

JOINING THE DOTS AROUND THE WORLD

Funds Europe talks to Philippe Seyll, Clearstream's Executive Board Member and Head of Investment Fund Services, about its plans for geographic expansion and product development in 2015 and beyond.

THE GLOBALISATION OF

the funds market has been a central feature in the past few years as investors increasingly seek opportunities beyond their national or even continental borders. The challenge for the industry has been to develop processing solutions that can keep pace with the appetite for international investments and cater for the complexity of cross-border transactions.

For market infrastructure firms like Clearstream, this challenge reads like a mission statement. Vestima is Clearstream's platform for cross-border funds and it is designed to act as a single point of entry for investors regardless of fund type or geography, offering a range of services from order routing to settlement and safekeeping to asset servicing.

"It is our ambition to develop Vestima as the International Central Securities Depository (ICSD) for funds – a one-stop shop for funds that brings efficiency and safety to the global investment fund market," says Philippe Seyll, Clearstream's Head of Investment Fund Services.

In order to meet this ambition, Clearstream has embarked on an expansion programme designed to connect Vestima customers to emerging investment markets worldwide. First on the list is Asia.



"In 2015, we will strengthen our link with Asia by accelerating the establishment of the 'Investment Raising Silk Road', an initiative aimed at facilitating investment flows from Asia to Europe and vice versa. In Korea, Taiwan and Singapore, the asset management markets are still growing," says Seyll. "We will also step up our infrastructure links in mainland China. With the continuing effort to internationalise the RMB and the launch of China-Hong Kong Mutual Fund Recognition,

we expect a lot of growth in the future."

Clearstream has also invested in new hires for Latin America and is gaining traction in Brazil, Uruguay, Chile, Panama and Guatemala. However, the importance of Europe will not be undermined: Clearstream has also opened an office in Zurich to best serve its strong growing number of clients with large fund portfolios in Switzerland and Liechtenstein. In addition to the international expansion, Clearstream has also sought to widen its coverage of asset classes and fund types.

Suppressed yields and modest returns in mainstream asset classes have led to a polarisation of investment strategies. On the one hand, investors have turned to the alternatives market for better performance. On the other, they have focused on lowering their costs and turned to index and exchange-traded funds (ETFs), where administration fees are so much lower.

Clearstream is, of course, neutral in this regard and tries to offer distributor banks full coverage of all asset classes.

In 2014, Clearstream acquired the hedge fund execution business for financial institutions of Citco in Cork, Ireland to add hedge fund processing to the Vestima platform. Building on this

CONFIDENT:
Philippe Seyll is upbeat about Clearstream's expansion programme.

development will be a key focus for 2015, says Seyll.

“The market’s reaction to the acquisition and the addition of hedge fund processing to Vestima has been outstanding. We have had a lot of interest from new clients and we expect to announce some significant signings later this year,” he adds. “Vestima is now a one-stop shop for mutual funds, ETFs and hedge funds.”

Clearstream is also targeting new business segments for Vestima. Another market trend of recent years has been the rise of the institutional investor base due to enhanced pension saving requirements. Consequently, more of these investment flows are channelled through global custodians, making them an even more attractive target sector for market infrastructure providers.

And there has been rising interest from private banks and wealth managers in the UK market, says Seyll. “The regulatory pressure and the associated costs that these sectors have had to endure has led them to look to outsource a lot of their operations. By using Vestima, it transfers fixed costs into variable. So rather than investing in their own processing systems, they can use a proven service and concentrate their resources on their core business – gathering assets.”

TRANSPARENCY

The regulatory developments affecting the investment industry have all increased the need for greater transparency – from Europe-wide initiatives like the Alternative Investment Fund Manager Directive to more regional regulations like the dematerialisation law in Luxembourg.

“Regulators are calling on fund issuers to have more control and knowledge about the identity

of the final investors into their funds,” says Seyll.

“The industry needs to build infrastructures that allow information to be exchanged in parallel to operational flows. This puts pressure on the use of omnibus accounts used by custodians and other intermediaries and strengthens the case for a platform like Vestima – a centralised solution that brings greater visibility on transactions and provides a clear audit trail.

“The work done by ISSA (International Securities Services Association) has been tremendous in this regard. Their recently released Financial Crime Compliance Principles for Securities Custody and Settlement should help the industry to grasp the importance of having solid compliance principles in place. Needless to say, Vestima already adheres to all these principles.”

T2S

Another pan-European market infrastructure development that will strengthen the case for Vestima is TARGET2-Securities (T2S), the European Central Bank’s single settlement platform aiming to offer centralised DvP settlement in central bank money

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across all European securities markets, says Seyll.

“The implications of T2S may not be obvious to many in the funds industry who consider it to be of more relevance to their intermediaries. However, the impact on the funds industry should not be underestimated,

especially when it comes to settling cross-border bond and equity transactions,” says Seyll.

“Through Vestima we can provide access to the T2S network for international fund issuers and transfer agents. We are positioning Vestima as the T2S gateway for international fund issuers, enabling them to issue their funds into the CSD/T2S environment via Vestima through LuxCSD.”

Exchange-traded funds

The accessibility to T2S via Vestima will also be an attraction for investors using index-based products like exchange-traded funds (ETFs). In 2014, Clearstream developed a number of ETF issuance services to help solve one of the infrastructural obstacles that introduces costs and holds back the growth of ETFs in Europe.

In Europe, ETFs are listed on multiple exchanges in different regions and this creates unwelcome costs on the post-trade side. Not only do trading desks have to hold multiple accounts with national CSDs but when these ETFs are traded across borders, the different post-trade practices of the CSDs create extra cost and complexity and increase the capital burden and operational risk. Realigning the positions between different CSDs is one of the main causes of ETF settlement failure.

“Clearstream offers ICSD issuance, which has the advantage that the ETFs need only be listed once and can be settled and distributed through our ICSD,” says Seyll. “It will also provide ETF issuers with access to international and domestic investors in another 50 markets and settlement in over 40 currencies. Clearstream also offers issuance services through our German CSD, which will be fully compatible with T2S.”