

EUROPE



SUB-CUSTODY GUIDE

> AUSTRIA

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.95
2	UniCredit	5.12

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.81
2	UniCredit	5.89

Austria is a bearer market and the vast majority of securities are held in the form of global certificates deposited with OeKB GmbH, which eliminates the need for physical securities. Custodians maintain custody accounts at Austrian Central Securities Depository (OeKB), which are updated automatically upon settlement.

"Austria is fully G30 recommendation-compliant and the nominee concept is recognised," according to Tina Fischer, senior relationship manager at UniCredit GSS Austria. She added that the key regulatory change this year involved Austria's successful migration to Target2-Securities (T2S) as of February 6 2017, in the fourth wave.

The initiative was launched by the ECB to harmonise securities settlement in central bank money. Austria is one of the 16 CSDs that have migrated to the T2S platform (22 are planned).

"The forthcoming changes in the Austrian market revolve around Emir and AIFMD as well as Ucits V," said Fischer. "Currently, the Austrian CSD prepares for CSD regulation (CSDR) certification. In the future, settlement discipline should be increased by implementation of penalties for over-the-counter transactions in line with CSDR. However, currently no further details are available and there is no schedule as to when this will be introduced."

The Austrian capital market switched service providers in September 2015 to the OeKB, which opens settlement securities custody accounts and exchange cash amounts for stock exchange mem-

bers and section member banks, as well as settlement securities accounts for custodians.

> BELGIUM

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.13
2	Deutsche Bank AG	4.97

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.20
2	Deutsche Bank AG	4.39

Euroclear Belgium acts as the CSD for all domestic and foreign certificates, including most international depositary receipts (IDRs), warrants and corporate bonds listed on Euronext Brussels.

On March 29 2016, the National Bank of Belgium Securities Settlement Systems (NBB-SSS) completed its outsourcing of settlement to T2S, representing the second wave in the project and necessitating industry-wide changes.

Euroclear Belgium, unlike the NBB-SSS, finalised its T2S migration to the third wave on September 12 2016,

alongside its French and Dutch depositories. In a statement, the group said that it would "work closely with the ECB, the CSD community and our clients to evaluate possible alternative migration scenarios, in order to minimise the impact of this delay."

In December 2016, Euronext announced it had completed the acquisition of a 20% equity stake in Euro CCP, the leading CCP for pan-European equity markets, for an amount of €13.4m (\$15m) in EuroCCP, providing clearing and settlement services.

> BOSNIA AND HERZEGOVINA

UNWEIGHTED

RANK		Score
1	UniCredit	5.25

WEIGHTED

RANK		Score
1	UniCredit	5.05

The recent changes in the regulations for the capital markets of Bosnia and Herzegovina (FBiH) are related to the laws on the securities market and investment funds, according to Lejla Sabljica, head of UniCredit GSS Bos-





nia and Herzegovina.

Sabljica said: “Amendments to the Law on Securities Market in FBiH, which came into force January 25 2017, introduced obligation for investors to obtain approval from Securities Commission (SC) for reaching ownership thresholds in broker-dealer companies – equal to or exceeding 10%, 20%, 33%, 50% and 66% – and to inform SC about intentions to decrease their shares.”

The request for approval is also required for reaching above noted thresholds in the capital of the stock exchange, Sabljica said.

These amendments to the Law on Securities Market in FBiH were published in April 2017, introducing new conditions for approval and circumstances under which the SEC will refuse to issue approval for legal entities and natural persons to acquire or increase their qualified share (10%, 20%, 30% or 50%) in the capital of professional intermediaries or the stock exchange. “The conditions are mainly related to anti-money laundering and combating the financing of terrorism controls,” said Sabljica.

Additionally, amendments to the Law on Investment Funds in FBiH introduced obligations for investors that intend to acquire shares or increase their share in capital of a fund management company equal to or exceeding 20%, 30% or 50% to obtain approval from the SC.

► BULGARIA

UNWEIGHTED		
RANK		Score
1	Eurobank	6.16
2	Citi	5.27
3	UniCredit	5.00
WEIGHTED		
RANK		Score
1	Citi	6.52
2	UniCredit	6.31
3	Eurobank	3.69

Bulgaria’s central depository AD (CDAD) launched its new IT system in February 2016, bringing “significant changes” to the post-trading market infrastructure, said Borislav Hitov, head of UniCredit GSS Bulgaria.

Among the most important amendments, according to Hitov,

were: separating register and settlement & clearing models; omnibus accounts designated by CDAD and visible in shareholder books; and the establishment of a settlement guarantee fund.

CDAD is currently working on the introduction of a third daily settlement cycle for against-payment transactions to align its activity with CSDR requirements.

Trading in government securities on a regulated market will be introduced at some point in 2017. Hitov said that this measure will “reduce settlement risk, improve trading access of foreign institutional investors and possibly make government securities more attractive for investment as after the listing certain tax benefits for capital gains and interest income will be available”.

The local regulatory framework has changed and investment intermediaries are no longer required to check securities’ availability with custodians before a sale trade, which simplifies trading and ensures no rejected or delayed sale orders result.

► CROATIA

UNWEIGHTED		
RANK		Score
1	Société Générale Securities Services	6.28
2	Privredna Banka Zagreb d.d.	5.13
3	UniCredit	5.00
WEIGHTED		
RANK		Score
1	Privredna Banka Zagreb d.d.	6.37
2	UniCredit	6.21
3	Société Générale Securities Services	4.43

The Croatian capital market is regulated and supervised by three legal bodies: Croatian Financial Services Supervisory Agency (HANFA), Croatian National Bank (HNB) and the Ministry of Finance.

Croatia, as the youngest member of the EU, has continued to harmonise with EU regulation, transposing it into market practice, primarily with reference to AIFMD, CSDR, Ucits V and Mifid II, according to Jelena Bi-



lusic, head of relationship management, UniCredit GSS Croatia.

“Low liquidity, a prolonged period of recession and the introduction of capital gains tax have had an unfavourable impact on turnover and the market trend in general,” said Bilusic.

Bilusic said that encouraging macroeconomic data, political stability, changes to regulation and market infrastructure are expected to have positive influence: “GSS Croatia retains proactive approach in lobbying efforts to make the market more appealing and accessible to investors.”

Securities on the Croatian market are traded on the sole stock exchange, Zagreb Stock Exchange (ZSE), and settled by the only CSD, the Central Depository & Clearing Company (CDCC).

“ZSE separated the regulated market from CE Enter in June 2016, in order to emphasise the difference in the entry requirements regarding transparency of issuers and financial instruments traded between the two markets,” said Marina Šonje Tomorad, deputy director at Societe Generale Splitska banka d.d. Croatia.

In August 2016, ZSE itself listed. “Zagreb Stock Exchange is the first regional self-listed stock exchange, setting new standards of transparency and acting as a corporate governance benchmark, and making a new step in further regionalisation, allowing ZSE to efficiently raise new capital for further growth if necessary,” said Tomorad.

The SKDD is the sole depository in Croatia, with links to the Austria’s OeKB and Clearstream Banking Luxembourg.

In order to align with the provisions of CSDR Regulations and associated technical standards, a project team within the SKDD has developed a plan of activities.

“For all changes resulting from CSDR and RTS provisions [except settlement discipline measures], the operating rules of the process will be prepared by the deadline for submit-

ting the authorisation request application, and the application and implementation of the aforementioned changes will be performed upon receiving the authorisation from Hanfa,” said Tomorad.

Further, for all the changes resulting from the RTS on settlement discipline, the predicted deadline for implementation is the date of entry into force on RTS on settlement discipline, at the latest.

CDCC acts as the central registrar of dematerialised securities and performs the role of clearing and settlement for all types of dematerialised securities. The settlement cycle has been T+2 since October 2014.

Bulusic said: “CDCC’s focus is on harmonisation with provisions of CSDR, expected to introduce significant changes to its business process, its members and participants of the Croatian capital market.”

The scheduled go-live of the formal CCP, which was established to take over the clearing services for on-exchange trades from the CDCC and abolish guaranteed settlement for OTC trades, has been delayed until further notice.

CYPRUS

UNWEIGHTED		
RANK		Score
1	BNP Paribas Securities Services	6.18
WEIGHTED		
RANK		Score
1	BNP Paribas Securities Services	6.30

The Cyprus Stock Exchange hosts all listed corporate and public securities. Since April 20 2015 the regulated markets consist only of the main market and the alternative market. The country’s biggest bank, Bank of Cyprus, moved its listing to London in January 2017 and almost immediately returned to the debt market for the first time since it defaulted in 2013. It had also just paid back the last tranche of its bailout.

Cyprus is a growing fund jurisdiction; assets under management

“ New thresholds and new sanctions for non-compliance with reporting obligations were introduced in 2016 ”

Jitka Hulinská, UniCredit GSS Czech Republic

have tripled since 2013 and are now above €3bn (\$3.4bn). The Cyprus Investment Funds Association (CIFA) achieved an important milestone in June 2016, when the National Association of the European Fund and Asset Management Association (EFAMA), the representative association of the European investment management industry, approved its full and formal membership.

Cyprus is expected to grow by 3% in 2017, one of the fastest rates in the EU.

> CZECH REPUBLIC

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	6.43
2	Citi	5.12
3	UniCredit	5.03
4	Raiffeisen Bank International	4.63

WEIGHTED

RANK		Score
1	UniCredit	6.00
2	Citi	5.64
3	Société Générale Securities Services	4.47
4	Raiffeisen Bank International	4.10

The Czech National Bank (CNB) regulates the market. There are two CSDs: Central Securities Depository Prague (CDCP), a depository for all book-entry securities excluding T-Bills, owned by the Prague Stock Exchange (PSE) and the Short Term Bond System (SKD), a depository for T-Bills, operated by CNB.

RM-Systém Czech Stock Exchange is the market where stocks of the largest Czech and foreign companies are traded. Stocks that are not available on the PSE are traded online.

Last year, there was an amendment to the Capital Market Act that adapted the local legislation to CSDR. Lukáš Osoha, custody head at KB Bank, expects some changes to the settlement period (currently T+2) after CSDR implementation.

2016 also saw the amendment of disclosure requirements, according to Jitka Hulinská, relationship manager, UniCredit GSS Czech Republic. “New thresholds and new sanctions for non-compliance with reporting obligations were introduced.”

Last year, the board of CNB decided to stop the interventions against the strengthening of CZK below the level of CZK27 per euro in 2017. “The interventions have lasted since November 2013,” she added.

In 2015 the Czech CSD initiated the transposition of European Market Standard for Corporate Action, which would require changing laws. The proposed changes include centralising of dividend payments through the CSD. Osoha said: “The implementation has not been finished yet but when the time comes it will change the whole process of CA which is quite complicated.”

In September 2014, the PSE and CDCP introduced further plans for implementation of a central counterparty for on-exchange trade. The CCP will be provided by Austrian company CCP.A. “The timeframe for CCP implementation is not entirely clear, although it is obvious that the CCP will not be launched earlier than in 2017 or 2018,” Osoha added.

There are no foreign ownership limits, except for armament companies where there is a 49% limit,

but investing in some sectors does have pre-approval obligations. “Foreign investors are required to obtain pre-approval from the CNB prior to acquiring 20%, 33%, 50% or more of the total outstanding voting rights of a Czech investment fund, investment company or brokerage firm,” said Osoha.

Foreign investors may freely repatriate any gain, income and capital previously invested in the Czech Republic.

There are also further amendments planned for the Capital Market Act implementation EU regulations Mifid II, Mifir, MAR and CSDMAD, according to Hulinská. She also noted an upcoming amendment to the Income Tax Act: “Among other things, it will include a change relevant to custody, that is the tax payer may turn to the withholding agent for explanation or amendment up to two years from the date of the income payment.”

CSD Prague will implement Swift communications at the end of 2017 or start of 2018.

> DENMARK

UNWEIGHTED

RANK		Score
1	SEB	5.45

WEIGHTED

RANK		Score
1	SEB	5.61

The local sub-custodian in the Danish settlement market has a fully automated system, which is directly linked to the local CSD, VP Securities A/S. When the settlement has STP requirements, the instruction is automatically forwarded electronically to the CSD. The settlement period is T+2.

Almost all Danish securities listed on the Nasdaq Copenhagen Stock Exchange are issued in dematerialised form, except government premium bonds. Securities positions are transferred automatically as sub-custodian accounts at VP Securities. The name of a foreign investor can

be linked to a specific account upon request. There is no central registrar in Denmark and issuers usually appoint agents as registrars.

Securities lending is practised in Denmark, but there is no centralised stock lending facilities with the CSD or the exchange – lending is available via commercial bank programmes. However, the volume in borrow/lending transactions is very limited.

“Two topics are of primary interest from a sub-custody point of view,” said Lasse Larsen, head of investor services at SEB Denmark. The first, according to Larsen, is the fact the Danish market is focused on adapting to “regulation and harmonisation”, exemplified by T2S and CSDR.

“VP Securities will connect to T2S in two phrases,” said Larsen. “The first phase covering euro settlement took place in September 2016. The second phase will include DKK settlement and is expected to take place during October 2018, or sometime in the fourth quarter.”

The second topic is the dividend tax treatment and the aftermath from a dividend tax fraud case, which was made public in August 2015. “The Danish Tax Authorities are working on mitigating risk under current tax law, while work is ongoing in regards to presenting a long-term solution, that will minimise the risk while at the same time enabling a more investor-friendly environment in that area,” said Larsen.

► ESTONIA

2017 is a significant milestone for the Estonian securities market. “In the last two years, we have witnessed an appreciable increase in assets under custody for sub-custody clients,” said Keili Oja, head of custody at SEB Estonia.

The Estonian CSD will migrate to the ECB’s Target2 Securities (T2S) during the fifth wave on September 18 2017. As a direct holding market, Estonia will be the first market using the all-accounts-in model within

T2S, according to Oja.

Clearstream announced in February that it had successfully migrated to the ECB’s T2S platform, making it the largest participant and adding around 40% to the overall volume on the ECB’s settlement platform.

“Prior to joining T2S, Estonian, Latvian and Lithuanian CSDs will merge into one license legal entity, Nasdaq CSD SE,” said Oja. “The new entity will be subject to regulatory approval and it will be re-licensed under the European CSD regulation.”

Nasdaq CSD will operate three securities settlement systems, which will be governed by the laws of each respective country. All three will work on a common IT platform called ‘Depend’, which is a version of the one Estonia currently uses.

The merger means that members of the Baltic stock exchanges and their customers do not need to open securities and cash accounts in each of the three Baltic countries to settle

transactions; all they need is a single securities and cash account in one Baltic country.

Oja also revealed that Nasdaq CSD is developing a new web-based voting platform on the Nasdaq Tallinn Stock Exchange (the only regulated secondary securities market in Estonia), using blockchain technology.

The e-Residency platform is an electronic identity system that Estonian residents and those with business interests in Estonia use to access government services. “They already have a functioning proof of concept with web-based user interfaces,” said Oja. “The first e-votings in actual meetings are expected to be carried out during 2017.”

Nasdaq announced in January this year that the pilot project in Estonia was a success, concluding that blockchain technology can be safely used to authenticate e-voting by shareholders at a company’s AGM.

Nasdaq said in a report that it had



successfully built and operated four web-based user interfaces that allowed shareholders in Estonia to log-in using their verified national online ID and vote at the AGM of Tallinn-listed tech company LVH Group.

> FINLAND

UNWEIGHTED

RANK		Score
1	SEB	5.41
2	Nordea Bank	4.94

WEIGHTED

RANK		Score
1	SEB	5.59
2	Nordea Bank	5.09

"The Finnish market looked to 2016 with great anticipation, as it was to be when the Finnish CSD, Euroclear Finland (EFi), was to roll out the second release of the new CSD platform, Infinity," said Jopi Sairio, head of investor services at SEB Finland.

However, Euroclear Finland announced in January that it was to delay migration to T2S, which was scheduled for September this year, as its Infinity timetable slipped. A revised timetable for the Infinity Release 2 was due to be discussed in the meeting with the Finnish Market Advisory Committee in mid-February but nothing has been released publicly. The future of Infinity is unknown, but EFi pledged to clarify its plans at some point this year.

"The market was working hard to meet the set deadline," said Sairio. "Fixed income products had been migrated to the new platform in February 2015, and it was the time for equity-based products and the central register in 2016." The launch was

postponed several times due to "various technical challenges".

Sairio said: "The Infinity project is heavily interlinked with the necessary CSDR compliance functionality adding on the pressure of EFi." EFi will apply for a CSD license under CSDR during 2018, according to Sairio.

During the summer of 2016, the Finnish government ratified amendments to the Tax at Source legislation according to the government bill HE 29/2016, shortening the statute of limitations from five to three years. The changes will be applied on dividends paid from the beginning of year 2017 onwards, said Sairio.

Citibank is entering the Nordic market, having done its own custody in Sweden since 2006. It hasn't yet won any mandates. Now the US bank is in the process of entering the Finnish and the Danish markets. Meanwhile, Swedbank has exited the sub-custody business.

> FRANCE

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	6.43
2	BNP Paribas Securities Services	5.62
3	Deutsche Bank AG	5.29

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.58
2	Deutsche Bank AG	4.52
3	Société Générale Securities Services	3.57

Euroclear France migrated to T2S in wave three on September 12 2016, alongside its sister Belgium and Netherlands CSDs, as well as VP Lux (Luxembourg) and VP Securities (Denmark). The move follows a delay

of six months to ensure a "safe and stable" migration.

Euroclear France said in February it had launched investor CSD services for German securities, following the launch of Wave 4 CSDs to the T2S platform on February 6.

As a result of the direct link, Euroclear France has established with Clearstream Banking Frankfurt, the German CSD, securities primarily issued by CBF are eligible for cross-CSD settlement on the ESES platform. Its clients can now benefit from DVP settlement with counterparties in CBF, or any CSD that is an investor CSD in CBF, as well as safekeeping and corporate actions processing for German securities.

"When CBF migrates to T2S, the T2S cross-border logic applies and the segregation needs by Euroclear France (in ESES) will affect CBF customers," Clearstream said in a statement to clients on January 20.

Mathias Bellier, global head of relationship management, banks and brokers, for Euronext markets France, Netherlands and Belgium: "2016 saw another increase of assets under custody for BNP Paribas Securities Services in France."

> GERMANY

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.94
2=	Commerzbank	5.35
2=	Deutsche Bank AG	5.35

WEIGHTED

RANK		Score
1	Commerzbank	5.47
2	Deutsche Bank AG	5.42
3	BNP Paribas Securities Services	5.06

The Frankfurt Stock Exchange (FSE), operated by Deutsche Börse, is one of the world's largest trading centres for securities, and accounts for more than 85% of German trading turnover.

Clearstream Banking Frankfurt (CBF) is Germany's central securities depository (CSD). Its corporate legal

“ Nasdaq announced in January this year that the pilot project in Estonia was a success, concluding that blockchain technology can be safely used ”

THE CASE FOR COMP

■ THOUGHT LEADERS

Rob Scott, head of custody and clearing at Commerzbank, explains how the bank's domestic roots shape the way it supports its corporate clients as they expand into new markets

COMMERZBANK 

► CAN YOU SAY A LITTLE ABOUT YOUR IDENTITY AS A GERMAN BANK?

Both today and historically Commerzbank has focused its efforts on servicing German corporates, with an emphasis on small and mid-sized companies. This has made us an integral part of the German financial services landscape. Our participation in Germany's key financial services infrastructures, including Deutsche Börse Group and its Eurex and Clearstream business lines is evidence of these roots. Our evolution at the heart of Germany's financial sector has provided us with a deep resource of regulatory and operational expertise from which our domestic clients continue to benefit.

We offer a breadth of financial solutions to clients – from securities services, through cash management, to trade finance – and the range of capital markets products, including bond issuance, warrants, certificates and so on. Providing this end-to-end and integrated product suite gives us the opportunity to build familiarity with and a deep understanding of our clients' businesses that we feel is unrivalled. We feel that we know them better than anyone else and our solutions are more tailored and focused to their needs as a result.

Working in a client-centric way has become something of a truism in the industry in recent years. But there remains a significant difference between providers in terms of the longevity of their client relationships. Most of ours span more

“ An excellent example of how our client-centric model works in practice is our recent drive towards digitalising our business ”



OUR CORE EFFICIENCY

“ We can offer customised multi-jurisdictional solutions tailored to a client’s needs and markets ”

than five years; many span more than 25 years. Our highly experienced and dedicated custody client services team located in Frankfurt provides clients with personal contacts for account and settlement management, plus multi-lingual support. Unlike some other custodians, we believe in being local and ensuring a focused service in our home market.

► HOW FAR DO YOU SEE DIGITAL INNOVATION AS SUPPORTING THESE PRIORITIES?

An excellent example of how our client-centric model works in practice is our recent drive towards digitalising our business. We looked to enhance a range of digital tools and the client’s interaction with our web portal, which enhances client service and interaction, provides near real-time information for example around positions, settlement status, valuations, corporate actions and reporting. This is an extension of the very high level of digitalised service already afforded in our retail/private client franchise. We see increasing demand from clients for the digitalisation of financial solutions.

In line with its 4.0 strategy, Commerzbank announced it will become an enterprise with 80% of its relevant processes digitalised by 2020. One of the pillars of the Commerzbank 4.0 transformation is the establishment of the “Digital Campus”, in which agile, dedicated teams drive forward digitalisation projects and work to automate and optimise relevant everyday processes. Currently home to around 600 staff, the Campus is expected to host up to 1,000 employees by the end of the year and is tasked with digitalising 80% of relevant processes by 2020. This will achieve the sort of efficiency gains that clients have a right to expect from an effective digital architecture in their bank and their custody provider. Our main focus is on improving the existing customer experience.

These efforts are already bearing fruit, as the reports of our customers testify: innovation awards, leading rankings in custody surveys including, most recently, our win in the unweighted category in the Global Investor sub-custody awards this year (we also placed second in the weighted category).

► HOW DOES THIS CLIENT-CENTRIC DOMESTIC FOCUS PLAY WHEN SERVICING CLIENTS ABROAD?

Our focus on the German domestic market is made possible partly because of the central role played by Germany’s economy in the Eurozone. This influence in Europe is matched by the driving force of German companies as they expand beyond Europe. In supporting their efforts to branch out into markets across the world, a key pillar of our approach is to partner with local custodians where we are not present, rather than establishing operations ourselves. In our custody business, we may be present in 58 markets around the world, but we are there purely because that’s where our clients need us to be. We can offer customised multi-jurisdictional solutions tailored to a client’s needs and markets, with tailored operational coverage and support from our local specialists.

To see the benefits of our approach it is worth considering the alternative model, popular among most of our competitors, of building a local servicing presence in multiple countries around the world. In practice, these banks will enter a new market through a couple of anchor mandates, which can sometimes lead to becoming unfocussed, seeking commercial local success over client solutions and innovation ultimately in the interests of benefit of the client.

In our case, by contrast, if a client wants to go into a new market where we are not already present, we will not set up a local subsidiary from which to service them. Instead, we will select a local agent that can demonstrate the level of competence and cultural fit that best suits the client in question.

Finding the best and most suitable local custodians is more efficient than establishing our own infrastructure in a country. The time and money we save is better spent fitting the servicing solution provided by our

chosen partner with the needs of our client. And because we already have such a close grasp of our client's business, that shaping process works relatively quickly and smoothly. We can procure the best services – from account structures to collateralisation – by imparting all that knowledge to the local custodian.

► WHAT ARE THE BENEFITS TO CLIENTS OF PRIORITISING AN INTEGRATED VIEW OF LIQUIDITY?

Clients may have securities holdings and activities around the world. Our job is to focus on the integration task, allowing the firm to, for example manage its liquidity across all of these locations, with comprehensive and transparent reporting in every case.

Pooling all of that information into a single source allows them an immediate, fully transparent overview of their entire liquidity. This makes them better informed and, as a result, better placed to make decisions quickly and effectively in order to optimise their collateral obligations. A margin requirement for a transaction in Europe, for example, can be met by perhaps optimising and mobilising assets in Hong Kong that the firm is long in. This saves the time and cost of going back into the market to find the required assets or liquidity to service the obligation in another time zone. A single central oversight facility allows the firm to use a time difference – between Hong Kong and London, say – to transfer them for use in one market while the other is closed.

Bringing disparate information to bear in this way can help to facilitate major transactions, too. One recent example was a US client involved in a capital raising transaction in the Nor-

dic markets, including the conversion of a tranche of non-tradable shares to a tranche of tradable shares. In this case, some of the key and fundamental settlement aspects had been overlooked. We were able to present the knowledge that the lead manager and settlement agents could then apply. The result had a material impact on the speed, effectiveness and success at which the issue was placed.

► CAN YOU SAY SOMETHING ABOUT WHY YOU HAVEN'T PURSUED THE TRADITIONAL OUTSOURCING MODEL WITH THE INTENSITY OF SOME OF YOUR COMPETITORS?

The cost-benefit of the widespread adoption of outsourcing in our industry is well documented. However, less time has been devoted to the possible drawbacks of handing-off client queries to these low cost jurisdictions.

The conventional outsourcing approach will invariably see the client handed-off to another part of the bank or service provider – to a colleague or provider who is, in effect, a stranger with little or no understanding of the client's wider business and history. Inevitably, outsourcing in this way means creating distinct silos in an organisation between which fast, effective communication is harder to achieve. In this way, the drive for profit and low servicing costs has driven a silo-based model that may compromise the quality of the client service offering.

We have pursued outsourcing with less vigour by comparison with many of our competitors. Instead, we have focused on maintaining client servicing teams that are based in the same

country as our core clients. The result is that, in a typical case, a member of that team handles a given client query through to its resolution in the same language and with the same cultural understanding, reaching into the wider bank for a solution and returning with the answer himself or herself.

This makes the process more responsive since the team member understands the client's wider business and is in a position to shape the solution while it is being fashioned. It also makes it quicker since that team member can address additional questions that the process throws up without having to return to the client for guidance.

Both of these elements reduce the burden on the client and make it easier to interact in an efficient manner. In addition, quicker resolution carries with it material benefits for clients. If you need to decide whether to optimise and mobilise liquidity for example you typically don't have three days to wait for the information on which the choice will be based. Finally, a larger, deeper, and better skilled relationship management team is best placed to serve up easy-win solutions that the client may not have considered. For example, if a client is phoning multiple times a day with settlement enquiries, pretty soon we will suggest that we start sending out a full and comprehensive settlement report automatically at a time of the client's choosing, which fit around their schedule.

I think it is worth bearing all this in mind and the potential impacts to client engagement and servicing when discussions about the pros and cons of outsourcing take place. It may be the most salient trend in our sector in recent years: without exception, the large global firms have looked to shift core services into low cost jurisdictions, away from the markets in which most of their customers are based. Therefore, getting the balance right is the key to a successful business model and satisfied clients.

“ We have focused on maintaining client servicing teams that are based in the same country as our core clients ”

status and its function as the German CSD has remained unaffected, i.e. German law continues to apply, particularly with regard to the safe custody business, whereby CBF is subject to supervision by the Federal Financial Supervisory Authority.

"There have been considerable efforts, in recent years to provide elements of standardisation and harmonisation across EU member states in respect of trading and post-trade activities," said Rob Scott, managing director and head of custody and collateral solutions at Commerzbank. "Regulation has been on-going but has provided transparency and a more consistent approach from many participants across the value chain."

T2S, a decade in the making, is in its final stages of roll-out with the significant volume now successfully introduced by Clearstream in recent weeks, said Scott. "The rollout in the German market is being carefully managed and executed. The introduction of Germany is significant, more than doubling all the settlement volume on the platform to date, taking overall levels to around 80% of all member markets."

The initiative helps deliver against the original promise to make cross-border settlement more efficient and with easier access. Scott says it is time to look at harmonisation at market level, for example to focus on the insolvency law across member states. "However, with the current political uncertainty, coupled with nationalistic tendencies emerging, there is currently considerable stress in the overall Capital Market Union (CMU) project."

Recent reports shows international cross-border business up around 2% year-to-date in terms of overall securities deposits but an increase of nearly 30% in terms of transaction volume. Domestic business declined by 8% for deposits and 4% in transactional volumes. Investment funds services show robust increases

of 16% in securities deposits and 20% increase in transaction volume. Global securities financing continues to decline, showing a reduction of 6% year-to-date year-on-year. The market continues to show positive momentum, with net increases in assets under custody of 4% year-to-date compared to 2016.

"We are seeing a number of corporates now actively engaging in activities ranging from execution to security service provision as well as OTC clearing," said Scott. "We have seen a significant increase in client engagement from the corporates, often seeking an institutional-like client servicing model and solution as they look to expand and grow their business models."

> GREECE

UNWEIGHTED		
RANK		Score
1	BNP Paribas Securities Services	5.94
2	HSBC	5.51
WEIGHTED		
RANK		Score
1	HSBC	6.41
2	BNP Paribas Securities Services	5.75

Clearing of shares, bonds and derivatives that are listed and traded in Athex takes place through the company AthexClear, the clearing house that was established by Athex in July 2010.

In the shares and bonds segments, AthexClear has established a CCP-like clearing model, as the concept of full CCP does not exist in the spot market and therefore the ultimate responsibility of the trade lies with the clearing members and not the clearing house. Effective February 16 2015, AthexClear started participating in the market as a CCP.

Post-2008, the Greek banking sector continues to face significant economic burden in terms of the high level of distressed loans stemming mainly from the fragile operating environment, according to Kelly Kakanaki, head of Greece at BNP Parib-

as Securities Services.

"The high level of non-performing loans undermine credit growth, holding back investment," said Kakanaki. "To deal with this, the authorities implemented already-legislated incentives and performance targets for banks to monitor their progress in reducing bad debt."

The huge public debt undercuts confidence in the Greek economy. Despite this, growth rebounded in H2 2016 and is projected to gain strength in 2017 and 2018 as structural reforms start to bear fruit.

Eurobank's full-year results for 2016 point to a recovery in the Greek banking sector. Fokion Karavias, CEO of Eurobank, said the last year was the "first profitable and capital accretive year for Eurobank since the eruption of the Greek sovereign crisis," boasting a new profit of €230m (\$257m) compared to losses of €1.2bn in 2015.

Kakanaki added: "The conclusion of a policy review with creditors raises business and consumer confidence and the economic and political environment stabilises." Exports of services are underperforming because of "structural rigidities and capital controls."

> HUNGARY

UNWEIGHTED		
RANK		Score
1	BNP Paribas Securities Services	6.76
2	UniCredit	5.12
3	Citi	5.10
4	Raiffeisen Bank International	4.85
WEIGHTED		
RANK		Score
1	BNP Paribas Securities Services	7.24
2	UniCredit	6.13
3	Citi	5.93
4	Raiffeisen Bank International	4.30

T2S and the related CSD system replacement have been the two major projects during 2016.

"Following the multiple reshaping of the system replacement project, the Budapest Stock Exchange (BSE)

is the market for equities, corporate bonds, ETFs, government bonds and T-Bills,” said Livia Mészáros, head of Unicredit GSS Hungary. MTS Hungary is the secondary market for government bonds, treasury bills and corporate bonds.

Keler Central Depository (responsible for all traded securities) is planning to go live with the market infrastructure TCS BaNCS solution by July 3 2017 for T2S settlement.

The multi-asset class, multi-entitlement platform will enhance Hungarian post-trade processes with improved services to its depository participants, custodians and cash settlement banks, both in domestic and cross-border markets. Keler will also leverage the standard set of interfaces of TCS BaNCS for interacting with the T2S platform.

On February 6 2017, Hungary joined T2S in the fourth wave with the partial entry model, in order to

ensure that all domestically-issued securities are available in T2S. However, Hungarian forints were not brought into the T2S platform from its start.

Mészáros said: “Due to the postponement of the implementation of Keler’s new system, Keler operates in the T2S environment in BCP mode as Keler enriches and sends the euro RVP/DVP instructions manually to T2S via the T2S GUI user platform.”

The operating model will be applied by Keler until BaNCS is implemented. The volume of T2S activity is currently very low in the market, according to Mészáros, as market participants are not fully utilising T2S services yet, due to the constraints of the BCP solution.

As a result of an almost two-year on-boarding procedure, CLS settlement in forints started on November 16, 2015. It has since been “running smoothly” and settlement members

had the chance to join the forints CLS settlement in three waves. “CLS facilitates a low risk and efficient platform to settle FX transactions for the participants,” added Mészáros.

ICELAND

UNWEIGHTED		
RANK		Score
1	Islandsbanki hf	4.62
WEIGHTED		
RANK		Score
1	Islandsbanki hf	5.50

Iceland has performed a remarkable recovery since its ‘too big to bail out’ banking crisis. Its economy has surged in recent years to the extent that the central bank had been raising interest rates to tackle inflation. This problem has now been tamed, largely through a stronger currency, so the central bank has reversed its policy and reducing rates, which now stand at 4.75%. Capital Economics predicts one final cut in August.

The capital controls in the Icelandic market have been lifted, effective March 14 2017. However, rules apply to inflow of foreign currency for investment entering Iceland after 4 June 2016, according to a report but RBC Investor & treasury Services, will affect new investment and reinvestment.

The following are covered: bonds and bills issued in ISK and electronically registered; domestic currency deposits resulting from new inflow, or reinvestment of a new inflow; unit share certificates of funds that invest in the above; equity of a company that is established for the purpose of investing, directly or indirectly in the above; loans granted to resident entities that are used for investment in the above for the benefit of the lender.

The registered owners of the above are subject to a special reserve requirement of 40%, where the investor needs to deposit 40% of the value of the inflow into a special



“As additional markets migrated to the new settlement platform, the Italian CSD, Monte Titoli, opened new links... to process cross-border transactions”

Dario Locatelli, BNP Paribas

non-interest-bearing account.

Nasdaq Iceland is part of Nasdaq OMX Nordic, which includes the exchanges in Copenhagen, Stockholm, Helsinki and Iceland.

> IRELAND

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.67

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.73

Ireland, one of the EU countries most impacted by the financial crisis having paid for a crippling bail out of banks, is now booming. Unemployment is just 6% and it pays less on sovereign debt than the UK. It rebounded following budget cuts, restructuring its bank and economic reforms.

Ireland is among the dominant fund domiciles in the EU, second only to Luxemburg in terms of assets under administration. Its funds industry is world class and is a potential beneficiary of Brexit, especially if the UK loses its funds passport.

The Irish central bank authorises fund administrators located within the country's borders and requires them to follow its specific operating rules. Approaching 50 fund administrators service more than €4trn (\$4.5trn) of assets. State Street, BNY Mellon, Northern Trust, JP Morgan, Citi and Brown Brothers Harriman all have administration businesses in Ireland.

The Minister for Finance, Michael Noonan, announced in May 2017 an end of end stamp duty on the pur-

chase of shares in Irish companies listed on the ISE's Enterprise Securities Market (ESM). The exemption from 1% stamp duty comes into effect from 5 June 2017 and will reduce the cost for pension funds and individuals of investing in Irish growth companies.

"This is about making it easier for Irish businesses to scale-up" said Deirdre Somers, ISE CEO. "This is great news for Ireland and Irish companies looking to raise equity finance on the Enterprise Securities Market... This measure will benefit Irish companies looking to attract much needed Irish and international investment.

> ITALY

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	5.91
2	BNP Paribas Securities Services	5.65
3	Intesa San Paolo	5.21
4	Deutsche Bank AG	4.29

WEIGHTED

RANK		Score
1	Société Générale Securities Services	5.95
2	BNP Paribas Securities Services	5.31
3	Intesa San Paolo	4.64
4	Deutsche Bank AG	3.62

Italy migrated to T2S in August 2015 and the process is generally considered a success by the market participants. "The market worked on implementing what had been left out from the migration to T2S," said Dario Locatelli, head of clearing, settlement and custody business at BNP Paribas Securities Services Italy.

"As additional markets migrated to the new settlement platform, the

Italian CSD, Monte Titoli, opened new links with other central depositaries to process cross-border transactions."

Euroclear France announced on April 5 2017 that it had now established a direct link with Monte Titoli for Italian debt securities. The new partnership provides participants with DVP settlement with Monte Titoli counterparties, safekeeping and corporate actions for processing Italian debt securities and auto-collateralisation and tri-party collateral management with a central bank or payment bank for Italian debt securities.

BNY Mellon also revealed plans in December 2016 to migrate clients' assets to direct accounts with Monte Titoli using its connection to T2S, settling transactions in listed securities with the Italian CSD.

In addition, the Italian market prepared for the introduction of the "rolling exercise" model for rights issue with dilutive effect. Following successful testing, this was introduced in December 2016.

"During the course of the year, the Italian market community governance was reformed," said Locatelli. "The new governance, through the Post Trade Participant Committee (PTPC), was created, focusing on two key areas – overseeing local market changes and defining the position of the Italian market on European matters."

> LATVIA

UNWEIGHTED

RANK		Score
1	SEB	5.39

WEIGHTED

RANK		Score
1	SEB	6.07

There are no physical securities in the Latvian market. "The market is record date-based and there are no cash of FX or other restrictions for foreigners," said Gatis Simsons,

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head of custody at SEB Latvia. “Foreign financial institutions must have a local bank as a clearing agent.”

Off-exchange trades settle on a Real Time Gross Settlement (RTGS) basis at T+2. The region also has no upcoming changes it needs to prepare for, according to Simsons, and it has no plans to introduce a once-mooted financial transaction tax.

The new legal entity Nasdaq CSD, which will be a merger of CSDs in Latvia, Lithuania and Estonia, will have its headquarters in Latvia, with branches in Lithuania and Estonia.

LITHUANIA

UNWEIGHTED		
RANK		Score
1	SEB	5.60
WEIGHTED		
RANK		Score
1	SEB	6.30

Lithuania is the largest out of the three Baltics states by market capitalisation, boasting efficient procedures for settlements and the required custody infrastructure, said Darius Semenas, business manager for SEB Lithuania’s custody services.

The Central Securities Depository of Lithuania (CSDL) acts as the depository and central registrar for equities and debt instruments.

Together with Nasdaq, the Vilnius Stock Exchange is part of Nasdaq Baltic’s joint offering of Nasdaq’s exchanges in Tallinn, Riga, and Vilnius, and Nasdaq Baltic CSDs.

The Bank of Lithuania is responsible for the supervision of markets in financial instruments and other functions in accordance with the law on markets in financial instruments. It operates as the payment system for settlements in euros.

“The Lithuanian market is on the edge of significant changes with joining the T2S fifth wave on September 18,” said Semenas. “After migration, custody clients would be able to benefit from extended T2S settlement



functionalities, with the possibility to open nominee account at a CSD level and other enhancements.”

LUXEMBOURG

UNWEIGHTED		
RANK		Score
1	Société Générale Securities Services	6.06
WEIGHTED		
RANK		Score
1	Société Générale Securities Services	4.62

The Luxembourg Stock Exchange operates two markets: the Bourse de Luxembourg (BdL) and the Euro MTF market, which is a multilateral trading facility. The trading and surveillance rules, regulations and trading mechanisms are identical. The market harmonised to the T+2 settlement cycle on October 6 2014.

Luxembourg is the largest fund jurisdiction and fund administration centre in the EU. In February 2017 it announced it accounted for €3.7trn (\$4.1trn) assets under management at year end, a new record for the market.

“2016 was a challenging year in many respects,” said Denise Voss, chair of Alfi. “First the UK vote to exit the EU has brought uncertainty to cross-border distribution in Europe, with the possible loss of both fund and fund manager passports for UK asset managers.” Second, she noted the threat of US protectionism with the election of Donald Trump.

“However, these challenges can bring opportunities. UK asset managers, and those asset managers from other non-EU countries who currently use the UK to access investors in Europe will, once the UK



leaves Europe, have to domicile their funds in an EU member country.”

She noted that M&G has already sought permission from the Luxembourg authorities to launch a new Ucits fund. “We understand other firms will make public similar plans in the next weeks and months.”

> NETHERLANDS

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.33
2	Deutsche Bank AG	5.04

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.46
2	Deutsche Bank AG	5.00

The Netherlands grew by 0.4% in Q1 2017, according to official statistics, notching up its twelfth straight

quarter of growth and a growth rate for the last 12 months of 3.4%. Government debt was €32bn (\$35.8bn) lower than projected at the end of 2016. Its debt-to-GDP ratio is 62.3%, just over a couple of percentage points above the euroarea limit, and the government is running a budget surplus, of €2.9bn last year.

The Netherlands moved to Target2 Securities (T2S) in the third wave. Transactions on the Euroclear Settlement of Euronext-zone Securities (ESES) markets are settled with a rolling settlement on T+2 basis. As of September 12 2016, the ESES settlement system migrated to T2S. The T2S settlement system is composed of two different settlement cycles: the night settlement cycle (NTS) and the real settlement cycle (RTS).

> NORWAY

UNWEIGHTED

RANK		Score
1	SEB	5.46
2	Nordea Bank	5.08

WEIGHTED

RANK		Score
1	SEB	5.76
2	Nordea Bank	5.30

Oslo Børs is the only regulated Stock Exchange in Norway. It has a strategic partnership agreement to co-operate across their equities, fixed income and derivatives markets with a view to improving market efficiency and liquidity.

London Stock Exchange Group provides Oslo Børs with Millennium for its equities and fixed income markets and the Sola trading platform, under licence from TMX Group, for

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its derivatives markets.

Oslo Børs participants are registered stockbrokers active in Norway and approved by the Stock Exchange Committee, notes RBC Investor & Treasury Services in a report. All equities traded at Oslo Børs are subject to mandatory clearing at a CCP, members can choose between SIX x-clear and LCH Clearnet.

Merkur Market was established 13 January 2016. It offers listing and electronic trading of shares and equity certificates for both small and large companies as a supplement to the regulated Oslo Børs markets. It is available to companies that are not public limited companies.

► POLAND

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.52
2	Société Générale Securities Services	5.84
3	ING	5.69
4	UniCredit	5.07
5	Citi	4.87

WEIGHTED

RANK		Score
1	ING	6.31
2	BNP Paribas Securities Services	5.94
3	Citi	5.92
4	UniCredit	5.17
5	Société Générale Securities Services	5.12

2016 represents the first full year of Law and Justice (PiS) governance resulting in the implementation of various initiatives declared before elections.

According to Marek Rudnik, head of sales and relationship management at Societe Generale Securities Services Poland, the most significant measures include a bank tax and the "re-Polandisation" of the banking sector (with repurchase of Pekao SA from UniCredit by the Polish State and Polish Fund for Development), as well as coal energy promotion.

While 2015 was tough for the Polish capital markets, 2016 and 2017 (so far) has seen a boom in share

prices and turnover growth. Rudnik stressed that the fixed income market with Bondspot platform has been growing substantially due to both corporate and mortgage bonds, following the new Act on Mortgage Banks.

One of the main changes affecting the securities services business in Poland last year were Ucits V and AIFM, which were finally introduced into local regulations in June 2016.

"They imposed a number of new duties on local custodian banks performing depository functions for domestic investment funds," said Mariusz Piekos, director of foreign clients, UniCredit GSS Poland. "As a consequence, local custodians had to amend their procedures and agreements with domestic investment funds."

"The Polish Custodian Banks Council members are still finalising the automatic pre-matching process with the first banks ready for implementation for OTC bonds transactions," said Rudnik.

The Polish CSD started preparation for CSDR implementation by announcing changes to its IT and technical systems for the next couple of years. These changes will be made in planned implementation windows, one in April (spring window) and October (autumn window).

The first set of changes was successfully implemented on April 24 2017 and included the ISO 20022 implementation and standardisation of corporate actions. Other changes involved the volume of debt securities, which are defined by face value as opposed to units, and the introduction of a clearing field to the settlement instructions.

One of the biggest challenges that the Polish market currently faces, according to Rudnik, is the implementation of Mifid II with additional local amendments, which can completely change the situation for investment firms and asset managers.

April also saw changes to the

settlement process of repo/buy-sell-back transaction and also to the KDPW accounts numbering system.

"The Polish Ministry of Finance has announced proposed changes to several domestic laws implementing the Mifid II directive," said Piekos. "The amended laws are subject to a public consultation process and the expected implementation date is January 3 2018."

The partial transition of pension funds into standard investment funds is also another change to look out for, with another 25% of assets taken over by the Demographic State Fund.

Further legal changes that are being discussed in the market include the obligatory dematerialisation of physical shares and the introduction of a central database of accounts.

► PORTUGAL

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.22

WEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.16

Portugal has rebounded remarkably since the dark days of the financial crisis, when it was ingloriously grouped one of the PIIGS and then required an IMF bailout in 2011. In mid-May the EU formally announced it was no longer in breach of EU budget rules. Its deficit stable at a just 2% – it's lowest in 40 years – and comfortably below the 3% euroarea threshold but its total debt remains the second largest as a proportion of GDP in the EU.

Portugal's finance ministry welcomed the news by saying "confidence in the Portuguese economy is now spreading to international institutions".

The European commission has recommended it loses its so-called excessive deficit procedures status. This should further fuel growth that is predicted at 1.8% for 2017 and

VOLATILITY SPURS VOLUME

DNB traders **Karin Aronsen** and **Dag Rudilokken** say there is a growing role for mutual funds in Norway's securities lending market but challenges are posed by EU regulatory change



DAG RUDILOKKEN
■ Trader



KARIN ARONSEN
■ Trader

WHAT HAS BEEN BEHIND THE GROWTH IN NORWEGIAN SECURITIES LENDING VOLUMES?

► **DAG RUDILOKKEN:** In the last two years the Oslo Stock Exchange has launched two influential new indices. The mid-cap index was launched in August 2015 and the seafood index in April 2016. Together, the two new indices represent nearly a third of the total market cap of the Oslo Stock Exchange.

Both have proved popular with foreign clients, which have always been important and currently own 37% of the total Norwegian equities market. They are increasingly important as lenders and borrowers of securities as well, with a tendency to borrow a wider range of names than domestic participants. Domestic clients tend to focus on particular companies, lately often in the seafood and oil sector.

► **KARIN ARONSEN:** This growth in demand has been shadowed by an increase in supply, facilitated by rule changes for mutual funds. In partic-

ular, counterparty lending limits have increased from 10% to 50% of a fund's total portfolio, following an earlier shift from 5% to 10%.

This has considerably reduced the workload for mutual funds. As funds realise that they can engage in lending more cost efficiently, an increasing number are entering the market. Growth in supply benefits both lenders and borrowers – as more funds lend, more borrowers are attracted to the market, which, in turn, incentivises funds to lend more.

The rule change for mutual funds, which was long-awaited and had been delayed, comes as part of the amendment of Norway's Securities Funds Act. Funds will now be able to utilise up to 50% of their market value using efficient portfolio management techniques, including securities lending and repo.

TO WHAT EXTENT IS MARKET VOLATILITY ATTRACTING PARTICIPANTS?

► **RUDILOKKEN:** It is attracting them significantly. The sustained market volatility across Nordic markets has cemented the appeal of the new indices. We have seen a lot of specials, even among traditional GC names, for some time. In large part this has been due to the turbulence in energy markets, following the drop in the oil price. Of the 25 stocks comprising the main OBX index on the Oslo Stock Exchange, typically ten are connected to oil.

As long as volatility continues to provide opportunities there will be extra revenue available to both borrowers and lenders. Lenders, in particular, are benefitting from the higher prices available on the two new indices. The prospect of higher fees has helped attract mutual funds into the market in larger numbers, adding supply.

WHAT IMPACT IS REGULATORY CHANGE HAVING IN NORWAY?

► **RUDILOKKEN:** A key focus in the coming years will be the impact of EU regulations on the economics of securities lending, notably the treatment of margin, haircuts and the costs of holding collateral.

Currently, the increased costs associated with these regulations, such as increasing capital requirements, have not yet been matched by changes in the size of margins or haircuts. The industry needs to confront the question of which entities will absorb these increased costs. Will it be the borrowers, through higher margins? Will it be the lenders, through lower revenues? Or, a combination? Unless fees for low-margin GC names move it could soon become uneconomical for providers. It will be interesting to see who will be the first to put their head above the parapet and shift their pricing.

► **ARONSEN:** The quality of providers' back offices will come under increasing scrutiny from clients in the coming years. Assuming Norway follows the EU's regulatory lead – as it has done so far – fees for settlement failure are likely to be introduced. This would increase the benefit of working with a good counterparty. The ability to provide a strong post-trade service will become, increasingly, a competitive advantage. For local clients the benefits of a simple integrated solution – encompassing elements such as reporting – are especially useful. They, particularly, will seek quality in this area.

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lead to the prime minister demanding its debt to be upgraded by credit rating agencies from its junk status.

▶ ROMANIA

UNWEIGHTED		
RANK		Score
1	Société Générale Securities Services	6.08
2	Citi	5.69
WEIGHTED		
RANK		Score
1	Citi	6.87
2	Société Générale Securities Services	4.86

Starting April 1 2017, a new law regarding the issues of financial instruments and market operations entered into force.

Viviana Traistaru, relationship manager at UniCredit GSS Romania, said: "The new law transposes into the national legislation the provisions of several EU directives on areas such as transparency requirements in relation to the information about issuers whose securities are admitted to trading on a regulated market, prospectus to be published when securities are offered to the public or admitted to trading."

Also starting on April 1, a new law on undertakings for collective investment in transferable securities and investment management companies become applicable. The new law transposes into the national legislation the provisions of the EU directives on the coordination of laws, regulations and administrative provisions relating to Ucits funds as regards depository functions, remuneration policies and sanctions.

Beginning February 1 this year, the Romanian Central Depository (RCD)

aligned the Romanian practise related to corporate actions with European standards. The CSD code of rules was amended accordingly.

The Bucharest Stock Exchange (BSE) announced in June 2016 that it had concluded a coordination agreement with Sibiu Stock Exchange (Sibex), which paves the way for the two Romanian bourses to merge. The agreement will allow the implementation of critical elements for the process, including the evaluation phase of the companies.

There is a new code of corporate governance and dividends are now paid through a centralised system managed by the central depository. "There are continued efforts to promote the Romanian market to an emerging market from a frontier market," said Claudia Inoescu, director of BRD's securities division.

Further forthcoming developments include: a fiscal stimulus for listing to attract new issuers on the market and improve liquidity; the BSE's plan to change the structure of trading fees; the implementation of a CCP; reducing the section one's dimension; and improving the lending and borrowing services.

One of FSA's objectives for 2017 is to evaluate the Central Depository System RoClear from the perspective of RSCB-CESR Recommendations within the context of a T2S platform, according to Traistaru.

FSA will also issue a draft regulation with the aim of improving the registry function of the RCD and will identify capital market entities interested in establishing a CCP in a working group.



▶ RUSSIA

UNWEIGHTED		
RANK		Score
1	Société Générale Securities Services	6.13
2	Citi	5.16
WEIGHTED		
RANK		Score
1	Citi	6.16
2	Société Générale Securities Services	4.31

The Russian CSD, National Settlement Depository (NSD), successfully rolled-out electronic pre-matching solution in 2016.

It is supported with a hold & release facility, allowing participants to run the fully-automated submission of instructions to NSD and suspend/release necessary instructions for settlement via early submission for pre-matching even in the case of insufficient assets.

As a result, Societe Generale Securities Services (SGSS) Russia has fully automated trade settlement lifecycle reducing the manual operation workload, according to Mikhail Bratanov, head of SGSS in Russia and CIS.

Recently, NSD officially announced the launch of the settlement platform for local investment funds subscription and redemption. Bratanov said: "The new system will enable NSD clients to get access to opera-

“ There are continued efforts to promote the Romanian market to an emerging market from a frontier market ”

Claudia Inoescu, BRD



tions with mutual funds of the asset management companies connected to it.”

The first phase of this project being implemented now will offer a unified technological platform to market participants operating via the nominee holder accounts at NSD.

On July 1 2016, the corporate actions reform fully came into force, bringing Russian procedures to international standards. The reform introduced the following: changes in the procedure for preparing lists of securities owners; a cascade approach towards exercising securities holders’ rights in the course of corporate actions in a centralised manner through securities record-keeping institutions; and new methods of participation in general meetings of securities holders (such as e-proxy voting).

Last year was marked by the introduction of the new legislation aimed to reframe and renovate the legal basis of custody activities in the Russian market, which previously had remained unchanged for 20 years, according to Yuliya Umnova, head of relationship management and product development at UniCredit GSS Russia.

The new legislation introduced

specific requirements, effective April 5 2017, in the following aspects of the custody business: a new approach to unified custody records and documents keeping system; requirements for protection and custody record keeping procedures; BCP/DRP and documents’ storage; location of the technical means for processing and storage of custody records; and maintenance of backup storage of information.

“In line with the central bank’s intention to draw a greater focus on the regulations governing the activities of Russian professional market participants, self-regulating organisations on the securities market will be assigned with the additional control function over Russian custodians, brokers and registrars,” Umnova explained. “Such control will be enacted in accordance with the new basic standards to be elaborated on the basis of the new custodians’ regulations.”

The Russian payment system has also seen major changes in terms of its functionality, which started this year. Now each amount larger than RUB100m (\$1.77m) is mandatorily sent via the real time gross settlement system (BESP) that is expected to result in better STP, quicker

processing time and improvement in liquidity management, Umnova said.

Deutsche Bank decided to pull the plug on its custody business in Russia in November 2015. Consequentially Societe Generale Securities Services said it has been successful in winning “all the major RFPs,” according to Bratanov. “As a result we have significantly expanded out international client base increasing the market share.”

> SERBIA

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	6.26
2	UniCredit	5.26

WEIGHTED

RANK		Score
1	UniCredit	6.31
2	Société Générale Securities Services	4.20

Supervision of financial markets and monetary policy is carried out by the National Bank of Serbia (NBS). The Republic of Serbia Securities Commission safeguards the orderly functioning of capital markets.

Belgrade Stock Exchange (BELEX) is a self-regulating organisation supervised by the Securities Commission and is the centre of the Serbian capital market. The CSD is a closed joint-stock legal entity, fully owned by Republic of Serbia. It is the only CSD, registrar and clearing house in Serbia.

“The Securities and Exchange Commission of Serbia (SEC) has adopted a regulation on capital requirements and liquidity management for brokerage firms,” said Stevo Delic, senior relationship management at UniCredit GSS Serbia.

This regulation determines factors including the minimum requirements for a broker’s liquidity risk management, reporting requirements and timelines, and minimum permissible liquidity levels.

The NBS has adopted new regulations introducing Basel III standards to the Serbian banking market, in line



with a strategy for the implementation of these standards. The regulations come into force on June 30 2017.

As of December 12 2016, Belex has become a fully active member of the SEE Link. The SEE Link platform was launched by Bulgarian, Croatian and Macedonian bourses with the purpose of creating a regional infrastructure for securities trading, which are listed on their respective markets. Currently there are 27 brokerages licensed to trade via SEE link and seven members of Belex, according to Delic, are in the process of obtaining licenses for the platform.

As of October 21 2016, Belex has introduced new types of special orders, said Delic. These are orders with hidden total quantity (Iceberg), all-or-none (fill or kill, FOK) and immediate or cancel (IOC).

An Iceberg order can be placed as an order limit whose total quantity is not visited at the main board of Belex and at the same time has visible quantities that must be placed within the order. "Visible quantities have to be equal to or less than the total non-visible quantities," explained Delic. "They can only be used in all

trading methods and in all trading phases."

An FOK order can only be used if it is possible to match it completely with the order of a counterparty and only when using the continuous trading method and only in the phase of continuous trading.

Finally, an IOC order can be posted as a limit or as a market order that will be matched immediately with the order of a counterparty, partly or in total. It can be used only when using the continuous trading method and only in the phase of continuous trading.

► SLOVAKIA

UNWEIGHTED		
RANK		Score
1	Citi	5.34
2	UniCredit	5.23
WEIGHTED		
RANK		Score
1	Citi	5.85
2	UniCredit	5.11

Changes to regulation, both adopted in 2016 and under preparation, are focused on the transposition of EU directives (CSDR, EMIR and Mifid II) into local legislation.

Parliament also passed the Income Tax Act Amendment, effective from January 2017, introducing a withholding tax on dividends generated from 2017 onwards, if paid to individuals (7% or 35%) or to legal entities residing in off-shore countries (35%).

T2S was successfully completed in February 2017. Slovak CSD-CDCP modified its information system and implemented ISO 20022. "With the focus on further harmonisation, T2S remains a hot topic," said Zuzana Milanová, head of UniCredit GSS Slovakia.

"Furthermore, CDCP readies the documentation and improves the technical standards so as to be authorised under CSDR."

T2S positively impacted trades of government bonds and Debt and Management Liquidity Agency (ARDAL) as a counterparty on both the primary market and the secondary market. Settlement method changed from non-DVP to DVP.

Milanová added: "With the aim to further boost liquidity, Ardal plans to implement market making on the secondary market for government bonds. Trading will take place in the new MTS, starting January 2018."

Slovakia's second CSD, NCDPCP, commenced operations in June 2016. It became an active member of CDCP and established a one-way link to CDCP. They have four members and hence may begin clearing and settlement operations. NCDPCP migration to T2S is planned for October, after the stabilisation stage of the fifth wave.

> SLOVENIA

UNWEIGHTED

RANK		Score
1	Société Générale Securities Services	5.70
2	UniCredit	5.14

WEIGHTED

RANK		Score
1	UniCredit	6.02
2	Société Générale Securities Services	4.11

Slovenia migrated to T2S in the fourth wave. Vanda Mocnik-Kohek, senior relationship manager, UniCredit GSS Slovenia, said: "The layered model has been used for connection with T2S due to the prevailing segregated securities account structure."

The ISO 15022 Swift standard has been used for communication. New Swift standard ISO 20022 has been used only between KDD and T2S. New matching and settlement standards, which also include changes required for T2S, were issued in April 2015.

The new corporate action process has been implemented with T2S. The CAs have been executed through the KDD and its members in line with international CAJWG/CASG standards. Important days for execution of the CA, include also Ex-New – date, which was not a market practice before T2S migration.

Since a change of ownership in Ljubljana Stock Exchange (LjSE) in 2016, several measures have been accepted to increase trading, including the LjSE joining the SEE Link.

New AML legislation, effective November 2016, set additional requirements for clients, said Mocnik-Kohek, but a new classification of

countries according to the AML risk, published at the end of February 2017, improved the classification of Luxembourg, Singapore and Switzerland to a "simplified procedure and significantly eased the documentation requirements for clients from these countries".

The Slovenian CSD KDD already started with the implementation of CSDR. They are working on the first step of implementation, which includes licences and links. The second step, which imposes penalties for on-market and OTC trades, buy-in process and calculations of penalties, is expected 2018-19.

> SPAIN

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	5.91
2	Société Générale Securities Services	5.82
3	Deutsche Bank AG	5.56
4	BBVA	5.02

WEIGHTED

RANK		Score
1	BBVA	5.67
2	Deutsche Bank AG	5.61
3	BNP Paribas Securities Services	5.18
4	Société Générale Securities Services	4.72

The first phrase of the Spanish reform for settlement, clearing and registry went live at the end of April 2016 and was implemented in May 2016, preparing the environment for T2S, which is due to go-live in the autumn. "All attention is now focused on the preparation for T2S Wave 5 in September," said Soledad Lecube, head of BNP Paribas Securities Services Spain.

"We have been very focused on this migration these last months," said Alexis Thompson, head of Global Securities Services at BBVA. "Spanish reform is one of the best cases of harmonisation in the post-trade landscape, together with a very good example of the T2S role as catalyst of harmonisation in Europe. However, it has implied and it is implying a tremendous effort for

the Spanish market infrastructure."

Fixed income will move onto the same reformed T2S settlement platform as equities, uniting the settlement processes.

The May 2016 reform meant an important project of changes to its systems and procedures for equities, according to Sally Matthews, relationship manager at Societe Generale Securities Services Madrid. "Since its go live last year, successful for the market, we have moved our focus to the preparation for T2S, for which SGSS Madrid will be an Indirect Participant, accessing T2S via Iberclear."

Added Thompson: "The upcoming European regulation and initiatives such as T2S and the changes in the Spanish securities market will foster an increasingly competitive scenario in which there will be changes in the roles and business models of custodian and CSDs."

BBVA sees the focus on value-added services such as corporate actions and tax reclaim services will be "the name of the game" in the T2S environment.

> SWEDEN

UNWEIGHTED

RANK		Score
1	SEB	5.55
2	Nordea Bank	5.20

WEIGHTED

RANK		Score
1	SEB	5.83
2	Nordea Bank	5.40

During 2016, several measures were taken by the local Swedish CSD Euroclear Sweden. It implemented a penalty of SEK50,000 (\$5,748) on March 1 2016 for clearing members who violate the Euroclear Sweden general terms and conditions for account operations and clearing regarding the expected net payment amount as settlement headroom.

The measure was decided in order to "improve settlement performance for fixed income securities," accord-

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ing to Catharina Buresten, head of SEB custody Sweden.

The next step in terms of on-going efforts is to improve the settlement ratio, this time for CCP transactions. Euroclear Sweden has started to send requests for explanation on failing trades to clearing members applicable when the Swedish market has a settlement ratio for a specific day for CCP cleared transactions below 90% of settlement value and the total value of fails in the Swedish market is above SEK2bn, Buresten explained.

Euroclear Sweden then gathers the information received by participants and sends a compiled report of market fails to the regulator.

In late 2015, Euroclear Sweden announced it would implement a new CSDR-compliant CSD platform. The implementation of the new system, EuroclearSafe, was tentatively planned to take place in November 2018, but in December 2016, Euroclear Sweden took the decision to prioritise implementing changes related to CSDR rather than the platform replacement.

"Accordingly, a CSDR-compliant version of the VPC system will be launched first with target date end-2017," said Buresten. The EuroclearSafe project has not been closed, but deployment

has been postponed and priority will be given to the VPC re-build.

> SWITZERLAND

UNWEIGHTED		
RANK		Score
1	BNP Paribas Securities Services	6.51
2	SIX Securities Services	5.91
3	UBS AG	5.37
4	Credit Suisse	5.19

WEIGHTED		
RANK		Score
1	Credit Suisse	5.75
2	SIX Securities Services	5.58
3	UBS AG	5.53
4	BNP Paribas Securities Services	5.09

In April the Swiss Financial Market Supervisory Authority (Finma) issued guidance on the Financial Market Infrastructures Act: reporting requirements / trade repositories. It provided information about the authorisation of a Swiss trade repository and the recognition of a foreign trade repository.

Their recognition and authorisation means that Swiss market participants will now be subject to a phased-in entry into force of derivatives transactions reporting requirements by notifying a trade repository.

Finma says it has a "differentiated approach" to supervision and regulation, where the intensity of supervision by Finma is determined

by the size and risk profile of each institution.

Thomas Bauer, chair of Finma's board of directors, said: "Finma focuses on the essentials and, wherever possible, gives supervised institutions flexibility and responsibility when implementing principle-based regulation".

He emphasised that Finma has a highly differentiated supervisory approach and has established itself as an efficient and lean authority. Bauer wants to see increased efficiency so that resources are freed up "to deal with newly emerging issues" and specifically mentioned cyber attacks and the risks inherent in the outsourcing of operational activities by supervised institutions.

> TURKEY

UNWEIGHTED		
RANK		Score
1	BNP Paribas Securities Services	6.72
2	Citi	5.33
3	Deutsche Bank AG	5.30

WEIGHTED		
RANK		Score
1	BNP Paribas Securities Services	6.93
2	Citi	6.36
3	Deutsche Bank AG	5.62

Turkish capital markets infrastructure projects are still on track. "Albeit the unfortunate local and regional politi-

“Market authorities continued implementing Bistech systems developed in partnership with Nasdaq OMX”

**Ertunc Gurson,
TEB Securities Services**

cal, geopolitical and military events that have shaped 2016 and the momentum continues in 2017,” said Ertunc Gurson, head of TEB Securities Services, a joint venture between BNP Paribas and TEB.

2016 started off with the renewal of Temporary Article 67 of the Income Tax Law (related to the taxation of incomes and revenues from securities) until December 31 2020.

“Market authorities continued implementing Bistech systems developed in partnership with Nasdaq OMX,” said Gurson.

Some projects including Takasbank becoming the CCP in Borsa Istanbul (BIST) equity market and Bistech implementing BIS VIOP have been postponed to mid-2017 from 2016. Meanwhile the changes in the trading platform of BIST have been completed in three phrases.

Takasbank applied to Esma to become a compliant CCP for BIST Futures and Options Market. The local CSD, the Central Registry Agency, implemented the Public Disclosure Platform 4.0 Project that brought its platform technology up to par with global standards, going live on June 11 2016.

Gurson added: “The introduction of Turkish Wealth Fund in August 2016, and initiation of mandatory pension savings in November 2016, plus the new BIST money market are

post-July 2015 examples of the government’s attempts to rejuvenate the capital markets.”

➤ UNITED KINGDOM

UNWEIGHTED

RANK		Score
1	BNP Paribas Securities Services	6.22
2	HSBC	5.31

WEIGHTED

RANK		Score
1	HSBC	6.00
2	BNP Paribas Securities Services	5.59

The United Kingdom has arguably the most compete ecosystem of financial services in the world. The extent to which this is impacted by the Brexit vote, to leave the EU, is unknown by the consensus view is that there will be a very limited effect.

While the City appears impervious, the same cannot be said for the currency. Sterling depreciated from above \$1.45 to below \$1.25 in the months after the referendum, although it has since partially recovered to around \$1.30.

Despite Brexit, it is expected that all EU legislation currently in train to be implemented in full – not least because it may effect whether the United Kingdom can retain its funds passport. Mifid II entered into force on 2 July 2014 and had to be transposed into national law by 3 July 2016. It is now due to apply from 3 January 2018 (previously 3 January 2017).

Market capitalisation on the dominant exchange, the London Stock Exchange (LSE), is close to £4trn (\$5.1trn) and it attracts listings from across the world. It is not part of Target2 Securities T2S. The LSE Group had attempted to merge with Deutsch Borse, for the third time in 17 years, but the EU competition commissioner blocked the move as it would have created a “de facto” monopoly in fixed income markets.

The UK faces another election, just two years after the last one, on

June 8 2017. The political discourse remains focussed on the fallout from the Brexit vote and the Conservatives are expected to be returned to office with a larger mandate.

London is also a major fintech hub, centred around the so-called Silicon Roundabout. The UK market is regulated by the Financial Conduct Authority.

➤ UKRAINE

UNWEIGHTED

RANK		Score
1	Citi	5.20

WEIGHTED

RANK		Score
1	Citi	6.00

In the second half of 2017 Ukraine plans to return to foreign capital markets, as part of a plan to replace IMF funding and other international organisations.

“The program [with the IMF] is coming to an end in 2019, and we need to be self-sufficient and have the opportunity to enter foreign markets. We should start this year,” he told Interfax, the Ukrainian news agency. “We plan to enter the markets this year, in the second half of this year,” he added.

The National Bank of Ukraine (NBU) said in a statement last November that the need for financial sector reform is a “principal” requirement. “By definition, [reforms] cannot be easy and painless,” NBU Governor Valeriya Gontareva said. “We see how difficult it is for our parliament to pass crucial and important financial bills and how courts operate, overturning central bank decisions on recognising banks as insolvent.”

She added that “cleansing” the banking sector and improving transparency were priorities and that reforms need to be comprehensive if the economy is to be modernised and function effectively. Tough and effective anti-corruption measures, at all levels, would be needed.