POSTTRADE 360°

AMSTERDAM 2021

Join us Wednesday 13 October

Go central

Nordea Asset Management, could let a manager sit on the moon. **Ulrik Modigh**'s operations stay on the base. **10**

Scene change

Amsterdam's share trading now rivals London's and Cboe launches a new European derivatives market. At the Eye Filmmuseum, meet EuroCCP's Cécile Nagel – and see where post trade is going next. Agenda, 3–5

CUSTODY Deutsche Bank on the many good uses for artificial intelligence **6** • Northern Trust on who we will be 10 years from now **8** FUND ADMINISTRATION Depowise on how an operational innovation became a business of its own **12** ASSET MANAGEMENT SimCorp on holding alternatives for that rainy day **14** INFRASTRUCTURE AND REGULATION EuroCCP on the reasons to prefer preferred clearing **17** • SIX on the headaches of CSDR and flooded CCPs **19**

Get ready for the hit parade

So how are you dealing with all of these big ongoing changes in practice? As the tide of post-2008 regulations is finally subsiding, securities professionals are returning to the issue of how to make things more efficient. At our recent Copenhagen stop, BNP Paribas' Alan Cameron polled the delegates on four phenomena relating to efficiency on the market level:

- T+1 (the shortened trade settlement cycle),
- ISO 20022 (a broad standardisation framework for messages in finance),
- buy-side clearing, and
- digital assets.

The only answer alternatives were "hit" and "miss", and guess what: they were all deemed hits. Buy-side clearing was a close call, but the other three were hits by large margins.

So now it is up to us, as usual, to just get it all implemented, in parallell with the usual plethora of other process investments. Did I hear somebody whisper CSDR?

Obviously, 2021 is a particularly interesting year for an Amsterdam post-trade conference. The year started with the global wow over the city's toppling of London as Europe's largest hub for equity trading. Some have soberly pointed out that the measure is just one in a context, London is still there, but it should be beyond doubt that Dutch finance is doing really well right now. Tech savvy and a global mindset make for a good foundation.

Last year's PostTrade 360° Amsterdam took place only digitally, and it will be great to meet our post-trade peers in person again on Wednesday 13 October. We shouldn't be running out of things to talk about any time soon.

Alexander Kristofersson
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PostTrade 360° – Events and news for post-trade pros

Our origins can be traced decades back in the Nordics, where we are the leading player. With the PostTrade 360° initiative, debuting 2019, we took a next step. We seek to provide not just an event but a sense of a community all year around.

We added a **news site** with its own editorial desk, and you will find some of its stories in **this magazine** – here mixed with thought leadership contributions from our sponsors. Our news flow is currently free, both on our web page and through our **weekly newsletter**, at www.posttrade360.com.

Under the covid-19 challenge in 2020, we launched **web-based conferences** – leading us to also publish **full-session videos** of presentations from our events. Our digital debut was our June 2020 full-day Web Summit, which gathered 60 speakers and 1,000 delegates.

Amsterdam was added in 2019 as our fifth city for **yearly events** beside Stockholm, Copenhagen, Oslo and Helsinki.

This link leads to **our LinkedIn flow**. Please click Follow – and let your colleagues know about us!

Do you have news, views or tips on what we could cover? Don't hesitate to contact our news desk at news@posttrade360.com.

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DENNIS GUZZO / EYE FILMMUSEUM

Let's meet again Wednesday morning!

Join a **full day of post-trade** insight in Amsterdam

The third annual PostTrade 360° Amsterdam is offered both physically and digitally. Come and meet colleagues again!

SCHEDULE – WEDNESDAY 13 OCT

08:00 Breakfast & Registration – Let's Network!

08:40 MODERATOR'S OPENING REMARKS

Bastiaan Aalders, Head of The Netherlands, Asset & Wealth Management Consulting, Alpha Financial Markets Consulting

08:45 OPENING KEYNOTE: Trading in Amsterdam: What a year

Share trading volumes in Amsterdam quadrupled in January, as the city took over most of what London lost with Brexit – including the title as Europe's biggest share trading hub. Then in September, another derivatives venue (and clearing house) opened and we could have listed other impressive events too. What will be the lasting impact of 2021 across The Netherlands' securities industry as we settle into our new normal?

Cécile Nagel, President, EuroCCP

09:15 PANEL: Changing Lanes: DACSI updates its scenario analysis with new insights

Have you ever considered a future world where Custody of cryptos is a common good, Post-Trade processing is handled by APIs instead of MT messages, and issuance of tokenised securities become the norm? Or imagine a world where collateral processes are harmonised in the EU and CSDs can operate more freely in Europe, offering their services cross-border? Welcome to the world of scenario thinking! Based on our latest insights from the DACSI report, an expert panel will debate on several scenario outcomes and how they could affect our industry in the coming years.

Erik Veerman, Domain Expert Market Infrastructures, ABN

Continues ›

Tickets and general event info: posttrade360amsterdam.confetti.events

Digital conference, free of charge: hopin.com/events/posttrade-360-amsterdam

Bastiaan Aalders
Asset & Wealth Management Consulting, Alpha Financial Markets Consulting

Cécile Nagel
CEO, EuroCCP

Alan Cameron
Head of Client Line Advisory, BNP Paribas Securities Services

Marc Knaap
Strategic Partnerships, Cassini Systems

Heiko Stuber
Senior Product Manager, Tax, Regulation & Funds, Financial Information, SIX

Kevin O'Shaughnessy
Head of Digital and Agile transformation practise, AlphaFMC

Erik Veerman
Domain Expert Market Infrastructures, ABN AMRO Bank

Martin Aasly
Senior Portfolio Manager, Investment Solutions,NN Investment Partners

Staffan Ahlner
Global Head of Collateral, State Street

Vinod Jain
Senior Analyst, Capital Markets, Aite-Novarica Group

Harry Taylor
Associate Director, Asset & Wealth Management Consulting, Alpha FMC

Willem Mooijer
Head of Equities, LCH SA

Liam Huxley
CEO & Founder, Cassini Systems

Peter Strikwerda
Global Head of Digitalization & Innovation, APG

David Versteeg
Chief Digital Officer, Van Lanschot Kempen

Corentine Poilvet-Clediere
Head of RepoClear, Collateral and Liquidity, LCH SA

Alex Krunic
Head of Equities, LCH Ltd

Nick Moore
Founder, Executive Director, Lionpoint Group

Douwe Schering
Senior Collateral and Securities Lending Manager, MN

Ron Berndsen
Ron Berndsen, Professor, Tilburg School of Economics and Management, independent director, LCH Ltd and SA

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Country Manager Netherlands, Euroclear

Catherine Le Caranta
Lead Product Owner, SimCorp

Anthony Ferguson
Senior Relationship Manager, Northern Trust

Maxime de Guillebon
CEO, Zodia

Boon-Hiong Chan
Head of Securities Market and Technology Advocacy Securities Services, Corporate Bank, Deutsche Bank

Guido Veul
Client Portfolio Manager Sustainable Equities, NN Investment Partners

POST TRADE 360°

AMRO Bank
Panellists:
Alan Cameron, Head of Client Line Advisory, BNP Paribas Securities Services
Hugo Paul Spanjer, Country Manager Netherlands, Euroclear
Ron Berndsen, Professor, Tilburg School of Economics and Management, independent director, LCH Ltd and SA

10:00 PANEL DEBATE: Agility in Asset & Wealth Management Operations

Asset & Wealth managers want to be more agile in their operations, but what does this really mean and how are firms approaching it to avoid the pitfalls?
Moderator: Kevin O'Shaughnessy, Head of Digital and Agile transformation practise, AlphaFMC
Panellists:
David Versteeg, Chief Digital Officer, Van Lanschot Kempen
Peter Strikwerda, Global head of Digitalization and Innovation, APG

10:30 Break - Let's Network!

11:00 Unleashing the potential of AI in securities services

The range of good use cases for artificial intelligence in securities services and custody is wide. In this session, pick up good advice and get an overview by looking into applications along three broad purposes:

- to identify historical trends,
- to discover up-to-the-minute trends using real-time data and analysis, and
- to predict future trends using a mix of both historical and real-time data.

Boon-Hiong Chan, Head of Securities Market and Technology Advocacy Securities Services, Corporate Bank, Deutsche Bank

11:30 PANEL DEBATE: Collateral – ready to dance

The improving mobility of collateral assets, together with tougher requirements to post them, have taken the topic of collateral management from sleepy to hot in a short time. Sell-side firms have even established new desks in response to the increasing frequency of collateral value adjustments. How are big institutions facing the new needs – and opportunities to free up capital – operationally?

Moderator: Marc Knaap, Strategic Partnerships, Cassini Systems

Panellists:

Martin Aasly, Senior Portfolio Manager, Investment Solutions, NN Investment Partners

Staffan Ahlner, Global Head of Collateral, State Street

Liam Huxley, CEO & Founder, Cassini Systems

Douwe Schering, Senior Collateral and Securities Lending Manager, MN

12:00 FIRESIDE CHAT: Clearing in Amsterdam

Post-Brexit trading volumes amass in Amsterdam, Cboe opens a new derivatives trading venue – and its newly acquired subsidiary EuroCCP expands into derivatives clearing. A lot is going on in the Dutch clearing landscpape … so, what is in it for market participants?

Tim Beckwith, Head of Commercial Services & Business Development, EuroCCP

Valentijn Wiegel, Head of Global Network Management Clearing, ABN AMRO Clearing

12:30 Lunch - Let's Network!

13:30 REGULATION IN FOCUS: CSDR-SDR – Data is essential for being compliant

Heiko Stuber, Senior Product Manager, Tax, Regulation & Funds, Financial Information, SIX

14:00 ESG CASE STUDY: Now, investors say "show us the impact"

Clearly, end investors are stepping up their demand for stock in companies that are making a positive change on the sustainability parameters (environmental, social and governance, ESG). A case study will share a lot of background and description on how sustainable investment is actually performed and reported.

Guido Veul, Client Portfolio Manager Sustainable Equities, NN Investment Partners

14:30 LCH Securities Clearing – Driving Efficiency, Stability and Innovation

Moderator: Alan Cameron, Head of Client Line Advisory, BNP Paribas Securities Services

Alex Krunic, Head of Equities, LCH Ltd

Corentine Poilvet-Clediere, Head of RepoClear, Collateral and Liquidity, LCH SA

Willem Mooijer, Head of Equities, LCH SA

15:10 Break - Let's Network!

15:40 PANEL DEBATE: Alternative Assets and their impact on operations

Moderator: Nick Moore, Founder, Executive Director, Lionpoint Group

Panellists:

Catherine Le Caranta, Lead Product Owner, SimCorp

Brendon Bambury, Head of International Clients Relations & Sales, SIX

More panellists to be announced

16:10 FIRESIDE CHAT: Digital Assets & implications on investment operations

One could debate the nature of cryptocurrencies, but one thing is beyond doubt: They are here – and asset operationals have to deal with them.

Moderator: Harry Taylor, Associate Director, Asset & Wealth Management Consulting, Alpha FMC

Maxime de Guillebon, CEO, Zodia

Anthony Ferguson, Senior Relationship Manager, Northern Trust

16:40 MARKET RESEARCH: T + 1 settlement – What happens to my pie?

The T+1 settlement would transform the securities movement across functions in capital markets. This presentation would provide insight into changes in functions such as securities settlement, corporate actions, securities lending and borrowing and equity repo, Prime brokerage funding and impact on balance sheet.

Vinod Jain, Senior Analyst, Capital Markets, Aite-Novarica Group

17:00 MODERATOR'S CLOSING REMARKS & NETWORKING MINGLE

Bastiaan Aalders, Head of the Netherlands, Asset & Wealth Management Consulting, Alpha Financial Markets Consulting

Unleashing the potential of **AI** in **securities services**

Artificial intelligence (AI) is fast becoming an essential tool for the post-trade securities services and custody industry. As an increasing number of participants look to deploy the emerging technology to improve a wide range of processes, Deutsche Bank's new whitepaper provides an introduction to AI in the field, including a rundown of use case examples, insight into important governance considerations and a series of key recommendations to ensure best practice is followed.

Contributed by Boon-Hiong Chan
Deutsche Bank

Artificial intelligence (AI) continues to unlock new growth opportunities and competitive advantages for a diverse range of organisations and their stakeholders – and is being used for everything from better understanding diseases to creating a fairer, more robust financial market. A new whitepaper from Deutsche Bank paper explores how AI is being used in one specific area of financial services: post-trade securities services and custody, where the technology is already being deployed for three broad purposes:

- To identify historical trends;
- To discover up-to-the-minute trends using real-time data and analysis;
- To predict future trends using a mix of both historical and real-time data.

While the scope of possible applications for AI technology in this space is not yet fully explored, a number of compelling use cases have already emerged, including refining client segmentation and avoiding settlement failures. The benefits include speed, efficiencies and other improvements to the existing settlement lifecycle, as well as new roles and employment opportunities for those that implement and maintain the AI technology.

Boon-Hiong Chan, Deutsche Bank.

Tapping this transformative potential of AI, however, requires careful thought and preparation. As digital applications become more powerful and widespread, good governance and effective controls will play an increasingly important role.

This Guide is intended to help industry participants – from broker dealers and global custodians to asset managers – best navigate this emerging landscape to better harness the full value of AI. It shines a spotlight on the following topics:

1. AI in securities services
2. AI use cases
3. Learning types, algorithms and governance
4 Key recommendations and conclusions. ■

Download the guide

To download the full 24-page guide, *"Unleashing the potential of AI in securities services"*, click here in this pdf or visit https://corporates.db.com/publications/White-papers-guides/

__Boon-Hiong Chan__ is Head of Securities Market and Technology Advocacy Securities Services, Corporate Bank, Deutsche Bank.

Embracing change – the evolving landscape for **global securities**

Following the announcement of its investment into the launch of Zodia Custody, Northern Trust's Justin Chapman – Global Executive, Securities Services and Global Head of Market Advocacy and Innovation Research answers some pressing questions around how the securities industry may look in 2030, the changing roles of traditional participants and the potential benefits for investors.

NORTHERN TRUST

Contributed by Northern Trust

What will be the biggest changes to the financial services industry in the next 10 years?

The key dynamics of change will centre around data and the digitalisation of assets; assets will be built entirely differently and data will be used more effectively to generate greater insight and value.

Over the last 10 years, firms stored data in private repositories and data lakes. Moving into the next decade, we'll see increased emphasis on the public cloud, and on generating powerful insight for clients. Digitalisation completely rethinks the processes between counterparties, with assets flowing from issuer to investor through flexible systems and smart contracts, using consistent, standardised real-time data. These benefits, alongside increased use of AI technologies, will help improve decision-making.

The challenge with this new approach is the difference in the systems involved compared to the industry's current architecture, which creates data multiple times across the investment chain, and, in some cases, within each asset servicing firm.

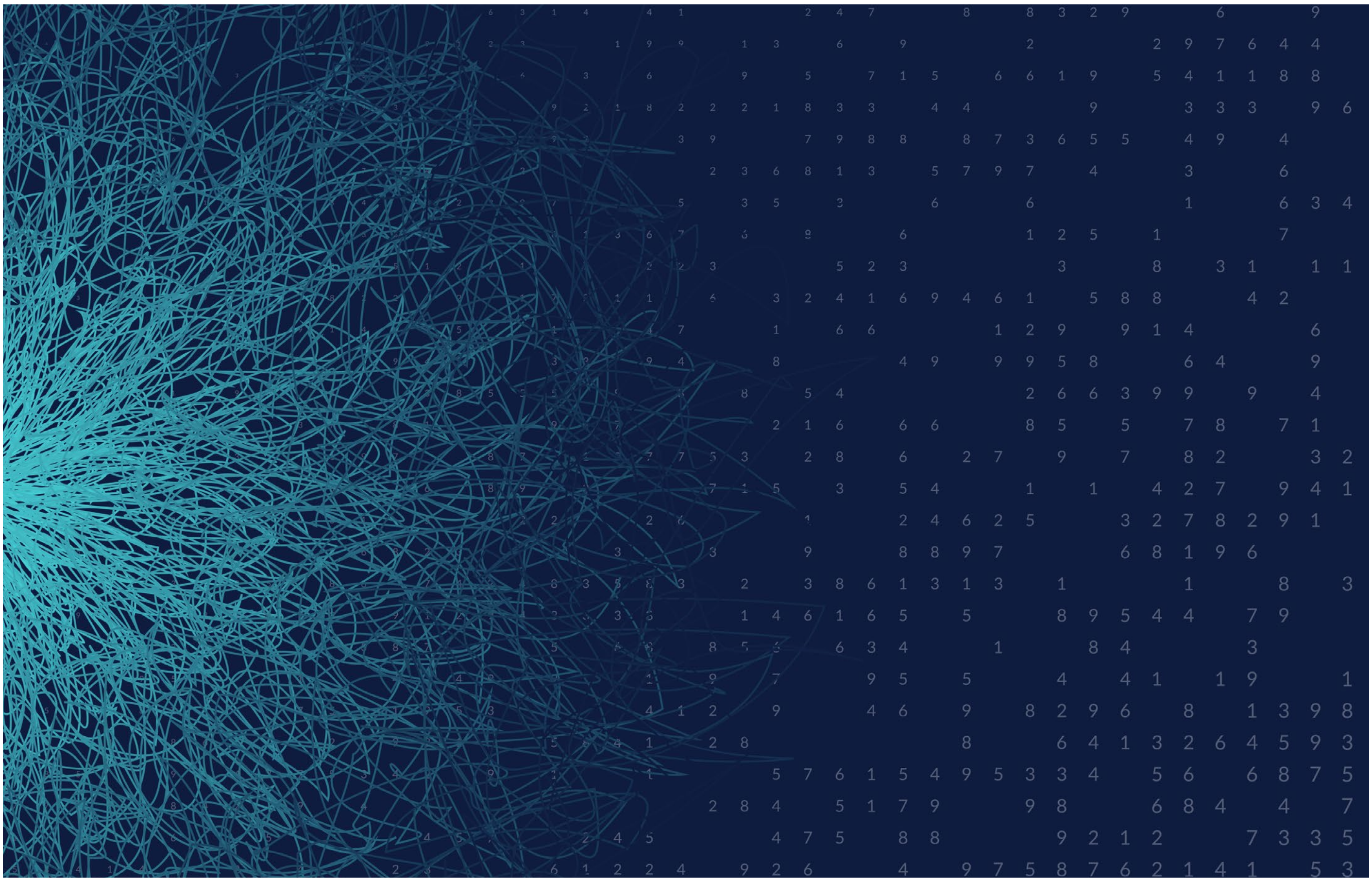
What role will new asset classes and market places play?

There's industry-wide focus on providing simpler, faster access to those investments with less execution or operating risk. We're already seeing the development of new market places and are mindful this will allow for the development of new asset classes.

Will there still be a role for custodians?

Institutional investors may be reluctant to rely on start-ups when looking to invest in new digital opportunities, as the usual asset servicing processes are substantially different to traditional assets. We expect more firms to respond to this need. One way Northern Trust has responded is with its partnership with Standard Chartered to invest in the launch of Zodia

The central role of the custodian in protecting clients' assets won't change. What will change is the execution, and the mix of traditional assets versus native digital assets in portfolios.



Custody, an institutional-grade cryptocurrency custodian that combines the agility of a fintech company with the traditional custody principles of a bank.

The central role of the custodian in protecting clients' assets won't change. What will change is the execution, and the mix of traditional assets versus native digital assets in portfolios. For institutional investors, custodians will remain critical in ensuring the benefits of the traditional world aren't lost in terms of asset safety, regulation and control, and that the benefits of new digital environments are maximised – reducing cost, improving liquidity and, potentially, enhancing asset safety.

With all this innovation and change, what view are regulators taking?

Regulation is moving swiftly in the digital asset space, although this is accelerating in different areas and regions, and at a different pace. We believe regulation should remain agnostic to specific technologies and remain focussed on the outcomes of the use of those technologies in terms of the operation of the market, the stability of the financial sector and the protection of investors.

With this incredible pace of change, what are the key considerations for firms as they adapt?

Firstly, custodians' duty of care and responsibility to ensure asset safety will remain their primary responsibility. How that's achieved will need to evolve.

> **"The pace of change will accelerate as the industry moves forward, and the multiplication of opportunities over the next 10 years will be significant – as will the risk for those who don't move quickly enough."**

Secondly, firms have always adapted to the rapid pace of development in the ecosystem, as well as regulatory evolution. There'll be a need in the medium-term to manage parallel infrastructures as traditional systems give way to new technologies.

Lastly, there will always be a need to remain client-centred and flexible. The journey should be guided by what investors need to succeed, not what service providers want to do – changes won't look the same for everyone in the value chain.

Ultimately, it's essential that organisations prepare.

Firms need to be structured to deliver new products, services and capabilities. The pace of change will accelerate as the industry moves forward, and the multiplication of opportunities over the next 10 years will be significant – as will the risk for those who don't move quickly enough. ■

"I foresee a lot of **bespoke solutions** in the next five years"

Ulrik Modigh is the chief operating officer of one of the Nordics' largest securities operations: Nordea Asset Management. In PostTrade 360° Stockholm, he shared details on his successful centralised operating model – including where it came from, and where he aims for it to go next.

By Alexander Kristofersson, PostTrade 360°

Ulrik Modigh, chief operating officer of Nordea.

"Clients are asking for more and more bespoke solutions, including bespoke data solutions," says Ulrik Modigh, interviewed by **Bastiaan Aalders** of consultancy Alpha FMC.

"I think an agile way of working is a good answer to those requirements, and that you stop these big 6- and 12-months projects to deliver something."

Although the whole session is only 16 minutes, it offers a lot of candy for securities operations professionals. Some personal background leads up to his current employment with Nordea Asset Management, going 15 years back. A determined move into a central operating model has proven over time to be the right choice.

"We have an operating model where a portfolio manager can sit on the moon, he can manage a fund in Luxembourg and it can be sold in Sweden. But it's the same settlement team in Copenhagen that is servicing everybody. And that was a smart move at the time," says Ulrik Modigh.

"When I joined, they were in the process of implementing a new portfolio management system. As we are in Denmark, the natural choice at the time was Simcorp Dimension; Simcorp is located one kilometre from our headquarter. Basically, we closed or decommissioned six, you can say, legacy systems across Nordea, in Denmark, Norway, Sweden, Finland. I think we made tons of mistakes in making this implementation – but what we did right was to decide from the beginning that we wanted a central operating model: central teams, each team servicing everybody. We had a high focus on scale, scalability, automation … As we know, we have an outset in the Nordics with high salaries. And you can say that these decisions are actually what we are benefiting from today."

Bastiaan Aalders: "Then in the last five years, what are the changes you have made to become even more flexible and more client centric?"

"The first thing I think we decided on was to increase the bandwidth in terms of instruments to get more flexibility into the investment processes. So you get more alpha capabilities. And at the time we started it, we did not have a lot of demand for it, but in hindsight it actually turned out that it was a wise decision," says Ulrik Modigh.

"We also formalized, you can say, our decision making in bodies and committees. You can say a forum where we could discuss with sales and investments what to do – and what not to do. I think that has facilitated the work a lot (and I think that is what is done all over the place). The last important thing we did, I think, was that we changed our operating model in terms of project execution, something we have done over the last one, two years. So we have also taken in this agile way of working – and I think this bringing-together of business and IT technology has been a wise decision from an execution perspective. And I think it's quite an efficient model and I can also see that it creates a bridge between the business and the IT – where maybe IT in the past was a kind of a group sitting in the corner, ensuring that all the batch job was actually executed during the night. Their role is is definitely changing these days."

"Agile transformation projects are big projects. What was your trigger? What made you think that, as an organization, you had to go through this transformation to a new way of working?"

"There were a couple of elements to the decision and we tried it out small-scale before we rolled it out to a bigger part of the company; we are actually still in the process. The main thing was that I could see that, first of all, the solutions that we have to develop requires more different domain competences. So you need more different kinds of people in the project, when you are developing. And there was this tendency that we were spreading out too many people on too many different minor and small projects, and I could just see that it was not efficient."

"The second thing was, I think the scope is becoming more difficult to to basically clarify, upfront. You could say that in the good old days, you basically made a very detailed description, then handed it over to IT – and then something came out which was basically out of date when it was done. So when you do it this new way, you can basically change the direction much, much faster as the scope is changing. I mean, it's a moving target all the time. I think that is that is one of the good elements in this operating model. And then I think the last thing is about, you know, bringing IT and business together."

"Exactly, that is what we say as well: Think big, start small and scale fast afterwards is probably the right way to approach such a project. And if we look at the future of the industry itself, do you think that this is a trend that will continue in the asset management space: becoming more client centric, data centric and agile? (Those three go hand in hand, in my opinion.)"

"Yes, I think it's about the changes that are coming to the entire industry: ESG and all the other components that are driving in the same direction."

"Does your SimCorp-based operating model fit well with your agile transformation? Or do you see that your provider may have difficulty following your speed and your agility?"

"It is a general issue that requirements are expected faster. I mean, it's all about speed. So I think that software providers across the board have challenges following their clients' requests. And therefore I also believe, as you were saying, things will become more data driven. So you can say clients don't want packages of reporting, they basically want the data so they can fit them into their own models. That is one element. Our platform, from that perspective, is quite flexible, because we could configure it ourselves. I think that is very helpful when we are driving in this direction. What will be important for the software providers in the future, and that goes also for our platform, is that they have full API support – because as data is the driver, you need fast access to data. You don't want to be the one who changes your own infrastructure and programs because the software provider is changing his."

"And what is on your roadmap for the next five years?"

I think it is what is being said in all the conferences; we basically follow the same as everybody else: it is the cloud journey. It is about tapping into scalability from a storage and CPU perspective, I believe it's cheaper, it's more flexible. And you get access to solutions, softwares and technology which you don't have on your own servers."

"Then it's a data data game. I mean, it is clear to everybody now that data is an asset to a much bigger extent than five years ago. And this is what everybody wants. So we need, as well, to make sure that our data infrastructure can support all the needs from the clients across the board. And the complexity added is this entire ESG journey. There is this transition from a black to a green economy, and integrating this into investment processes across all asset managers in Europe is a tremendous task lying ahead of us."

"There is this transition from a black to a green economy, and integrating this into investment processes across all asset managers in Europe is a tremendous task lying ahead of us."

"I believe that this is also somewhere you can see that the software providers don't have the solutions yet, because it's not a mature market yet. Everybody's trying to find their feet in terms of their product offerings, but also how they can make sure that they are compliant with the legislation, which by the way, is still incoming and new. So I see a lot of bespoke solutions in next five years."

"Yeah, we did a survey last year on data management. What was funny was that the asset management industry seems to be behind other financial services, and only a few other industries were lower on the scale than asset management in terms of the evolution of data management. One last question, because it's also very important, the integration of ESG data into that environment … Is that something that you already have, or is it on your roadmap?"

"We are a bit lucky in that as a Nordic company. Especially in Sweden, we have had these ESG products for the last 10 years. So we have an offering and have worked with this for many years. So for us, it's a matter of scaling it up to the products which have not had the green stamp and the green characteristics yet. And then of course, make sure it's compliant with the incoming legislation. So it is on our roadmap, it will be for many years, but we have fortunately been working with this for some time already." ■

A video of the interview is available by clicking here in your pdf.

Taking off: Their post-trade innovation became a business of its own

As Jaanus Erlemann led the post-trade operations at Sweden-based East Capital, he saw the need to take a firm grip on the data disparity that was holding back scale and quality in processes such as the NAV oversight. Now, over a decade later, the experience that started there has come to inspire the launch of a new system provider – Estonian-based Depowise, led by Sven Peekmann (pictured). Read about their journey, and their new offer to cut complexity for asset managers and depositaries.

Contributed by Depowise

New organization, new brand, a new market roll-out … but as so often for start-ups in the post-trade space, the roots of upcoming Estonian system provider Depowise reach back many years into well-established Nordic financial services companies.

It was in the years around the 2007–2008 financial crisis that Jaanus Erlemann led the build-up of a robust data warehouse solution at East Capital. Some years later, he got in touch with ex-colleagues at Swedbank who could see the benefits that a similar solution would bring in their depositary operations. Jaanus teamed up with the Estonian IT consultancy that had supported him at East Capital – Net Group – and the business that is now Depowise fundamentally builds on the same idea. Today, three other Nordic clients are live with Depowise – and new UK, Netherlands and Luxembourg ones are being onboarded.

First of all: standardise

"The core idea is that you collect all the data from different jurisdictions and providers as early as you can in the process, you standardise it … and then, whatever you do on top will be unified business processes," says Jaanus Erlemann.

Today, he does not work operationally in the business but continues with regular contact in an advisory role. But Sven Peekmann, who heads Depowise, was there too all from the start, then as a project manager at Net Group – in Tallinn, on the other side of the Baltic Sea.

"I remember we had a lot of long conversations during the evenings on how to resolve the different issues that Jaanus was facing. He had the strategy and we put it to life," says Sven Peekmann.

A key purpose for a large part of Depowise's clients is to streamline the daily "shadow NAV" calculation – the inhouse oversight to double-check on the main NAV calculation which may be done by an external fund administration services provider. The regulatory requirements for this are becoming stricter, which helps drive the demand for systems that deal with it. But the full list of possible benefits from the Depowise solution looks surprisingly diverse. It can be used both on the asset manager side and by depositaries – and can save plenty of work hours across many different processes.

Getting the data standardised can also make it possible to consolidate fund management activities across serveral funds independently from the fund juristiction.

Change is the only constant

Jaanus Erlemann tells more about the operational background to the solution.

"As head of back/middle office and administration, I faced a constant struggle – with the multitude of jurisdictions, service providers and internal systems such as for administration/operations, reporting or benchmarking," he says.

Before the financial crisis, the challenge was in the expansion of the portfolio

Sven Peekmann, Depowise.

across jurisdictions and products. The near-half cut in AUM value that came with the crisis led to new challenges and strategies – but the need for robust data was only reinforced.

"I could see that when the only constant is change, change is what you need to design your operations for."

In Jaanus Erlemann's setup, this is done by the logic of standardising the core data in a warehouse – and thereby making it relatively easy to design and adapt consistent business functionalities on top.

Consolidation became easy

After master-feeder fund setups became permitted, one of the first projects was to reorganize the management of a Sweden-based and Luxembourg-based funds. On the back of the data warehouse, the change of operational setup could be done swiftly, i.e., within a few weeks, and more investment management consolidation soon followed. (Legal changes could take months to execute, however.)

"In the process, we came to switch depositaries too – and realised that because of the data warehouse, the technical side of the shift could be done within a week," says Jaanus Erlemann.

"So, it made us ultra-flexible in shifting service providers, adding new products or whatever we needed, because we had the central infrastructure in place. Then, also, we could use the same solution/principle for upgrading our legacy back-office system," he adds. "The legacy system can be replaced without dragging along the full complex history which increases the complexity of upgrade/replacement exponentially."

'Wow' experiences

"These were all 'wow' experiences to me and for friends working in similar roles at other investment companies! So, when I looked around, I started thinking 'why isn't everybody else doing this?! Because it gives you so many opportunities to make your business scalable and expandable."

Over the last years, the asset management and asset servicing solutions have emerged as a distinct line of business under Net Group. The growing number of successful implementations is now leading the company to spin off Depowise as its own brand and unit. At times of high demand, Depowise can still benefit from being part of an IT consultant group with over 130 people on its staff in total.

The harmonised legislation across Europe means that Depowise can easily cater for clients across the continent. Clients based in the Netherlands, Luxembourg and the UK are already being onboarded.

"But to start with, Scandinavia, UK and Luxembourg are our first focus areas as we scale up our business now," says Sven Peekmann. ■

"So, it made us ultra-flexible in shifting service providers, adding new products or whatever we needed."

Weatherproofing your multi-asset portfolio with illiquid alternatives

Real-time cash-flow forecasting may hold the key to true diversification. Read the article and learn about:
- The impact of consistent allocations, on diversification and performance
- Obstacles, including the denominator effect, which challenge multi-asset allocation strategies
- The rebalancing nature of illiquid investments in times of market volatility
- The rationale for a real-time, integrated cash-flow forecasting solution

Sophisticated institutions have long been investing in illiquid alternatives, such as private equity and real assets, to improve the diversification and performance of their portfolios. But during the COVID-19 crisis many institutional investors, across the globe, found their portfolio risks were far more concentrated than expected.

It appears at least in practice, implementing a well-diversified portfolio that is able to withstand market shocks, is more difficult than widely assumed. In this article we explore the role of market practices and short-termism, which stand in the way of strategic allocations, and why real-time cash-flow forecasting may hold the key to true diversification.

SimCorp

Contributed by Thomas Meyer, SimCorp

Recently, CalPERS Head of Private Equity, Greg Ruiz, reflected on why its renowned program has underperformed relative to peer benchmarks. In his review, he identified a 'lack of disciplined capital deployment and lack of strategic consistency', as the two key factors that affected performance. In essence, this often leads to portfolios that are overexposed to certain vintage years, and that are poorly diversified, thus destroying the expected benefits of risk-adjusted assets, such as alternative investments.

Ruiz's reflections could well be the key to riding out the current global market event, if we can ascertain just how LPs can sustain their approach to multi-asset allocation, in order to weatherproof their

INGELA HALLONQUIST

portfolios against the storms in the market. To understand this, we need to first look at what obstacles lie in the path of diversification.

The 'denominator effect'?

'Animal spirits' may occasionally be one such issue, but there are also other dynamics in play. Many institutions invest in a collection of assets, following a decades-old best practice strategy, approximately defined as '40% equities, 30% bonds, 10% hedge funds, 10% private equity, and 10% infrastructure'. Following these rules implicitly allows market quoted assets to drive the portfolio dynamics.

If we take the typical definition of an allocation as *the capital within an asset class, divided by the total capital of the portfolio*, when one asset class, such as equities, takes a hit, it skews the relative value of other less liquid asset classes, such as private equity. In this sense, the value of private equity blooms, while the overall portfolio (the denominator) reduces significantly. This is known as the 'denominator effect', a typical impact that crises have on institutional multi-asset portfolios.

This imbalance creates a temporary over-allocation of illiquids within the total portfolio, causing many LPs to take a typical short-term market risk perspective and put a stop on any new fund allocations, or even selling off current commitments in the secondary markets, in favour of rebalancing allocations and increasing liquidity, during volatile conditions.

For long-term oriented investors there is a 'cost of looking' – if LPs are too much influenced by temporary market swings they essentially inject artificial volatility from the public markets into the private markets. This self-fulfilling prophecy causes an additional challenge, where selling off private assets is usually only possible under highly unfavourable conditions, due to declining asset values. Instead of using these conditions to buy illiquid assets at a discounted value, many LPs flee the market in their hordes to sell off what they can, precisely at a time when it is mostly likely to dry up.

"To draw a key lesson from the GFC and other crises: a consistent approach to fund commitments is critical."

In this sense, basing investment decisions on the denominator effect can be considered an act of self-harm, where the LPs add man-made risk to their allocations, caused by overly rigorous market rules, that have simply not been adapted to the characteristics of illiquid assets, especially in times of crises.

If we look at the current global market event, it appears investors have to some degree been absorbing the lessons of past market crashes and have correspondingly adjusted their internal rules. At least at this point in time, it looks as if the fear of the 'denominator effect' in reaction to the COVID-19 downturn, is overblown, with a recent survey suggesting only 26% of investors are cutting their allocations to private equity. However, there is always the potential of a 'second wave', meaning that the 'denominator effect' may well strike.

Keep calm and carry on

Private equity and real assets resist market transactions as a means to rebalance and provide stability to multi-asset portfolios. It is one of the rudimental characteristics that define it from traditional assets, such as equities. Despite this, a second, major problem is the disconnect between short-term signals and long-term performance.

Take the GFC (Global Financial Crisis) in 2008 and 2009, as an example, where an illustrative portfolio of private equity funds showed a contraction of distributions by 65%, while contributions decreased by 20% relative to predictions. This is a development to be expected during a market crisis, where valuations for all assets are collapsing.

However, this impact occurred over a relatively short term. In 2012, the same sample of private equity funds had caught up and its cash-returns, as well as its overall performance, were well beyond what was feared in 2009 . To draw a key lesson from the GFC and other crises: a consistent approach to fund commitments is critical. Institutional investors that stay the course and hold tight with private equity and other alternatives allocations, will ultimately benefit from risk-adjusted returns generated by funds, once markets recover. Indeed and as CalPERS's Greg Ruiz confirms, while consistently committing to private equity does not always guarantee success, inconsistently deploying capital, will most certainly result in underperformance.

In most of these situations, the old dictum to 'keep calm and carry on' is therefore the advisable course for action. However, this is easier said than done, as often there are also cultural issues at play. One of the contributing factors that perpetuates the artificial risk mindset of most LPs in a crisis, is the lack of counter-argument from their illiquid asset teams. Here, risk management is predominantly approached by acumen, due diligence, contractual terms and conditions, and monitoring, but these teams do not have the quantitative models and tools to communicate risks in the 'value-at-risk' language their organizations urgently demand.

If an integrated cash flow forecasting solution had existed back during the GFC, its timely insight, backed by robust data, would perhaps have enabled a strong counter argument from the illiquid asset teams, eliminating the hasty decisions that a public market risk perspective often triggers.

"In most of these situations, the old dictum to 'keep calm and carry on' is therefore the advisable course for action. However, this is easier said than done …"

It's all about cash flow

Consequently, weatherproofing has to start long before a crisis, with a consistent approach to meeting and maintaining allocations. The ensuing hunt for liquidity that many LPs fall into, in volatile times, tells us that the dynamics of fund cash-flows, play a critical and challenging role in meeting diversification targets. Sophisticated asset managers confirm that careful liquidity planning is essential to achieve this, but often this insight is either stuck in the back office, never to make its way to the trading desk. Or it is based on yearly forecasts that become quickly outdated and offer little accuracy to guide portfolio allocation decisions in the here and now.

Much of the challenge around cash-flow forecasting models, is that they need to be able to work with infrequent, unstructured and poor-quality data, that is the signature pattern of illiquid alternative assets. The algorithms need to use both proprietary private market data, supplemented by data obtained from market vendors. Essentially, the models employed, must be able to triangulate, in order to fill the remaining gaps.

In situations where investors try to build an in-house system for cash-flow forecasting, the development quickly turns into a quagmire, where they overcomplicate matters by attempting to capture all details, where accessing and maintaining data becomes a nightmare, and finally no model is good enough.

Instead of striving for illusive precision, when it comes to long-term forecasts, the key to gaining control is making cash-flow forecasting a continuous, e.g. monthly, discipline, within the investment process. This can be achieved by an integrated front-to-back, cash flow forecasting solution that can readily make real time data available across the organization. By integrating with a firms' Investment Book of Record (IBOR), such a solution could deliver critical visibility on liquidity and exposure across all asset classes.

Integrated cash-flow forecasting is a vital tool that enables LPs fast access to consolidated data; both from vendors and the firm's own data, to accurately and credibly assess liquidity exposure and reliably inform allocation decisions.

Innovation like this, would not only enable LPs to compare apples (public markets) and oranges (private markets) more accurately, but empower illiquid asset teams to clearly demonstrate, using statistical data, what they already know to be true but is lost in the haze of a global market event; that private assets do not correlate, in the long-term, with their public market counterparts. This is the fundamental premise upon which multi-asset portfolios are formed. To weatherproof, come rain or shine. ■

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"The **benefits** to market participants are **significant**"

Cécile Nagel, President of EuroCCP, describes how **preferred clearing volumes** have exploded over the past 18 months, and why the model benefits both market participants and trading venues.

Contributed by EuroCCP

One clear trend at EuroCCP over the past 18 months has been the meteoric rise of preferred clearing, with volumes in the first half of 2021 outstripping those for the whole of 2020. As the leading CCP in Europe, EuroCCP champions open access through preferred clearing, introducing competitive clearing to regulated markets where interoperability – the ability of different systems to connect with one another – is not currently available. While EuroCCP has access to around 94% of Europe's equities trading activity executed on recognised exchanges, only 63% of this is interoperable; 30% adopts preferred clearing, which is also known as the User Choice Model.

So how does preferred clearing work? For EuroCCP to clear a trade in the absence of interoperability, the buyer and seller of the trade must select EuroCCP as their preferred CCP at the point of onboarding. The venues then report back to each trading participant that EuroCCP has cleared the trade in order to maintain transaction reporting, trade booking and reconciliation. EuroCCP connects to Euronext Amsterdam, Brussels, Lisbon and Paris, Deutsche Börse Xetra and Borsa Italiana for preferred clearing, representing about 25% of European equity trading.


EUROCCP

Cécile Nagel, President, EuroCCP.

The benefits to market participants are significant. Members opting for EuroCCP as their preferred CCP for Euronext stocks are able to consolidate their clearing activity through one clearing house, enabling them to benefit from more efficient netting opportunities, as well as operational and cost efficiencies. Preferred clearing volume is added to members' overall volumes for fee calculation so, through scale, fees will be lower compared to the primary CCP as a result of EuroCCP's volumes from pan-European coverage. On average, the preferred clearing fees charged by EuroCCP on Euronext are over 75% less than if the venue had used its primary CCP. Preferred clearing allows trading venues to offer their customers best execution by ensuring lower trading and clearing fees.

Statistics demonstrate just how much preferred clearing volumes have accelerated. In the first six months of 2021, EuroCCP cleared 4.5 million trades on Euronext via preferred clearing, compared with 3.5 million for the whole of 2020 and 33,000 the previous year. EuroCCP now has a 2.5% market share in preferred clearing versus an average 0.61% in 2020, and hit a market share peak of 3% in March this year. The increase was down to three main factors: the huge pandemic-led volatility in financial markets last spring leading to an unprecedented volume of transactions; more market participants recognising the benefits of preferred clearing; and EuroCCP onboarding several major liquidity providers.

We are expecting further significant preferred clearing volume growth on Euronext during the remainder of this year, and corresponding increase in market share. We have started to clear trades on Borsa Italiana, introducing competitive clearing to the market for the first time and more banks and liquidity providers will be added this year. The growth will cap a very busy and successful year for EuroCCP which also saw us move into equity derivatives trading in support of Cboe Europe Derivatives, a new pan-European marketplace which enables participants to access a vibrant equity derivatives market through a single access point, creating efficiencies in trading and clearing. ■


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Risk management is **crucial** as more instruments flood into CCPs

Contributed by Brendon Bambury

Appetite for centralised clearing is on the ascendency, fuelled by the emergence of new, exciting products together with the imposition of the final two phases of EMIR's (European Market Infrastructure Regulation) tough initial margining requirements for bilaterally traded OTC (over-the-counter) derivatives. With more exotic and arguably dicier financial instruments being centrally cleared, central counterparty clearing houses (CCPs) must demonstrate that they have robust risk controls in place.

New instruments enter the market

With investors looking to diversify beyond fixed income and equities, many are building up their allocations to digital assets – including through crypto-currency exchange traded products (ETPs). Data from TrackInsight found that crypto-currency ETPs' market capitalisation increased fourfold in 2020 to reach $3.1 billion, before surging to a record $4.4 billion in early 2021[1]. This growth shows no sign of losing momentum with 53% of European institutional investors telling ETC Group – a provider of digital asset-backed securities – that they would prefer to trade Bitcoin through an ETP wrapper.[2] If the crypto-currency ETP market is to continue expanding, then the infrastructure supporting its trading needs to be of institutional quality. In response, a growing number of CCPs are increasingly clearing crypto-currency ETPs. For instance, SIX x-clear is now providing clearing services to the ETC Group Physical Bitcoin, a recently launched crypto-currency ETP.

Demand for CCPs will also be driven by EMIR, which should be fully implemented by September 2022. Under phase 5 of EMIR, financial institutions with an AANA (Aggregate average notional amount) of non-centrally cleared OTCs totalling more than €50 billion will be subject to stricter margining obligations from September 2021. With the introduction of Phase 6 of EMIR from September 2022, the AANA threshold will reduce to €8 billion capturing around 1000+ entities from across the buy-side and sell-side. This is likely to result in a number of non-standardised, bilaterally traded OTCs being pushed into centralised clearing.

A strong risk model is non-negotiable

With a wider range of financial instruments being centrally cleared, CCPs need to ensure their risk models are watertight. Although CCPs have long demanded members post initial and variation margin on their trades, instruments such as crypto-currency ETPs will be subject to tougher collateral requirements. In addition to their own risk waterfall mechanisms, EU regulators have instructed CCPs put greater skin in the game [i.e. their proprietary balance sheet capital] to mitigate the risk of member defaults. Complementing EMIR is the EU's recovery and resolution requirements, which stipulate that CCPs should have measures in place to facilitate an orderly wind-down should it fail. Again, these regulatory obligations - along with CCPs' stringent internal risk management practices – will be integral in safeguarding the market's integrity and security as more instruments are centrally cleared. ■

***Brendon Bambury** is Head International Client Relations & Sales , SIX Securities Services.*

[1] ETF Stream [February 16, 2021] Are ETPs the perfect vehicle to gain exposure to the crytpo market?

[2] Aquis [June 1, 2021] ETC Group launches first Bitcoin ETP in UK on Aquis Exchange.

CSDR – fail to prepare and prepare to pay

By Heiko Stuber, Senior Product Manager at SIX

"The clock is ticking" – an infamous catchphrase now synonymous with seemingly every Brexit update from EU chief negotiator Michel Barnier. As applicable as this line is to every twist and turn of this political psychodrama, the countdown to October 31stis by no means the only deadline front of mind for European financial institutions right now.

Devised at an EU level, the Central Securities Depositories Regulation (CSDR) will force European CSD's to take measures to prevent settlement fails. These include penalty schemes, as well as forced buy-in and sell-out procedures which require trading parties to deliver either cash or financial instruments in the event of non-delivery. This can be used to avoid the potential liquidity risks that can occur due to failed settlement instructions.

CSDs will apply financial fines for failing to complete transactions on the Intended Settlement Date. The rule, enforced on 14 September 2020, means that there will now be a legal obligation for one side of the trade to pay a hefty fine. There are multiple facets to this most complex of rules. But two of most immediate concerns include the reporting and calculation of cash penalties, and the settlement of transfer orders on behalf of clients on a bank's own account, rather than through a CSD. The latter, referend to as internalised settlement reporting, is of particular concern to custodian banks right now.

Not just a price tag

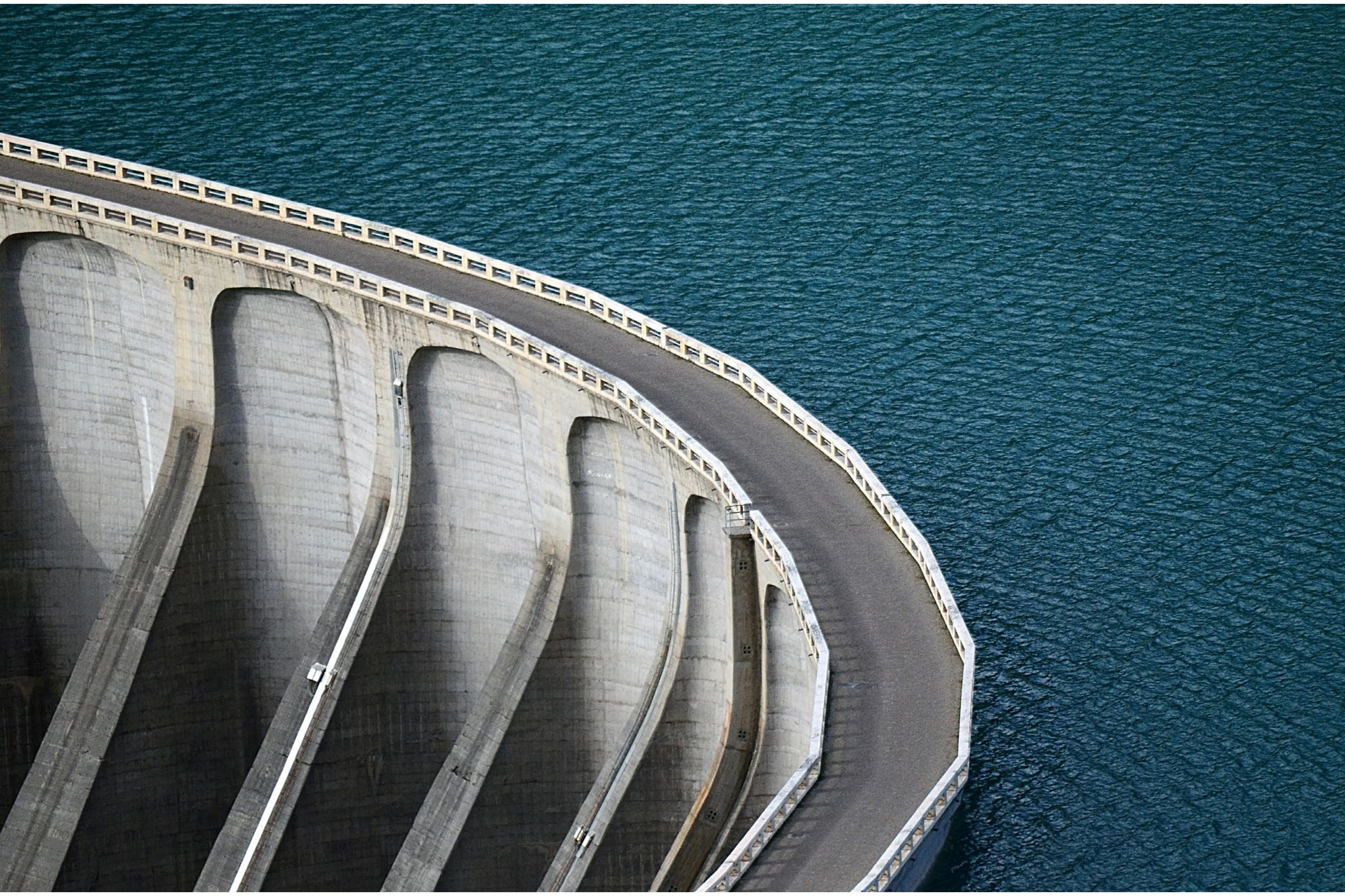
The main challenge is that custodians are struggling to access the granularity of information needed to assess the financial instruments that could fail to settle under CSDR. While they may be able to get cash amounts from CSDs, a custodian can't easily get hold of the reference and price data being used to work out exactly how the penalties were calculated. This includes really important insights such as how to determine the market valuation of any given instrument, not to mention the closing price of the Most Relevant Market within the EU.

An issue is that not all trading venues provide closing prices. So, what does a custodian do for price information? Normally the price information would be based on final trade of the day. However, some trading venues do not even provide this information. If this wasn't enough, how does a firm arrive at an accurate turnover figure? As such, in order to be compliant, there needs to be a way to get all of the trade information summing up the volume and multiplying by the price in order to get the turnover figure. All this before then needing to compare the turnover figure with another venue where the same instrument is also listed or traded.

With no trade, can there be a price?

And here lies the pandora's box of problems that could open up not just for custodians, but also for anyone involved in a trade chain for a CSDR instrument. Trade fails and resulting penalties are, of course, less likely for say liquid equities or equity style instruments like ETFs or warrants. But for the more illiquid instruments, it is a different story.

Take trying to identify the market value on the closing price of a credit bond as a prime case in point. It could be weeks,



or even months, before the bond is even traded. The trouble is, with no accurate liquidity level for the instrument because it trades so infrequently, it becomes almost impossible to assign the correct penalty rate.

A race to get the data right

So, what can the financial sector as a whole do to ensure they do not fall foul of CSDR when it comes into full effect in September next year? Twelve months will go by in a flash – which means the industry really needs to be gathering the information needed to test of the impact of trading in a "CSDR-like" regulatory environment. For CSDs, they will need the most up to date reference and pricing data in order calculate extra compensations or cash penalties. As for custodians and any other market participants potentially involved in a CSDR sensitive trade, the focus has to be asking CSDs for detailed analysis about the likely instruments "in-scope" under CSDR.

The trouble is, with no accurate liquidity level for the instrument because it trades so infrequently, it becomes almost impossible to assign the correct penalty rate.

So much work to do and so little time – perhaps this should be ESMA's Barnier-style catchphrase for CSDR. It may just force the industry to accelerate its perpetrations. After all, no EU financial institution wants to face the inevitable consequences from a lack of preparation.■

As Senior Product Manager for Reference Data at SIX, Business Unit Financial Information, Heiko Stuber is responsible for identifying market trends and customer requirements in the regulation area, and to define solutions that mitigate clients' risks – such as for CSDR, MiFID II, SFTR and AIFMD.

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