Cup in 2014 – a major project, and one for which several new football stadiums have been constructed, including one in the north-eastern city of Salvador that was recently damaged by heavy rainfall, and another in Rio de Janeiro that has been totally rebuilt for the event. It is also hosting the 2016 Olympics. These events will focus international attention on Brazil – and provide an opportunity to showcase the country's latent economic potential.

In May, Brazil got its first mobile payment service when MasterCard combined with Spanish and Latin American operator Telefónica to debut its Zuum service in Sao Paulo and Belo Horizonte. Zuum will allow Brazilians to transfer money, buy credits for pre-paid mobile phones and pay bills with their mobile phone. The service aims to capitalise on the fact that there are over 267.5 million mobile phone subscriptions in the country, according to figures provided by the World Cellular Information Service – making Zuum potentially an ideal tool to reach millions of people who do not have a bank account, but do have a mobile phone.

"Brazil is a country that loves and invests in technology and has a big number of people without access to financial services in the classes C/D/E, the so called unbanked population," said Marcos Etchegoyen, president of Mobile Financial Services, the new company created by the joint venture. "Zuum arrives to meet this demand and to make easier the life of Brazilians."

Other mobile payment services are also expected in Brazil imminently. Zong, a PayPal subsidiary started in 2008 by entrepreneur David Marcus, is currently seeking to bring Brazilian carriers Vivo, TIM, BRT, Claro and Oi onboard for its own mobile payment service in the country. Meanwhile, eFinance company Paggo is developing payment solutions with mobile operator Oi and the national bank, Banco do Brasil.

In the capital markets, Brazil has attracted vast amounts of trading technology and foreign investment in recent years. Based in Sao Paulo, BM&F Bovespa is the stock exchange and derivatives market for Brazil. It is by far the largest exchange in Latin America, soaking up an estimated 80% of Latin American flows according to Thomson Reuters, and second only to the CME Group in the whole of the Americas, if NYSE Euronext's European activities are discounted. The exchange is widely known for its efforts to encourage participation of foreign investors and build up its technology base, including the construction of four different DMA segments and co-location facilities that appeal to high-frequency traders and other sophisticated institutional participants. BM&F Bovespa rolled out its new Puma trading system in equities only last month, as well as a new market surveillance system from Nasdaq OMX in April.

According to the Long Finance Global Financial Centres Index compiled in March, Sao Paulo is now the highest rated financial centre in Latin America, ranking number 44 globally. Rio de Janeiro is number 48; both rankings have increased since the previous year by four places each. Notably, Brazil is behind China's Shanghai (number 24) but ahead of Moscow (number 65) and Mumbai (number 66). In addition, China's top city fell five places versus the previous year while Brazil gained ground.

"In Latin America, financial centres in Brazil made good ground in GFCI 13 and are likely to rise further," says the GFCI report.

Meanwhile, the removal of a stamp tax in Brazil late last year has prompted a significant uptick in liquidity; last year in Brazil, for the first time according to research house Aite, Europe surpassed the US as a driver of foreign trading volumes in Brazil. In May, BM&F Bovespa joined the BT Radianz Cloud, a financial community that connects 500 member locations in Latin America with BT's global network. BM&F Bovespa has also long held an alliance with CME Group in the US, which allows order routing between the two venues, effectively making it easier for US investors to access the Brazilian market and vice versa.

One potential fly in the ointment is the lack of exchange competition. According to Bill Ruvo, head of Elektron managed services Americas at Thomson Reuters, BM&F Bovespa's ownership of the settlement and clearing infrastructure for Brazil presents a major challenge to any would-be competitors, since these would have to either establish their own post-trade infrastructure or risk undermining their own business models by using the clearing provided by the incumbent exchange. Both US exchanges Direct Edge and BATS have expressed interest in entering the Brazil market, as has Americas Trading Group, yet none of these would-be players has yet committed to a launch.

"Apart from direct competition, one of the main challenges for BM&F Bovespa is the ADR market, which allows Brazilian companies to list on NYSE and Nasdaq OMX," said Ruvo. "But the main obstacle from a foreign investor point of view is regulation. The taxes and regulation in Brazil have hampered foreign access. That said, some players profit from the rise of ADRs – high-frequency traders, for example, gain arbitrage opportunities."

However, Salvador Palma, managing director at XP Securities in New York, formerly president at Latin America capital markets specialist Alyar, argues that in the longer-term, the prospects for Brazil remain positive. Pointing to the role of the country's strong regulation in protecting Brazil from the financial crisis, and the wisdom of the country's tough controls such as its ban on so-called "naked access", in which asset managers access the market using their broker ID with no pre-trade risk controls, he added that Brazil remains a stable, powerful and attractive market.

"Everyone expected that with the country hosting the World Cup and the Olympics, Brazil's stellar growth would continue for ever," he said. "Brazil didn't deliver last year – taxes and regulation have scared away investors in the short-term. But the fundamentals haven't changed, and the long-term proposition is strong."

Regional players

Other centres in Latin America have also made notable progress over the last year. In the GFCI study, one of the star performers was Buenos Aires in Argentina, which jumped 15 places to number 53 – a dramatic improvement on its position a year earlier.

Panama made its debut on the index this year, entering at number 67. The rankings were decided based on business environment including the rule of law and low corruption, the demographic base, simplicity and stability of taxation, reputation and predictability, strength of infrastructure and ease of market access.

In Mexico (number 55), a strong IPO pipeline has helped to create a robust market for investors, while at the same time new trading technology has brought an order of magnitude improvement in the exchange response times, creating much reduced latency for all participants.

According to Carlos Hernandez, head of trading technology at Mexican broker Interacciones Casa de Bolsa, reliability at the Mexican exchange has experienced a major step up from the previous trading system following an upgrade earlier this year. These improvements are helping to foster a cultural change, as participants learn to adjust to the arrival of sophisticated new kinds of participants and new kinds of venue, such as the dark pool launched by the Mexican exchange in September last year.

"In Mexico there's been more interest in high-frequency trading and prop traders from the US of late," said Hernandez. "That has impacted liquidity. The arrival of market makers has helped to provide a very lively market. The interaction of long-term investors with completely low-touch trading strategies is very interesting.

The Mexican market is currently exploring how to build the right mix of participants."

Meanwhile, Latin America's other smaller markets have also been active. In January, Peru's Lima Stock Exchange signed a deal with the London Stock Exchange to obtain trading and smart order routing technology. The Lima exchange is one of the founding members of MILA, the Mercado Integrado Latino Americano, a regional project between Colombia, Chile and Peru that aims to link the three stock exchanges with shared order routing and market access, boosting domestic demand and international participation.

On MILA, the exchanges of the three countries agreed to open up to each other's members – meaning for example that an investor in Santiago, Chile can trade on the Lima exchange even if that investor only has a licence for his local Santiago exchange, and vice-versa. Mexico is also due to join the group before the end of this year, following the signing of an agreement to that effect in late 2011.

According to Palma at XP Securities, the addition of Mexico to MILA would provide a useful boost to the project, since the three existing members have relatively underdeveloped futures markets. Mexico's MexDer would bring a stronger presence in a new asset class to the group, making for a more compelling proposition. Nevertheless, he is favourable about the existing line-up's achievements.

"MILA has prompted Chileans to look into opportunities in Colombia and Peru, and vice-versa," he said. "The challenge now for Chile, Colombia and Peru is to equalise the tax rates and the legal system between the three countries, and to develop a common currency or at least one that is convertible."

Palma added that the economic fortunes of different Latin American markets can be traced back closely to government decisions. In Argentina, for example, he observes that the government has been stifling the country's strong potential by controlling exchange rates, bank lending and even nationalising pensions. However, he is much more optimistic about Colombia.

"Argentina's success depends entirely on open government, but unfortunately under Christina Kirchner it's going the other way," he said. "That said, Colombia looks very promising – they've completely cleared up the war on terror and drugs and brought the country a stable currency, GDP growth and low interest rates for the first time in many years. Colombia is following the same growth path as Brazil a few years ago, and I suspect that will continue. Already there's a lot of dual listing between Canada and the US and Colombia; I'd expect trading volumes to double there in the next two years."

It is not just exchanges adapting more modern trading technology, either. Later in January, Chilean broker Banchile, part of Santiago-based Banco de Chile, deployed a brokerage platform from UK systems supplier Fidessa that hooked it up to international trading venues. Palma notes that regional brokers have been investing heavily in direct market access technologies, while technology and connectivity vendors such as SunGard and Fidessa are active in several Latin American markets.

Banchile operates both as a broker and as an asset manager, through its Banchile Corredores de Bolsa and Banchile Administradora General de Fondos businesses respectively, and has approximately $9.5 billion assets under management. The technology Banchile bought from Fidessa consists of a brokerage trading platform including an order management system and algorithmic and basket trading tools. It also includes connectivity to Fidessa's global network, which gave the broker access to 3,200 buy-side firms and 180 trading venues around the world.

"We are seeing a lot of activity in the Andean region with firms replacing legacy vendor and proprietary systems and investing in customisable, high-throughput, low-latency trading solutions to enable high-quality execution, greater operating efficiency and a solid basis for growth," said Alice Botis, head of business development for Fidessa in Latin America.

Fidessa opened a new office in Sao Paulo late last year; the company is currently building out its Latin America team, and Botis is confident that the regional will continue to see further expansion as local traders move from exchange terminals to more sophisticated systems and as algorithms and basket trading strategies continue to grow in complexity.

Despite this enviable growth, the man on the street in Sao Paulo, Santiago or Lima is still not necessarily receiving the most effective, efficient banking service possible. According to Palma at XP Securities, banks have been making enormous profits at the expense of consumers who may be buying a car for the first time, or purchasing household appliances that would be out of their reach without a supply of credit.

"The Latin American countries have a large middle and especially lower class," said Palma. "Banks make a lot of money from loaning these people houses, cars and even smaller products such as kitchen appliances. The banks are making double digit spreads in the region, and the customer has no choice but to pay a higher rate and get the car."

However, he believes that this situation is already beginning to change, as micro-credit organisations spring up across the region offering customers better rates and gradually pushing spreads down.

In 1951, Ernesto 'Che' Guevara set out on his famed motorcycle journey across South America and witnessed the poverty and inequality that inspired his later revolutionary struggle in Cuba. Some 62 years later, Latin America is still not an equal society. But rising GDP, stable government, advancing technology and growing competitive forces are now pushing forward the continent's rising stars where guns once failed. ***BT***

Joining the dots

Thomas Zeeb, chief executive of Six Securities Services, sees change all around in the post-trade world. He tells *David Bannister* that he also sees opportunities.

The post-trade infrastructures behind the world's securities markets face as much, if not more, regulatory driven change as the trading firms in the face of legislation such as the European Union's European Market Infrastructure Regulation.

While some of the effects will be negative, the regulators are showing a constructive approach and recognising that the infrastructure providers came out of the crisis well, says Thomas Zeeb, chief executive of Six Securities Services.

"Perhaps not at the EU level, but certainly at the implementation level there is starting to be a greater recognition," he says. The European Securities and Markets Authority, charged with providing the technical standards for the implementation of EMIR, "is much more pragmatic and actually sees infrastructure providers as part of the solution and not just part of the problem".

It is a big shift from a few years ago, and recognises the part that they played during the crisis. "None of the infrastructure providers failed during the crisis; in fact we all worked very closely with our competitors to try to make sure that the impact at a fundamental level was minimised. We cleaned up behind some of the messier failures at the bank level," says Zeeb. "I actually think we did a hell of a job as an industry and I don't think that for several years it was recognised.

"The discussions between Clearstream, Euroclear, SIS and other major infrastructure providers together with the big global custodians and investment banks was a big contributor to the orderly wind down of Bear Stearns, compared to Lehman Brothers," he says. "I think it showed the regulators that there are checks and balances in place between the banks and the infrastructures that don't need to be tampered with needlessly, and now that some of the policies are starting to be implemented we are starting to see recognition that infrastructure can be part of the solution."

That doesn't mean that he is fully behind all of the changes that are coming through and has been a notable critic of the Target2 Securities project. "I'm not 100% convinced it addresses the real cost issues, which are a lack of harmonisation on tax, lack of harmonisation on corporate actions processing, and quality of information, he says. "Having said that, T2S is also something that breaks the dominance of the big players because it mixes the cards fresh and it gives the market a chance to position itself, and it gives the regulators the chance to look at the role of infrastructure in capital markets. If that role is to mitigate risk, how do we ensure that we keep the benefits of competition without going too far in allowing competition to increase risk profiles?"

Competition is essential, he says, and Six has laid down a number of plans that will take it beyond being the central securities depositary for the Swiss markets, including a new central counterparty clearing mechanism for securities lending.

"We have to be expansionist," says Zeeb. "Frankly, the Swiss market is too small to generate enough scale on its own to be competitive in a pan-European context. There is a lot going on because we need to have the

"How many banks after Lehman were able to push a button and say what their exposure was? Probably pretty close to nil"

scale of the international business to continue to be one of the most cost-effective domestic CSDs in Europe."

And while he talks of the cooperation between infrastructure providers, the new market structures provide new opportunities that they will be fighting for.

"It's a small industry and the lines are absolutely open between the different CSDs and CCPs, although we compete viciously for customers," he says. "Differentiation will be in terms of the service offering, or in terms of risk management – including collateral and all of that stuff – rather than risk mitigation in the event of a systemic failure, though all have an interest in ensuring that there isn't a significant systemic breakdown."

The new CCP for securities lending, scheduled for launch this month, steps into a gap created by the closure of the SecFinex platform, for which Six provided clearing services. Eurex has also moved into this space.

Zeeb says SecFinex was a good idea at the wrong time, but changes in the way collateral is managed mean that a CCP has more attraction now.

"Large portfolio controllers have to generate a better return and can only do that if they have a reasonable way of mitigating risk. The old way of taking the collateral and investing it is not going to be viable," he says. "We have come a significant way forward in terms of agreeing how securities lending can be accounted for, how it should be valued, how it should be collateralised, and that provides a fairly decent basis for believing that now there is a role for securities lending again. It is worth creating a netting facility to take some of the bilateral counterparty risks out of the market. We remain convinced that a CCP can provide value in that."

Securities lending attracted flak during the financial crisis because it was seen by some as facilitating short-selling. Zeeb says that this is not an issue: "The loopholes on short selling, which have now been closed, allowed abuse that gave securities lending a bad name. But the idea that lending someone something from a long portfolio to cover their liquidity requirements? There is nothing wrong with that: you just have to account for it properly."

In fact, securities lending will be essential if liquidity in some markets is not to dry up completely as banks shore up capital in response to regulations, which he thinks is one of the most pressing issues facing the industry.

"I don't think we are going to have enough good quality collateral in the future," says Zeeb. "Some of my colleagues are more relaxed about it and think that industry stakeholders will come up with securities that are acceptable as collateral but I struggle to believe that: if you accept that collateral has to be liquid, of high-quality, and easy to value, then the spectrum gets smaller fairly quickly – you could always create asset backed securities, but then we're right up back to where we started."

He talks of creating a collateral management system that goes beyond the traditional custody model. "That is pretty easy to do if you have the right software and the assets under your control, but if you want to virtually pool the collateral across multiple locations and optimise the usage of that collateral, that's a very different thing."

It will also change how CSDs like Six earn their living. "If I provide tools to provide a collateral pooling capability across multiple CSDs, I will be able to tell you what your net exposure is across, say, North America marked-to-market in real-time – that's a huge benefit. How many banks after Lehman were able to push a button and say what their exposure was? Probably pretty close to nil," he says. "Being paid for just the transaction is not going to work: getting paid to provide intraday tools and intraday positions, which is still being done bilaterally between individual banks? This is where I think even the small players, if they have the functional capability, have real opportunity."

But while regulatory changes and market needs are creating such, Zeeb cautions that the future is uncertain.

"There is going to be continual change and I think, though people would disagree with me, that the post-trade space is significantly more complicated than the trading layer," he says. "Settlement and credit and cash payments and corporate actions and everything else are so interrelated and so potentially messy that it is almost inevitable that legislation introduced over the next year or two will have to be reviewed again when the consequences manifest themselves. It is not a criticism of the regulatory process directly – it is inevitable because anticipating everything that could happen is almost impossible." **BT**

APPOINTMENTS

SunGard man takes over at MillenniumIT

Millennium Information Technologies, the IT subsidiary of the London Stock Exchange has appointed John Mackay "Mack" Gill, as its new chief executive officer, taking over from company founder Tony Weeresinghe, who will become non-executive chairman with a global business development role.

Gill joins MillenniumIT from global technology group SunGard Data Systems where he was senior vice president, corporate development & strategy.

Prior to this, he held a number of senior roles at SunGard, including president of SunGard Global Technology and president of SunGard Global Services. At MillenniumIT he will be responsible for all aspects of the business, including strategy. He will also be a member of the exchanges global leadership team and will report directly to Antoine Shagoury, chief operating officer and chief information officer. He will be based in Colombo, Sri Lanka, and will also work closely with Weeresinghe.

NYSE Technologies has appointed **Varghese Thomas** as senior vice president and global head of Infrastructure Solutions. Based in New York, Thomas will be in charge of the financial hosting, network and managed services business' development and management. In his new role, he will report to Terry Roche, chief operating officer and will work closely with NYSE Technologies' content and liquidity Solutions teams. Prior to NYSE Technologies, Thomas worked at co-location and cloud computing company Savvis as global head of financial services and led the global managed IT and cloud infrastructure strategy, business development and solutions for the unit across capital markets, banking and insurance. Thomas also held several leadership roles at Thomson Reuters and Bridge Information Systems supporting financial applications and technology as well as having worked at Smith Barney's market data and trading services team.

Paul Kennedy has moved from Interactive Data to take up a new post as director of data Science at Platts, the energy information provider. Kennedy had been business manager for reference data at Interactive Data for the past four years. A market data industry veteran, he has previously worked at GoldenSource, Reuters, Bridge Information Systems and Knight Ridder Financial. In his new role, he will oversee the development of the strategic information architecture for Platts, acting as the primary advocate of data methodologies, data management best practises and broader information architecture issues.

Technology firm Orc has appointed **Jeremie Bacon** as regional president of Orc Americas. He succeeds Marty Leamy and will be based in Orc´s Chicago office. Prior to joining Orc, Bacon co-founded Backstop Solutions Group, a Chicago based firm that provides investor relations and hedge fund portfolio management software. he also spent time at Goldman Sachs, where he worked in the institutional equity sales division.

ICAP has appointed **Dean Berry** as chief of Global Broking E-Commerce. He will report to David Casterton, chief executive of Global Broking. Berry was most recently ICAP's Regional chief operation officer Asia Pacific for Global Broking. He will be responsible for defining and implementing ICAP's Global Broking E-Commerce strategy globally, working alongside its regional broking chief executives.

Gresham Computing has hired two former SmartStream executives, taking on **Jake Sweeney** as sales director of APAC, based in Sydney, and **Spencer Black** as senior sales executive focusing on the UK market. Sweeney was most recently SmartStream's sales manager for Australia and New Zealand. Prior to this, he worked at CheckFree, now Fiserv, in a senior consultancy role. Sweeney was also the special engagements lead at Mercator Software. Prior to Gresham, Black was part of SmartStream's London operations where he held the role of senior sales executive. He has worked in various senior sales positions at Complinet, Link Asset & Securities, and Advent Software.

Helen Mason has been appointed head of commercial cards, EMEA, in the Global Transaction Services business at Bank of America Merrill Lynch. In this role, Mason has responsibility for product management, new business growth and account management for the EMEA commercial cards platform. Based in London, she reports to Lesley White, head of Treasury Products, GTS EMEA and also has accountability to Kevin Phalen, head of Global Card and Comprehensive Payables, who is based in Chicago. Mason joined the firm in 2010 and has previously held positions at Citibank, HSBC, RBS and Lloyds during which she managed all aspects of commercial cards, including operations, sales, account management and implementation.

Surveillance and Compliance software specialist B-next solutions has hired **Stefan Hoppe** as sales manager as part of a strategy to continue to implement and develop an international partnership programme. Hoppe will develop, implement and execute a program for sales, sales partnerships and acquisitions; and assist in the management of relationships with current and future partners.

He joins from Ullink, where he was previously business development manager in the Germany, Austria and Switzerland and Eastern Europe regions. He was worked for Thomson Reuters, Instinet and Business Wire.

Liquidnet, the global institutional trading network has made two senior appointments to its London based EMEA trading team to strengthen and develop relationships with its community of asset management firms. **Julien Fougere** has been appointed head of trading coverage

EMEA with responsibility for developing Liquidnet's buy-side institutional member relationships. He will report directly to Tony Booth, head of sales. **Stuart Thompson** joins as an execution trader and will support Liquidnet members' trading needs via the company's trading desk and suite of algorithms, reporting directly to Richard Gray, head of trading and the algo servicing group. Fougere brings more than 15 years of experience, joining from Merrill Lynch where he was managing director of pan-European sales trading, looking after execution relationships for a mixture of hedge funds and long-only investment clients. Thompson was a sales and risk trader for Citadel Execution Services. Prior to that, he held a number of sales and trading roles at Bloomberg Tradebook.

MasterCard has appointed **Andrew Buckley** as head of commercial products for Europe. Based in London, he will be responsible for leading the commercial team in Europe and delivering advanced commercial payments solutions to small businesses and large corporations and their employees. Prior to joining MasterCard, Buckley was vice president for global corporate card product management at American Express. In this role, he was responsible for launching new products, such as Corporate Centurion, and new markets such as Russia. Previously he was vice president for global corporate marketing, where he drove the shift to digital acquisition. He also held senior sales and technology roles with American Express, in both the UK and US. Prior to this, he was a consultant with PricewaterhouseCoopers, and before that held strategy, sales and marketing roles with telecoms and IT companies.

Treasury and risk management systems vendor Reval has hired **Matt McLoughlin** as vice president of professional services, EMEA West. McLoughlin was previously director of professional services at Calypso Technology with responsibility for the UK, Nordics, Russia and South Africa. His previous experience also includes deployments of key operations at several top-tier banks. ***BT***

EVENTS

JUNE 11 2013
Mobey Day, Barcelona

Mobile banking professionals from across Europe will gather in Barcelona for a day of networking and debate, hosted by La Caixa and organised by the Mobey Forum and Finextra Research. Panels include an influential group of speakers drawn from the analyst, standards, technology and consulting communities.

www.mobeyday.com

JUNE 18-19 2013
SIFMA Tech, New York

Much revamped over the past few years, the SIFMA event will be looking across the challenges the industry faces in general sessions and drilling down into specific issues in track sessions on reference and market data, trading systems, data management and could infrastructure and more.

www.sifma.org/events

JUNE 18-19 2013
PayExpo 2013

PayExpo brings together banks, card schemes, retailers, gaming groups, government, transport groups and mobile operators to showcase the latest technology and innovations and to discuss the challenges they all face. This year includes a new strand, Mobile Money Europe featuring case studies and more from this rapidly changing area.

www.payexpo.com

JULY 4-5 2013
European Payments, Amsterdam

Managing regulatory challenges is the theme of this event, a close cousin of the International Payments Summit. As well as SEPA, the chair – Citi's Ruth Wandhöfer – promises a focus on the other initiatives and regulations affection the payments world, including mobile and security, and how Basel III's liquidity requirements will affect the payment world, particularly intraday liquidity.

www.icbi-events.com

SEPTEMBER 16-19 2013
Sibos 2013, Dubai

The mother of all financial services conferences and exhibitions makes its first visit to the Middle East.

www.sibos.com

OCTOBER 6-9 2013
Money2020, Las Vegas

Money2020 explores the macro trends in payments and financial services innovation, such as the mobile Internet, open platforms and consumer empowerment. Money2020 brings together the broader worldwide community of innovators including retail, mobile, advertising and technology that are profoundly changing how consumers and businesses manage, spend and borrow money.

https://secure.events-registration.com/money2020

NOVEMBER 5-7 2013
BAI Retail Delivery, Denver

Reports from 2012 suggest that the BAI event is on the road to recovering its crown as the main event in the global retail banking calendar.

www.bai.org/retaildelivery

NOVEMBER 19-21 2013
Cartes, Paris

Cartes had more than 19,000 visitors last year, and 435 exhibitors, reaffirming its position as a leading event for following trends in payments, mobile, security and innovation.

www.cartes.com

NOVEMBER 27-28 2013
Big Data in Retail Financial Services Europe

A dedicated two-day event looking at the competencies a firm requires in order to successfully implement a Big Data strategy. With an international focus, the event will feature speakers from across Europe, covering topics including management approaches to data analytics to reveal insight hidden in Big Data.

www.smi-online.co.uk

DECEMBER 2-6 2013
RiskMinds, Amsterdam

Billed as the largest risk management conference in the world, RiskMinds brings together 600+ risk professionals from around the world, ranging from global investment banks through regionals to corporates.

www.icbi-riskminds.com

Banking on the user-centric experience? Begin with robust data and analytics

Igor Sarenac, vice president of financial services and international business at Convergys

The UK retail banking sector is characterised by a continuing lack of competition and resultant limited customer churn between financial services providers. This has made it difficult even for new market entrants to gain market share from long-standing, less popular competitors, due to the inconvenience and complexity involved in switching banks. Meanwhile, many customers of established banks, while reluctant to convert to another provider, are dissatisfied, inactive or indifferent about their relationship with that bank

Faced with this challenge, financial institutions are becoming ever more reliant on technologies such as data analytics to deepen their understanding of customers' experiences, and to identify the factors that really impact satisfaction levels and overall brand loyalty. In short, technology has become a necessity rather than a 'nice to have'.

Recent plans outlined by the UK Chancellor, George Osborne, to allow customers to switch their account to a rival firm within a week, are set to further shake up the industry – a move designed to "give customers the most powerful weapon of all: choice." Technology will, of course, play a vital role in this evolution, presenting both challenges and opportunities. While automatic switching services will incentivise much needed competition by making it easier for customers to transfer their accounts, this will hugely increase the focus on customer retention.

The time to act is now. Cutting-edge technologies can help to identify potential switchers early and prevent their defection, while simultaneously targeting the most valuable and susceptible switchers. Moreover, these long overdue changes will act as a catalyst for banks to improve their understanding of satisfaction levels and delivery of customer service offerings, which ultimately lead to greater loyalty, customer retention rates and share of wallet.

Customers create value for banks by buying more products and services more often. In the new competitive environment, banks will have to do much more to generate revenue through cross-, and up-selling. To turn a difficult or indifferent customer into a loyal and active one, for example, providers will need to get to grips with their customers' preferences: What are their banking habits and channel preferences? How does a bank define its customers' purchasing behaviour? How can a highly personal experience for that customer be optimally achieved?

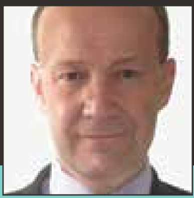
Firstly, banks need to collate and process more and better data. Today's banks need to be able to create, capture and analyse data to broaden their knowledge of customers, which will bring multiple benefits. The aftermath of the global financial crisis – and loss of trust among consumers – has resulted in tougher regulation, more oversight and greater potential for censure and financial penalties. Effective use of data to ensure that services are reflective of customers' needs and status is not just good business sense, its good compliance too. Using data analytics to ensure customers are offered the right products matched to their individual circumstances not only generates higher satisfaction and loyalty but protects against allegations of exploitation and even profiteering. Providers in all industries make smarter, higher ROI decisions when they know more about their customers. By employing the best tools and analysis available, banks can personalise service, and create effective and intelligent interactions across multiple channels, allowing them to anticipate consumers' needs, spot opportunities and guide them to a positive result.

A robust data and analytics approach is critical in achieving highly personal customer experiences through good quality segmentation. Behavioural analysis uses technology to create a precise 'snapshot' of each customer, accessing and consolidating information from multiple databases in real-time to paint a full picture. Analytics are then deployed to identify propensity patterns based on recent interactions, channels most often selected, the rate and types of product adoption, account balance, credit history, past experience with customer service, and use of social media.

This allows marketing, customer service and sales teams to assess whether or not the relationship is favourable, or has been in the past, and best equips them to cross-, and up-sell. It's the intense personalisation of the experience that opens the door.

Secondly, banks need to invest in technology that helps them to personalise service, and create effective and intelligent interactions as part of a multichannel approach. Consumers today expect to have a variety of channels available to them. But beyond that banks must also do a better job of making their customer knowledge more transparent and relevant across these channels.

In the current climate, and with significant industry changes on the horizon, overcoming the challenge of adding and retaining customers and increasing their life-time value starts with understanding the quality of customers' experiences, their satisfaction and individual brand loyalty. The key is creating extremely targeted and personalised experiences that are replicable across whole segments through an approach rooted in robust data and analytics and enabled by multi-channel interactions.



Digital progression in retail banking: Europe's banks are not fully prepared

Peter Fawcett, head of Tata Consultancy Services' retail and commercial banking consulting practice.

Across Europe many banks feel unprepared for the next phase of the 'digital revolution'. However, factors such as expensive compliance regulations, poor data management and outdated systems are constraining them from implementing new solutions.

The digital driving seat has a new occupant. A few years ago, technology companies were leading the digital debate with a flurry of new platforms, applications and services. Now, it is the consumers themselves who are pushing the boundaries of digital advancement as their appetite for engaging with services, such as banking, through digital platforms increases.

There is also an increasing fear that non-financial digital experts could move into the market soon. Recent Europe-wide research by Tata Consultancy Services found that 71% of banks believe they will lose customers to mobile or telecoms companies in the next five years. The reality is that new entrants are well placed to fundamentally change the market and they are already doing so. For example, digital-ready companies such as PayPal have the ability to selectively pick parts of the value chain in which they wish to operate. New world retailers and hi-tech firms like Amazon and Apple leverage their knowledge of the customer to give a unique user experience.

Yet, it is not ignorance or lack of understanding about the consumer landscape that is preventing banks from providing better customer-facing digital solutions. Rather, it is the opposite. Six out of ten leaders from Europe's key financial institutions believe that in 10 years, optimising the digital interface will be more important than maintaining human interaction. Banks are all too aware that falling behind in digital adoption will translate into a significant competitive disadvantage.

Banks can play the customer experience game too. As institutions, they have a long-standing history with their customers, and already possess large amounts of data which would take new entrants years to build. Add this to the huge amounts of data pouring in from sources such as social media, purchase transaction records, call details and GPS signals from mobile phones, and you have a powerful data ecosystem.

However, turning this opportunity to a reality is limited by the sheer quantity of information and the speed at which it flows into the organisation, making it difficult to manage. Further, in order to use this data, effective analytics systems and processes are required. Implementing such data initiatives can be costly, and factors such as expensive compliance regulations limit the funds for such projects.

In addition to the challenges of data and lack of free capital, antiquated legacy systems can often hold banks back from competing with newer, more nimble entrants, who have adopted the latest systems since inception. Accentuating this is a cultural fear of upheaval, which causes banks to focus more on short term performance measures, as opposed to investing in long term solutions such as the re-engineering of core systems.

Indeed, the updating of legacy systems is no easy feat. The accompanying problems of data migration and coexistence of old and new systems creates complexity that many financial organisations do not have the skilled workforce to manage. There is also a fear of putting existing systems at risk during the changeover process. Despite the combined difficulties of data management, legacy systems and limited funding, there are strategies that banks can apply. Firstly streamlining their operational infrastructure can make them more efficient and effective in using their budgets. One of the ways this can be achieved is by taking the opportunity to implement new customer technologies when implementing compliance measures to make better use of compliance budgets. Investment in effective data strategies, for example, will allow banks to manipulate the 'big data' at their disposal, thus generating further revenues. These in turn can be re-invested in better customer solutions. Also, starting by implementing smaller and more manageable quick wins, banks can begin to make bold changes, without compromising the functionality of existing systems.

Finally, a change in mind-set is critical. Banks need to stop thinking of digital enhancement as an 'add on'. Rather, fully integrated digital solutions and faultless customer service platforms need to become minimum requirements, rather than luxuries. The 'Clicks and Bricks' approach of simply supplementing physical outlets with half-hearted digital solutions will no longer be adequate as we move into the next and more accelerated phase of digital consumer adoption. A 'Laps and Apps' approach of leading with application and mobile device platforms should be the new way to develop digital strategies.

The adoption of streamlined and lean business processing will consequently lead to better investment in new business intelligence and social analytics applications and data. It will be the control and analysis of this data that will allow for more sophisticated multi-channel approaches which put digital consumer needs first. Those that are able to capitalise on the 'data rush,' combined with their long existing knowledge of their customer activities and habits, will be the ones that ultimately survive and thrive when new entrants come to the market.

Integrating the LEI to enhance data and risk management

Stephen Koch, Senior Director, Pricing & Reference Data at Interactive Data Corporation

With the newly formed LEI Foundation moving forward with establishing processes for issuing and managing the Legal Entity Identifier through its Regulatory Oversight Committee and the registration of seven pre-Local Operating Units, it is worth taking a step back to understand exactly why the industry is pushing forward with the LEI and what it could achieve.

Although the primary driver behind the LEI is the need for regulators to improve oversight of systemic risk, there are secondary drivers, which have garnered support among many financial participants. Financial firms are starting to explore the potential of this identifier beyond its initial intended purpose.

We are still at the early stages of a journey toward what could become a global standard; however thoughts are already turning to the application of the LEI in a wider context. Using the LEI as a common data point to cross-reference other codes and link to core reference data would bring a number of operational benefits.

When packaged with additional content and reference data, the LEI becomes a tool to aggregate different identifiers to support an investment firm's business requirements. Data linking via the LEI could support financial institutions' efforts to improve the flow of data, by adding clarity and timeliness as well as enhancing risk management processes.

As such it would also feed into the data validation and maintenance required for regulatory initiatives including AIFMD, Dodd-Frank, EMIR and FATCA, alongside any internal efforts to improve data and risk management procedures.

As firms think about bringing the LEI into their workflows, there are five steps that should be considered for a successful integration to exploit this potential.

First, every firm, if they have not done so already, should take the time to understand what the LEI is, and what it does or does not provide. It is important to understand that the LEI is intended to be an unambiguous identifier for the entities that are participants to a financial transaction. It is intended to replace the ambiguous, freeform name and address fields that most firms and regulators currently contend with. However, the LEI does not identify securities issued by a legal entity, nor does it explain the relationships between entities (e.g. parent/subsidiary, affiliates or other hierarchical relationships).

Second, it is critical that each firm reviews the current state of counterparty data within their organisation. Ask yourself how entity data is currently being stored at your firm. Is it easily accessible in a separate entity database, or is it more difficult to extract because it is mixed with other reference data? If separate, is it being held in a central depository or duplicated in separate silos? Understanding where and how your counterparty data is stored enables you to better understand where your systems will have to go.

The third aspect to examine is how and where counterparty and issuer data are used today. Cataloguing current uses such as trade comparison, risk analysis and portfolio management, is essential to prepare for step four, which is defining the use cases for the LEI going forward.

The most obvious use cases for the LEI are driven by regulatory requirements. It is critical when building use cases to first identify the effective dates for compliance with applicable regulations.

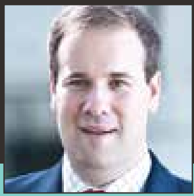
Developing other use cases may be as simple as looking at how to improve existing processes by substituting the LEI for freeform entity text descriptions. For others it may be more complex as these use cases may only be partially addressed by the LEI in its current state and may require additional data. For example, it may be necessary to supplement the LEI with additional external data to understand the linkages between issuers and their securities and the hierarchy of an organisation's legal entities.

The most difficult use cases require discussions about difficult processes never undertaken or previously abandoned because a tool like the LEI did not exist. For example, organisations will be able to analyse bonds based on lead manager, guarantor, obligor or custodian, all entities currently identified in freeform fields, once these entities are assigned an LEI. This will allow them to better assess their exposure to an entity regardless of the entity's role. Additional use cases may be identified after the establishment of the LEI. It therefore makes sense at this stage to reach out to all the internal business units to identify as many use cases as possible.

The last step in preparing for the LEI is to create a plan. With the above information collected and the use cases created, prioritising each use case is paramount. Regulation will take care of some of the use cases, for example, if a regulatory body is mandating use of the LEI by a particular date, then all work needs to accommodate that deadline.

Prioritising other use cases will be decided based on the current criteria your firm uses whether that is ease of implementation, improvement of service or efficiency vs. cost of implementation; keeping in mind that it may make sense to overlap development.

The LEI is not a panacea. It is not meant to be. Rather, it is meant to be a tool, and one that when fully exploited can transcend its initial intended purpose. To fully capitalise on this identifier, though, takes preparation and planning. By following the five steps outlined above, financial firms will be in a much better position to fully tap the potential of the LEI.



Is a waiting game a smart approach for post-trade service efficiency?

Paul Taylor, director global matching, Swift

It's often been said that the financial services industry is evolutionary rather than revolutionary, and in some instances this may have proved to be a safe bet. The industry is littered with systems that have grown out of cottage industry and 'fitting square pegs into round holes.'

However, we are in a world that has truly embraced technology, and are now able to measure the processing of data in nanoseconds. Investors and the trading community have a huge amount of data and information at their disposal. Organisations have access to a wide range of products that could appeal to their demanding client base and the emphasis is on offering sophisticated and attractive investment products, many with a short shelf life and completing deals quickly. It is also expected that the liquidity or collateral involved in these deals is maximised 24×7, not frozen by hold-ups with post-trade processing for example. Moving, as we are, towards T+2, there is further emphasis on the need for process automation from front to back office, with full straight-through-processing. Without streamlined, fully automated processes in place, organisations are in danger of causing a magnificent and expensive disaster.

We really cannot and do not want to slow down the momentum of the financial services sector in these challenging economic times. An efficient, regulated and dynamic financial services system is the essence of a thriving economy. With such a vast amount of information at our fingertips and some very clever technologies that are fuelling the demand for flexible and speedy trading of securities both nationally and internationally, it seems we are now perfectly poised to reconsider current operational models in light of the changes that regulation and the need for business growth are placing upon us.

Why now? Due to a combination of moves towards a T+2 settlement cycle and the demand for further regulatory control over central securities depositories. Yes, there has been quite a bit of discussion about the pros and cons, but the reality is that we have to harmonise settlement periods across the industry and we do need these regulatory controls. Whilst some alarm bells are raised about the amount of red tape that will ensue, the reality is that there are technologies available today that can ready the post-trade activities and take away a lot of the headaches associated with implementing T+2 and embracing regulatory changes today and into the future.

At the recent Swift Business Forum London, the session on cost effective post-trade processing attracted a "standing room only" crowd and the topic was vigorously discussed and debated. The challenges of costly failed trades and the need to increase operational efficiency while streamlining post-trade processing are very real and pressing. Investment will be required from front through to back office in order that timely and successful matching and the settlement of trades can be a reality within a framework of continual regulatory change.

While there are a number of variables to contend with, such as on-exchange versus off-exchange or whether the match should take place in the front or middle office, the reality is business continues to be done and efficient post-trade processing is required today.

There is a choice of solutions available but there are a few key questions that need to be addressed by post-trade operations executives on the buy-side. "Sitting on the fence" is stifling the sell-side's ability to invest in the appropriate technologies and streamline their businesses.

Can the buy-side community continue to sit on the fence? Yes, but it will be at a cost and the longer the delay the greater the risk. Regulation, and indeed change of any nature, is a fact of doing business. It should be embraced, the investment to automate necessary processes as much as possible identified and committed, so the changes required can become part of the natural order of growing the business.

The final question really is, why not investigate your options now? Be the organisation that is prepared to meet the challenges of reduced settlement cycles and regulatory demands. Others are already enjoying the benefits of making the move. Avoid wasting even more money on expensive failed trades and seriously inefficient processes and invest wisely in your post-trade services environment.

When an organisation is paralysed by indecision, it is really saying no to growth. There is much to be gained by accepting that change is inevitable and regulatory requirements will always be an issue. However, ensuring that your business is fit for purpose and empowering the people who drive growth and customer satisfaction with efficient, streamlined trade processing technologies across the organisation will ensure that the assets of the business are fully utilised and the organisation can grow and prosper.

Duel in the **sun …**

Temenos execs were surprised when a group of attractive young women started approaching delegates outside its annual user conference in Abu Dhabi recently.

The delegates - existing and potential bank customers - were being tempted by the offer of cocktails in the adjacent hotel, and the prospect of helicopter rides.

Who was behind these offers? A couple of the Temenos crew selflessly volunteered to sample the delights on offer, and unmask whoever was picking up the tab.

Step forward rival vendor Misys, whose chief exec can expect a frosty letter from his opposite number at Temenos ... ***BT***

And so to Sibos …

Some of our colleagues covering a recent trade fair in Dubai came back with a few tips that might be useful for those travelling there in the autumn for Swift's annual Sibos event.

The first was "don't go", but that's not an option for the seasoned Sibos attendee, so let's move on to the more practical advice for those that will make the trip for the first time:

Tip one, then: at great cost, they found out that mobile roaming costs are exorbitant and wi-fi coverage is patchy at best – non-existent in the Mobile Show, as it happens.

Two, don't be clever and give the taxi driver your hotel address in Arabic – most of the drivers are immigrants. Try a few of the Indian languages; Tamil worked in one case.

A corollary of this is: do *not* switch on data roaming and hand your smartphone to the cabbie so he can use Google Maps. It takes time to turn the language back to English (that's how we know the driver spoke Tamil) and the first thing you will see is a large number in the currency of your mobile operator. Good luck with the expense claim.

Three: do not fall for the line that Dubai is "like Las Vegas – a road in the desert lined with gaudy hotels". It is, sort of, but the road is a 12-lane highway and the hotels are set back about another mile from the pavement and half-a-mile apart.

Four: The subway stop at the convention centre is actually quite close to the show. Between the two is a capacious Irish Pub, McGettigan's. See you there, most likely.

More worrying is the emergence of the Middle East Respiratory Syndrome coronavirus [MERS-CoV]. Mainly confined to Saudi Arabia, a few cases have been reported in Dubai. Already we have been asked by a US Sibos regular, concerned about symptoms that include "acute respiratory distress and renal failure."

Our considered advice – and bear in mind, litigious reader, that this is not medically sanctioned advice – is that regular doses of alcohol are as good a preventative as anything.

Which means Sibos delegates should have herd immunity. ***BT***

FROM THE ARCHIVE

15 YEARS AGO

Euroclear postpones real-time settlement … EC proposes rules for e-signatures … UK mortgage lenders try again for common electronic platform … CLS picks IBM and Swift for systems and network … Barclays goes global with BarclayCoin e-wallet …

20 YEARS AGO

NatWest pilots self-service enquires system … Information providers demand level playing field as LSE hands Topic service to ICV and Telekurs … Swift plans to deploy open Unix systems … UK banks pilot telephone banking services … legal obstacles delay cheque imaging services … Scandinavian banking crisis forces risk management rethink …

25 YEARS AGO

Competition hots up among European stock exchanges … France dismantles stockbroker monopoly as trading moves from floor to screen … Logica to build money-market clearing and settlement system for London … dealing systems market suffers in aftermath of US markets crash …

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Look to your AML solution for FATCA compliance

by **Jeroen Dekker**, Senior Product Manager, Fiserv

With more and more IGA's being signed (most recently Singapore) and key deadlines for FATCA (US Foreign Accounts Tax Compliance Act) looming, financial institutions should be focused on exploring their options and making technology decisions to enable FATCA compliance. Many organisations have put together project teams to manage FATCA compliance. These teams, typically comprised of tax, legal, compliance and operations experts, are tasked with the analysis and definition of a structure for approaching FATCA. Often, the solution these teams come up with is to build upon their existing AML infrastructure.

FATCA and AML Compliance – A Lot in Common

AML and FATCA compliance have a lot in common. AML, from a detection and investigation perspective, is about finding customers based on certain criteria, putting them through an investigative workflow process, and reporting the results to the regulators. Conceptually, this is a fairly simple process that every financial institution already carries out. It is also the same process that needs to happen in order to comply with a large portion of FATCA.

But this isn't all that FATCA and AML have in common. Many of the US indicia defined by FATCA are things that most AML programs probably already capture. Items such as citizenship, place of birth, address, and standing instructions for transfers to a US account are all things that FATCA requires that most AML programs are already capturing.

There are Differences

Although the high-level detection and investigation process is essentially the same for AML and FATCA, the fundamental question these regulations are asking is different. AML uses static characteristics as a starting point for behavioural monitoring to detect abnormal or suspicious activity. In other words, what are you doing and is this normal behavior for you? FATCA is really more about finding the people in the first place, based on the indicia mentioned above.

The monitoring techniques used in AML do come in handy for aggregating the value of each person's relationship across their accounts to see if it falls within certain thresholds defined by the FATCA regulations for due diligence requirements. For example, anyone whose aggregated account balance is less than US$50,000 is not subject to FATCA. However, if the total amount comes to more than US$1,000,000 not only must that client's electronic records be searched, but paper records must be examined too. AML systems can look for these thresholds whilst also taking into account things like product coverage. Using monitoring in this way, you can use the capabilities used to answer the "what are you doing?" question to help limit the scope of your FATCA requirements.

Challenges

One of the biggest potential challenges might come from customer's resistance to comply with FATCA. The regulation requires that customers with one or more US indicia agree to prove that they are not a US taxpayer, or agree to be reported if they are a US taxpayer. Following up with customers to ensure that the relevant paperwork is signed could be a labour intensive and time consuming task and in addition financial institutions may be fearful of jeopardising relationships. If customers delay in responding or are reluctant to participate, this could lead to financial institutions not being able to reach requisite compliance thresholds and therefore being subject to enforcement. This part of the regulation has not been completely finalised yet, so how this will work is not yet completely clear.

Act Now

The spirit of FATCA seems to be catching on with governments around the world – whether driven by reciprocity from the US or by a sincere perception that they are missing significant (and sorely needed) revenue from taxpayers hiding assets abroad.

While the implementation date has been pushed back, institutions should take action now. The delay gives them more time to fully understand the detailed regulations (and for the regulations to be finalised in the first place), and also implement their solutions in such a way that customers from other countries can be identified as well. To start, financial institutions can look at their AML solution and use it as a tool, even if only to get an understanding of the quality of the data and the number of potential customers that fall within the FATCA criteria. Creating an inventory of the scope of the problem and then using the logical process of AML systems can help to answer many of FATCA's questions. In short, looking to your AML system will have you well on your way to FATCA compliance.

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Changing perspectives

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HOW HIGH? RE-SETTING THE KYC BAR

Regulators are raising the bar for KYC systems and controls. With conflicting purposes and customer data objectives

RISK DATA: THE VIEW FROM NOWHERE

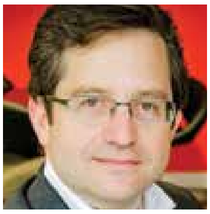
Without a consolidated viewpoint on what new risk data requirements mean, firms will be at a loss when it comes to determining best practice

A PRO-FUND CHANGE? GOOD NEWS FOR AIFS

Fund managers could be forgiven for thinking that regulators' ears had hardened to their complaints. But developments may prove them wrong.

LIVING WILLS: DON'T LOSE THE WILL TO LIVE

Changing EU rules suggest firms will face 2015 implementation confusion without co-ordination on RRP standards

Stuck in the middle

Increasingly we hear that regulators are not the enemy and the industry must engage more effectively. Indeed, it was the topic of this column only last month.

Looking at it from the other end of the telescope, we are now hearing suggestions that the regulators, at least at the implementation level, feel that they are reaching the limits of how far they can go in terms of handing down proscriptive legislation and rules.

They'd quite like a bit of reciprocity it seems, to judge by the statements of a range of spokesmen from assorted regulatory agencies who have been making the rounds of the many conferences taking place at this time of year.

If the politicians are taking the view from 100,000 feet and the regulators at 50,000, then agencies like the European Securities Markets Agency who are doing their bidding are probably around 20,000 feet.

The problem is, the 8,000 financial institutions – just to take the European scene – who are affected by these regulations are all at ground level and can barely look any higher than the tasks they are facing on a day-to-day basis.

Bridging that gap is going to be difficult for the most part – for some, it is going to be impossible: there are plenty of operators in today's markets who simply cannot see a way around the regulatory obstacles being laid down in their part of the forest and will have to find new ways of earning a living.

Obviously they resent this, and say that the regulators aren't listening and want to simply punish "the bankers". Perhaps it seems that way when the niche you are in is being squeezed too hard, but it really does look as though not all regulators are deaf to the markets.

In this issue we report on how the funds industry has won concessions, and even as we write this piece word is coming over the wires that Europe's dreaded financial transaction tax plans are being scaled back.

Don't start ringing the church bells just yet, though. Peace has not broken out, but perhaps there is a thaw in this particular Cold War.

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Banking Technology is published 10 times a year by Informa Business Information, a trading division of Informa UK Ltd, 37-41 Mortimer Street, London, W1T 3JH, UK.

PRINTER Wyndeham Grange, Southwick, UK.

ISSN 0266-0865
www.bankingtech.com

How high? Re-setting the KYC bar

Regulators are busy raising the bar for KYC systems and controls. With conflicting purposes and customer data objectives, new guidance and industry solutions are needed in 2014

2013 has been a busy year for both rule-makers and financial institutions as far as KYC requirements go. Aside from the finalisation of a vast array of trading rules (Dodd-Frank, EMIR etc.), the FATCA final rules were released in January. This was closely followed by the proposal for the 4th Anti-Money Laundering Directive. And in the US, FinCEN is still in the process of updating its CDD rules. The result of all this, for many institutions, will be a vastly expanded client base now requiring new documentation, checks and screening with a variety of new and enhanced control requirements. Regulators are setting the bar high.

New EU proposals – such as the Bank Account Directive, Network and Information Security Directive, and Eurocrime Directive – will all have a significant impact on the way firms manage their customer data in 2014. In addition, the consequences of non-compliance are much, much higher. A move toward the competition law standard for sanctions means firms can expect to be fined up to 5% of their global, worldwide turnover for both AML and data protection breaches.

Coming off the back of a year of unprecedented fines, it is guaranteed that regulators will be keeping a close eye on firms' compliance with the new requirements. The FCA are beginning their thematic review of the UK financial services industry's anti-money laundering (as well as anti-bribery) systems and controls in the second half of this year.

Taken in isolation, complying with each new rule that focuses on financial crime is not an impossible task. New standards, processes, systems and training will have to be put in place, all of which can be achieved with time and money. However, if a piecemeal, regulation-by-regulation approach is taken to managing client data, firms will be forced to collect a vast array of information manually (i.e. directly from the customer) on a case-by-case basis (e.g. 'I need this information for AML, that information for FATCA and this information for MiFID') all of which will lead to an increase in costs, suboptimal solutions and annoyance for the customer.

Many are hoping that new vendor software will be able to provide the solutions. However, the potential that new technology and systems can provide is not always possible without huge budgets and extended implementation timelines. The complexity of legacy systems across disparate silos means building an integrated view of KYC data across a global bank is a long and arduous task. The sheer scale of the new requirements means that it is increasingly difficult to align work streams across these regulations, forcing a continual, iterative approach to KYC compliance. Without a clear idea of which requirement affects what system, process or data set, isolating problem areas and aligning internal objectives becomes that much harder.

AMLD IV's draft status provides an excellent opportunity to align regulatory due diligence and customer data requirements across the various use-cases. An obvious example is the requirement to collect beneficial ownership information. AMLD IV defines the threshold at 25%, FATCA at 10%, whilst FinCEN is creating a new standard that subtly alters the underlying definition.

Another example is at policy level. AMLD IV has explicitly mandated tax evasion as a predicate offence for money laundering, meaning that firms now have an increased obligation to identify tax evaders. Given that FATCA was created to serve that very purpose (for U.S account holders), it remains to be seen just how different AMLD IV's approach will be. This type of problem is compounded by the new Data Protection Regulation, which, as it currently stands, has the potential to hugely complicate matters through its restrictions on cross-border personal information transfer, or its dislike of 'profiling' (very much necessary for AML purposes).

At the end of the day, firms are bilaterally collecting the same information on their customers and counterparties as their peers, for the same ultimate purposes. John Owen, RBS's Chief Executive for International Banking, told a London conference: "We're essentially transacting with the same entities around the world and yet we are all building [databases] at very great costs … It would make an enormous amount of sense for the industry to try and find some central utility function around that particular area."

With the first deadline for FATCA in January, 2014, the timeline to solve these problems is shortening at a fast pace. This is a global problem, and given the depth and breadth of the challenges involved, this is going to be an unprecedented exercise in standard setting. With no new guidance to implement these requirements from regulators, it is up to the industry to find a collaborative solution. In short, with the KYC bar reset, the industry will have to decide how high to jump.

TOP TWITTER ALERTS

- EU to rush out new tax transparency law? New reporting requirements likely to be proposed as soon as summer
- The price of bad customer data: FCA fines JP Morgan £3.1m for failing to keep up-to-date client risk profiles
- SFC fines UBS HK$1.6m for failure to implement real-time position monitoring on securities trading desks

KNOWN UNKNOWNS

- Can regulations with similar KYC demands be addressed by the same implementation programme?
- What will it take to create industry guidance and technical solutions to shared customer data challenges?
- How can we resolve conflicts between the need to protect personal data and still identify money launderers?

THEMES

- Lack of implementation guidance means firms are forced into fragmented and isolated approaches
- Huge fines are a key factor in driving AML compliance and EU legislation is making non-compliance even more expensive
- There is tension between KYC requirements and new data protection regulation that will make implementation difficult

Risk data aggregation: forming the view from nowhere

Without a consolidated viewpoint on what new risk data requirements mean, firms will be at a loss when it comes to determining best practice

The deadline for firms to upgrade their risk data aggregation capabilities is fast approaching. The Basel Committee for Banking Supervision's Principles for Risk Data Aggregation and Risk Reporting are due to be implemented at the start of 2016, but research shows that the industry is well behind schedule. What is needed is a consensus industry view on what 'good' looks like in order for firms to determine their own roadmap to implementation.

Separate polls carried out by JWG and the Institute of International Finance, in 2011 and 2012 respectively, showed that more than half of firms had identified significant work still to be done in improving their ability to collect and report risk data. And this was before the regulatory driver was introduced with the issue of the BCBS' Principles in January 2013.

Even now, with 18 months left on the clock, firms are still in the opening stages of implementation. This difficulty is in part due to the high-level nature of the Principles, which focus on qualitative policy aims rather than detailed, quantifiable standards. This means that the Principles can mean different things to different firms. For instance, even their scope is open to interpretation: The Principles set the threshold for data inclusion (i.e., the tipping point at which data is in or out of scope) at 'critical' data or 'material' data. This will mean something different to every firm, and may even mean different things within firms and across departments; in other words, there is no such thing as a view from nowhere.

The way to overcome this relativity problem is to set an objective industry standpoint from which firms' capabilities can be judged and measured against one another. For this reason, it is necessary to look at the Principles from an operational impact perspective. In order to achieve this, there are five operational 'lenses' through which all the requirements can be viewed and compared between firms.

The first of these is 'scope': What is the scope of application within your firm, and what will the impact area look like? In order to make conclusions here it is necessary to consider three measures: The depth of scope: where will the 'criticality' and 'materiality' thresholds be set within the firm? The breadth of explicit requirements: where will your firm apply service level agreements or what data will have to be reconciled? And, finally, the breadth of implicit requirements: will any of the changes have an effect on the bank's central reference data, for instance?

The second lens is 'data quality': The Principles require firms to measure and improve six aspects of data quality: timeliness, accuracy, completeness, consistency, flexibility and adaptability. Firms will have to decide how they will set objective measures for all of these and then how high to set the bar. The operational implications will then become clearer: How will data reconciliation be incorporated into workflow? Will a systems upgrade be necessary in order to achieve intraday aggregation?

The third lens is 'data standards': What new standards, metadata and linkages will have to be implemented to meet the firm's target operating model and to ensure compliance? For instance, the Principles ask for unique counterparty identifiers to be implemented. Will this involve full LEI implementation (before we even have an EU mandate)?

The fourth lens is 'infrastructure and controls': Firms will need to be able to monitor the breakdowns in their risk data aggregation chains in order to remedy them effectively. For instance, firms are required to find a balance between automated and manual processes. However, with other requirements elsewhere asking for accurate data delivered to short time frames, the continuing use of manual systems, including spread sheets, may become untenable without upgrades to processes and end user controls.

Finally, the fifth lens is 'governance and incentives': Though it has its own section in the Principles, governance cuts across all the requirements as the buck will ultimately stop with the board and senior management. Implementing new technology and procedures is also futile without enforcing the adoption of these new practices across the firm. Therefore, banks will have to examine their incentive frameworks in order to make sure they aren't rewarding poor data practices.

These lenses only offer an introductory step into thinking about the risk data aggregation in an objective way. In order to complete the process, and establish an objective and universal view on what 'good' looks like, JWG is currently talking to banks and regulators about the possibility of clear industry guidance in relation to the Principles. With this in mind, we encourage banks currently implementing the Principles to get in touch about our preliminary peer assessment.

TOP TWITTER ALERTS

- Risk Data Aggregation: Minutes from our successful meeting with the PRA over further guidance now online
- Big data: Can new approaches to data capture, storage and retrieval help firms to meet Basel III requirements?
- FSB Data Gaps Initiative clears Phase 1: Framework to be expanded to bilateral funding dependencies and consolidated balance sheet reporting

KNOWN UNKNOWNS

- Will firms and regulators come to an agreement on a set of risk data aggregation standards?
- Will regulators respond to calls for further guidance?
- What will the penalties be for firms that fail to make improvements by 2016?

THEMES

- New initiatives that bridge Risk and Data are struggling to find sponsorship within firms
- Firms are having difficulty interpreting the operational impact of high-level principles
- Industry guidance is necessary to prevent macro systems changes having to be repeated in the near future

A pro-fund change?
Good news for AIFs

Over recent years, firms could be forgiven for thinking that regulators' ears had hardened to their complaints. But recent developments may prove them wrong

The Alternative Investment Fund Managers Directive threatens to have a significant operational impact on the industry. Fund managers will soon be subject to a host of new requirements including increased KYC and due diligence, better risk and liquidity monitoring, and new reporting and disclosure requirements. However, in the UK the transition looks to be particularly difficult.

As one of the only Member States with a pre-existing framework of fund manager regulation, the UK encounters a unique challenge when implementing the Directive. Therefore, firms will be relieved to know that, though it originally looked like the Treasury might gold-plate the Directive in certain areas, responses to a recent consultation seem to have persuaded it otherwise. As a result, the transposition looks to be much kinder on several key stakeholders, including managers under the asset threshold and entities carrying out depositary functions.

The industry is already responding to the changes. Several larger institutions have begun to offer AIFMD compliance as part of a single, outsourced service. For instance, BNP Paribas has already begun bundling accounting, risk management and reporting services into its depositary offering. These kinds of solutions offer a cost-effective alternative to the kinds of technology and operational upgrades that would otherwise be necessary to remain compliant. However, there is no cure-all and certain requirements will still prove problematic for firms without further clarification.

One of the main uncertainties remaining is how the AIFMD will interplay with other, more established regulations such as UCITS and MiFID, both of which have their own authorisation regimes. For MiFID, Member States have the power to authorise some managers to conduct low risk MiFID activities. The good news is that the FCA has stated it will make use of this power. The bad news is that firms will still have to seek MiFID authorisation to perform the full range of activities.

The picture for firms seeking UCITS authorisation is similarly complicated. The UK government has acknowledged that there is a clear overlap in definitional scope between AIFs and UCITS funds. The reason for allowing this to continue is that firms should not have to apply for multiple authorisations. However, the disadvantage is that the scope of that authorisation is blurred and managers may have to seek clarification on whether they are authorised to do the things they do.

Transposition of the Directive into national law must occur by 22nd July 2013. With this in mind, the Treasury released two proposals for consultation, one in January and a second in March. The first of these raised a number of concerns in the industry, particularly because of the way it threatened to gold-plate an already stringent Directive by including all fund managers, regardless of size.

However, managers of smaller funds can breathe a sigh of relief as the Treasury, recognising 'concerns around the increasing regulatory burden on small firms', has relented and chosen to implement a two-tiered system. As a result, anyone managing less than €100 million in AIFs will continue to be subject to only national regulation (unless they choose to opt-in on the AIFMD). Accordingly, it is likely some managers may seek to avoid the increased requirements by splitting their operations into smaller units to come in under the threshold.

But some of the most onerous requirements under the Directive do not apply to funds and their managers at all, but rather to depositaries, whose services all AIFs must now make use of. Those firms affected will need to implement new systems to carry out increased due diligence, monitor client cash flows and give them a single-customer view of client assets. The costs of making the technology upgrades necessary to meet these requirements may see many smaller providers withdraw from the market.

In response to this, the Treasury has again sided with the industry, promising to exercise its power to authorise other entities, which are subject to their own regulation, to act as depositaries for equities and several other instruments. As well as helping out smaller depositaries, this will also be a relief to some groups such as private equity fund managers.

Overall then, there is a lot for UK firms to applaud in the approach their regulators have taken to the AIFMD. It may be the case that, with the UK making the first move on these issues, other Member States end up following suit. Therefore, even if some questions still hang over the final implementation process, the case has clearly been made for regulatory collaboration rather than coercion.

TOP TWITTER ALERTS

- AIFMD: Another exception? Treasury confirms Approved Persons Regime will not be extended to investment companies
- Non-EU AIFMs: Commission issues technical standards for non-EU managers seeking to manage EU AIFs
- Profiting from regulation: Opportunities to provide new services are emerging from legislation like EMIR and the AIFMD

KNOWN UNKNOWNS

- What will the fund industry look like after implementation?
- Who will be the key technology and service providers
- Will firms have to seek dual authorisation under MiFID and/or UCITS?

THEMES

- Both firms and regulators have spoken out against the stringency of the AIFMD's requirements
- The regulation is hardest on depositaries, but fund managers are also having to make significant changes
- Many firms are likely to restructure and outsource to lessen the regulatory burden

Living wills: don't lose the will to live

Changing EU rules suggest firms will face 2015 implementation confusion without co-ordination on RRP standards

TOP TWITTER ALERTS

- Disclosure for disclosure's sake? BIS report recommends banks be forced to make public asset encumbrance levels
- EU divided on bail-in timeframe? ECON asks for January 2016 deadline; Commission set for 2018
- Testing RRPs: EBA consults on three flavours of reverse stress tests; tests must sink firms but for RRPs

KNOWN UNKNOWNS

- How will national regulators put into practice the new discretions being given to them?
- Will firms be able to meet the tighter deadlines for compliance with the RRD?
- What will be the cost of implementing RRPs for the industry and regulators?

THEMES

- EU legislators are watering down prescriptive rules and harmonisation in favour of national regulatory discretion on RRPs
- The deadline for implementation is getting shorter, with compliance by 2015 now looking likely
- The imperative is on firms and national regulators to collaborate for clarity over living wills

Another month, another draft Recovery and Resolution Directive. The text is the centrepiece of EU plans for rules and mechanisms which will make banks resolvable without taxpayer bail-outs. However, five years after the crisis the rules have yet to be finalised.

The March version of the text shows that EU legislators are challenged to define the operating principles for a financial institution and will need to give national discretion over implementation to the supervisors. Moreover, the text also indicates that the implementation window will be squeezed.

This is not good news for large firms as they will now have to make their own judgements about what good recovery plans look like. This could mean continued uncertainty as to the scale of the data and governance demands firms are facing, and highlights the need for collaboration to be sought on these issues.

UK and US experience with recovery plans has shown that it is no trivial matter to pull together an 'evergreen' picture of how firms operate and what procedures will be necessary, should the need for regulatory surgery arise. There are many challenges to overcome, including intimate mapping of the legal structures and stress testing of recovery options, as well as reporting financial interdependencies (which will have to be aligned with new reporting obligations under the CRR).

A survey conducted by JWG in 2011 found that, at the time of asking, 66% of firms had difficulties with the timely provision of data required by RRPs, with 59% forced to make investments in new systems and controls. This is not being made easier by the changing demands in the laws as they are drafted.

Resolution plans require authorities to have access to detailed data on financial contracts on an ad hoc basis. The February draft directive added text specifying that firms 'must be capable of producing those records within 12 hours of a request' – not an insignificant task, considering these reports can measure over a foot in height.

Luckily for firms, in March, the 12-hour data requirement was removed, and responsibility for setting time limits shifted to national supervisors. However, this does not mean that the rule won't be reintroduced. The latest draft will also leave it up to each resolution authority to 'decide to set different time limits for different types of financial contracts'. The result is greater regulatory flexibility, but less certainty as to what demands will ultimately be placed on firms.

Another cause of concern to the middle and back office will stem from disagreement over bail-in tools being discussed at ECOFIN, which may lead to more discretion for national regulators to decide, on a case-by-case basis, the asset classes excluded from bail-in. This adds further legal uncertainty to RRPs, which may only be clarified as regulators begin to put their new powers into practice.

These developments, along with others – such as the flexibility given to firms in the last draft RRD over the triggering of recovery plans – suggest a trend emerging in regulatory thinking towards shifting the responsibility for certain aspects of recovery and resolution planning away from the European stage and towards national regulators and firms. There is evidence of increasing leeway being given to national authorities and the industry to work out best practice, and recognition by the EU, as it considers certain details, that a prescriptive regime may be impossible to achieve.

The need for clarity is made all the more urgent by the accelerating pace of implementation for RRD provisions. Whereas in the February draft the RRD was to be transposed within 18 months of adoption and implemented within 24, the rules now have to be both transposed and applied within just 12 months of the directive being agreed upon. This leaves firms with just half of the time previously envisaged to prepare for the requirements.

As the text is set to be agreed upon late this year, or early 2014, this makes full application of the rules by 2015 likely. This means that key operational issues, such as on-demand data requirements and the scope of bail-in powers, will likely be left up to firms and their national authorities to work out through dialogue. While this may undermine harmonisation, it does allow for firms to shape what key areas of recovery and resolution planning implementation will look like.

This approach may be replicated across other issues on the structural and resolution reform agenda, making it imperative that firms open up the conversation as early as possible.