

AMERICAS



SUB-CUSTODY GUIDE

ARGENTINA

| UNWEIGHTED | | |
|------------|------|-------|
| RANK | | Score |
| 1 | Citi | 5.00 |
| WEIGHTED | | |
| RANK | | Score |
| 1 | Citi | 5.80 |

MSCI will announce whether it will reclassify the MSCI Argentina Index from frontier to emerging market status in June 2017. It was excluded from emerging status in May 2009 as a result of continued restrictions to inflows and outflows of capital in the equity market. MSCI considered only American Depositary Receipts (ADRs) of Argentinean companies as eligible securities for inclusion in the MSCI Argentina Index.

“An external vote of confidence in Argentina’s reform efforts would help. A potential MSCI upgrade of the Argentine equity market from frontier to emerging market status could attract meaningful foreign flows to the local equity market,” Guilherme Paiva, Morgan Stanley’s chief equity strategist for Latin America Paiva wrote in recent client note.

The Macri administration has introduced a bill that reforms the ex-

isting capital markets law, including provisions on limiting government intervention in capital markets and reforming taxes. Rapid approval and implementation by congress could bolster foreign investor confidence.

“Eight years after being downgraded Argentina seems poised for a turnaround, one that offers investors long-term opportunity and returns,” Fernando Sedano, Morgan Stanley’s Latin America economist, added.

“Now that the administration has addressed many macro imbalances, Morgan Stanley economists believe the focus should shift toward longer-term structural challenges. We are confident that Argentina will push reforms to boost its capital market infrastructure in order to absorb foreign capital and ultimately attract more foreign direct investment.”

Argentina’s stock market capitalisation is still relatively small. Capitalisation of \$61bn (just 11% of 2016 GDP of \$538bn) means it is the second smallest equity market among emerging markets, just above Egypt. “We see ample potential for new issuance, especially in financial and consumer stocks,” Paiva added. “We believe overall market capital-

isation in Argentina can more than double over the next five years, if we consider new listings and price gains.”

BERMUDA

| UNWEIGHTED | | |
|------------|------|-------|
| RANK | | Score |
| 1 | HSBC | 5.00 |
| WEIGHTED | | |
| RANK | | Score |
| 1 | HSBC | 4.66 |

In recent months, challenges facing Bermuda have been amplified by ongoing changes in the international landscape with Brexit negotiations recently activated, proposed reforms in the US tax system that could affect Bermuda, OECD initiatives and European Union tax policy initiatives targeted against so-called low/no income tax jurisdictions. Bermuda’s Financial Policy Council has stated that it recognises the importance attached by the European Union to clamping down on tax evasion and avoidance and promoting fairer taxation. However, Bermuda believes that its regulatory and tax systems meet relevant international criteria,



“We are confident that Argentina will push reforms to boost its capital market infrastructure”

Fernando Sedano, Morgan Stanley



revenue diversification, which will allow custodians, registrars, asset managers and brokerage houses to consolidate their back office and treasury systems, with reductions to operating costs and risk for the entire financial system, as well as more efficiency interact with regulators.

Three-quarters of Brazilian assets under custody are in the hands of Itaú Unibanco Holding SA, Bradesco, Banco do Brasil and Citi. In October, Citi reached a definitive agreement to sell its consumer banking business in Brazil to Itaú Unibanco. Bradesco purchased of HSBC's local unit last year. Meanwhile, BNP Paribas Securities Services is one of the more recent entrants.

The economy is expected to emerge from a two-year recession in 2017, as private investment and production improve, although consumption will be subdued by high unemployment. The recovery is heavily dependent on the government's ability to pass reforms, reduce fiscal imbalances and restore confidence.

The MSCI Brazil dropped 15% in US dollar terms on May 18 after President Temer was implicated in a corruption scandal. The news reversed the market gains over the past year as a result of government reforms.

"Any news that compromises his [Temer's] position will be used by other political parties to withdraw support for these unpopular reforms or even initiate another impeachment process," said Ivo Luiten, senior portfolio manager at NN Investment Partners.

"If there are no reforms, there is more downside to both the domestic stock market and the currency. How much more is hard to tell because it depends to a large extent on how future politics will evolve."

Commodity prices have been recovering over the past year and Brazilian corporate earnings were rising for the first time since 2011, which should give support to the market.

especially with regard to transparency and the exchange of information, harmful business taxation and, most recently, the fundamental principles underpinning the OECD's 15 Actions on Base Erosion and Profit Shifting. .

> BRAZIL

| UNWEIGHTED | | |
|------------|---------------------------------|-------|
| RANK | | Score |
| 1 | BNP Paribas Securities Services | 5.74 |
| 2 | Citi | 5.40 |
| WEIGHTED | | |
| RANK | | Score |
| 1 | Citi | 6.98 |
| 2 | BNP Paribas Securities Services | 5.04 |

The combination of stock exchange BM&FBovespa and Cetip, the largest depository for private sector debt securities in Latin America, led to the creation of B3 earlier this year. Together they should bring benefits to market participants from synergies of scale and range of products.

B3 offers the market is greater capital efficiency for clients through the possibility of using, for example, OTC and exchange-traded derivatives with the same central counterparty. Regulatory costs should also be lowered.

Executives at B3 also believe the integration of activities will increase

SUB-CUSTODY GUIDE

CANADA

| UNWEIGHTED | | |
|------------|------------------------------------|-------|
| RANK | | Score |
| 1 | RBC Investor and Treasury Services | 5.76 |
| 2 | CIBC Mellon | 5.56 |
| WEIGHTED | | |
| RANK | | Score |
| 1 | RBC Investor and Treasury Services | 5.26 |
| 2 | CIBC Mellon | 5.19 |

Canada's market remains attractive to global investors with its AAA-rating, strong economy, natural resources and highly skilled workforce. It offers robust market infrastructure, a stable financial sector and an effective regulatory environment.

Canadian market participants are working to meet the same September 5 2017 deadline for shortening the settlement cycle from T+3 to T+2 as the US. In April, the Canadian Capital Markets Association (CCMA) issued a request for comments from investment industry stakeholders on a list of Canadian security types, identifying whether they are expected to be affected by T+2.

"Dozens of countries around the world have reduced their securities settlement cycle to a standard of T+2," said Keith Evans, executive director of the CCMA. "Making this change seamlessly and in tandem with the US is essential to maintaining Canada's capital markets' reputation as efficient, cost-effective and secure."

About 40% of trades on Canadian exchanges are in inter-listed securities (a single security listed in both markets) and about a quarter of the trades settling in Canada are from cross-border transactions. Evans added: "Different settlement dates may lead to market distortions, be confusing for investors and increase both the risk of errors and the need for manual corrections."

James Rausch, head of Canadian client coverage and global head of banks, brokers & exchanges, RBC I&TS, added: "The new settlement cycle also impacts our Non-West-

ern Hemisphere clients. With this in mind, we are proactively identifying trade instructions received after 12:00 noon on T+1 and encouraging clients to work with their underlying clients and internal partners to make the adjustments to ensure the timely provision of trade instructions in line with expected industry standards."

The Canada Revenue Agency (CRA) made modifications to its guidance for Part XVIII of the Foreign Account Tax Compliance Act (Fatca) and new guidance for Part XIX of the Common Reporting Standard (CRS) in March 2017.

Shane Kuros, vice president, business development and relationship management, CIBC Mellon, said: "The CRA indicated that the information – aimed at Canadian financial institutions and their account holders – is intended to provide an understanding of the administrative aspects of the Canada-US intergovernmental agreement and the CRS."

Rausch added: "Account opening requirements for new accounts in phased-in jurisdictions under CRS begin July 1 2017. In an effort to streamline due diligence processes, we are developing a combined Fatca and CRS self-certification form, including Canadian withholding tax declaration information for our sub-custody clients."

CHILE

| UNWEIGHTED | | |
|------------|------|-------|
| RANK | | Score |
| 1 | Citi | 5.15 |
| WEIGHTED | | |
| RANK | | Score |
| 1 | Citi | 5.93 |

Growth in 2017 is expected to be 1.7% according to the IMF, only

slightly up from 1.6% in 2016, reflecting disruptions to copper production, dampened consumption and investment as well as political uncertainty, with both presidential and congressional elections in the next 12 months.

An export-led recovery is expected to gain traction in late 2017 and strengthen in 2018. Monetary policy is accommodative, but there is scope for further easing. Fiscal consolidation needs to continue given the growth outlook.

Law N° 20.848, in force since January 1 2016, established a new institutional framework for foreign direct investment. The aim is to transition from a "passive reception" policy to an "active attraction". Fortunately, copper prices seem to have bottomed out in this cycle with price increases in late 2016 helping to restore confidence.

In May 2017, Santiago Stock Exchange (SSE), Bolsa de Comercio, announced that an IBM-designed platform will be implemented within the exchange's short selling system.

"The solution creates a securities lending chain repository for a key master contract between institutions, exchange and banks," an IBM spokesperson told Global Investor. "All entities involved in securities lending – banks, the stock exchange, clients, regulators and brokerages – can exchange information in a highly secure manner, assuring financial transparency and increasing the process end to end efficiency."

When a broker and institutional client sign a master agreement to engage in lending activity, the broker enters the details and signs off on a blockchain for audit purposes. Upon

“ The SBL blockchain solution could help SSE cut its back-office processing time by 40% ”



A Canadian Leader in Sub-custody

With more than 1,300 professionals exclusively focused on servicing Canadian investors and global investors into Canada, CIBC Mellon can deliver on-the-ground execution, expertise and insights to help clients navigate the Canadian market. Leveraging the technology and scale of BNY Mellon, a global leader in investment servicing, and the local presence of CIBC, one of Canada's leading financial institutions, CIBC Mellon has the experience and the capabilities to help you succeed in Canada.

Canadian custody and sub-custody

Canadian correspondent banking¹

Broker-dealer clearing

Securities lending²

Brokerage¹

Investment fund services

MIS (Workbench, STP scorecard, trade match report card)

Data analytics²

Learn more, contact:

Shane Kuros at +1 416 643 6365

www.cibcmellon.com

CIBC MELLON

¹ Provided by CIBC

² Provided by BNY Mellon

SUB-CUSTODY GUIDE

successful execution of the order, the platform will register the lending contract on the blockchain on behalf of brokerage. A smart contract will be executed to the short for an allowed security.

SSE will own and operate the network but anyone with the key can access the information, which includes the master agreement, secure lending contracts and contracts with banks. The SBL blockchain solution could help SSE cut its back-office processing time by 40%.

> COLOMBIA

| UNWEIGHTED | | |
|------------|---------------------------------|-------|
| RANK | | Score |
| 1 | BNP Paribas Securities Services | 6.25 |
| 2 | Citi | 5.09 |
| WEIGHTED | | |
| RANK | | Score |
| 1 | BNP Paribas Securities Services | 6.84 |
| 2 | Citi | 6.34 |

2016 brought improvements for foreign investment and preparation for some of the biggest projects that the Colombian market will experience during this decade.

In the recent years Colombia has been experienced political change, including a peace agreement with Farc in December 2016, as well as economic reforms.

Fiscal reform in late 2016 brought significant change to post-trade processes and foreign portfolio investments. FX transactions related to funds repatriation deriving from foreign portfolio investments were exempted from the 40bps transaction tax (GMF), facilitating the use of multiple FX providers.

A new tax on dividends of 5% was introduced, to apply to profits obtained from 2017, and the value-added sales tax increased from 16% to 19%.

Armanda Mago, managing director, head of direct custody and clearing, Latin America excluding Brazil and Mexico, Citi, said: "The government expects to reduce the

fiscal deficit – mostly driven by the decrease in oil prices – to attend the IMF recommendations and remain investment grade with a stable outlook."

While Colombia continues being a segregated market for securities accounts, regulatory change means omnibus cash accounts are now available for foreign portfolio investors.

"The use of omnibus cash accounts has been finally recognised in the market and the final version of the new foreign investment regime took shape," said Claudia Calderon, head of Colombia, BNP Paribas Securities Services. "This benefits those entities offering services to multiple investors, such as global custodians, that can set different cash structures according to their needs, having the possibility to use multiple providers."

The Superintendence of Finance is working on a new regulation to establish higher capital requirement for trust entities in order to adequately support the custody business.

During 2017 the market will be

working on important projects such as an extension of the CCP model to equities, a move to a T+2, implementing an integrated trading platform for the securities exchange and a new platform for the CSD, Deceval.

Mago added that the stock exchange, the CSDs, local brokers and custodians including Citi are working to promote the participation of foreign portfolio investors in securities lending and implement a CCP for equities spot transactions, sell buy backs and repos.

> MEXICO

| UNWEIGHTED | | |
|------------|-----------|-------|
| RANK | | Score |
| 1 | Santander | 5.22 |
| 2 | Citi | 5.21 |
| WEIGHTED | | |
| RANK | | Score |
| 1 | Citi | 6.27 |
| 2 | Santander | 5.95 |

Mexico's economic priority is to maintain macroeconomic stability and market confidence amid heightened US-related uncertainty, accord-



“ At times, US-Mexico
bilateral relations might fuel
volatile market-moving events ”

Scotiabank

ing to an IMF report in April.

Mexico remains the pre-eminent jurisdiction in Latin American debt markets with large-scale foreign portfolio investor participation, Scotiabank executives wrote in their April outlook. Monetary policy is critical in keeping the interest rate premium as a key magnet for inflows.

“There is evidence of a divergent trend in monetary policy dynamics between the North (USA and Mexico) and the South (Brazil, Colombia and Chile),” Scotiabank added. “The stark contrast between rising central bank rates in Mexico—which helped stabilise Mexican currency market stress—and steady rate declines in Brazil is proof of this divide.”

Mexico’s capital markets remain uneven, with a very liquid government bond market but shallow corporate debt and equity markets. Government bond markets are deep and well-diversified in terms of range of instruments and maturities, providing liquidity in all relevant benchmarks. The strong presence of foreigners has supported the yield

curve lengthening and secondary market liquidity. However, corporate equity and bond markets are still not a reliable source of long-term financing as they are small, expensive and illiquid.

“Equity markets amount to only 38% of GDP, are less dynamic than in peer countries and are tilted towards large enterprises and family owned corporations,” the IMF added. “The development of hybrid capital markets instruments, via private equity funds, could provide a promising venue for much needed mature infrastructure investments. There is significant scope to broaden existing debt instruments to include infrastructure debt funds, covered bonds, and standardised securitisation bonds to appeal to a larger range of private sector investors.”

Scotiabank noted that a June 4 2017 election will provide a clear hint of sentiment ahead of the July 2018 presidential vote. “At times, US-Mexico bilateral relations might fuel volatile market-moving events,” added Scotiabank.

> PERU

UNWEIGHTED

| RANK | | Score |
|------|------|-------|
| 1 | Citi | 5.12 |

WEIGHTED

| RANK | | Score |
|------|------|-------|
| 1 | Citi | 6.28 |

The Peruvian securities market has grown and become more sophisticated in recent years but the latest International Capital Markets Review suggests it is still a highly concentrated market where institutional investors and big businesses are essentially the only participants.

“The Peruvian securities market is not yet perceived by local individuals and small and medium-sized companies as a real alternative providing accessible investment and financing opportunities,” wrote Nydia Guevara and Alvaro Del Valle from Peruvian law firm Miranda & Amado.

To attract a higher number of issuers and potential investors Peru’s Superintendency of Capital Markets (SMV), the Superintendency of Banks, Insurance Companies and Private Pension Fund Managers (SBS) and the Lima Stock Exchange (BVL) need to simplifying access requirements, according to Guevara and Del Valle. “[This] in turn should lower the costs involved in the participation of new actors in the securities market. This goal has not yet been achieved.”

However, both lawyers expect that the reforms and incentives approved during 2015 and 2016 – aimed at increasing the number of securities listings, improving the number of participants in the market and attracting investors by reinforcing transparency – will fuel securities markets expansion and integration.

“2015 and the first half of 2016 were particularly slow periods because of the uncertainty surrounding the presidential and congressional elections held between April and June 2016. Mr Kuczynski, who has a pro-investment and pro-market

SUB-CUSTODY GUIDE

policy, was sworn in as the president for a five-year term on July 28 2016, along with a new congress, which should have a very positive impact on the economy and development of the local capital market.”

UNITED STATES

| UNWEIGHTED | | |
|------------|---------------------------------|-------|
| RANK | | Score |
| 1 | Brown Brothers Harriman | 6.50 |
| 2 | BNP Paribas Securities Services | 5.93 |
| WEIGHTED | | |
| RANK | | Score |
| 1 | Brown Brothers Harriman | 7.37 |
| 2 | BNP Paribas Securities Services | 3.99 |

[pullquote] “”

The Depository Trust & Clearing Corporation (DTCC), alongside other association partners, has committed to helping the US market follow Europe in moving from a T+3 settlement cycle to T+2. The move, which is scheduled to happen in September 2017, is seen by many as a precursor to eventually moving to T+1 globally.

The European switch took place in 2014 and has largely been judged as a success in the buy side. The level of industry preparation means market participants are hopeful of replicating this in the US.

Law firm Deloitte noted T+2 will require changes across the entire corporate actions lifecycle, from announcements to booking and reconciliation. “Under T+2, existing processes that are paper-based, error-prone, and highly manual will have one less day to be completed – increasing the risk of failure. In preparing for T+2, organisations will

need to ensure their internal data is up to par,” Deloitte’s Bob Walley, a New York-based principal focused on regulation and capital markets, wrote in a recent note to clients.

Deloitte’s experts have also suggested vendors and service bureaus assess their delivery systems and incorporate T+2 information into event announcements, such as shortened periods for expiration dates and cover/protect dates. Eligible positions will need to be established based on ex-dates for mandatory and income corporate actions that are one day earlier under T+2.

Cover/protect date calculations for voluntary corporate actions will need to be shortened for T+2 settlement, and organisations will need to notify customers of the shortened date period. Ex-date calculations need to be shortened to “record date minus one,” and calculations for “take-off sheet” adjustments and dividend reinvestment need to be adjusted for T+2.

Systems and operations that support dividend reinvestment processes also need to be reviewed and adjusted. Failure to process these payments for T+2 could create financial risks, including the direct cost of late payments in forgone interest for investors. Finally, firms should review position booking systems for coding related to settlement date and then make adjustments for T+2.

A recent study by Aite Group suggested fund managers are hesitant over a move to T+1 because of the potentially high cost of the required move from batch overnight cycles to real-time processes for settlement.

“ Under T+2, existing processes that are paper-based, error-prone, and highly manual will have one less day to be completed ”

Bob Walley, Deloitte

URUGUAY

| UNWEIGHTED | | |
|------------|------------|-------|
| RANK | | Score |
| 1 | Banco Itau | 4.84 |
| WEIGHTED | | |
| RANK | | Score |
| 1 | Banco Itau | 5.86 |

Uruguay has managed the recessions of its large neighbours Brazil and Argentina relatively well. The economic slowdown in Uruguay bottomed out in 2016, with growth picking up in the second half of the year. Inflation has decreased toward the upper bound of the central bank’s target range. Given rising debt and still-elevated inflation, the room for countercyclical fiscal or monetary policy is limited. “The fiscal consolidation package for 2017 is a crucial step for putting net debt on a downward trajectory, while tight monetary conditions are needed to keep supporting continued disinflation,” IMF officials noted in a recent report.

VENEZUELA

| UNWEIGHTED | | |
|------------|------|-------|
| RANK | | Score |
| 1 | Citi | 4.50 |
| WEIGHTED | | |
| RANK | | Score |
| 1 | Citi | 6.06 |

Venezuela is one of the countries most affected by the drop in oil prices. The South American country was already battling economic difficulties when a barrel was above \$100. So now, barrels around \$50, the socialist revolution of its late leader, Hugo Chavez, and president Nicolas Maduro is facing an acute funding crisis. IMF officials have noted that projecting the economic outlook in Venezuela – including assessing past and current economic developments as the basis for those projections – is complicated. There is a lack of discussions with the authorities, long intervals in receiving data that has information gaps, incomplete provision of information and difficulties in interpreting certain reported economic indicators in line with economic developments.