

Securing rapid growth

Asset security has overtaken efficiency as the main concern of Clearstream's fund clients, says **Philippe Seyll**, head of investment fund services and member of the executive board. The company is expanding its funds business, but hurdles remain on initiatives such as using funds as collateral

THE INVESTMENT FUNDS business of Clearstream, the settlement and custody division of Deutsche Börse, is worth €300 billion in safekeeping volumes. A large number of you might think, but a relatively small portion of total assets on Clearstream's network of €11.7 trillion.

However, the funds business at Clearstream is growing fast. In the first six months of the year, fund volumes rose 27%, compared with a rise in transaction volumes of 5% and a rise in custody volumes of between 3 and 4%.

Much of the gains can be traced back to the expansion of funds on Clearstream's fund processing platform, Vestima. There are now 120,000 funds from 34 jurisdictions available for order routing in Vestima, and the company is hoping to increase this number by growing its alternative funds business in Ireland, launched in November 2012.

Philippe Seyll, head of investment fund services and a member of the executive board at Clearstream, says it is essential to offer a wide range of funds.

"The idea is that whatever fund you want is available," he says. "For a distributor to use our platform, we have to have the funds their clients want."

One of the main benefits Clearstream offers its clients is

efficiency. In 2007, Seyll and his Vestima team set up the central facilities for funds for clients who wanted to use a delivery-versus-payment (DVP) settlement model with an in-house registrar. Operational efficiency is significantly

“It is frustrating to see a lack of quality collateral across the industry. Funds are a huge pool that could be easily utilised. A balanced fund may often be as liquid as a money market fund”

increased when the settlement is DVP, by virtue of the synchronous exchange of cash and investment fund shares.

Automation is a powerful tool in financial services, especially in the funds sector, where many companies still rely on faxes and phone calls. However, Seyll says that in recent months, automation has not been the main concern for clients. Instead, they are worried about asset security – a reflection of the changing concerns of regulators in the post-financial crisis world.

"The name of the game is safety and ease of use. This applies to everyone," he says.

"Clients are asking for security in transactions, guarantees in cash delivery and speeding up settlement."

As investors are holding increasingly complex portfolios containing a wide range of funds, clients are looking for a fund processing platform covering a large number of funds and all fund classes. Clearstream has been building up its fund clients as it increases the funds and fund classes on its platform. Seyll says Clearstream has had success at signing up clients in markets, such as Switzerland and Singapore where private banking is dominant. He says nearly all the Swiss private banks are now clients of Clearstream.

FAST EXPANSION

The company has also been expanding fast in Asia. Seyll expects Clearstream's Asian funds business to grow by half in the next three years to represent about 30% of the company's funds business, up from about 20%.

The company is also making inroads into new countries in the Asia Pacific region, and hopes to be able announce new operations by the beginning of 2014.

Some other initiatives at the company are taking longer to bear fruit. Clearstream has developed a system that allows asset owners to post funds as



Success: nearly all Swiss private banks are Clearstream clients, says Philippe Seyll, head of investment fund services and member of the executive board

collateral where they would once have been limited to equities, bonds or even cash. Against the risk of collateral shortage in the post-crisis environment, new and large sources of collateral could secure a growing number of financial transactions. The industry has so far been slow to implement the system, though Seyll believes it could offer many benefits for large players.

"It is frustrating to see a lack of quality collateral across the industry," says Seyll. "Funds are a huge pool that could be easily utilised. A balanced fund may often be as liquid as a money market fund."

Seyll says market participants are wary of adopting the system. Some believe funds are not liquid enough to act as collateral, a claim he says is false given that under Ucits IV

regulations, funds have to have at least 10% cash.

Other sceptics believe institutional investors may be unwilling to allow funds in which they are investors to be used as collateral. Seyll believes this objection could be overcome by engaging these investors. Third, there is a view that funds are less transparent than equities and bonds, but again Seyll disputes this claim.

"If a fund only invests in ECB [European Central Bank] eligible assets, why can't you post the funds as eligible collateral?" he asks. "The portfolio can be liquidated at any time."

Seyll has made some progress, however. A major fund manager recently agreed to join the funds as collateral scheme, which could encourage other market participants to follow suit.

GOOD POSITION

Another big development in the market is the Alternative Investment Fund Managers Directive (AIFMD), which sets a range of requirements for managers of alternative investment funds as well as the infrastructure providers that hold and settle their assets.

Seyll says that Clearstream is in a good position to aid alternative fund providers as they seek to work within the bounds set by the directive.

"AIF providers can rely on Clearstream to fulfil the directive," he says. "We do not fear the regulation, we anticipate it, and see it as a chance to add value for clients certainly on the investment funds side."

"The monitoring of transfer agents (TAs) is already part of our service offering and the requirements of AIFMD give reason to extend this service further. We will soon be launching a service to ensure the monitoring of fund share registration that may be impacted by external events.

Monitoring and reporting of the TA and fund regimes will provide depositary banks with an invaluable resource to fulfil their oversight duties for this instrument class."

While service developments related to these regulatory changes are on its way, Clearstream has continued to offer new ways for clients to settle fund transactions including the transfer of fund shares more efficiently. In September, the firm announced its Vestima Transfer Service, to facilitate free of payment transfers of funds on its central facility for funds.

Clearstream is continuing to improve automation and efficiency for its fund clients even as it seeks to meet their needs for improving security of transactions.