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SIBOS ISSUES



Final day & week in summary



A strange case of sleeping sickness
page 4



Can Asian markets grab their chance to shine?
page 5



Buy-side unprepared for OTC clearing
page 6

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CLOSING PLENARY

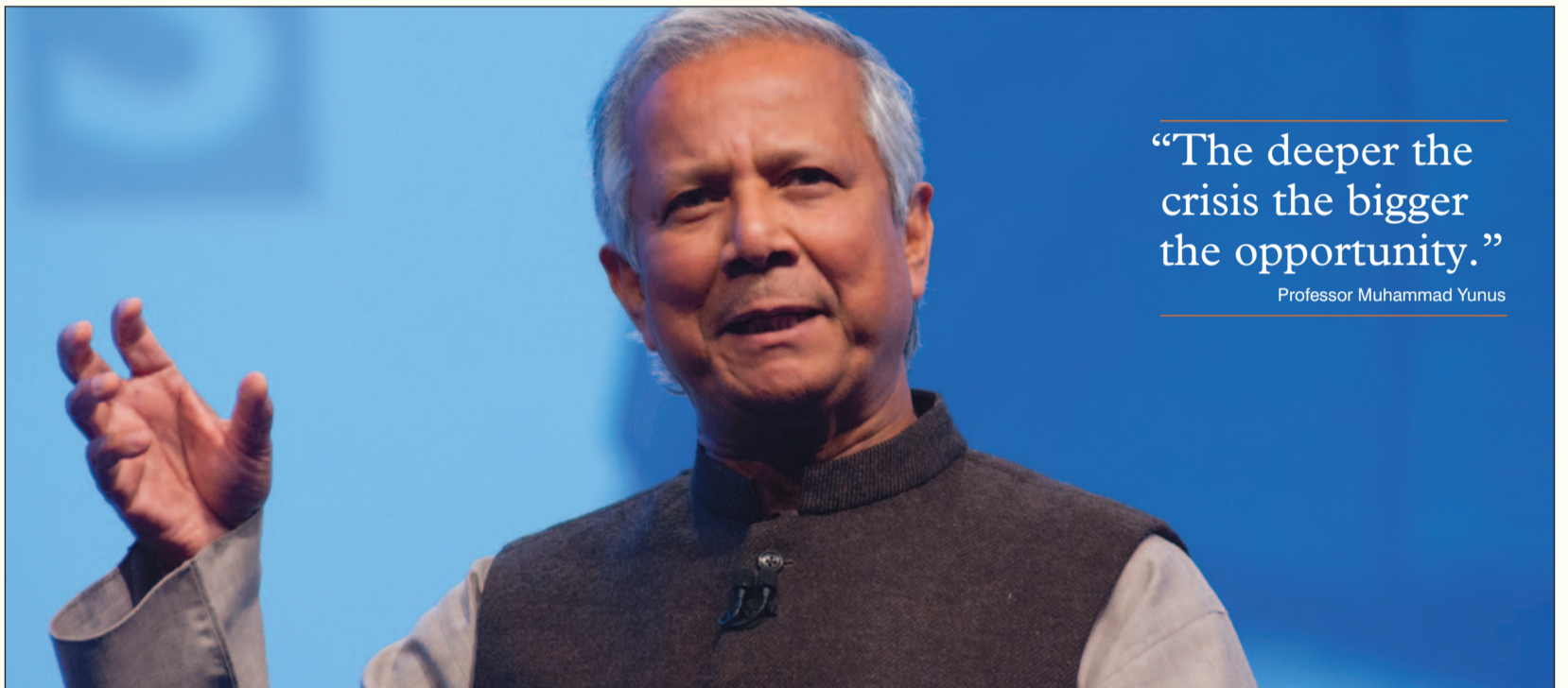
Moving beyond the crisis

Banks reminded of social dimension by Nobel Laureate

Making money should be a means, but it should not be an end in itself, Nobel Peace Prize Laureate Professor Muhammad Yunus reminded delegates at the closing plenary of Sibos 2012.

“Making money is fine with me, but that’s not what we’re all about,” said the founder of Grameen Bank, chairman of the Yunus Centre and leading pioneer of microcredit.

continued on page 2



“The deeper the crisis the bigger the opportunity.”

Professor Muhammad Yunus

JAPAN DAY



“Japanese financial institutions are in a comparatively superior position to foreign financial institutions.”

Yasuhiro Sato, Mizuho Financial Group

Moving beyond Japan

Can the country’s indigenous banks use their considerable financial expertise and investment capital to support pan-Asian growth?

Japan’s banks will have to develop new business models if they are to compete against US and European financial institutions in the Asia-Pacific region. For those institutions that can differentiate their services and products, lucrative busi-

ness opportunities await, created by a changing demographic and a surge in the number of middle- and high-income earners across the region.

Mizuho Financial Group CEO Yasuhiro Sato told the audience at the Japan Day opening plenary

that he expected the country’s banks to increase their regional presence as European institutions withdrew from the market. “Japanese financial institutions are in a comparatively superior position to foreign financial institutions in

continued on page 2

Seeing opportunity takes more than just imagination.

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CLOSING PLENARY

Moving beyond the crisis
continued from page 1

Yunus was given a standing ovation following his inspiring speech in which he explained how he fell into creating a bank and urged delegates to imagine a world without poverty.

"The deeper the crisis the bigger the opportunity," he declared.

Bonsai trees

Originally a university professor of economics in his native Bangladesh, Yunus lent 42 people in a neighbouring village a total of USD 27 to keep them out of the hands of loan sharks. The impact on the villagers encouraged Yunus to find a longer-term solution. At first, he acted as guarantor for a loan from a campus-based bank, then created his own bank, which has now distributed more than USD 11 billion in loans. Through Grameen Bank – the name is derived from the Bengali for 'rural' or 'village' – Yunus has pioneered the concepts of microfinance and microcredit, making small loans to people in impoverished communities without requiring collateral, for more than 30 years. In addition to lending to the poor, the other distinguishing factor of Grameen Bank is that 98% of its loans are to women. "Money that comes into the family via women makes so much more difference than when it enters via men," he said.

Those looking to solve poverty should not focus primarily on the poor, said Yunus, who compared poor people with bonsai trees: there is nothing different or wrong with the seed, it just doesn't have sufficient soil

in which to grow. Instead, he argued, we should look at the world we have built, in which we have allowed poverty to flourish. "Unless we fix our institutions, policies and conceptual frameworks, poverty will not end," he said. "The process that created poverty cannot end poverty." But for those who despair of meaningful progress on such a daunting task, Yunus reminded us how quickly things can change. Twenty-five years ago, the Berlin Wall and the Soviet Union still stood and India could not rise above 4% GDP growth; in 20 years the Chinese and Indian economies are predicted to be larger than all other countries put together. Yunus expects Bangladesh to eliminate poverty by 2030. The Yunus Centre was established to campaign against poverty, promote social business and forge relationships with like-minded organisations globally.

Since setting up his bank, Yunus has founded a further 60 businesses, all of which have been designed primarily to solve problems and cover costs, rather than generate profits. Some have taken longer to succeed than others. When he started selling solar panels to provide Bangladeshi villagers with a source of night-time light and warmth, Yunus was happy to sell five a day; the firm now shifts more than a thousand a day. According to Yunus, these social businesses speak to the selfless instinct that sits beside selfishness in human nature.

The desire to leave your signature behind on the planet is inherent to human life, Yunus said. "Making other people happy is also happiness."

CLOSING PLENARY

"Back in business"

Industry firmly focused on future – SWIFT executives

While Professor Muhammad Yunus spoke of the wider responsibilities of the banking sector, Sibos 2012's closing plenary also gave senior SWIFT executives to reflect on the industry's readiness to face the challenges and opportunities ahead.

Reviewing Sibos week in conversation with SibosTV anchor Kavita Maharaj, Alain Raes, CEO, EMEA, SWIFT and SWIFT deputy chairman Stephan Zimmermann said Sibos 2012 had a "back in business" buzz, with delegates focused on the need for business innovation within the new regulatory framework.

Zimmerman and Raes, who extends his remit to include Asia from 2013, thanked the region's outgoing CEO, Ian Johnston, "for his committed

"We are making more demands of technology to support us in addressing our many challenges and opportunities."

Stephan Zimmermann, SWIFT

service" and noted that Osaka was the first Sibos in which delegates from Asia-Pacific made up the largest regional contingent. Moreover, a total of 1,700 Japanese delegates had attended Japan Day on the final day of the conference.

"The shift from West to East is not only about globalization – it's about the rapid growth of the domestic markets in Asia," observed Raes. "When domestic markets are growing so quickly, they need the necessary infrastructure to support that growth. A modern financial market needs a modern financial infrastructure. We can help Asia's high- and low-value payments and securities market infrastructures to leapfrog to the latest generation."

Zimmerman also noted a significant upshift in the level of banks' engagement with regulation and regulators, a trend which perhaps could serve all sides well due to the risks that accompany technology-led opportunities, such as the rapid increase in cyber-crime. For Zimmerman, successful use of technology by banks required "special skill-sets". "We are making more and more demands of technology to support us in addressing the many challenges and opportunities we face," he said. "A successful CIO needs a whole range of skills and the ability to cope with great complexity

"SWIFT can help banks to reduce compliance costs, allowing them to focus instead on growing their core business."

Gottfried Leibbrandt, SWIFT

– retaining a focus on engineering while also being more engaged with the business."

Driving innovation

Speaking after the closing plenary, SWIFT CEO Gottfried Leibbrandt noted the strains placed on banks of concurrently tackling the three



core challenges debated at Sibos: dealing with regulation; responding to market structure evolution; and harnessing innovation.

"A large proportion of spend is being diverted away from innovative new products and services, toward keeping up with this regulatory burden," he said. "Banks are looking for SWIFT's support – we believe we can play an important role in this space, helping to reduce compliance costs and allowing institutions to focus instead on growing their core business."

Referring back to his opening plenary speech on "backwards compatibility" argued that new challenges posed by the consolidation and evolution of market infrastructures did not necessarily demand wholly new costs. "Banks can reuse existing connectivity to access new and additional market infrastructures

"We can help Asia's market infrastructures to leapfrog to the latest generation."

Alain Raes, SWIFT



without worrying about multiple standards and protocols, and importantly, without driving additional investment," he added.

At a time of far-reaching reform of global financial markets, the costs of handling change, however minimised by shared investment, are best offset through adding value to new and existing customers. To this end, SWIFT's commitment to innovations that drive business opportunities for banks is clearly articulated at Sibos.

"SWIFT is clearly seen as driving the innovation agenda, helped by Innobridge but also demonstrated by new products and services such as Sanction Screening and Alliance Lite 2," said Leibbrandt. "Banks are looking at SWIFT to continue this drive for innovation around our core business, and to help facilitate discussions around the mid- to long-term future of the industry."

Leibbrandt also paid tribute to the spirit of community that had maintained SWIFT's commitment to Osaka in the aftermath of Japan's natural disaster in March 2011 and found its voice in support of delegates whose homes had been affected by Hurricane Sandy.

"All of this dialogue was set against the backdrop of Hurricane Sandy and the news of significant disruption along the US east coast," he said. "Many were thinking of friends and family back at home. Such events serve to remind us of the strength of SWIFT's Failure is Not An Option culture that underpins all of the services we provide to the industry."



JAPAN DAY

Moving beyond Japan
continued from page 1

terms of high liquidity and appropriate levels of capital," he said. Where there was once an unfavourable gap in the credit ratings of Japanese banks compared with their western counterparts, it no longer existed, he noted.

World market

Macro dynamics are transforming both the nature of the regional market and the environment in which banks operate. "Asia is growing from being the world's factory to being the world's market," declared Sato, citing forecasts that Asia's share of global GDP will increase from 30% to more than 40% within the next 20 years.

Growing economic prosperity is projected to double the ranks of middle- and high-income earners – currently some 900 million

strong – by 2020. In a region characterised by its disparate markets, even greater diversity amongst emerging markets may result as a consequence of regional growth. Faced with such structural economic changes, Japan's banks will need to adapt their current business models, said Sato.

At home, Japanese industry is undergoing what Sato describes as a "hollowing out", driven by a strong yen, strict environmental regulation, labour restrictions, corporate tax and the tariff barrier. If one adds the damage and disruption caused to corporate Japan by last year's natural disasters, then overseas corporate expansion is unlikely to boost domestic production or employment.

New business model

And what of Japan's banks? Following a 20% return on investment in the first decade of the

century, driven largely by financial engineering and proprietary trading, a post-financial crisis business model has yet to emerge. But Sato, who also chairs the Japanese Bankers Association, identified a couple of trends that will help shape future banking models.

Banks need to focus on real customer demand, and shift their strategic thinking to accommodate a market that is undergoing significant change, he said. In Asia, as elsewhere, there is an ageing population; the changing demographic will have a major impact on saving and investment behaviour. There will be an increased role for banks in the investment of capital in sectors serving the senior market, with a five-fold increase in capital investment in sectors such as pharmaceuticals and nursing care forecast by 2020.

Sato predicts a more prominent 'intermediation role' for banks, acting as "sophisticated risk-takers", providing risk money for new industrial development and social infrastructure. In this new post recession world, "the ability to secure liquidity will be indispensable," he said. "Banks will contribute to new industries, rejuvenate existing ones and contribute to the economic recovery."

Japanese banks will both help drive economic prosperity through capital investment and assist the development of the regional financial market, said Sato, leveraging their experience of domestic market development as they expand regionally and globally. "There is a need for Japanese financial institutions to expand their world presence, particularly across Asia," he said. "If Japanese financial institutions can introduce the experience they have gained through the his-

tory of Japan's economic development, they can take a leading role in the development of financial markets in Asia."

How to regain trust

Echoing the sentiment of other Sibos speakers, if banks are to be at the forefront of developing the pan-Asian market, first they must regain the trust of their clients. Sato warned against delays in responding to events such as the recent Libor rate fixing scandal and high profile insider trading incidents. Banks that responded rapidly at an institutional level to address the weaknesses and failings seen as endemic to the industry would create a "tool for differentiation" against competitors, he said. Strong corporate governance, supported by a strong corporate culture, was key. Fail and it would prove fatal, he warned. A "killer factor" for banks.

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Together we grow

A strange case of sleeping sickness

Asian issuers could wake up Japan's sleeping assets, but regulatory reform still needed to revive finance sector

Just as there are many ways to assess your health at the end of a four-day banking conference (blood pressure, cholesterol level, number of hours slept etc.), one can view the health of a country's finance sector from more than one angle.

In Thursday's Japan Day session, 'The current state of play in the Japanese financial landscape', moderator Phred Dvorak, deputy Tokyo bureau chief for the Wall Street Journal, chose the latest Global Financial Centres Index rankings, which placed Tokyo seventh, down from fifth in 2011. That Asia's low-tax international finance hubs, Hong Kong and Singapore, had overtaken Tokyo was not front-page news. But for South Korea's Seoul (sixth) to outrank the Japanese capital was perhaps a more telling sign of the declining wellbeing of finance in the world's third-largest economy (Osaka, since you were wondering, is ranked 21st).

But perhaps a more profound indication of the run-down state of Japan's finance industry was noted by a number of panellists. A high proportion of the country's JPY 1,500 trillion in domestic household savings is "sleeping" in low-interest bearing accounts or other low-risk instruments, rather than being actively intermediated

by Japan's finance sector.

The caution reflected by this untapped mountain of savings is understandable in the context of 15 years of low-to-no growth since the collapse of Japan's asset bubble in the late 1990s. But shouldn't a world-class financial centre be able to leverage domestic assets and burgeoning international demand for capital? On top of the lack of confidence that can strangle a country striving for growth, tax, regulation and scarcity of talent were cited as reasons why Japan's financial sector is currently characterised more by potential than achievement.

Scarce resources

Tomoyoshi Uranishi, senior executive officer, Tokyo Stock Exchange (TSE), suggested that it was hard for Japan to compete for the business of international financial institutions against low income tax regimes in Hong Kong and Singapore, which had helped persuade a number of banks and brokers to relocate away from Tokyo in recent years. But Seiji Yasubuchi, president and CEO, GE Capital, saw regulatory uncertainty and current employment laws as inhibiting factors for foreign institutions, as well as a scarcity of "globally minded people with a good command of English".



"If politicians take the lead on deregulation, the FSA will follow."

Masaaki Kanno, chief economist, Japan, J.P. Morgan

While agreeing that greater regulatory transparency and certainty would improve Tokyo's standing as a financial hub, Masaaki Kanno, chief economist, Japan at J.P. Morgan, said the blame did not lie with the Financial Services Agency (FSA). Noting the difficulties that financial firms face in obtaining positive regulatory approval for technology-driven product innovations, Kanno suggested it was unreasonable to expect

regulators to reform themselves. "If politicians take the lead on deregulation, the FSA will follow. Ultimately, this matter is in the hands of the voters," he said.

Bridge financing

Masayuki Hoshi, managing executive officer, Mizuho Corporate Bank, nevertheless cited several reasons for optimism, based largely on Japan's proximity to Asia. Primarily, Hoshi saw a bright fu-

ture for Japanese banks acting as a "bridge" between Japanese corporates looking to expand in Asia via cross-border M&A and Asian and multinational corporates active across the region. But Hoshi also identified Asia's need for long-term infrastructure finance, which he felt would play to the existing expertise of Japanese banks, "with the support of the Japanese export credit agency". Japanese banking experience could also be of value in the establishment of the ASEAN+3 bond market, he suggested.

If Japan could not currently attract global finance houses, it could perhaps support the financing need of expanding Asian firms through issuance of equity or bonds in Tokyo, potentially waking up those sleeping mountains of household savings, GE Capital's Kanno added.

The TSE's Uranishi cited the Tokyo Pro-Bond market, launched in 2008, as an example of innovation that could stimulate Japan's financial markets. A multi-currency market that meets international accounting standards, the Pro-Bond market, Uranishi predicted, would soon be issuing its first RMB-denominated bond. "This is a good change for us that could be a step toward being a global financial centre," he said. "We must try again."

No country for old men

Are Japan's insularity and former successes preventing the country from embracing the innovation that is necessary for renewal and growth?

Women, young people and foreigners will be key to Japan's economic future as it struggles to shed a generation of corporate leaders who had grown too comfortable in better times, delegates were told in a Japan Day session on the future of the country's economy and finance sector.

In an outspoken attack on Japan's business establishment, Haruaki Deguch, president and founder of Lifenet, the country's only listed web-based insurer, urged the government to deregulate labour markets, introduce a quota system for female executives and set up 24-hour day-care for working mothers. "No other OECD country has so few women in executive posi-

tions," he said. "Are we serious about diversity? Then set up 24-hour day-care centres in Tokyo."

Despite its broad remit, the session rapidly became a debate on how best to foster innovation when market pressures are insufficiently strong to force through change.

"The key to productivity is innovation, innovation, innovation," said Michael Spencer, chief economist for Asia-Pacific and co-head of global economics at Deutsche Bank.

Stasis versus surprise

Yet Spencer doubted whether Japanese governments could summon the political will to the push through necessary reforms.

"The economic future rests on how governments deal with the fiscal issue," he said, pointing to the country's decade-long deficit of 10% of GDP. "The problem is that Japan is stuck in financial stasis. It has enough savings to reduce pressure on the government to deal with it," he said.

He compared Japan with Korea, another market on the geographic periphery of Asia, dominated by family structures and more familiar with the idea of women in leadership positions. "Japan is organised around very large institutions – banks and corporates," he said. "The economy is dominated by old men when it needs to focus on younger women. What we need is new thinking."

Identifying the conditions for innovation as excitement and surprise, Deguch said a more



Haruaki Deguch, Lifenet

"Japan is stuck in financial stasis."

Michael Spencer, Deutsche Bank

heterogeneous workforce would be a requirement for more innovative countries, including the opening up of Japanese universities to overseas students. "If individuals are not able to rise to the challenge, if there's inertia, how we do in next five years will determine how we look in 20," he said.

Losing their way?

Until diversity stimulates growth at home, banks will be forced to target overseas markets – belatedly, in Japan's case, since only 20% of banks' revenues come from overseas business, compared with 60% on average for Japanese companies in other sectors.

The result could boost innovation as banks operating abroad come up against very different business practices. "They'll find banks elsewhere have found other ways to reach their customers and they will have to transfer that ethic back into Japan," said Spencer.

In the meantime, market pressure would be crucial not only in Japan but across the region, he added, contrasting Asia with the US, where market-based financ-



ing supported pro-active corporate governance characterised by investors' willingness to replace underperforming managers.

"I get the impression companies that were innovative in the 1970s lost their way. Once they grow, they get drawn into a comfortable relationship between boards, managers and banks," said Spencer. "The question for many companies in the rest of Asia, as they transfer to a new generation, is whether they will remain cosy or whether outside pressure will force them into dynamism."

Moderator William Saito, founder of consultancy Intecur, went some way towards offering an answer. "It seems to me that people working outside the established system will have to drive the change," he said.

"Are we serious about diversity? Then set up 24-hour day-care centres in Tokyo."

Can Asian markets grab their chance to shine?

Intra-regional partnerships and further adoption of global standards will support the growth of Asia's securities markets

With western economies continuing to dwindle, a panel on the final afternoon of Sibos 2012 considered whether Asian securities markets initiatives – particularly those emanating from South East Asia – could capitalise.

For the asset management community, the growing mass of post-crisis regulatory reforms – many of them spilling over from the US and Europe – present challenges in terms of how Asian buy-side firms distribute their funds.

With investors from the west continuing to look for diversified sources of returns, Lawrence Au, head of Asia-Pacific and member of the executive board at BNP Paribas, noted the steps South East Asia is taking to simplify investment inflows.

“An asset manager that wants to launch a fund across Asia currently has to seek approval in each different country, which is a very time-consuming and inefficient process,” he said. “Traction for solutions like an Asian fund passport is building and can help to ease this burden.”

The concept of an Asian fund passport was initiated by Australia, and while countries including Singapore and Malaysia supported the idea, others are yet to be convinced.

A similar initiative, based in ASEAN (Association of South East Asian Nations), is further ahead,

with a system based on Europe's Undertakings for Collective Investment in Transferable Securities (UCITS) regime. The Monetary Authority of Singapore launched a consultation on the specifications for an ASEAN passport in May.

Growth through standards

Looking to harmonisation of the bond market in Asia, Tetsutaro Muraki, senior executive managing director of Frontier Management and ex-chairman of the ASEAN+3 Bond Market Forum (AMBF), highlighted Tokyo's ambition for fixed income trading growth in Japan, with a push by the Tokyo Stock Exchange to adopt global standards to facilitate greater international investment.

Muraki also lauded the progress of the AMBF. “Phase one of the initiative covered bond trading practices across ASEAN markets and steps are now being taken to understand the issues associated with harmonising regulation across the markets involved,” he said.

Staying with ASEAN, session moderator Neil Katkov, execu-

“Can China cope with its immense transformation?”

Michael Vrontamitis,
Standard Chartered Bank



“Traction for solutions like an Asian fund passport is building.”

Lawrence Au, BNP Paribas

tive vice president for Asia at consultancy Celent, questioned panellists on whether the long-awaited ASEAN Trading link between the region's equity markets would be successful in facilitating cross-border and international investment.

“While the ASEAN Link is pan-Asian, it is still subject to national rules, raising questions as to whether it is really needed in Asia,” he said.

The link currently includes the Stock Exchange of Thailand, Bursa Malaysia, and the Singapore Exchange, which jointly represent a market capitalisation of US\$1.4 trillion across 3,000 listed companies. However, the participation of other markets, including the Indonesia, Vietnam and the Philippines is not yet confirmed.

Michael Vrontamitis, regional head of product management, transaction banking, Standard Chartered Bank, said it was too soon to make a judgment on the long-term prospects of the ASEAN Link, but added that “access via a single point of entry was a step in the right direction”.

“If countries find they can't attract investment themselves, they better do it in combination with each other,” he said. “I also think there will be more bilateral links between Asian countries.”

Unpredictable influence

In China, despite slowing growth, the internationalisation of the RMB will help to stimulate activity. The Chinese government has completed the second round

of its renminbi qualified foreign institutional investor scheme, which allows China-based fund managers to form RMB-denominated funds that can be used to invest in A-shares issued by the country's blue chips.

“The big question is whether China can cope with its immense transformation,” noted Vrontamitis. “The future of the RMB and access to the market is built on the performance of the economy. If China's economy continues to grow together with trade settlements, the demand for capital markets products will increase.”

Other panellists agreed, but Au warned that “it would not be smooth sailing” and to “expect plenty of peaks and troughs along the way”.

A phoney war?

Talk of a currency war ignores more fundamental issues concerning the relationship between reserve currencies and the controlled currencies of growth economies

While there is no all-out currency war taking place, there are local skirmishes and border incursions breaking out randomly around the world, according to Neal Livingston, global head of transaction services origination, Royal Bank of Scotland.

The analogy was made in one of the final sessions of Sibos 2012, which asked: ‘Are we moving toward a currency war?’ The title of the session drew upon comments made in 2010 by Guido Mantega, Brazil's finance minister, after the US Federal Reserve undertook a second round of ‘quantitative easing’ that year. The increased flow of dollars into the global economy led many other currencies to ap-

preciate, amongst them the Brazilian real. Labelled a ‘protectionist’ move by Mantega, designed to devalue the dollar and increase US export competitiveness, a third round of quantitative easing in 2012 has similarly been derided. More recently, the Bank of Japan's decision to expand its asset purchase programme has been cited by Mantega as further evidence that a ‘global’ currency war is taking place in which emerging economies are left struggling to remain competitive against depreciating ‘export friendly’ reserve currencies.

“We have some hugely accommodative economies around the world embarking on stimulus packages which are heavily ori-



“The real question is whether the dollar will remain in its role or new currencies like the renminbi will emerge.”

Atsushi Takeuchi, Bank of Japan

ented to domestic concerns,” said Livingston, with Europe, the US and the UK cited as prime examples of this. “These stimulus packages are putting massive pressure on the currencies of other economies, such as Brazil,” he noted.

Given the depth of the financial crisis in the Eurozone and the im-

pact of successive rounds of quantitative easing in the US, the euro and the dollar would be expected to depreciate more sharply than they have to date. Marc Chandler, global head of currency strategy at Brown Brothers Harriman, believes that growth markets like Brazil and China have shifted

their focus to the dollar and the euro to limit upward pressure on their currencies.

Reserving judgement

“The real question is whether the dollar will remain in its role or new currencies like the renminbi will emerge,” said Atsushi Takeuchi, head of the Centre for Monetary Cooperation in Asia at the Bank of Japan, explaining that reserve currencies performed three functions: a medium of exchange, a store of value, and a unit of account. “Other currencies are emerging as a store of value but not necessarily as a medium of exchange or unit of account.”

Trevor Williams, chief economist, wholesale banking and markets at Lloyds, believed the core problem is that certain emerging market currencies were being unnaturally held down when they should be rising.

“Currencies always fluctuate because they reflect the domestic situation relative to others,” said Williams. “Those rising do so because the purchasing power of their citizens is going up and that's a good thing. Countries like Brazil shouldn't try to stop it.”

Buy-side unprepared for OTC central clearing

Delays, information overload and confusing regulations restrict ability to plan

Pension funds and asset managers are nowhere near ready for the central clearing of OTC derivatives, delegates were told on the final day of Sibos.

Stemming from the Group of 20's 2009 Pittsburgh summit, new swaps rules, including the Dodd-Frank Act in the US, will push a greater portion of the OTC derivatives market through central counterparties (CCPs) with the aim of reducing systemic risk and increasing transparency.

William Filonuk, managing director, global research and development – capital markets at the asset servicing arm of BNY Mellon, said in the face of overwhelming regulation and slipping mandates, the buy-side is not yet ready to implement the clearing of OTC derivatives on CCPs.

“The advantages of central clearing are slightly less clear for the buy-side than they are for the sell-side,” added Paul Swann, president and chief operating officer of ICE Clear Europe, which clears credit default swaps for European clients of US-owned InterContinental Exchange. “The benefits for the buy-side are standardised collateral and standardised documentation but this isn't as obvious as, for instance, multilateral netting for the sell-side.”

But while CCPs are furiously preparing for central clearing of the most liquid OTC derivatives, Swann asserted that the

challenge is not an infrastructure problem: “They're ready for client clearing. The problem is getting the rest of the industry ready when many of the required regulations aren't even ready yet.”

Takeshi Hirano, director of OTC Derivatives Clearing Services at the Japan Securities Clearing Corporation, said the buy-side in Japan needed more time to prepare for clearing, adding on the day of the panel session – 1 November – Japan became the first country to adhere to the new G-20 mandate by beginning the compulsory clearing of interest rate swaps.

“CCPs need to establish the best way to protect the client, otherwise they will not make it clear enough to the buy-side why central clearing is important,” said Hirano.

Concentration risk

The G-20 requirement for previously bilateral derivatives contracts to be cleared centrally has led to speculation over how many CCPs the industry will eventually need. Some have predicted a dramatic increase in the amount of providers while others forecast a contraction.

“In the short term, we will see more CCPs than are desirable,” said Filonuk. “But medium to long term we are likely to see a consolidation.”

The more concentrated the better, was the opinion of Swann, admitting one CCP per asset



“The advantages of central clearing are slightly less clear for the buy-side than they are for the sell-side.”

Paul Swann, ICE

class was “probably not the best solution”.

“How many is the right number will depend on how they serve the market,” he said.

Hirano warned that one CCP per asset class would amount to overly concentrated risk, but emphasised that quality of service should be the primary concern of market participants.

Highlighting industry fears over collateral arbitrage, i.e. the possibility that CCPs might allow lower forms of collateral to win business, Swann said ICE was not interested in any race to the bottom.

“We are highly incentivised to make sure we have a safe model,” said Swann.

Global standards or benchmarks will prevent any “race to the bottom”, believed Hirano.

Yet, the move to central clearing also means the industry will lose certain risk management strategies which have hitherto been open to market participants, argued Craig Pirrong, professor of finance, Bauer College of Business at the University of Houston. “The move to CCPs is breaking up participants' ability to use netting,” he said. “But you need to look at the systemic risk as a whole. Netting reallocates risk but it does not reduce it.”

A number of regulators from major G-20 countries have written to US watchdogs over the

implications of the Dodd-Frank rules for markets beyond the US, while some Asian market participants are believed to be considering withdrawing from conducting OTC derivatives business with US counterparts to avoid becoming subject to US regulatory scrutiny.

Pirrong warned that extrajurisdictional issues could lead to a fragmentation of derivatives markets along jurisdictional lines: “There's a real danger that if participants are not happy with the terms of certain jurisdictions, they will simply say ‘we're not going to play in your sandbox’. This will eventually lead to less choice of market participants and unanticipated risk,” he said.

Halfway up the hill

While the industry has been working on automating confirmations for over two decades, progress remains partial due to mixed priorities and preferences

ETC is one of the longer-serving acronyms in the securities processing industry, but electronic trade confirmation and other aspects of pre-settlement trade matching are yet to be taken for granted as an essential part of the transaction chain. The title of a panel session, ‘ETC and Trade Matching: From nice-to-have to necessity’, reflected the fact that, as moderator Gert Raeves, research director, capital markets, CEB TowerGroup, put it, “ETC is not a new topic; a lot has been done, but there remains a lot to do.”

The discussion pointed to well-established benefits from introducing efficient automated matching processes, but also highlighted a range of different priorities from brokers, fund managers and custodians. Thibaud de Maintenant, global

head of direct securities services, Deutsche Bank, suggested that in the absence of any mandatory matching process, there are different ways for institutions to put pressure on counterparties to improve their matching rates. “We rank our brokers annually,” he said, “and no one likes to be bottom of the table.”



Panellists agreed that moves across major markets to a T+2 settlement timeframe are putting external pressure on all parties involved in a transaction to automate their processes, since exceptions involve an undue call on manual resources. Gary J. Probert, managing director, institutional clients group, Citi, pointed out that the value of ETC can be judged by the costs it addresses as well as the pain it removes for those involved in processing trades.

Simon Haggerty, head, IB operations, UBS, noted that, in his estimate, “Only 40-50% of flow goes through electronic confirmation.” The results of a matching process are tangible. “According to our figures, with affirmed trades, 98% settle on time,” he noted. “With non-affirmed trades it's more like 93%.”

Pressure points

Each panellist saw different pressure points where improvements in matching rates were most required. For de Maintenant at



“We need to help smaller investment management firms to automate.”

Jan Snitzer, Loomis, Sayles & Co

for downstream efficiency needs to be imbued in the front office.

Even if matching rates increase, however, a challenge still remains in the multiple ways of approaching the process, whether through a central utility or other third-party services. Though anticipating consolidation at some point, de Maintenant noted that, “Different things work for different clients.” The problem of user choice for intermediaries was not lost on Probert. “There is an integration cost for using multiple providers,” he said.

Despite evidence of regulation fatigue elsewhere in the industry, there was even a suggestion that regulatory intervention might be an effective catalyst, even if none of the panellists was rash enough to call for it outright.

“There is an integration cost for using multiple providers.”

Gary J. Probert, Citi

Battling for the unbanked

Banks betting on the remittance market should not underestimate incumbent service providers

Banks will struggle to take on exchange houses in the United Arab Emirates (UAE) remittance market despite a potential audience of almost seven million, according to Osama Al Rahma, general manager of Emirates-based Al Fardan Exchange.

“Almost by default”, people with cash to remit have tended to simply head for the nearest of 130 exchange houses across the market.

In Al Rahma’s view, many banks started taking the remittance business more serious after the financial crisis because it has little risk exposure and generates fees. “But it isn’t their core activity,” he said. “They would need to deal with a large number of people, which could push away customers they can actually make money from.”

Yet in some cases, banks are using their exchange house competitors’ networks to reach a significant and often unbanked population. Al Fardan maintains 100 correspondent relationships, mainly with banks, some of which use its 40 branches nationwide to sell products.

“We’re trying to add more value with mobile top-ups and savings schemes of-



fered by banks,” said Al Rahma. “Banks may have a lot of branches but we have 450,000 customers every month. That represents cross-selling potential. You’re talking about a segment that may have nothing to do with banks but with money to save.”

Innovation for the masses

Al Fardan can form correspondent relationships but may not handle customer deposits. Being regulated alongside the UAE’s banks adds credibility to the exchanges, but Al Rahma recognises that customer expectations of technology-led services will also increase. “Customers now expect to see their cash in 30 minutes,” he said.

But exchange houses are used to responding to change, adapting to a pre-paid card

“450,000 customers every month represents cross-selling potential.”

Osama Al Rahma, Al Fardan Exchange

model after losing float income created by manual payment processing. A government-backed wage protection scheme introduced in 2009 to end cash-in-hand pay has boosted pre-paid card volumes. With an eye on future revenues, Al Fardan has formed joint ventures to create a platform Al Rahma hopes will enable the exchange house to offer mobile payments apps available even to relatively unsophisticated remitters. “The model in the UAE has changed,” he said.

The exchange will also target new sub-markets, including smartphone-savvy young people without access to credit cards, and additional overseas markets. The opportunity is clear: cash transferred between the developed and developing world markets makes up a USD 400 trillion market, with anticipated growth of 8.1% in 2012.

Al Rahma warns banks may also struggle to compete with exchange houses in retail FX markets because their operational costs are higher. “The advantage of an exchange house is that it works on a high-volume model. The spread isn’t that big but it makes up between 40-50% of our income,” he said.

Nigeria embarks on SWIFT overhaul

CBN opens gateway to greater automation

The Central Bank of Nigeria will use SWIFT messaging in its real-time gross settlement (RTGS) system as part of a planned overhaul of the country’s financial infrastructure. The bank has signed up for implementation of SWIFT FINCopy for its RTGS as the first step of a modernisation of its domestic payment system.

The RTGS system will go live in 2014 and the central bank’s payments and markets infrastructure is expected to migrate to SWIFT messaging in the coming years.

The Y-copy facility will automatically store, copy, authorise and forward messages, eliminating administrative processes needed to run the current X-copy regime, allowing for complete automation.

Key factors behind the central bank’s decision include improved efficiency through automation, protection against fraud and hence reduced reputation risk for the country’s finance sector. Future benefits will include economies of scale and enhanced connectivity to international counterparts.

Banking and payments director Dipo Fatokun said the move toward straight-through processing would mitigate the risk of fraud and error as well as helping address sanctions challenges.

“The Nigerian central bank is the bank to the government. What we don’t want is sanctions imposed on government payments by foreign banks,” Fatokun said.

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Complex landscape requires joined-up thinking

Financial crime analytics requires holistic approach

Financial crime events are not simple, often spanning multiple jurisdictions with numerous transactions over long periods of time. For this reason banks need to be able to leverage the full value of analytics to enhance their ability to detect and prevent criminal activity, whilst managing compliance and reputational risks, and cost.

On the final day of Sibos 2012, the need for more cohesive analysis was discussed in a Compliance Forum panel session, 'Analytics application in financial crime – joining the dots'.

"Data is the fundamental building block of any procedure you want to put in place, so it is crucial you understand the data and how it can help you understand financial crime," said Daniel Buckingham, head of transaction monitoring at Barclays. "Banking has become too complex for compliance to just look at a particular product or client. You have to take everything into account and unless you have the right underlying data, your analytics will be flawed."

When considering financial crime, it has to be accepted that globalisation has become irreversible and even small institutions are operating cross-jurisdictionally, leading to issues of how information from multiple sources joins together.

A lot of institutions focus on the detection and investigation of scenarios as they arise, but David Howes, global head of financial crime risk for the wholesale Banking division of Standard Chartered Bank, insisted that pre-emptive analyt-

ics and processes were just as important. And this should involve the front office as well.

"An institution's know your customer (KYC) processes provide an opportunity to collect information increase controls. The key is to be able to concentrate that output into good analytics."

According to Tony Wicks, director of anti-money-laundering (AML) solutions at consultants Omnicision, the three types of crime reduction analytics for financial institutions are: pattern analysis for functions like sanctions filtering; risk assessment for KYC and the like; and behavioural analytics which help identify pre-determined patterns that represent risk.

"The problem is how to marry analysis into human decision-making," said Wicks.

'Compliance silos'

Part of the solution is to involve the compliance department more deeply in front-office functions and meetings, so that the team can better understand the institution's business functions.

"You need to sit at the business table. This helps you create better solutions," said Michael Cho, global head of AML compliance, Northern Trust, who added that the danger was always to get too caught up in 'compliance silos'. "Screening for suspicious activity, calculating fraud risk, complying with economic sanctions – at the end of the day we're talking about information and understanding your data effectively."

Identifying the enemy within

New threats are weakening relationships, but a more coordinated compliance effort offers hope

Are the tougher regulations that have changed the business practices of correspondent banks also leading to an increase in hidden and illegal transactions? The Compliance Forum panel on the future of correspondent banking stressed the need to strike a balance between good business and effective compliance.

According to the United Nations, around one trillion dollars passed through banking channels illegally last year. Concerns over the funding of terrorist and other criminal activity are forcing regulators to tighten their grip on correspondent relationships. However, banks are worried about the controls and processes they have to put in place to monitor hidden transactions and the limitations of due diligence to avoid the growth of 'nested' accounts. Nested accounts involve a sanctioned entity anonymously channeling funds through a legal correspondent bank of another foreign institution, in lieu of having its own account.

Although banks are spending more money and resources than ever on compliance, this doesn't seem to mitigate the challenges around the implementation of compliance processes. "The biggest challenge we are facing is in the implementation of know your customer (KYC) rules," said Jack Jared, strategy head, bank services group, Citi Transaction Services. KYC processes today require more than just collection and identification of customer data. "We are required to do more

analytical work with all the data we obtain," said Jared.

Cutting links

The risks of retaining correspondents were also a concern for the bankers who stressed that banks today are terminating relationships with those correspondents that have weak compliance processes or governance structures and do not meet their risk appetite in a quick and effective manner. Increasingly aware of the threat of an increase in nested accounts that use the banking infrastructure for illegal purposes, banks are hungry for information and advice on how to filter correspondent banks effectively and how to avoid infiltration.

But will compliance be effective unless business and compliance departments understand each other? "Partnership between business and compliance is essential for compliance to be effective," said Michael Cho, global head of AML compliance, Northern Trust. "Unless we work together, we are not going to create controls which are risk-based and could end up being either over cautious or unprepared," he added. "We should train compliance people in business and business people, including sales professionals, should get training in regulations and compliance," said Philippe Vexlard, global head of correspondent banking, BNP Paribas. He also recommended that compliance should be coordinated at a corporate level, with all branches and geographies following a single approach.

Managing the complex world of sanctions

New service aims to tackle the cost and complexity of sanctions screening

Expectations from regulators on dealing with sanctions screening presents the need for banks to manage the associated costs while maintaining the integrity of their systems.

A new Sanctions Testing product developed by SWIFT and Omnicision, which helps firms deal with the added pressure of regulatory scrutiny, while maintaining an optimal level of efficiency, was presented at a SWIFT Auditorium session on the last day of Sibos.

The complexity of sanctions screening continues to grow. The number of names and aliases now totals over 40,000, with changes made to lists at least once a day. Add in the need to apply 'fuzzy logic' – i.e., dealing with nuances to names and aliases – and the number of combinations rises to over four billion.

According to Ian Horobin, CEO and founder, Omnicision, the operational cost related to sanctions is expected to double by 2014.



"The increased costs of sanctions screening means banks need to alter their approach to prove systems work, while keeping costs low by continually testing and tuning sanctions screening processes," he said.

Tuned in

Sanctions Testing is a cloud-based application that continually monitors global sanctions lists released by regulators, allows users to test their systems, generate alerts and reports and then fine tune for efficiency.

"There is no silver bullet for maintaining an efficient system, but the risks can be minimised with a system that is continuous and predictable," said Horobin.

Looking at the details of the system, Nicolas Stuckens, manager of anti-money laundering and sanction initiatives at SWIFT, explained how testing would first offer a high-level view and then allow users to drill down and look at specific cases in detail.

"Banks can use the results to adjust their risk appetite, change their threshold of fuzzy logic and then download reports automatically for regulatory compliance," said Stuckens. "The application will offer greater control and self-management of sanctions screening and offers a community approach where issues are identified and shared via a component in the platform."

"The increased costs of sanctions screening means banks need to alter their approach to prove systems work."

Ian Horobin, Omnicision

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“One of the most pressing issues of our time.”

Despite a broad-ranging agenda, sanctions was never far from the stage at Sibos' inaugural Compliance Forum

If anyone still doubts the importance of regulatory compliance to the sustained health of the finance sector, they must have passed up the chance to attend Sibos's first-ever Compliance Forum.

This two-day stream took on issues as diverse as cyber-crime, sanctions compliance and the challenge of handling the sheer weight of post-crisis regulatory reform, in a variety of formats, from case study to workshop to panel discussion.

Many sessions were standing-room only, as industry professionals who further fuelled the sessions with questions, clarifications and comments. Opening the forum, SWIFT chairman Yawah Shah reflected the thoughts of many, observing, “Compliance is one of the most pressing issues of our time. We are all working on how to deal with increasing levels of regulation.”

Choose your partners

The Compliance Forum then got off to a compelling start with clear and firm advice from the director of the US Department of Treasury agency that administers and

enforces economic and trade sanctions based on US foreign policy and national security goals. Non-US financial institutions have a choice, said Adam J. Szubin, director of the Office of Foreign Assets Control (OFAC): they can deal with blacklisted entities or US financial institutions, but not both.

Many of the questions directed at Szubin concerned Iran, with which financial and commercial transactions are subject to a range of US sanctions regulations. Szubin pointed out that this was not a unilateral concern, since there

“We recognise the importance of correspondent access to the US.”

Adam J. Szubin, US Office of Foreign Assets Control

were four United Nations Security Council resolutions concerning Iranian nuclear activities as well as individual measures by countries around the world.

OFAC has blacklisted 23 Iranian financial institutions for involvement in the country's nuclear project or, said Szubin, for support for terrorist groups. “There are relatively few financial

institutions willing to deal with those designated banks as they are increasingly blacklisted by different regulatory entities around the world,” he commented.

On the vexed question of ‘extra-territoriality’, Szubin noted that while OFAC's regulatory remit directly covers US institutions, “We recognise the importance of correspondent access to the US.” US financial institutions, he suggested, will not be able to offer services to foreign institutions seeking to maintain ties to designated institutions. He

pointed out that SWIFT's action in taking Iranian banks off the network was a response to a mandatory requirement of the EU, albeit one that OFAC supported.

In response to a question from the floor, Szubin said that being placed on the OFAC list involved three to six months' work in building the case. Decisions can be challenged, but, said Szubin, “giv-

en our evidence-based approach, we have not been found to have wrongly added anyone to the list.” Nevertheless, he stressed, individuals and entities can and do get removed from the list if they show that they have ceased the activity for which they were designated.

National, regional, global

Following Szubin's perspective on compliance with sanctions, the Compliance Forum leapt continents and broadened its perspective to look at Asia's fight against financial crime.

David Howes, global head of financial crime risk, wholesale banking, Standard Chartered Bank, noted that from a strategy perspective, limiting an institution to complying with national regulations could complicate the task of a bank operating globally or across a region. “In Asia, for example, Hong Kong, Japan and Singapore have the same regulatory requirements as might be found in US and UK, but there is great variation across all the markets in the region,” he said. “If you operate in more than one jurisdiction, you have to decide if you want to be consistent across all markets or take a case-by-case approach. Standard Chartered aims for one policy standard globally.”

Fellow panellist Cassandra Hewett, deputy group MLRO, group compliance (AML & Sanctions), ANZ Bank added that technology can be a great aid to the process of ensuring that monitoring is effective. “KYC is the bedrock of any successful policy,” she said.

Priority No. 1

While the second day of the Compliance Forum touched on a wider range of themes (see page opposite), sanctions remained prominent on Wednesday. Discussing uptake of SWIFT's Sanctions Screening product, which automates compliance with sanctions, Brigitte De Wilde, head of AML & sanctions initiatives at SWIFT, noted that some central banks were looking to “develop country-specific approaches” to compliance.

In the forum's closing session, De Wilde underlined that SWIFT would continue to support banks in this field, having already launched Sanctions Screening and Sanctions Testing products, and would also look to broaden its services to help compliance with know your customer and anti-money laundering rules. “Banks are asking us to apply our expertise in the compliance area to expand our offerings in this space,” she said.



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Is your bank people-worthy? Do you play enough?

“If not for social innovation, banks would still only be serving princes and merchants today. I contend that this session is all about an opportunity,” said Felix Oldenburg, director, Ashoka Europe, introducing the session ‘The Future of Doing Good: Banks for a Better World’ in the InnotrIBE Space on Thursday morning. The two big take-aways of the session are: the unbanked represent a lot of money; mobile connectivity brings the unbanked within reach of banks. “There is estimated to be USD2 billion hidden under mattresses in South Africa,” said Brian Richardson, CEO, Wizzit.

That money represents a serious business proposition, albeit one requiring innovation. “Social enterprise is about new business models, not charity,” said M J Petroni, principal, Causeit, in an early intervention from the floor. First speaker Professor Muhammad Yunus, chairman, Yunus Centre, and founder, Grameen Bank, also emphasised we were here to talk about business. “Charity is a wonderful idea, but it has a limitation: the money doesn’t come back. We call this a business be-

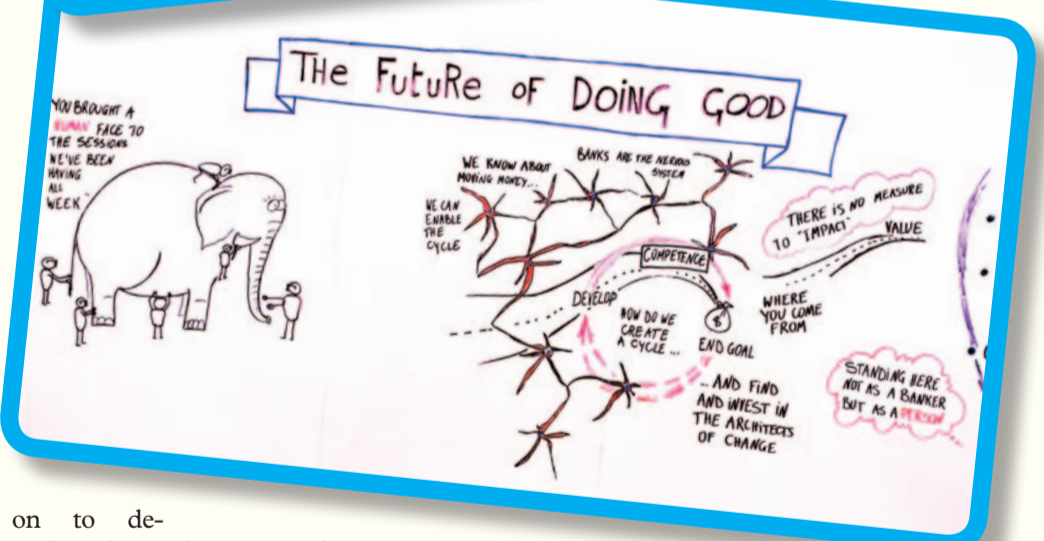
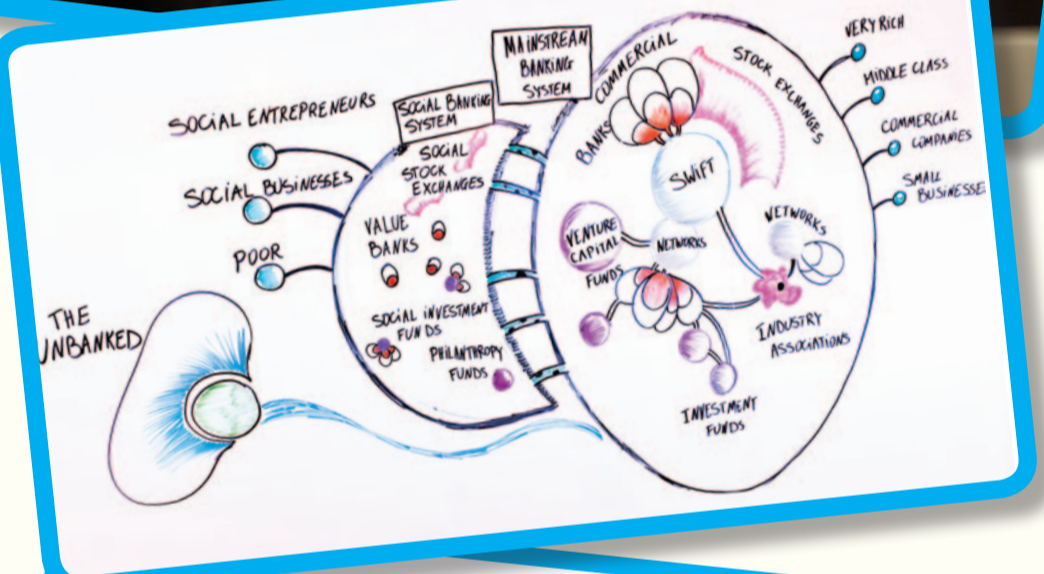
cause it has to be sustainable,” said Yunus. The ROI on doing good might include saving the world, delegates heard, but nobody was being asked to give away money.

We just need to think creatively. “We need to push the possibilities and the boundaries. Charity exists only when creativity has failed,” said Kartik Kaushik, managing director, global head of business development at Citi Transaction Services, also an InnotrIBE enabler and a judge on the Startup Challenge. Emphasising during his presentation that he was speaking in a personal capacity, Kaushik argued that banks should still be thinking about new business models that allow people – all people – to participate. “Are we not in many ways the circulatory system of the world?” said Kaushik.

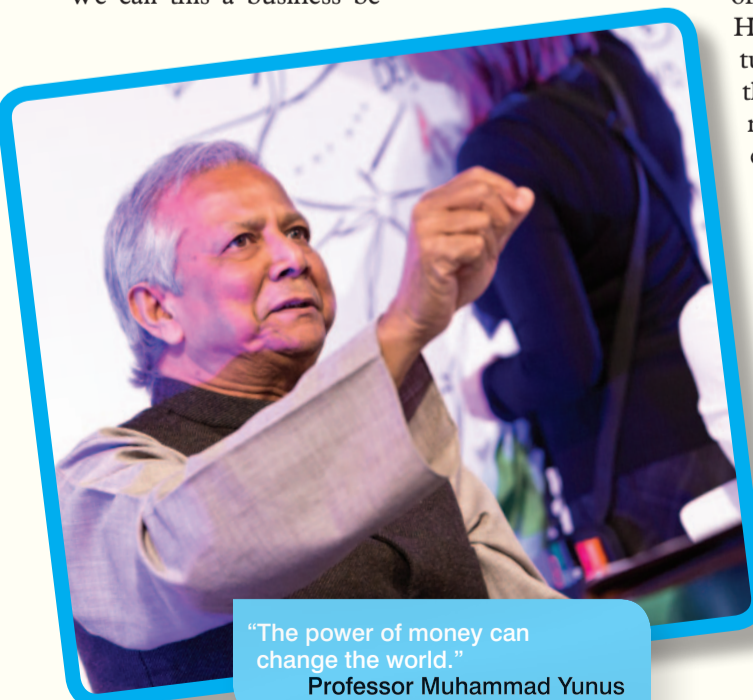
This gave a cue to the doctor on the panel. “We are privileged to live in a period of social, financial and environmental bankruptcy. It’s important that we work out how to build a world that is socially and environmentally sustainable,” said Professor Carolyn Stephens, executive director,

Amazon-Yungas Observatory of Biodiversity, Indigenous Health and Equity. One feature of such a world would be that it is fully banked, where necessary via mobile devices. “Social entrepreneurship is not different from regular business, except that you’re doing it with passion,” said Julius Akinyemi, entrepreneur-in-residence, The Media Laboratory, MIT.

How do we build such a world? Social entrepreneurs offered opportunities. “Imagine that we can fund the highest-potential human services just like we fund a road – by the use of a bond,” said Steve Rothschild, president, Invest in Outcomes – who went



on to describe how he was doing just that. Ben Powell, founder, Agora Partnerships, spoke about “unleashing the power of entrepreneurs in the developing world”. Wizzit’s Brian Richardson pointed to the USD 500 billion global remittance market in his account of how to get currently unbanked money into banks by mobile means. Faisal Rahman, director, Fair Finance, reminded us that there’s a significant unbanked population in the UK, and Jerroo Billimoria, founder of Child and Youth Finance International, spoke about introducing child-scale banking into schools. “This is about extending the business model. The power of money can change the world,” said Yunus, as the session closed to the sound of the Tears For Fears track ‘Mad World’.



“The power of money can change the world.”
Professor Muhammad Yunus



“Charity exists only when creativity has failed.”
Kartik Kaushik, Citi

Innovation's next generation

If Innoribe's success is to be judged by the innovations it brings to the attention of the banking sector, it is fitting that its finale at Sibos should be the unveiling of 2012's two Startup Challenge winners. Thursday afternoon saw the climax of the competition between ten entrepreneurs for the title Top Startup 2012 and USD50,000, plus five more 'later-stage innovators' bidding to be recognised as Top Innovator 2012. To judge by the questions they drew from the floor, all finalists were well on the way to forging valuable future partnerships.

Among the ten startups that had made it through the regional stages to present in Osaka were mobile-banking entrepreneurs and innovators in mobile security; we were offered opportunities to invest in back-office and business-banking solutions. Social media featured, as did online financial advice. Finalists pitched one after another, in timed presentations from the podium.

The five finalists competing for the title Top Innovator 2012 gave simultaneous, informal, 'chat room' presentations from different sections of the Innoribe Space. They offered us open-source risk-management technology, access to finance via social networking, investment accounting for today's challenges, automated receipt, conversion and payment of cross-border payments.

Over 500 financial industry professionals, early-stage investors and startup ecosystem professionals had selected the fifteen finalists; now it was the turn of the delegates in the Innoribe Space. Votes were taken together, on a single ballot paper listing all finalists.

First to be announced was Top Innovator 2012: David Rose of Gust, a New York-based global platform for connects entrepreneurs with sources of finance. "I am so delighted to have been chosen to receive this award," said Rose, speaking between intense conversations with interested delegates.

Perhaps fittingly in Osaka, the winner of Top Startup 2012 was an Asian technology firm dedicated to bringing finance to new markets: Singapore-based PlayMoolah!



Happy winners!

Left to right: Audrey Tan and Min Lee of PlayMoolah

which offers "a fun online platform for kids to learn about money". "Children are your future customers. PlayMoolah gives them a secure engagement with money," said co-founder Min Lee, accepting the prize. "Do the math! There are 2.2 billion children in the world. You want to win their loyalty before another bank does," added co-founder Audrey Tan.

A week of achievement and innovation

Osaka cemented the place of innovation at the centre of Sibos – literally, given the location of the Innoribe space in Intex's open courtyard. More important, there was an overwhelming sense that Sibos delegates would take the spirit of Innoribe back to their desks.

It began with a judo bout, in the Innoribe opening plenary (itself a first), in which a small and agile world champion used the weight of a larger rival to floor him, repeatedly, to illustrate the uncomfortable

truth that the "connected world" is an increasingly fluid one in which giants can be toppled if they don't keep up with the pace of change.

But the message of the week was opportunity, not threat: there are tools and methodologies whereby change can be enabled within banks; and the connected world creates new opportu-



that there are new business models that are both sustainable and potentially profitable. Feedback from audience members in the Innoribe Space indicate that three principles in particular stand out: the future of the finance sector belongs to technology-driven firms that happen to have banking licences; there are great opportunities to be found in providing banking services to the unbanked – but as a business opportunity rather than a charitable activity; and that the tools are now emerging, the

Digital Asset Grid among them, whereby banks can wrest back ownership of the future from their non-bank rivals.

But to take these opportunities, institutions must take an 'open source', that is inclusive, approach to innovation. As Innoribe co-founder Kosta Peric says in his new book, 'The Castle and the Sandbox', banks' innovation teams "should be about enabling other people to do innovation, not about doing innovation themselves".



nities that are there for the taking. Innoribe used the offbeat and the unusual to encourage delegates to adopt a mindset for change. We made origami cranes as we learned about the future of organisations, and we watched "punk money" created in seconds on Twitter. We learned that "real engagement" beats an over-emphasis on brand recognition. It's the customer's experience, not the bank's promise, that matters.

We heard that banks, in their present form, may not survive. But we also heard

"We need to be engaged in the real economy, not financial games. I'd like to plant the seed that trade finance is part of this."

Alexander Malaket, Opus Advisory Services



Simplifying the testing process

A group of market participants is exploring how SWIFT's MyStandards can be used to improve the efficiency of standards testing

Whether it is connecting to a market infrastructure, managing an upgrade or ensuring client messages can be processed straight through without problems, testing messaging standards takes significant time and work for all parties.

And according to Sébastien Grèverie, executive vice president, product management, Clearstream, it is a burden that will only get heavier as regulatory change exerts greater pressure on the securities industry in Europe. "If it's expensive today, it will be more so tomorrow. And we have to ask if it will be humanly possible to get it all done," he said. To underline the complexity and variety, Charles Dubarry, global head, direct channels and integration, HSBC, said banks could sit in meetings for two days at a

time before they understood the differences in how they implement a standard.

To tackle the challenges thrown up by these differences, SWIFT launched MyStandards earlier this year, a collaborative web-based platform that facilitates the management of standards and related market practice. It allows participants – banks, market infrastructure providers or end-users – to publish their standards schema and specifications in a neutral space. A pi-



"Testing must be end-to-end between the parties, but you could first test separately whether the data exchanged is correct."

Marc Delbaere, SWIFT



"If it's expensive today, it will be more so tomorrow."

Sébastien Grèverie, Clearstream

cost will be saved. Once there is transparency, it could be possible to measure how close an institution's practice is to a benchmark. "I can envisage a time when the entities that review RFPs will be asking 'what are your scores against this or that set of messages or standards?'," said Rothschild.

Early days

For now, though, it is early days and simply getting the documentation into a standard format is a step forward. David Bannister, editor, Banking Technology, moderating the session, asked about the critical mass needed to achieve results. "If the big five banks sign up, the rest will follow," said Dubarry, adding that the smaller banks would benefit from the investment by the larger players. In terms of timing, Grèverie thought that a healthy level of participation could be reached by Sibos in Dubai next year, but that achieving common testing and benchmarking would take much longer.

For SWIFT's Delbaere, MyStandards is a timely development for an industry facing so much change. "The first step is to standardise how you define your specifications. Then you can start to add value on top of that with analysis and testing."

lot project is underway to see if MyStandards could be used as a collaborative tool to simplify and speed up testing. Theodore Rothschild, executive director, global market infrastructures, J.P. Morgan, explained, "We obviously test standards end-to-end, but this is about how we do that. We've been searching for a central way."

Marc Delbaere, head of standards research and development, SWIFT, suggested that the testing process could be broken down into its core elements. "Testing must be end-to-end between the parties, but you could first test separately whether the data exchanged is correct. We could take that part out and handle it in more effective ways that at present."

In theory, by comparing specifications and recognising the nuances and market variations in the way institutions implement standards upfront, considerable time and

Corridors of power

Where to begin harmonising market practices for transactions involving non-Latin characters? Start with the busiest payment corridors first

China's policy decision to promote use of its currency internationally is focusing attention on a problem. If no Latin name exists for an entity, how can you match data in financial messages and for regulatory reporting?

As Lisa O'Connor, director, RMB internationalisation, SWIFT, explained, "the issue is not new but as there are more and more transactions with one leg into China, it is becoming more widespread."

Local market practices exist, of course – notably the Chinese commercial code, which uses groups of four numbers to represent characters. But these are workarounds and not standards, with no central maintenance.

As RMB trade has grown, so has the debate around how to address the problem and the urgency to do so. Mike Tagai, industry issues executive Asia, J.P. Morgan, said, "the bottleneck around compliance is where the discussions should start". But he also sees an increasing requirement from clients. O'Connor pointed to the fact that China is working on its next generation payments system, so it would be timely to address the issue now.

A potential solution exists in Unicode (freely available specifications and data for software internationalisation). On the plus side, Unicode works with XML and

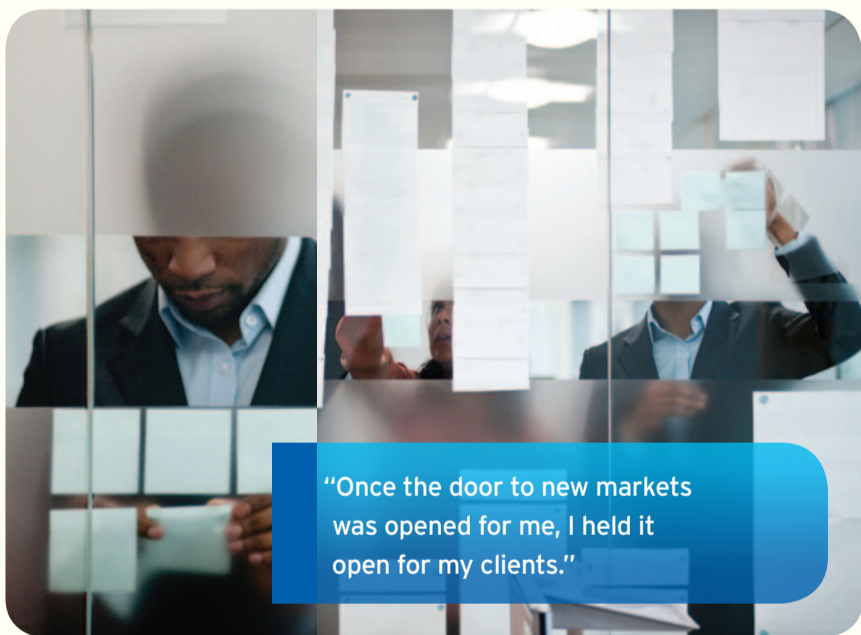
ISO 20022 is Unicode-aware. Among the negatives, many legacy systems do not support it.

Be practical

The panel mostly agreed that a practical approach would be to standardise the workarounds first, addressing the payment corridors where the problem is greatest. For example, the Offshore CNY Working Group in Hong Kong has been looking at how to achieve processing efficiencies. But Christian Westeraus, global head of cash product management and EMEA regional head of product management, Deutsche Bank, argued that the many German companies exporting to China should not be disadvantaged.

Tackling it corridor by corridor, but making sure to adopt a solution that is globally applicable and will work in other corridors, was the suggestion from Tagai.

The standards community is just at the beginning of thinking about this issue, but warned Stephen Lindsay, head of standards development at SWIFT, time may not be on its side. "The hegemony of English as the international language of cross-border business is beginning to break down." The search for a solution may yet become urgent.



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A standard to live up to

'Let's get practical' appeared to be the central message to standards professionals in Osaka, where many had implementation on their mind

This year's Standards Forum stretched over the four full days of Osaka's Sibos, spanning 32 individual sessions and 70-plus speakers, providing a wealth of information and insight into the latest trends and developments.

In its ninth year, industry professionals, standardisers and vendors alike met at the Standards Forum's dedicated stand, to discuss the most pressing standards topics.

"The Standards Forum has been brilliantly supported throughout the week," said Juliette Kennel, head of standards, SWIFT. "One of my personal favourites has been the 'Rise and shine with Professor Poppe' sessions. We've been asked if we can video that and put it on YouTube. I also loved the session on cars and standards for the automotive industry."

Each morning, Tom Poppe, Standards expert at SWIFT, led engaging discussions on a number of critical issues and gave a 'Poppe' Quiz on the final day. Topics included standards fundamentals, gaining implementation insights and the intimate relationship between market practices and standards.

In the centre of Hall 3, the Standards Forum's exhibition space itself became a comfortable, casual and engaging mecca of standards activity.

"In the Standards Forum we've been able to create a natural space where people feel comfortable and we've had excellent attendances at our sessions," said Stephen Lindsay, head of standards development, SWIFT. "Clearly, there is a lot of appetite to learn about standards even though the topic can be quite complicated at times. A highlight for me was having SWIFT CEO Gottfried Leibbrandt at the forum talking about his earlier role as head of standards and saying how much fun it was."

Not your standard fare

On many a delegate's menu were the 'food for thought' sessions, which ranged across a number of topics, including the use of non-



"The greatest challenge [for LEI] will be to implement the regulators' intention at a global level."

Satoru Yamadera, Bank of Japan

Latin, local characters in messages, and using standards to improve in-house interoperability.

In a particularly insightful 'Food for thought' entitled 'Standardisation models: The jungle versus the walled garden', a panel discussed better ways to develop standards. For standards to be useful, it was argued, developers needed to strike the right balance between retaining control over the standard's development and allowing the wider community to contribute; hence the jungle versus walled garden metaphors.

"With the pace of innovation now – in areas such as social media – if we don't adopt meta standards – such as Facebook's Open Graph – will become ubiquitous and the standard de jure. And these standards do not provide the adequate data sharing or the privacy and security which consumers and banks both need," said Drummond Reed, co-founder of Respect Network, referring to Facebook's user development

language which now has wide-ranging implications for privacy and security on the internet due to its ever-changing and arguably unsupervised nature.

In a call to arms at the start of a Tuesday morning session, Roy DeCicco, managing director at J.P. Morgan and a member of the Payments Market Practice Group, said, "it is time for concrete action" in terms of payment market infrastructures adopting ISO 20022.

In an accompanying session, "Why securities market infrastructures are adopting ISO 20022", it was noted that while payment markets players were still treading with caution, those in the securities market were forging ahead. During the session, some early adopters encouraged other participants to shed inhibitions and embrace the standard as early as possible.

"Foreign investors account for 60-70% of the trading volume in Japan and foreign financial services firms are showing strong interest," said Shunichiro Unno, director, post-trade services, Japan Securities Depository Centre. "ISO 20022 covers all our post-trade service needs in a standardised manner."

LEI challenge

This year's host nation provided a raft of best practice examples in standardisation. In a thoughtful Monday afternoon interview with Richard Sterneberg, consultant, GPlus, Satoru Yamadera, the head of the International Standardisation Group, Centre for Information Technology Studies at the Bank of Japan, explained his involvement in the Japanese fi-

nancial community's standardisation efforts.

Yamadera is particularly active in the development and promotion of the Legal Entity Identifier (LEI). Unlike the European and American experience of standardisation as a largely private sector exercise, Asia's central banks often play an important role, according to Yamadera, who serves as the secretariat of ISO/TC68 committee of Japan.

"If we don't adopt meta standards, then unwanted standards will become ubiquitous."

Drummond Reed, Respect Network

Yamadera argued strongly in favour of continued coordination between the private sector and regulators, pointing out the Financial Stability Board LEI Implementation Group was working closely with private sector experts through its Private Sector Preparatory Group. LEI is slated to go live in March 2013.

"The greatest challenge [for LEI] will be to implement the regulators' intention at a global level," said Yamadera.

A bonding experience

At a Standards Forum session on Wednesday on the harmonisation of Asian bond markets, the Asian versus western experience was also analysed in terms of fixed-income markets. When European banks attempted to eliminate Giovannini's 15 barriers to European clearing and settlement, they came up against a more intractable barrier: government re-

luctance to legislate. But in Asia, the ASEAN+3 Bond Market Forum (ABMF), comprising policy-makers and market participants, is doing it differently, engaging policy-makers early and pursuing harmonisation of regional markets incrementally.

The ABMF is collecting market information on issuance and transactions and identifying transaction flows to try and increase STP in the region. Next

will come a standard issuance document set.

"We're starting with the easier issues first, then we'll take the next ones in sequence. We're limiting the scope to small areas for harmonisation," said Jason Lee, adviser to the office of regional economic integration at the Asian Development Bank, explaining harmonisation will happen but it will happen slowly.

The ninth year of the Standards Forum reflected the maturity and realism of the practice of standards implementation in the industry. Across the 'Eye-opener', 'Up close and personal' and 'Business panel' sessions, the core message of 'Let's get practical' was never far away.

"The standards family know each other well and it has been great to be together here in Osaka," said Kennel. "Next year will be our tenth anniversary, so I expect we'll have a party. See you in Dubai."

My favourite standard

Sibos delegates were asked to name their favourite standard from any walk of life. Eric Veronneau from BPCE, said his favourite standard was the French kiss, because it has naturally been adopted by everyone and has lots of different market practices. "Standards is a family. And which family did not start with a French kiss?" Veronneau quipped!

Keeping in the loop

From the smallest piece of unstructured data to the most powerful CIOs, all technological life was represented in Osaka

The finance sector's reliance on technology may grow by the day, but the effective harnessing of technology throws up as many problems as solutions. The Technology Forum at Sibos 2012 did not shrink from the big questions. To what extent can technology really help banks to shoulder the regulatory burden? In the wake of new models like cloud computing and virtualisation, should we replace legacy systems? And as new risks emerge, how to out-think the cyber criminals?

And what of the CIO? A chief information officer is no longer just an IT head but a strategic thinker who understands what technologies are needed to support the business in ten of 15 years' time. What skills are needed to perform this wider brief?

Complex data

The Technology Forum kicked off on Monday, asking 'Can technology carry the regulatory burden?' A panel chaired by Simon Topping, head of KPMG Financial Services' Regulatory Centre of Excellence in Asia Pacific, observed that a new focus on data and a 'C-suite' rethink were both needed before technology could help solve compliance woes.

"The first challenge is that regulators expect systems to not only be able to handle more complex data but also to stress test that data," said Topping. "For the first time, there are direct regulations requiring global systemically important institutions to have new data for macroeconomic analysis, and current systems have not necessarily been built for that purpose." Rejecting the notion that technology is an answer to regulatory burden, Lee Fulmer, CTO, cash management, J.P. Morgan instead cat-

egorised it as an 'enabler'. "Approaching a problem from a data perspective means you're assuming the problem is technological to begin with," Fulmer said. "And usually it isn't. We're spending a lot of money to meet regulation but we're spending it in different places. There may be 200 or 300 little projects within a bank, spent in different ways to give the regulators what they want. But managers should take a step back and look at how they want to run the business efficiently."

Speakers in the first panel insisted that technology could only ease growing financial regulatory pressures once information became more structured. Catherine Bessant, global technology and operations executive at Bank of America, took a different position in her technology keynote. The fact that risk management has taken prime place in the technology investment decisions of financial institutions is evidence that technology has to – and does – carry the regulatory burden, contended Bessant. Having accepted that there is no alternative to seeking technological solutions, meeting the challenge of the regulatory burden lies in managing data effectively. "The most important thing is construction and management of data," she said. "We have to be at the cutting edge when it comes to data – its architecture, its construction and even its very use."

Fighting the odds

Tuesday's session on cybercrime saw the industry pledging to adopt a united front in the effort to fight back against a rising ride of incidents. Explaining the gravity of the situation, Mark Clancy, managing director of technology risk management at the Depos-



"We need strong technical infrastructure to offer consistent customer service globally and also meet regulatory obligations."

Douglas Maclean, HSBC

itory Trust & Clearing Corporation, said, "US banks are now sharing about five events a day between 4,500 institutions and this number is doubling every 18 months." Clancy warned that the risks – especially those coming from participants involved in espionage and war – will consume more of banks' time in the future.

Talking about the risk exposure, David Bannatyne, executive general manager, banking and payments services, National Australia Bank, said, "We're no longer open just nine to five. We are at risk 24/7 from sources all around the globe.

"The loop is no longer owned by the bank. Whenever losses have occurred it has not been because of our systems. The loop is now owned by the customer," said Bannatyne, adding that more and more people were connecting from phones to pay their bills. Clancy said banks must turn "from farmers to hunters" to defend themselves and their customers against online attacks.

Banks have always debated whether to overhaul legacy systems. With daily reports of software glitches on trading platforms and cyber attacks blamed on the vulnerability of legacy technology, the Technology Forum took a measured look at infrastructure longevity. A well-attended session took an interesting turn when speakers agreed that, rather than aiming to completely overhaul their legacy systems, financial services firms should look at transformation as a way of addressing customer demands or regulatory obligations. "Just because they are old, we don't need to replace them," said Douglas Maclean, chief operating officer, payments & cash management, HSBC. "We do, however, need strong technical infrastructure to offer consistent customer service globally and also meet regulatory obligations. Transformation should be

focused on these two parameters," he added. Speakers also stressed the need for commitment and involvement of 'C-suite' executives in technology decisions.

Front page news

Any discussion on changing face of technology would be inadequate without considering the changing role of a CIO. What kind of people will be heading up IT in our financial institutions in future? The session on brave new leaders of IT saw speakers stressing the need for senior IT executives to deliver operational excellence in a world of ever-growing demands and relentless volatility. The CIO must be able to interpret the ever-more complex world of technology for his or her senior colleagues and, importantly, dispel the myths and show where the value lies that will help move the business forward, observed the speakers. Susan Hwee, head, group technology & operations at United Overseas Bank, said, "CIOs need to decipher and look through the smoke screens – some of which are created by vendors." But she also stressed the importance of the CIO's role as systems architect and engineer. "At the end of the day, if the engineering isn't right, your institution will be on the front page of the papers," she warned.



"We have to be at the cutting edge when it comes to data."

Catherine Bessant, Bank of America

Forcing the pace of change

Asian economic growth is putting the region at the heart of innovation as corporates look to optimise cash and trade flows

This year's Corporates Forum brought a wealth of new information and opinions to the fore, with Asia's continued growth providing increased opportunities for banks to fuel innovation and efficiency.

The growing percentage of global trade occurring in Asia continues to drive closer ties between corporates and banks in the region to optimise cash flows. At the same time, SWIFT has been supporting improved connectivity between counterparts in the region and beyond through greater use of international standards.

Indeed, SWIFT's Bank Payment Obligation (BPO) has received growing attention as a means to streamline trade and supply chain financing alongside, and often in place of, traditional instruments such as letters of credit (L/C).

Meanwhile regional and global corporate are challenging the prevailing regulatory and banking infrastructure barriers to efficient liquidity cash management processes in Asia. The largest of these are pressing for new ways to manage multiple banking rela-



“Banks must be aware of where the financial supply chain needs to be in conjunction with the customer supply chain.”

James Emmett, HSBC

tionships, accessing services globally without becoming over dependent on any one provider.

To this end, SWIFT's Corporate Advisory Group has already seen the admission of its 1,000th



“Exporters want faster payment and less paper, so our suppliers who are using BPO love it.”

Yumiko Hoshino, Ito-Yokado

member. Corporates now comprise 10% of all SWIFT members, with Asia representing strong growth in connectivity and the adoption of global standards protocols like ISO 20022.

Asia's ascent

The first panel of the Corporates Forum discussed how global trade flows should adapt to the ascent of Asia in global commerce.

Michael Guo, partner and managing director at the Boston Consulting Group, said there was a need for practices that place a premium on trust in banking relationships.

“The diversity of countries within Asia also requires banks to adapt their regional offerings to suit their needs, which is both a key challenge and opportunity for banks,” Guo said.

A major force for change in Asian corporate finance will be the increased use of Chinese currency for international trade settlement. As Asia accounts for 35% of global trade by 2020, up from 20%, there will be a major uptick in use of the RMB for trade finance, which will in turn drive growth in overall commercial usage.

“Banks must be aware of where the financial supply chain needs to be in conjunction with the customer supply chain,” said James Emmett, global head of trade and receivables finance at HSBC, who predicts that 40% of HSBC's China-based clients plan to make more use of RMB for trade within the next year.

BPO revolution

The recently introduced BPO, which sits in the space between open account and the L/C, is

also a major force for change within global – and indeed Asian – banking.

Companies have already begun using BPO for import transactions, matching data in SWIFT's centralised data matching engine, the Trade Services Utility, to further eliminate legacy processes.

Yumiko Hoshino, executive officer, overseas department at Ito-Yokado, a Japanese department store operator which is one of the first companies to use BPO, said the instrument would be an integral part of doing business in Asia.

“Exporters want faster payment and less paper, so our suppliers who are using this love it. But it can be difficult to persuade some of our more conservative exporters to try it,” Hoshino said.

The legal basis for BPO transactions will be ironed out in April, when the International Chamber

of Commerce (ICC) is expected to officially approve the international rulebook, but it the service is already winning favour for its ability to reduce the disputes that can arise from L/Cs.

André Casterman, head of banking and trade solutions for SWIFT, said although the mechanics of the BPO rules are interbank and operated by SWIFT, the true value proposition of the BPO allowed importers and exporters to mitigate risks and to get on-demand financing.

“We started the week with the ICC briefing and it is now recognised that the ICC adoption of the BPO is a true game changer,” said Casterman.

Flow changes

Corporates' regional cash flow infrastructures may also undergo major changes in coming

“When we tried a multi-bank solution, we found 15 solutions that couldn't work with each other.”

Wolfgang Ratheiser, SWIFT



years, with a potential migration from single-agent banks to a SWIFT solution.

SWIFT's global director of finance engineering, Wolfgang Ratheiser, said in capital-restricted countries, visible, not trapped, cash was needed, although setting up cross-border cash solutions in Asia posed many challenges.

“We found many banks in China and even in Japan couldn't support it. When we tried a multi-bank solution, we found 15 solutions that couldn't work with each other,” Ratheiser said.

Even in countries with well-developed banking infrastructures, there are still teething problems, and pooling and netting arrangements often remain future goals rather than present realities.

Treasurers must negotiate vastly different regulatory and tax regimes and in some Asian markets, such as China, where conflicting regulations make compliance especially difficult, while in Korea, cash flow practices haven't changed in a decade, despite a wealth of technological shifts.

One option for treasurers to streamline corporate processes is to establish shared service centres.

Shunsuke Araki, general manager of global cash management services at the e-business division of Mizuho Corporate Bank, told a Wednesday session that corporates with a turnover of USD 1.3 billion and more than 10 subsidiaries would be best placed to move to such a model.

Some firms, like Singapore-based International SOS, seek to benefit from outsourcing some of their treasuring functions, aiming to achieve greater visibility across five core institutions and more than 80 other banking relationships across the world.

The company is in the first phase of a project to relocate some treasury functions to two centres: one in Singapore; the other in Prague, in line with the global scope of its business.

Cash flow management may be a more varied pursuit in Asia than the west for the time being, but the sheer weight of payment volumes and supply chain finance transactions, driven by Asian economic growth, is likely call forth less frictional practices.

Can data unlock the door to a new era?

The big beasts in the transaction banking jungle are exploiting the power of data to provide better products and services to customers

When banks are planning their banking business strategies, they know one key to solving their problems lies in understanding data. In the panel, 'Global transaction banking – In need of business insights', speakers delved deep into core issues relating to exploiting data for business purposes, including accessibility, availability, credibility and usability. "When we use data, we have to look upon it as a very good detective. We have to ask the right questions to get the right answers," said John Ball, global head of sales – cash management, financial institutions, Deutsche Bank.

In an era where regulations are driving the need for transparency – while demand for real-time processing and reporting are increasing – there is a rapid increase in the amount of data produced. To manage the regulatory changes and also bolster profits, banks are looking for deeper data insights into customer relationships, transactions, revenues, credit risks and liquidity positions, viewed from the perspective of customer, product or geography. However, George Doolittle, head of global payment

services, Wells Fargo Bank, said that co-relating data from different sources is important. "While looking at customer experience analytics, it is important to co-relate the data in our systems, with that available in social media and financial market infrastructures like SWIFT," said Doolittle.

In the right hands

While reiterating the benefits of analytics in decreasing credit risk and improving liquidity positions, speakers also stressed the need to sift data carefully to obtain greater customer insights. Banks are also using dashboards and reports created from the available data to increase operational efficiency and monitor liquidity positions. Philippe Vexlard, global head of correspondent banking, BNP Paribas, suggested that interpreting the data is only half the battle. "It is not just about getting insight; how do we make sure that these insights reach right hands in right time so that the corporate and small and medium business customers can take advantage of these insights?"

David Gall, executive general manager, working capital services,



"The role of banks could change from provider of products and services to trusted advisor."

David Gall, National Australia Bank

business banking, National Australia Bank, cited the example of how his bank helped a large retail customer with 300 stores in Australia to grow its business by extracting and de-identifying data from payment flows. According to him, such initiatives suggest an evolution in the role banks play in supporting corporate and institutional customers. "The role of banks could change from provider of products and services to trusted advisor," explained Gall. Though there are many challenges around commercialising data, the discussion pointed to a future in which banks will offer services based on data insights.

Under the microscope

Watch Insights tool aims to help banks scrutinise and quantify the value of their correspondent relationships

A new set of business information tools from SWIFT helps banks to monitor and analyse their flows and rank their performance against peer banks in the same country. Peer bank data is anonymised.

Watch Insights for Correspondent Banking is the first of a series of offerings tailored specifically for different market segments. "Watch Insights talks in the language of your business, without jargon," said Francis Martin, head of business intelligence solutions, SWIFT. Watch Insights for securities, corporate banking and compliance are also planned, depending on market feedback.

The new Insights tool comprises a set of dashboards that provide highly visual and interactive data derived from the user bank's SWIFT message flows by product, currency and country and updated monthly.

Since year-to-date and previous year data is available, it is possible to track nostro and vostro relationships over time and analyse the level of activity, which countries are con-

tributing most and the level of reciprocity with different correspondents or partner banks. Concentration risk with individual correspondents may also be analysed.

The four dashboards are 'cash and payments', 'trade finance', 'correspondent network management' – which allows users to analyse and manage their overall correspondent relationships – and 'operational efficiency', for monitoring the quality of nostro and vostro flows. Astrid Thorsen, market manager, SWIFT explained that it can help, for example, to identify where high levels of non-structured messages, rejects or queries are occurring. Pricing is tiered.

"Watch Insights talks in the language of your business, without jargon."

Francis Martin, head of business intelligence solutions, SWIFT

A visual revolution

Business intelligence tools are providing banks with much-needed insights

In and around the Osaka's Intex Centre, the predominance of smart devices was clearer than ever. At Sibos 2012, whether they were presenting, listening or arguing the toss, delegates were doing it in conjunction with handheld information technology. In particular, many were augmenting the Sibos experience by calling up relevant information sources to validate or investigate further the comments they heard at the conference. But of course banking professionals do not only behave this way at Sibos, they also do it at the office. And they are demanding much more accurate, sophisticated – and above all visual – tools with which to dig into the data, not least because business decisions need to be supported with hard evidence in the uncertain environment in which the finance industry finds itself.

"We're in a visual revolution which means that the insides are at your fingertips. That makes the big difference and that is what is really different this year at Sibos for Business Intelligence," says Francis Martin, Head of Business Intelligence Solutions at SWIFT.

To explore this trend, this year's Sibos ran a series of linked sessions which explored banks' use of data to better understand their clients, counterparts and their own business. In the two sessions reported above, bankers explained the growing importance of understanding business activity and transaction flows at a granular level to make the right product development and client strategy calls in the spheres of correspondent and transaction banking. But in reality the application of today's data analysis tools can yield valuable insights across the industry and for a variety of purposes, from the snapshot to the deep dive. SWIFT's launch of 'Watch Insights for Correspondent Banking', for example, is the first of a series of offerings tailored specifically for different market segments.

Performance indicator

And on Tuesday, Andre Boico, head of pricing and business analysis, SWIFT, explained to delegates that the SWIFT community can get a reliable view of recent and imminent economic performance free



"We're in a visual revolution which means that the insides are at your fingertips."

Francis Martin, Head of Business Intelligence Solutions, SWIFT

of charge by simply subscribing to the SWIFT Index online.

SWIFT payment messages reflect a wide range of economic activities. Counting the number of payments over a period can provide an accurate measure of economic activity. "For some time, we have been looking at the correlation between SWIFT traffic and the broader economic environment for our own internal planning purposes," said Boico.

The idea for the Index grew out of the value of the data for internal use. "From our own experience, we knew we were a good mirror, but were we a barometer? Would it be possible, looking at SWIFT traffic, to forecast what would happen in the broader economy over the next few months?" said Boico.

The answer proved to be yes, definitely. Taking the MT103 customer transfer, the most ubiq-

uitous of all traffic messages, SWIFT developed a global index of economic activity, which said Boico, differs from other indices, both sentiment- and fact-based, in a number of respects.

The Index service covers two elements: a nowcast of the current quarter's activity and a forecast of the quarter ahead. Comparing the Index to official OECD figures, Boico argues that the SWIFT Index had proved its worth. "In Q1 we nowcast 1.75% growth, the OECD figure came in at 1.70%," he said. For Q2 the nowcast was in the region of 1.5%. The OECD figure came in a few percentage points higher but was subsequently revised down to 1.6%. Boico presented the latest figures: a nowcast of 1.2% growth for all OECD countries for Q3 and a forecast of 1.1% for Q4, which he described as "anaemic".

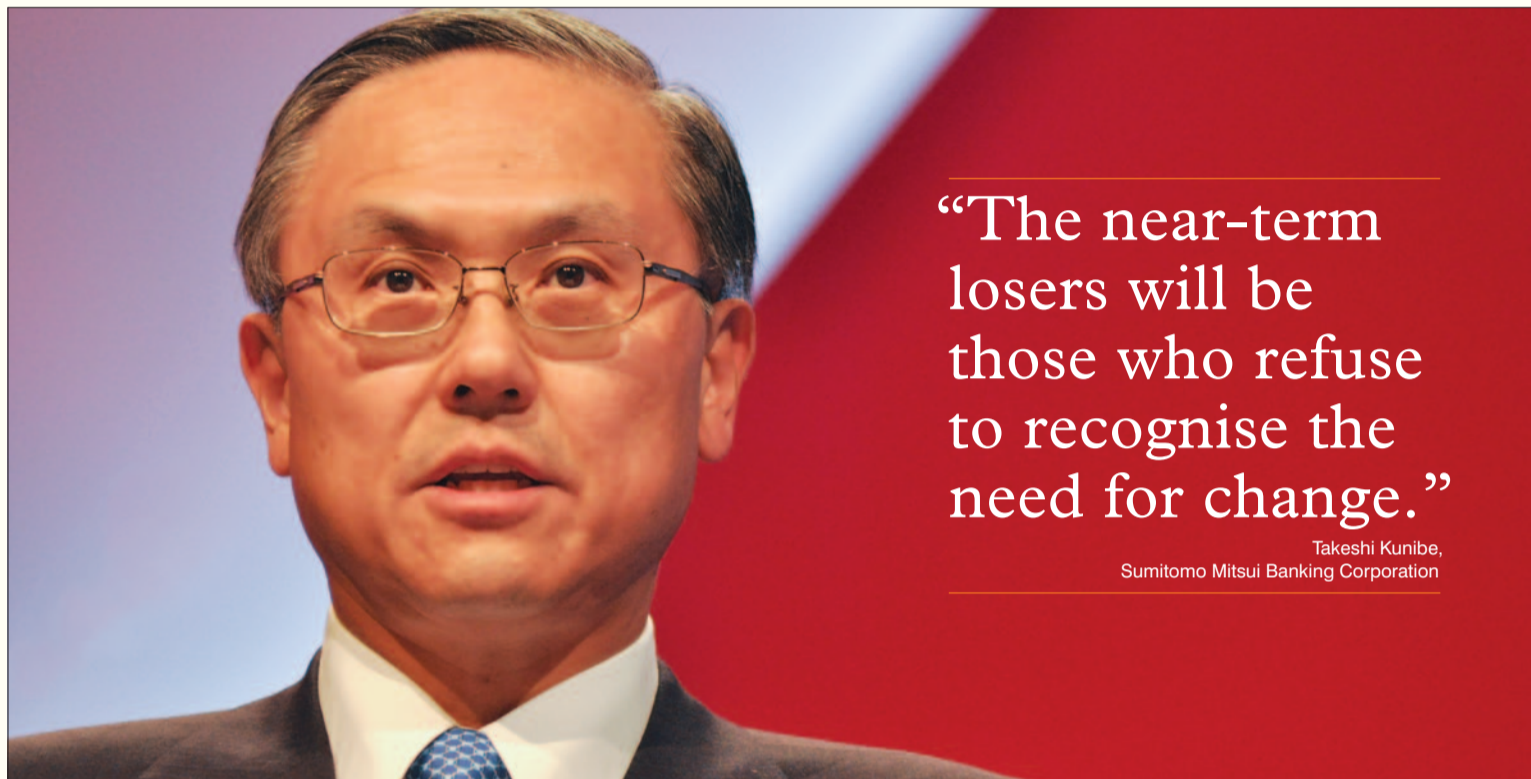
Boico announced that in addition to the global index that is currently produced, four new indices will be released in Q1 2013: one for the EU 27, and one each for the USA, UK, Germany. "This covers 85% of OECD GDP," he added.

Using the same methodology, he demonstrated what the results would be for Japan if such an index were published. They showed a Q3 nowcast of 2.8% growth and a Q4 forecast of 2.5%. "The SWIFT Index can clearly be viewed as a measure of the heartbeat of the global economy."

OPENING PLENARY

Change now to survive

Banks must recognise need to evolve – Takeshi Kunibe
SWIFT to support banks through “backward compatibility”



“The near-term losers will be those who refuse to recognise the need for change.”

Takeshi Kunibe,
Sumitomo Mitsui Banking Corporation

Takeshi Kunibe, president and CEO of Sumitomo Mitsui Banking Corporation (SMBC), opened Japan’s first Sibos with a welcome and a warning.

Acknowledging Osaka’s mercantile history and innovative present, Kunibe said that it was fitting that SWIFT should chose “a city with a culture of accepting new ideas” in which to discuss how banks can leverage technology to build better services for customers. But he also suggested that continued economic and regulatory uncertainty should not be used as an excuse to put off tough decisions.

“Responding to change is key to survival,” said Kunibe. Quoting Ian Bremner’s ‘Every nation for itself’, he added: “The most obvious near-term losers in the G-zero era will be those who refuse to recognise the new reality and the need for change.”

Identifying the three key sources of change impacting banks as post-crisis regulatory pressures, macro-economic uncertainties and technology innovation, the CEO of SMBC said commercial and in particular transaction services would be critical in securing the future of banks.

On the regulatory front, the combined effect of Basel II and national laws such as the US’s Dodd-Frank Act was to move banks from excessive risk-taking and toward commercial banking and annuity businesses such as transaction services.

continued on page 18

BIG ISSUE DEBATE



“A ‘one-size-fits-all’ type of regulation or the extra-territorial application of rules could unintentionally destabilise the financial system.”

Nobuyuki Hirano, Bank of Tokyo-Mitsubishi UFJ

Global regulation could be lost in translation

Asia’s voice resonates in the global regulatory debate

The backlash imposed on the finance sector by western-led regulators poses a risk both to Asian growth and the ability of western banks to profit from it. This was the message enunciated by

panellists at the Big Issue Debate on the implication of emerging growth markets.

It called for a global financial regulatory framework that recognised contrasting

continued on page 18

Seize the Asian opportunity

Asian growth represents a significant opportunity for the banking sector, indigenous or otherwise

Changes in consumer demand, investment flows and capital market structure are indicators of the size of the ‘seismic shift’ taking place across Asia. For participants in the Tuesday Big Issue Debate about the implications of emerging growth markets this added up to a diverse set of business opportunities for the banking sector, though ingenuity and a willingness to embrace technology will be prerequisites to success.

KV Kamath, chairman of ICICI Bank, said that banking continued to be a fast-growth industry in India, not only to support the aspirations of the country’s burgeoning middle class, but also to help

continued on page 18

“Technology is driving banking in Asia and other emerging markets to a new paradigm.”

KV Kamath, ICICI Bank



'Change now to...' *continued from page 17*

Sluggish western growth would force Asian economies to depend more on domestic demand, requiring banks to support commercial transactions within the region. Moreover, technology developments were providing businesses of all kinds with increasingly detailed insights into consumer behaviour. With approximately six billion mobile phones in use globally and 30 million smart devices sold annually in Japan alone, Kunibe argued that beyond the clear opportunity represented by mobile payments, banks should use newly available data flows to better understand customer habits and develop future generations of financial services.

"Commercial banking should be at the heart of our business," said Kunibe, adding, "We must upgrade our transaction banking capabilities."

Kunibe concluded his welcome address with a tribute to the spirit of collaboration among banks, both in Japan and globally. The concerted efforts of Japanese banks in the aftermath of the March 2011 natural disaster had proved the soundness of country's financial system, he said, noting also that Japanese banks would "never forget" the support shown by SWIFT and its member banks.

Delivering value

An emphasis on supporting banks' efforts to develop new ser-



"SWIFT must remain global, neutral and trusted."

Yawar Shah, SWIFT

vices also ran through the SWIFT plenary, in which chairman Yawah Shah and CEO Gottfried Leibbrandt gave brief opening presentations before being joined for a Q&A session by SibosTV anchor Kavita Maharaj.

In Shah's assessment of whether SWIFT is delivering economic value to members, he claimed lowering banks' costs and risks through the development of new shared services and the provision of reliable access to counterparts was as much a part of the SWIFT proposition as bringing down message pricing (see opposite, Keeping the promise). "For the first time ever, at Sibos we

have a Compliance Forum," he observed.

Recalling his first Sibos, as co-head of McKinsey's European payments practice in Atlanta in 2004, Leibbrandt, suggested that the parting shot of Heidi Miller – "SWIFT, what have you done for me lately?" – had left an impression. Echoing Shah, he said that SWIFT's infrastructure and capabilities could help banks to comply with the diverse raft of financial regulatory change without having to invest vast sums at a time of revenue uncertainty.

"Wouldn't it be nice if all this new stuff would fit your legacy systems, rather than having to build new connections?" he asked. "Only SWIFT can offer a reusable, single window onto your financial world ... As the world becomes more complex, SWIFT becomes more relevant."

Pointing to new market infrastructures such as TARGET2-Se-

curities and trade repositories for OTC derivatives transactions, as well as the moving target of sanctions compliance, Leibbrandt said SWIFT would make banks' infrastructures "backward compatible", letting them choose their own technology investment deadlines.

In conversation, Leibbrandt also looked to new areas of growth for SWIFT. Noting SWIFT's role in helping Asian banks integrate local standards as they moved increasingly onto the global stage – assisted now by enhanced capabilities in Kuala Lumpur and Singapore – he also argued that the reforms in the securities and derivatives markets also presented significant opportunities.

"Competing in the dynamic securities environment brings out our best," Leibbrandt said. "It is a vast space that is under pressure through the downsizing of investment banks, but it is an area in which we can help."

"Competing in the dynamic securities environment brings out our best."

Gottfried Leibbrandt, SWIFT



Global franchise

The need to respond to threats and opportunities is real for both banks and SWIFT. Noting the speed at which technology services are migrating to cloud-based delivery options – including those used at his children's school – Leibbrandt said SWIFT had often been viewed by clients as a cloud-like service.

But he also pointed out that the cooperative needed to be alert to technology developments both to ensure the cooperative's relevance into the future as well as those that might pose a more malevolent risk. "Cyber-crime makes our value proposition stand out. At the same time, we must work harder to ensure we are safe from attacks," he said.

Shah also noted the threats to the integrity of SWIFT's global franchise from a changing regulatory environment.

"We are a trusted and neutral third party that exists to connect and to serve banks," said Shah. "It is our job to ensure SWIFT remains global, neutral and trusted."

Summing up SWIFT's value proposition, Leibbrandt recalled the comment from one satisfied customer: "SWIFT is the reason I can sleep at night." And we will continue to work hard, he assured the audience, "so our customers have more reasons to sleep peacefully at night."

BIG ISSUE DEBATE



"Interdependence between east and west must be more of a two-way street."

Simon Tay, Singapore Institute of International Affairs

rial application of rules could unintentionally destabilise the financial system," he said. Regulators must strive to develop flexible regulatory frameworks that match each country's or each region's situation."

Simon Tay, chairman, Singapore Institute of International Affairs, concurred that despite an eastward shift in power and expectations, the setting of the rules and standards that govern international finance remains a largely western affair. Arguing that the instinct of the region's regulators was still to follow the lead of the west, Tay said that Asian regulation was struggling to find its own voice. "Medicine prescribed to western banks may not be appropriate for Asian banks," he said.

Tay insisted that decoupling of east from west – from a regulatory or wider perspective – should not be the aim of Asian policy-makers, but he suggested that a little more balance might be to the benefit of all. "Interdependence between east and west must be more of a two-way street," said Tay.

'Seize the Asian ...' *continued from page 17*

include the unbanked population in its growth story. Noting the recent rapid expansion of consumer loans – first for mortgages and cars and increasingly for consumer durables and credit cards – Kamath identified India's unbanked as the next new growth opportunity, placed in reach by technology.

You can't reach 600 million people in 600,000 villages by a traditional branch network, he said, but you can if you employ an agent in each village that has access to an internet-enabled smart device. "The connectivity exists today: bandwidth and device costs have come down while speeds have increased," he said. "Technology is driving banking in Asia and other emerging markets to a new paradigm."

While acknowledging that prevailing trends in individual countries' capital adequacy regimes mean that banks with an established presence in Asian markets hold an advantage over those that had yet to be granted a licence, panellists were clear that Asia is "open for business" to global banks. Simon Tay, chairman, Singapore Institute of International Affairs claimed that opportunities were diverse in the ASEAN region, in particular.

Noting there was still "a buzz about having a credit card

from a western bank" among Singapore's sophisticated and aspirational consumers, he also pointed to varying opportunities across a region of 10 nations and 600 million people. Tay said that Indian and Japanese banks were already alive to the new business that could emerge from the gradual liberalisation of Myanmar. A more immediate prospect for growth was Indonesia, he said, citing its liberal bank ownership rules, its resource wealth and its huge population, which was fuelling consumer demand and infrastructure investment.

Figure it out

Asian concerns over the effect of post-crisis regulatory reform stem in no small part from an awareness of a remaining overdependence on the USD that has lingered since the Asian currency crisis of the late 1990s. This is changing, but the capital markets expertise of western banks and their ability to channel investment from west to east are still required. While Tay acknowledged a "need to allocate capital more efficiently," Kamath agreed that there was "a huge appetite for infrastructure in ASEAN."

"Banks must figure out how to seize these opportunities," he asserted.

'Global regulation...' *continued from page 17*

stages of development between mature and fast-emerging economies, while also warning that regulatory and policy trends in the west could slow the pace of GDP growth in the east.

Negative impact

Nobuyuki Hirano, president, Bank of Tokyo-Mitsubishi UFJ, said that the simultaneous shrinking of banks' balance sheets with the imposition of fiscal tightening to reduce US and European government debt levels would, by reducing demand among western consumers, have a vast effect on emerging markets. He also noted that banks were already slashing loans to emerging markets. "Even if local banks were to take over those assets, this may not

meet all the funding requirements and cannot offset the negative impact," said Hirano.

While noting the broader potential of nationally-imposed regulations such as the Volcker rule in the US and other ring-fencing measures proposed by the Vickers Commission in the UK to restrain the provision of money to the real economy, Hirano suggested that the internationally-agreed rules on capital adequacy under Basel III could have particularly tough consequences for Asia. There may be no room for complacency on the robustness of Asian financial institutions, but falling in line with new capital rules could stymie Asian growth due to the detrimental knock-on impact on the supply of SME loans, trade and infrastructure finance in the region.

"A 'one-size-fits-all' type of regulation or the extra-territory-

Let banks support growth

Post-crisis regulations may dampen growth, limit expansion of trade

Cooperation among industry and watchdogs key to recovering client trust

Regulators and banks should find common cause in restoring customer trust as a key step toward stimulating and supporting economic growth, Sibos delegates were told in the Big Issue Debate on regulation that asked: will global transaction banking survive.

Banks need to pursue a more customer-centric path and eliminate the behaviours that have undermined confidence over the past half-decade. But regulators also have their work cut out, identifying risks earlier

Early warning

The restoration of banks to a position of trust from which they can oil the wheels of economic growth is not a one-step leap of faith, but must be rebuilt, piece-by-piece. One building block highlighted by Wright was a closer collaborative approach to prevention between regulators and bankers. “We need a deeper cooperative effort to identify emerging risks. The industry should warn the regulators,” he said. By reducing the flow of scandals, Wright added,

Risk spreads

Citi’s Vanni d’Archirafi shared Bindra’s concern that the burden of regulation could harm the ability of transaction banks to service corporate and institutional clients, noting two risks in particular.

By imposing greater levels of transparency on banks without applying similar standards to the shadow banking system, recently introduced regulations would not serve the principles of financial system stability because services and liquidity would in-

consistency of approach between jurisdictions. Desirable or not, some level of regulatory fragmentation was inevitable. With many new capital markets likely to spring up soon in new locations in response to shifts in global economic power, this is the right time to ensure commonly accepted principles are established, said Wright.

“We have a choice between local or regional rules in which everyone decides for themselves, leading to cries of unfair competition, or we can agree to a global frame-



Left to right: Moderator – Barbara Ridpath, International Centre for Financial Regulation. Panellists – Francesco Vanni d’Archirafi, Citi; Jaspal Singh Bindra, Standard Chartered; David Wright, IOSCO

and creating a framework to underpin the conditions for financial system stability, but recognising the need for local interpretation of universally accepted principles.

Although the Big Issue Debate took on a suitably significant question, ‘Regulation – will global transaction banking survive?’, panellists roamed beyond their brief in mapping a path from today’s still-uncertain post-crisis environment to a future in which banks contribute fully to the economic growth of the countries in which they operate.

To regain trust, Francesco Vanni d’Archirafi, CEO, Transaction Services at Citi, suggested that banks had to, if not reinvent themselves, then at least re-orientate their priorities firmly in direction of their customers.

“Where the culture is strong, the bank will be sound,” he said. “Our focus should be on how we use the capital of the bank to serve the client every day. I want the communities in which we operate to be stronger because of our presence. After all, it is society that gives banks the licence to operate.”

Responding to moderator Barbara Ridpath, CEO, International Centre for Financial Regulation, Jaspal Singh Bindra, group executive director and chief executive officer, Asia for Standard Chartered, said that recent events had left the public with a perception of banks as irresponsible, incompetent and unethical. While governments, regulators, credit ratings agencies and others had also made mistakes, said Bindra, “It’s in everyone’s interest that confidence in banks is restored.”

“I would not absolve the regulatory community from responsibility,” said David Wright, secretary general of the International Organisation of Securities Commissions (IOSCO). “There is more than enough blame to go round.”

“Our focus should be on how we use the capital of the bank to serve the client.”

Francesco Vanni d’Archirafi, Citi

the banking industry would rob politicians of the justification for new, ever tougher and more complex laws as well as more invasive oversight by regulators.

While a more customer-centric approach might go a long way to avoiding the mistakes of the past, banks are having to handle a regulatory regime that, in many ways, would appear to be making it harder for banks to add value to clients.

Standard Chartered’s Bindra noted the challenges of operating across a fragmented regulatory environment complicated further by the extra-territorial effects of national rules, but his greatest concern was the impact of Basel III capital adequacy requirements on the supply of trade and long-term finance solutions. These are precisely the types of transaction banking services most needed by emerging markets in the Asian region and beyond, he said. Moreover, the failure of regulators to recognise the unintended consequences of stricter capital adequacy regulation was evidence to Bindra that the emerging markets were not being granted their proper place at the global regulatory table.

“The developed world’s priorities have been the question of ‘too big to fail’ and managing an orderly deleveraging of balance sheets; Asian priorities are about supporting growth in the real economy and financial inclusion. Any regulatory regime built around western priorities cannot be expected to have uniform implementation globally,” he said.

evitably leak to an under-regulated sector. “Migration from a hub-and-spoke model to point-to-point connectivity can be more efficient for clients but it can allow risks to spread more easily,” said Vanni D’Archirafi.

Furthermore, he added, greater transparency, though laudable, does not come cheap. Increased visibility of intra-day liquidity – necessary for the working of the capital markets and the funding of banks – could reduce availability, forcing increased reliance on pre-funding and collateralisation.

“The role of banks is to enable countries to grow to their full potential,” he said. “If we take intraday liquidity out of the system and everything becomes collateralised, we create a business opportunity but also a risk. If there is not enough good quality collateral for all the financing needs around the world we may be in for another surprise.”

“Asian priorities are about supporting growth in the real economy and financial inclusion.”

Jaspal Singh Bindra, Standard Chartered

Quantum leap

IOSCO’s Wright acknowledged the limitations of the global regulatory toolbox in creating a framework that allowed banks to serve their customers while promoting greater transparency and stability; noting also the challenge of balancing global principles and local need.

Without globally enforceable sanctions and courts of arbitration, peer review transparency “and prayer” were among the forces that could be applied to ensure

work within which there has to be freedom to adjust,” he said. “Yes, there has to be flexibility, but if you want a free-for-all, I’m not in that camp.”

Wright also accepted that European and US-based regulators should look closely at the regimes that did not suffer major upheavals in 2008, not only in Asia and the other emerging markets in Latin America, but also Australia and Canada. “Why were

“There has to be a quantum leap in trust and cooperation between regulators.”

David Wright, IOSCO

there fewer problems in those markets? Were their rules simpler? I don’t want to go back to the dark ages, but these are important questions,” he said.

The regulatory burden on banks might be heavy but the watchdogs’ in-tray is far from empty, suggested Wright, who signalled that much still needed to be done to realign incentives within banks, as well as to reinforce board-level oversight. Faced with a choice between 500 years of experience from at 10-strong board or 10 poodles, said Wright, too many banks choose Fifi.

A higher quality of dialogue between regulators, Wright suggested, would ultimately be just as important to the industry moving beyond the crisis as improved communication between rule-makers and banks. Noting the potential for tensions between worldwide resolution rules and laws imposed to shore up national banking systems, he said, “There has to be a quantum leap in trust and cooperation between regulators.”

Danger FISCAL CLIFF AHEAD

UBS global chief economist Larry Hatheway warns that US GDP could drop over 3% if the budget crisis remains unresolved, driving the US economy back into recession



Left to right: Emmanuel Daniel, The Asian Banker and Larry Hatheway, UBS

Delegates who chose to attend the two-hander between Emmanuel Daniel, the founder of The Asian Banker, and Larry Hatheway, global chief economist of UBS, were treated to an absorbing macroeconomic tour of present global concerns.

The first stop was the US election and its implications, now barely a week away. The key question for economists is whether it will lead to an end to the long-running budget gridlock, said Hatheway. "At the

moment we are heading for a fiscal cliff," he said, referring to the end of 2012, when the terms of the Budget Control Act of 2011 are scheduled to go into effect, ending a range of temporary tax cuts and triggering spending cuts agreed as part of the debt ceiling deal of 2011.

"I agree with Chairman Bernanke that if we go over the fiscal cliff, we risk a drop in GDP of maybe 3.5% that will kick the economy back into recession," he said.

"The IMF is able to walk away from an intervention in a crisis and still retain credibility to intervene in the future, something a central bank cannot do."

Larry Hatheway, UBS

There are nevertheless grounds for hoping that the worst will not materialise. Asked about the fiscal difference between the two presidential candidates, Hatheway focused on the likely impact of the deadlock in the event of a victory of either. Should Obama win, said Hatheway, he would most likely try to arrange a temporary delay of a few months in the application of the law to enable negotiations to continue in Congress on a viable solution. Should Romney win, he noted, the situation would be slightly complicated by the fact that he would not take office until the New Year, but would then be able to implement retroactive action. Should the terms of the act be triggered, they may therefore be of limited effect.

Through much of the ensuing conversation, Hatheway responded to Daniel's questions on a panorama of economic concerns, giving limited grounds for optimism about global prospects.

On quantitative easing in the US, Hatheway observed that implementation of the current programme focuses mostly on mortgage-backed securities, where it appears to have had a measurable impact. "The debt service ratio of US households

is at a 20-year low," he noted, "partly as a result of low long-term interest rates and reinforced by the number of foreclosures."

Euro troubles

Crossing the pond, Daniel asked for Hatheway's views on the future of the euro. Here, he argued strongly that the costs of a break up would be significantly greater than helping Greece out. He expressed some reservations, however, about the role the ECB was currently playing in the recovery process, which he described as acting as a quasi-IMF. "The IMF is able to walk away from an intervention in a crisis and still retain credibility to intervene in the future, something a central bank cannot do," he said. "In the EU the consequence of such action could threaten the existence of the ECB itself," he said.

Was there any good news? Yes, said Hatheway. Growing integration of the ASEAN region had exciting possibilities as did the return of Mexico as a competitive economy, but he seemed to imply, there remained enough for those determined to fret about the global economy to worry with reason.

ECB charts steady course in the face of headwinds

The European economy will recover gradually, but further de-leveraging and a need for reductions in debt and deficits mean that growth will be subdued

During an 'In Conversation' session on the Wednesday of Sibos, Silvia Wadhwa, correspondent, CNBC Europe, tried hard to get Benoît Cœuré, member of the Executive Board, European Central Bank, to acknowledge that the European political class had been found wanting and that the ECB had been left to pick up the pieces, but he refused to take the bait.

Cœuré reinforced his caution by suggesting that the external environment was not supporting the European recovery, given slower growth among important trading partners. "The Eurozone can only count on its own forces," he said.

"Where do you see the worst fires?" asked Wadhwa. Cœuré again refused to point fingers. "All developed economies have concerns over long-term rates of growth coupled with fiscal challenges," he suggested. "Nevertheless, he said, looking at the fundamentals, the Eurozone is in many respects in better shape than the US and Japan.

Cœuré insisted that all the ECB's actions in defence of the euro have so far been in line with its primary focus. "Our mandate has not changed," he said, "it is still to maintain medium-term price stability." In the event of evidence of inflationary pressures, he said, "we have all the instruments needed to withdraw liquidity from the economy if necessary."

He agreed with Wadhwa that the announcement of Outright Monetary Transactions (OMT), the ECB's latest sovereign bond buying programme, as a tool had removed much of the break up risk from the market. He stressed that the new programme would focus on the short end of the yield curve. The absence of such action could itself have threatened price stability, said Cœuré, insisting, however, that, "Countries must still adjust."

Asked by one Japanese delegate whether Europe faced a lost decade similar to the one Japan had suffered, his reply was firm. "We are working to avoid that, he said, "because a lost decade means a lost generation." Nevertheless,



he added, the ECB could only go so far. "We are providing management of the currency, but the

underpinnings of the project are political," he said. In conclusion, Cœuré pointed to the saying of

a former French finance minister: "Give me good politics and I will give you good finance."

Danger of OTC clearing risk being moved downstream?

Are CCPs really the answer to reducing risk in the OTC derivatives market?

As global markets edge closer to a new regulatory landscape for OTC derivatives, questions remain as to whether the new world will result in a safer environment or simply shift risk from banks to clearing houses.

This year's Osaka conference explored this issue with a new debate format known as the Sibos Colloquium, sponsored by the SWIFT Institute, which pitted the views of Manmohan Singh, senior economist at the International Monetary Fund, against Godfried De Vidts, director of European affairs at ICAP.

Emanating from the Group of 20's 2009 Pittsburgh summit, the new swaps rules will push a portion of the OTC derivatives market through central counterparties (CCPs) with the aim of reducing systemic risk.

Singh estimated the cost of this risk to be USD 2 trillion, which comprises the under-collateralised portion of swaps held by banks.

But he warned that the new rules would only transfer the risk to a new type of entity, rather than reducing it, and could eventually lead to another situation

that requires a taxpayer bailout. "Instead of 10-15 pockets of risk held at banks, we are moving to 20-40 pockets of risk at banks and CCPs combined," he said. "If the plan is to give CCPs the same job as banks, in terms of risk mitigation, there better be good economics behind it."

Possible ways to increase the effectiveness of central clearing, said Singh, would be to funnel cleared swaps through a single CCP that would be backed by a host of central banks. The primary benefit of this structure would be the greater possibility for netting, i.e. the ability to reduce the collateral needed against contracts by setting them off against related products. However, the complexities associated with this model mean it has not been considered by regulators.

"Another alternative would be for CCPs to interoperate, but this is unlikely because clearing houses have targeted niche markets and the differences between national bankruptcy laws pose challenges," said Singh.

Complicating the situation further, are the firms that will be ex-

empt from the new swaps rules, such as sovereign entities, insurers and corporate firms, in addition to the exotic products that CCPs will have difficulty in valuing and therefore can't be cleared – referred to by Singh as a "time bomb".

Exemptions and exotic products combined could represent a large part of the market and means banks will still hold significant risks on their books.

"If everyone posted collateral there would not be a need for CCPs," said Singh. "Those firms that have exemptions to the rules creates an asymmetry, which means the risk remains in the system."

Proactive on risk

Taking the stand after Singh, ICAP's De Vidts agreed that moving OTC derivatives from a bilateral world to a cleared one would not eliminate the associated risks, but noted that a number of solutions are emerging that would help to limit the dangers.

One of these cited by De Vidts is TriOptima's triBalance tool, which attempts to reduce portfolio risk exposures across bilateral transactions and cleared swaps.

"Instead of 10-15 pockets of risk held at banks, we are moving to 20-40 pockets of risk at banks and CCPs combined."

Manmohan Singh, International Monetary Fund



By taking steps to reduce the risk exposure associated with bilateral counterparties and CCPs, banks can decrease margin requirements and the regulatory capital required for new rules like Basel III, contributing to the decrease in systemic risk that regulators crave.

"Margin and capital for OTC derivatives do address the risk in the system but don't address the underlying cause," said De Vidts. "Banks should be proactively looking at what's happening in this market and looking for ways to reduce risks."

The Colloquium session was designed to promote the work be-

ing carried out by the SWIFT Institute, a new initiative created to better link academic research with financial market realities. The session was introduced by SWIFT CEO Gottfried Leibbrandt, who said the aim of the scheme is to "answer those deeper questions that are not easily solved."

From 2013, the Institute will offer 12 grants per year for research projects targeting issues related to transaction banking. This follows on from the grants already issued in 2012, which include research on the challenges associated with internationalisation of the RMB and how to reach the 'unbanked'.

No resolution yet on risk transfer

Market structures under no illusions on elimination of risk, call for balancing act by regulators

The securities market infrastructures fora at this year's Sibos started on a sobering note with Global Custodian editor-in-chief Dominic Hobson noting that central counterparties (CCPs) by their nature concentrate and redistribute risk in the financial system rather than reduce it. These "fragile" entities are tasked with finding additional capital as regulators want them to have "skin in the game". While CCPs net transactions against each other, trading large numbers means greater demands for liquidity, Hobson said.

Hobson said clearing brokers would struggle to make their margins completely while CCPs would suck the margin of collateral dry. We're putting cash and collateral in the hands of the thinly capitalised institutions, he added.

No action plan

"CCPs inject liquidity into the system on the way up and withdraw it precipitately on the way down," Hobson said, adding that CCPs are a worrying panic transmission mechanism in the financial system. Rather than eliminate risk, CCPs concentrate risk and redistribute that risk to their clearing members, creating a risk hurricane. Broker-dealers have to find variation margin, but we are not eliminating the risk of default – we are repackaging default as liquidity risk, Hobson insisted. CCPs are going to eat a lot of collateral, adding to trading costs, he warned, observing that in theory brokers are free to pile on as much leverage as they can because they know who will ultimately pay. Multilateral netting at CCPs even helps them to cut the capital cost of over trading as does any-



"The notion that there is not enough collateral is not justified."

Diana Chan, EuroCCP

mous trading – ultimately speculative traders are going to be drawn to the market.

"We've yet to put together an action plan in the case of a failure of a CCP and a central securities depository (CSD)," said Hobson.

Opening up the discussion, John Gubert, chairman of UniCredit's global securities services executive committee, asked panelists from the CSD and CCP world to comment on the sustainability of these market infrastructures and whether they felt the situation was catastrophic, given Hobson's comments about risk.

Euroclear CEO Tim Howell said certain aspects of risk can be eliminated. "The more CCP netting, the more efficient things will be," he said. "The infrastructures allow you to mitigate risk to some degree, but saying CCPs are the answer is simplistic. It's a balancing act for regulators. It's a case of helpful competition and risk mitigation."

Diana Chan, CEO of EuroCCP, agreed that there is a means to reduce risk through netting. "Bilateral is a riskier transaction," said Chan. "CCPs always work through their collateral and they won't risk their own capital to take risks. If there is a problem then they take action to manage a default situation. There needs to be a resolution regime for CCPs to protect against financial institution failure."

Sergei Sinkevich, managing director, primary market and globalisation, Moscow Exchange, said: "The risk-reward ratio is an issue. How much risk appetite these CCPs have is also important. We need to look at risk policies for CCPs. Interoperability among these CCPs could help in mitigating risks."

Gubert then asked whether the current market infrastructures are safe or whether defaults were inevitable. Howell replied that while defaults are inevitable, they do not derail the system. "There will be a shortage of collateral but regulation would be a good outcome," he said.

Chan said: "The notion that there is not enough collateral is not justified. Collateral transformation and more dispersing of risk not through one provider but maybe several could be a good solution."

Collateral arbitrage

Given the concentration of risk through CCPs, the question of default was explored further. Howell said some infrastructures could be amalgamators of risk.

The panelists then tackled the matter of collateral arbitrage, which could have a significant impact on leverage. Hobson noted that if a party fails to deliver collateral the event becomes systemic.

Howell replied: "There, you would look to the infrastructure as liquidity sources. But if you've got the assets, it's second order."

Howell added: "It's difficult to have rules for collateral arbitrage. There is a cost for mitigating risk, high capital and the people."

Broaching the subject of client failure, Chan argued that more needs to be done to prepare for that risk in terms of liquidity. "Trust in the system, intervention from central bank, CSD and centralisation – it is not all bad and we do have a place where infrastructure comes together," she said.

Hobson pointed to the risk of concentration saying that netting allows brokers to do more trades knowing they do not have to take responsibility. "I'd like to see more firewalls to make things more containable."

Chan commented that CCPs should have special status as they are closing out positions. "There could be a virtual position ahead of other creditors and there is interest not just in the US," she said.

Chan concluded that the situation is tending towards interoperability. "We are too blasé about risk. We need transparency and resolution for CCPs."

Market prepares for new era of trade reporting

Reporting of OTC derivatives trades has begun in earnest in the US, but complexities in other regions are yet to be solved.

“Reporting will affect all types of market participants and the differences between the rules across jurisdictions needs to be looked at.”

Karel Engelen, International Swaps and Derivatives Association

A myriad of trade reporting requirements stemming from impending OTC derivatives regulation will pose challenges for all market participants and span all asset classes.

A panel of experts closely involved in developing and operating trade repositories for derivatives offered Sibos delegates an insight into what to expect across the various regions in a Monday afternoon session entitled, ‘Trade repositories – Tackling new regulatory requirements for OTC derivatives’.

The goal of regulators is to use trade repositories to increase transparency in the derivatives market and mitigate systemic risk.

“The main work on trade repositories will need to be done by the largest 20-30 derivatives dealers, but reporting will affect all types of market participants and the differences between the rules across jurisdictions needs to be looked at,” said Karel Engelen, director and head of technology solutions at the International Swaps and Derivatives Association.

One major concern, noted Engelen, will be dealing with cross-border trades. For

example, market participants are still unsure how to report a trade in a German interest rate swap, conducted between a Singaporean and US institution.

Moving forward

Leading the way is the Commodity Futures and Trading Commission, the US regulator that has oversight for indexed swaps, with reporting for credit derivatives and interest rate swaps launched on 12 October, with other asset classes set to follow in January. Japan, Singapore, Hong Kong and Australia are preparing their respective trade reporting rules for introduction in 2013.

A key difference between US and Europe, which is reforming swaps trading via the European market infrastructure regulation, is a requirement by the latter to report listed, as well as over-the-counter, trades.

Europe is expected to start reporting derivatives trades by 1 July 2013, and Jesús Benito, managing director of REGIS-TR, a European trade repository formed through a joint venture of central securities depositories Iberclear and Clearstream,



said testing of his facility would begin within two weeks.

He added REGIS-TR was looking for value-added services to further help the market prepare for the new rules.

SWIFT and ISDA are currently collaborating on a white paper to help establish

best practice for derivatives trade reporting.

“Swaps traders, clearing houses, trade repositories and trading venues will all require a complex network of connections to each other,” Benito said. “There is room to innovate and offer new solutions that will help to ease this burden.”

25 Years Global Top 50

Over the past 25 years, China CITIC Bank, on the basis of faith, confidence and trust, innovated constantly and served customers wholeheartedly to create superior value. Looking ahead, China CITIC Bank will make effort to rise as a leading commercial bank that champions the competition of domestic and international banks with leading innovation and advanced management and take the path of professional, comprehensive, internationalized and distinctive development.

Among “Top 1000 World Banks 2012” released by The Banker magazine of the United Kingdom, China CITIC Bank ranked the 48th in terms of tier-one capital and 6th among all Chinese banks.

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Collateral management and T2S top priorities

Looking ahead to European market infrastructure in 2020

Greater cooperation between jurisdictions, clearer standards and more efficient ways to manage collateral are the keys to improving Europe's market infrastructure, according to a panel of central bank and securities services providers.

Introducing the Wednesday morning discussion on what European infrastructure might look like by 2020, Benoît Cœuré, member of the executive board of the European Central Bank (ECB), said the union was committed to being a single market and it was impor-

“Investment managers will have to better manage their exposure and reduce the need for collateral.”

Florence Fontan, BNP Paribas Securities Services

tant to look forward, beyond the financial crisis in which Europe presently finds itself.

Coen Voormeulen, division director, De Nederlandsche Bank, said Europe presently had a heavily tiered system between direct and indirect participants when it came to collateral management.

“When institutions are not able to be direct participants, then issues arise,” said Voormeulen, explaining that for payment systems to operate in a safe environment, participants need to be able to access real time gross settlement (RTGS) systems as direct participants with proper oversight and protection.

By 2020, European market infrastructure would have more ancillary systems to settle RTGS based on central bank money, predicted Jochen Metzger, head of the payments and settlement department at Deutsche Bundesbank.

Regulatory and market changes could result in a shortage of quality collateral, warned Florence Fontan, head of public affairs, BNP Paribas Securities Services. In this scenario, collateral management would be a key requirement by 2020.

“Investment managers will have to better manage their exposure and reduce the need for collateral as well as allocate the right collateral to the right requirements,” said Fontan.

Offering a viewpoint from the ICSDs, Joël Mérére, executive director of Euroclear France said it was certain that by 2020, there would still be competition between central and commercial banks and Mark Gem, member of the executive board at Clearstream Banking, said it was important that the “hard links” between the triparty agent and the assets were broken.

“Money should be able to be held using one account globally,” said Gem.

T2S on track

Central to the future of market infrastructure in the single market is TARGET2-Securities (T2S).

According to Marc Bayle, T2S programme manager at the ECB, the central bank is making great strides in delivering T2S.

“The project is going well. We are nearing completion of the development stage. At the end of September we were 87% complete and by the end of the year we are on track to realise 100% completion,” said Bayle. “We are now focussed on testing the software and hardware, with a view to going live in 2015 in euro. T2S is a multicurrency system and kroner will be added by 2018.”

Launched by the Eurosystem, T2S will provide a single harmonised venue where almost all traded securities circulating in Europe can be settled against euro – and potentially other European currencies – with standardised communication protocols and harmonised market practices.

“Today, settling securities transactions in Europe is fragmented along national borders and costly in cross-border situations,” observed Bayle. “Under T2S, it will make no difference – in technical, risk and cost terms – if end-investors and the securities traded are



“We are migrating full communities, not just technical systems.”

Marc Bayle, European Central Bank

in the same country or not. A single set of rules, standards and tariffs will be applied to all transactions, reducing the complexity of today's market infrastructure.”

Recent advances include the signing of the T2S framework agreement – endorsed by the ECB's governing council in November last year – which set up a new governance structure that embraced 23 European central securities depositories (CSDs).

“The framework agreement sets out the contractual rights and obligations of the Eurosystem and each contracting CSD, and covers the development and operation of T2S,” said Bayle. “It regulates the scope of the controlling powers of the CSDs relating to the outsourcing of their settlement function to the Eurosystem, as well as issues like liability, protection of intellectual property rights and confidentiality.”

The ECB team is now also finalising the detailed migration strategy and within a few weeks

parties will know who will migrate when.

Irene Mermigdis, managing director of Link Up Markets, the consortium of inter-connected European CSDs that recently signed up to use SWIFT to connect to T2S, believes that more streamlined communication between post-trade market infrastructures will bring service level benefits to clients.

“We provide a single gateway in terms of connectivity into securities market infrastructures. By having CSDs connecting to the hub, they no longer need a spaghetti model of dedicated connectivity links with all that implies. It also allows CSDs to offer consistent service levels amongst our members,” Mermigdis said.

Further process efficiency and communication gains are expected to result from the fact that T2S will adopt ISO 20022 – a standard that spans financial services to provide greater information reciprocity between all sectors of the industry.

Market infrastructures juggle costs and volumes

How far can securities market infrastructures lower costs in the face of lower volumes and greater fragmentation?

The second session on securities market infrastructure at Sibos addressed the cost of securities settlement amidst an ever-changing regulatory landscape, characterised by low transaction volumes and CCP netting.

Against this backdrop, Global Custodian editor-in-chief and panel moderator Dominic Hobson asked panellists from the custodian, broker-dealer and infrastructure community for their thoughts on whether transaction volumes would rise. Robert Scharfe, CEO, Luxembourg Stock Exchange, gave an upbeat view of the landscape from the Grand Duchy. “We have 45,000 stocks listed for trading,” he said. Trading volumes may not come back any time soon, but OTC derivatives on exchange can create more volumes,” he said. In contrast, Goran Förs, head of global transaction services at SEB, described the reduction in volumes as damaging. “They won't come back in the future,” he commented.

Christopher Flanagan, co-chief administrative officer for Asia ex-Ja-

“[Equity] trading volumes may not come back any time soon, but OTC derivatives on exchange can create more volumes.”

Robert Scharfe, Luxembourg Stock Exchange

pan, Nomura, commented on the region's role in sustaining securities business. “For broker-dealers, investment bank margins are going down,” he said. “Our exchange and custodian customers want lower commissions. Asia is the bright spot. It will provide customers for us all.”

Costs of fragmentation

Panellists addressed the cost implications of a lack of harmonisation among market infrastructures. Providing the Asian perspective, Flanagan remarked that, “Asia has different capital markets in each location. I'm hopeful that stage-by-stage things will improve and liquidity will grow with an opportunity for new exchanges.”

In Europe meanwhile, Scharfe saw the role of exchanges as having

changed under MiFID with more competition in terms of organised trading facilities (OTFs) and multilateral trading facilities (MTFs). Exchanges, however, have a public institutional role. Instead of cherry-picking they need to cover the full range of securities. “Luxembourg is flexible here,” he commented.

In the European post-trade arena, Förs noted that while he does not yet see competition, the environment in Europe is changing in terms of how CSDs will operate in a post-T2S world. “In 10 years, the custody part of the business will be much closer to what CSDs do,” he predicted.

Förs queried the need for four separate CSDs in the Scandinavian region alongside greater fragmentation in trading venues.



Ownership implications

Panellists addressed the question of whether market infrastructures should be user-owned or user-governed and which option would result in cheaper transactions. “A utility that is not market-owned is like a plane without a pilot,” said Scharfe. “We need to justify our investment by getting the benefits of competition and a utility.”

“There is a preference for a competitive environment, which drives price,” said Flanagan. While vertical and horizontal models for infrastructure integration exist in Asia, he noted, “Preference differs from country to country as each is at a different stage of development.”

However the challenges of the present environment are prioritised, panellists acknowledged that maintaining the status quo for securities infrastructures is not an option. “Exchanges need to reinvent themselves as broker-dealers adapt to funds and OTFs,” Flanagan commented.

“Consolidation will happen,” he predicted, “and consolidation will link up markets.”

Where does the custody business go in an environment of T2S and increased regulatory change? “Global custody demands will increase as they take on more risk for beneficial owners,” said Fors. “We need to see change on how we price things as a result. Sub-custody will also change in the next 10 years. We'll handle more of the complicated asset servicing, particularly with FATCA coming on-stream.”

Dark clouds loom for CSDs

Will regulation make European market infrastructures efficient?

“There are dark clouds for CSDs, because while the infrastructure has been resilient, the tendency has been to regulate everything.”

Phillip Brown, Clearstream



CSD Regulation [CSDR] and TARGET2-Securities [T2S] can meet many of the requirements of the securities industry, but it needs to be delivered with a commercial influence, said Phillip Brown, member of the executive board of Clearstream.

Brown and representatives from the sell-side and buy-side assembled on a panel to debate the changes facing their businesses under CSDR and T2S, including whether regulation would lead to more efficiency in the post-trade space and whether T2S is the panacea for Europe's fragmented settlement landscape.

CSDR will separate the banking functions of a CSD from the core settlement function. Like T2S, it will make life difficult for some CSDs, which will have to ascend the value chain through asset servicing as the regulation drives further competition and heaps pressure on these infrastructures to reduce their settlement costs as they move toward T+2.

Under T2S and CSDR, consolidation among Europe's 26 CSDs is inevitable as only those CSDs with the strongest value proposition will survive. Furthermore, T2S has attracted criticism through several delays and the likelihood that it will take away CSDs' settlement revenue by allowing financial institutions to connect directly to the new infrastructure, and increase costs

for CSDs and custodians that need to adapt.

The panel on the changing securities landscape debated whether Europe's post-trade infrastructure could be more efficient without these regulations. Graeme McEvoy, global head of shared services and banking operations at Morgan Stanley, predicted there will be an opportunity for CSDs too, notwithstanding the provision of cross-border settlement coming, to broaden their offering in much the same way that Clearstream and Euroclear have. “In the absence of regulation, private enterprise could also create that connectivity among nations,” McEvoy said. “But you've already seen what could happen without T2S – it allows Europe to demonstrate there is an opportunity to add more to the single market by the provision of connectivity. We would like to think the market could get there by itself without the regulator, but sometimes it needs a push.”

Impetus for change

Brown added: “It's too easy to beat up on T2S, and if you look at where we are relative to where I think we would be, we're way further down the line, because what it's done is force some recalcitrant CSDs to collectively address a commercial challenge they face as a result of their settlement revenues evaporating under T2S. It's

forced dialogue, and more interoperability between CSDs and those kinds of topics, but there was no commercial need or political will to make the change. So for all the criticism of T2S, if you look at the cultural change, the philosophical change, in the way that they view their role and the way that they view their role collectively, it's a big change since 2006.”

Andrew Rand, head of direct securities services EMEA, Global Transaction Banking, Deutsche Bank, agreed with Brown's comments on the importance of private industry involvement in the regulation of the post-trade space, but noted that the role of the CSD – whether it will be an infrastructure or a competitor – is unclear. “What we would like to see is a forced rationalising of CSDs in Europe. MiFID managed to break down the monopolies on trading, but CSDs are fragmented. They have not communicated their plans on how they will service the industry under the new regulations.”

To this, Brown said: “We have changed from being a safe-keeper in 2005 to a service provider. CSDs have reduced settlement fees by 30%, they created the tri-party repo market and they have a central role in trade registration and collateral under EMIR. But there are dark clouds for CSDs, because while the infrastructure has been resilient, the tendency has been to regulate everything. A separation of the banking from the settlement functions could impact our costs.”

Commenting further on whether T2S and CSDR would help the buy-side, McEvoy replied: “T2S is not the solution, but a framework. It is a start. It enables connectivity for a single market infrastructure, but I have several choices to connect. The question is, do I decide today or do I let the infrastructure evolve until go live?”

The prize

Under post-trade infrastructure regulation, the prize will lie in asset servicing as the markets consolidate into one settlement infrastructure landscape. Tax differences within Europe mean that CSDs have to provide post-trade services such as tax and reporting once trades have settled. This could benefit an ICSD or in-

frastructures that provide those services. “Settlement was not the problem, but asset servicing is where most of the costs and risks lay,” said Brown. “T2S will introduce costs, but asset servicing is where the gem will be. CSD providers, like ourselves, have the ability to serve those assets like a custodian. T2S will provide an opportunity to lower costs. We'll have the financing and custody, and we can facilitate costs on the funding side.

“There is a concern about the separation of banking and settlement under T2S. But we provide USD 75 billion of secured credit on an average day and USD 100 billion on an above-average day. If that is removed, the market has to fund itself. If you try to fix that, you create a bigger problem than the one you are trying to solve.”

Rand argued that CSDR gives CSDs license to become moneymakers. “They don't have the expertise, and they could go head to head with custodians,” he said. “This could be risky.”

McEvoy however, was not concerned by Rand's cautionary note. “If there is a simplistic post-trade solution where CSDs could provide front-to-back solutions, we should look at it,” he said. “Market participants should have an option of how to connect to T2S. If our collateral could be priced through a single vehicle would be good.”

Consolidation and further mutualisation among CSDs was inevitable under the new settlement paradigm, panelists agreed. “With 26 CSDs in Europe, they don't have the scale to go it alone on T2S and survive,” said Brown.

Commenting on competition driven by CSDR, Rand said: “Competition is a good thing. We will have some CSDs enter, and some will exit. The development pipeline comes at a cost.”

“We would like to see new entrants,” commented McEvoy. “The CSDs have not broadened their offering. ... We wouldn't want the competitive model to be changed if we didn't think CSDs could ascend the chain. CSDs have not been forthcoming with their development in this regard and what their services will comprise. The regulatory business case will present itself when CSDs say what their plans are.”

Light at the end of the corporate actions tunnel

Japan, Australia and Italy are leading the way in solving inefficiencies associated with corporate actions

Weak links in the corporate actions process chain have long prevented the efficient transmission of time-critical information between issuers and investors.

Speakers at a session on the Wednesday of Sibos looked at how the industry could move forward, noting recent advances in a diverse range of countries.

Until now, a raft of standards initiatives to streamline corporate actions have not always been linked together, while a culture of blame among those involved has also hampered progress, said session moderator Virginie O'Shea, analyst at Aite Group.

The main challenge, according to Paolo Cittadini, chief executive officer of Monte Titoli, Italy's domestic post-trade services provider, is establishing effective lines of communication between the different entities involved.

“Some issuers do want to form links with their relevant central securities depositories and data providers, but others don't understand why this is necessary or beneficial for them,” he said.

Cittadini added that while there is a need for homogeneity throughout the corporate actions process, competing interests have restricted progress.

Another substantial barrier is the heavy technology investment needed by issuers to automate complex legal documents that underpin many corporate actions, with Justin Chapman, global head of industry management, operations and technology, Northern Trust, pointing out that such high outlay presents new risks for those involved.

Business case

But despite these obstacles, panelists believed the current corpo-

rate actions system was not beyond repair.

“The various standards groups have done well to bring automation to corporate actions, such as encouraging the adoption of standards like ISO 20022, but progress has been slow,” said Chapman. “Technology solutions are emerging, but progress would be accelerated by a clearer business case and regulatory involvement.”

But the sheer volume of national and global regulatory initiatives already in train mean that corporate actions is highly unlikely corporate actions to make its way up the reform agenda anytime soon.

Moreover, new laws and infrastructure projects may have unintended consequences. For example, TARGET2-Securities, an effort to harmonise the European settlement environment, could introduce yet more players in the corporate actions chain over the coming years.

But this is not to say that regulators cannot be engaged once the post-crisis push for more stable financial markets has settled.

“Regulators are always keen for their market to be efficient, to attract and facilitate investment,” said Colin Brooks, global head of sub-custody and clearing at HSBC. “A good corporate actions system is an important part of reaching this goal.”

Sources of optimism

Some nations have taken matters into their own hands, with Cittadini giving an overview of Monte Titoli's new MT-X system, which offers a single communication channel that simplifies the delivery of information between issuers and intermediaries.

In Sibos 2012's host nation, the Japan Securities Depository Center (JASDEC) and Tokyo Stock Exchange (TSE) have

joined forces to enhance corporate actions information via the bourse's Tokyo Market Information system.

Hiroshi Nakamura, director of JASDEC's corporate planning department, said that by June 2014, JASDEC would begin sharing information flows with the TSE operating an improved service, having adopted straight-through processing and introduced ISO 20022 standards.

Brooks added that at least 11 other nations around the Asia-Pacific region were making improvements to corporate actions, with Australia making significant progress.

“The Australian Securities Exchange has mandated the use of ISO 20022 standards for issuers seeking a listing and has also managed to get the backing of its regulator, offering an ideal model for others to follow,” he said.

Pressure mounts on banks and payment systems to reduce risk

A push by regulators to improve the way risks are managed calls for a rethink in the way core payments infrastructures are managed

Greater pressure from regulators for firms to raise capital buffers and increase collateral has put payments infrastructures under the spotlight, calling for more efficient payment systems mechanisms.

A session comprising speakers from the bank and payments and settlement space on Wednesday morning detailed how changes could impact well-established practices and improve liquidity management.

“The debate on payment systems has arisen because of a shift from the liberal liquidity regime imposed by regulators to a more intolerant one,” noted Chris Salmon, executive director and chief cashier at the Bank of England. “This has raised the bar, piling pressure on banks and payment systems to reduce risk.”

A key issue Salmon identified was the lack of post-merger investment by banks, with a reliance on CHAPS for processing payments between different entities rather than investing in an integrated system.

The Bank of England is using its expertise in running a high-value

payment system to help banks understand liquidity flows by giving them access to detailed data that offers a view on intraday liquidity.

Further work on helping banking supervisors to monitor banks’ intraday liquidity risk management is being carried out by the Bank for International Settlements. Session moderator Peter Lightfoot, managing director for intraday liquidity, markets, RBS, said the focus of the consultation would result in “a huge increase in data collec-

tion that would encourage banks to change their behaviour when it comes to payments”.

Legacy systems were also a problem in the retail space, a problem that New Zealand has tackled by replacing its 50-year old overnight system – which led to a build up of risk throughout each day – with a new in-day mechanism that settles a minimum of five times a day.

“The move to an in-day system has helped us to reduce the potential build up of systemic risk as well

as with our goal to open up our system to a wider range of banks,” said Steve Nichols, chief executive director of Payments New Zealand.

View from the east

The focus for Asian firms is led by the increase in both intra-regional flows and from payments emanating from the west destined for Asia, according to Bock Cheng Neo, head of group transaction banking at OCBC Bank. A particular trend among Asian banks, he believed, was a greater focus – and concern – over the health of western banks, which has led to a streamlining of cross-border partners.

He added that Asian institutions should not underestimate the impact of US regulatory initiatives. “Asia-based banks need to work with their compliance departments to tackle new sanc-

tions and know-your-customer requirements,” he said.

Stress testing

For CLS, the multicurrency cash settlement system that reconciles USD 4.7 trillion worth of transactions daily, stress-testing against multiple points of failure is high on the agenda, especially in the wake of Hurricane Sandy, which has devastated New York and resulted in the migration of its US operations to London.

“A key part of our risk management efforts have been to ensure we are able to withstand the default of a large settlement member,” said Naresh Nagia, chief risk officer, risk management at CLS. “This includes working individually with our members to find alternatives for NOSTRO bank failures and third-party risks.”



“The debate on payment systems has arisen because of a shift from the liberal liquidity regime imposed by regulators to a more intolerant one.”

Chris Salmon, Bank of England

If you can't beat them ...

The future of payments in emerging markets lies not with banks or telcos but (probably) both.

Everyone knows you can make money from offering payments services to the unbanked – but no-one seems quite sure how, it emerged from a panel convened Monday to discuss emerging payments opportunities in rapidly developing economies.

Neeraj Aggarwal, partner and managing director at Boston Consulting Group, in his introduction identified four payments models potentially involving banks: business correspondent relationships; pre-paid cards; M-wallets; and mobile branchless banking. But all of them would have to break through what he described as “the quality-cost paradigm”.

“The traditional trade-off between quality and cost – between the branch network and the call centre – no longer applies,” he said. “The economics need to be reviewed.”

Panelists agreed that any of the new models for growth markets would change the payments landscape – but market-by-market rather than in a regional sweep. “The best solution for each market will be unique to that market,” said Aggarwal, pointing to the influence of existing conditions such as mobile penetration in In-

“The best solution for each market will be unique to that market.”

Neeraj Aggarwal, Boston Consulting Group

dia and near-ubiquitous pre-paid cards in Brazil.

Jairam Sridharan, SVP of retail banking at Axis Bank, contrasted Brazil, where card usage has been growing at an annual rate of 28% for the past five years and all participants in the value chain made money, with India, where banks had insufficient incentive to invest in the cards market.

“In India, card usage has been ‘just going to explode’ for 10 years now. I hope it happens at some time – my career depends on it,” he said. “But banks in India tend to have an incumbent mentality. Until Indian banks think like nimble non-banks, non-banks will go and eat our lunch.”

Potential partnerships

In fact, some panelists – and much of the audience, judging by a straw poll – saw non-banks such as telcos, retailers and independent payments providers less as competitors than as potential joint-venture partners.

Eduardo Chedid Simões, executive vice-president of products



“In Brazil, everyone’s losing money on low-value tickets.”

Eduardo Chedid Simões, Cielo

“Until Indian banks think like nimble non-banks, non-banks will go and eat our lunch.”

Jairam Sridharan, Axis Bank



and business at payment provider Cielo, pointed to deals struck between banks and three out of four of Brazil’s largest telcos. Yet he insisted there had to be value for both parties beyond providing the plumbing.

“You don’t need a telco to reach customers on their cellphones – you need an app,” he said. “You have to ask who owns the app and how you manage it if the partnership splits up in five years’ time. Everyone’s facing the customer – but through what?”

In the Russian market, where 20% of the population is unbanked and telcos and other market participants face the same regulatory barriers to entry as banks, it’s a question of multiple players trying (and possibly failing) new models, according to Vladimir Tatarchuk, first deputy chairman of the board at Alfa-Bank. “Everyone is trying to understand what the market will look like,” he said.

Breaking even

In the meantime, even those who see unbanked payments services as potentially profitable in the long term are currently struggling to break even. If there is to be long-term value for banks in emerging markets payments, it will be in upselling to savings accounts and credit, or – as Sridharan suggested – selling both payments services and non-financial products and services such as lottery tickets.

Where none of the panel saw value was in the payments plumbing or – at least in the short term – in low-value payments.

“In Brazil, everyone’s losing money on low-value tickets,” said Chedid Simões. “Banks and telcos tried to do it alone and failed. The joint ventures have a big challenge ahead of them. We’re looking for different models all the time.”

Tatarchuk agreed. “In Russia it’s too early to decide on a model,” he said. “It’s too early to tell which of them might work.”

Banking on wholesale change

Success in transaction services depends on choosing right model



“Transaction banks should embrace technology and what it allows us to do.”

Bharat Sapreshkar,
Citi Transaction Services

market and the lower end of the MNC market's plain vanilla transaction banking needs, Storz suggested that business models should be based on a 'design to cost' or 'design to flexibility' approach, but not both, before leaving moderating duties to his colleague, Stefan Dab, senior partner and managing director of BCG.

Cost of change

Carlos Gutierrez-Salan, global head of cash management and financial institutions, Banco Santander, emphasised the fluidity of the MNC market when he reported the recent enthusiasm of large corporates for standards-based solutions. “Since the crisis, clients have wanted to minimise the cost of changing bank provider,” he observed.

If large corporates were protecting themselves in the after-

math of the global financial crisis so were many banks, according to Bharat Sapreshkar, global head of bank services at Citi Transaction Services. Banks that retrench will be replaced by those whose clients' international demands are growing. “A new breed of banks will fill the vacuum, big regional players expanding beyond their existing territories and also picking up ‘orphan’ clients,” he said.

Effective innovation

When market share is fluid, banks must innovate; but when resources are scarce, they must do so frugally. Susan Skerritt, executive vice president, BNY Mellon, said not every idea needed to be a game-changer. “Innovation can be incremental,” she added. “When it comes to making innovation effective, you have to be rigorous and disciplined.”

Noting the importance of partnerships that bring local and global expertise together, Tom McCabe, head of global transaction services at Singapore's DBS bank, pointed out that an iPad-based educational app on working capital management had proved particularly successful on sales calls. “It can be the small things that



The Boston Consulting Group offered its expertise on four key transaction banking sessions at Sibos on Tuesday. Find out more on the views they discussed via: http://www.swift.com/dsp/resources/documents/BCG_The_Transaction_Banking_Advantage_Oct_2012.pdf

make the difference, not just the big innovations,” he said.

Encouraged by Dab to consider the impact of regulation on wholesale transaction banking models, panellists worried about rising costs of providing consumer payment and trade finance services, and reduced use of correspondent relationships.

“Transaction banks should no longer think of their services as a product. They should embrace technology and what it allows us to do,” added Sarpeshkar.

Banks must get smart

Mobile payments are taking off, but it's not too late for banks to stake their claim

Have fast-moving telcos and e-commerce providers already sown up the burgeoning market for mobile payments, leaving slow-moving banks on the sidelines? Apparently not, yet.

The banks' biggest asset is their trusted role in the intimate relationship people have with their money. “We're there at the point of sale (POS),” said Kelly Bayer Rosmarin, executive general manager, business product and development for Commonwealth Bank of Australia (CBA), in Wednesday afternoon's panel session, ‘Place your bets on mobile payments’.

In a country with a very high smart phone penetration rate, half of CBA's internet banking clients access their accounts via mobile devices. The bank's Kaching iPhone app is a market leader down under, but CBA has not found the need to partner with a telco. “What wins in payments is efficiency, convenience and security,” she said.

Acquiring acquirers

Of the many elements in the mobile payments value chain, banks

sit alongside retailers, telcos, handset manufacturers, operating system providers and app developers. CBA has worked hard wooing merchant acquirers, asserted Rosmarin. When existing POS terminals presented a barrier to accepting mobile payments, CBA developed a seven-inch iPad-like POS device that acquirers could customise to create their preferred customer experience, by downloading one of many available apps. Rosmarin hoped to attract 20 developers, two months after the device was launched, 600 had registered.

To date, it is the smaller acquirer that has perhaps been the biggest supply-side beneficiary of e-commerce: firms that might once have had to wait months or even years to accept card payments suddenly found a shortcut to a global audience via internet-payment services such as PayPal. According to Laurent Desmangles, partner and managing director, The Boston Consulting Group, a new generation of payments providers is now enabling micro-acquirers to accept electronic payments within 10 minutes.



“What wins in payments is efficiency, convenience and security.”

Kelly Bayer Rosmarin, Commonwealth Bank of Australia

PIN and chips

Dan Schatt, general manager of financial innovation, PayPal, insists that the firm that many banks feared would take their lunch is now a partner in the e- and m-payments space, using the internet payment network's glob-

al connectivity to help banks win back remittance market share and find new ways to reduce cash and check transaction volumes. Having long moved into the mobile space; Schatt said 80% of PayPal customers that used the service at the physical

point of sale, simply type in their mobile and pin numbers to trigger a transaction. Convergence will mean that users will soon not know whether a payment was effected via the internet or via a telecom network, he said.

On the acquirer side, PayPal has sought to upgrade its services through the acquisition of a firm that uses GPS technology to enable shoppers to view a retailer's entire inventory, in an attempt to help more traditional firms compete with the likes of Amazon. Both Schatt and Rosmarin also noted the potential for mobile payments to supply the retailer with very detailed levels of information on consumer behaviour.

But how to lure the reluctant customer in the first place? NTT DOCOMO, the Japanese telecom firm, has been providing mobile payments since it launched an e-wallet in 2004. Roughly 15 million DOCOMO customers make mobile payments at least once a week, according to Dr Kiyoyuki Tsujimura, president and CEO, DOCOMO Engineering. Why? Convenience and discounts. One popular e-coupon carried by DOCOMO customers can be redeemed at McDonalds, with the fast-food firm benefitting from precious market research data.

The mobile payments market may be offering fries, but banks' have not yet had their chips.

Are regulators targeting the wrong risks?

Even supporters of the G-20 regulatory agenda agree implementation will create additional risks

Regulators' current narrow focus on systemic risk could provoke two unintended consequences. The first is that regulators act to mitigate some risk but ignore others just as pertinent. "Their focus since 2008 has



been on liquidity. There's a danger that they ignore other forms of risk. What about operational risks – and cyber-risks?" asked Johan Pissens, deputy director at the National Bank of Belgium, who warned yesterday of the potential for regulatory arbitrage and the emergence of shadow banking.

The second is to encourage a trend identified by a questioner towards 'de-globalisation' of previously global transaction banks, driven by regulators' fear that any bank failure will ultimately be a problem foisted on taxpayers.

"De-globalisation makes domestic systems more concentrated," said Patrick Parkinson, managing director at Promontory Financial Group and a former US regulator.

Local variations

However global the regulation, it depends on domestic regulators for implementation – which, of course, generates a risk of local variations. This wouldn't

necessarily be a bad thing, said Jun Mizuguchi, assistant commissioner at the Japanese Financial Services Authority, who pointed to concerns that western-style regulation in the Japanese market would dry up liquidity. "You need to have some sort of adaptation based on local needs," he said.

More broadly, Virginia Noronha, head of investment products at Hong Kong's Securities & Futures Commission (SFC), rejected the suggestion that markets such as Hong Kong looked to the West for guidance on robust regulation. The SFC is currently evaluating its response to a consultation on OTC derivatives and considering the introduction of specific licenses for clearing and other financial services functions.

"We have no option but to formulate our regulatory approach globally," she said, adding: "Regulation is not driven from west or east. We learn from each other."

The trouble with timing

A second concern pertains to a need for regulation that is detailed enough not to allow a margin on discretionary implementa-



tion. "The ambitious timeframes concern me," said Parkinson. "In the US, where they've slipped behind the Dodd-Frank timeframe, there's pressure from Congress and the public, which tends to see any delay negatively. The reality is that [a slower pace] will result in stronger – not watered-down – regulation."

Despite their caveats, past and present regulators defended the G20 agenda as a third way between disorderly bank failure and bail-out. Yet no session on regulation would be complete without mention of unintended consequences – and in this case it came from the former Federal Reserve banking regulator. Parkinson, joining the affray over the Volker Rule's extraterritorial dimension, warned of the risk that foreign banks would pull out of the market and increase the concentration risk regulators were seeking to avoid.

Similarly, Pissens warned that a successful CCP structure could itself pose risks by creating a single point of failure. "You need to be sure one structure will survive if the other fails," he said.

"If all your eggs are in one basket, you'd better be sure it's a strong basket," agreed Parkinson.

"There's a danger that they ignore other forms of risk. What about operational risks – and cyber risks?"

Johan Pissens, National Bank of Belgium

"If all your eggs are in one basket, you'd better be sure it's a strong basket."

Patrick Parkinson, Promontory Financial Group

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at the end of the day...

Fix of the year

A night to remember

There's no better way to get your final Sibos Fix than at the official wrap-up party and this year's was one of the best. At the foot of the majestic Osaka Castle, this year's venue was Osaka-jo Hall. The wine and beer didn't stop flowing as party-goers dined



on exquisite Japanese food, including a smorgasbord of delicious sushi. Wherever you looked was elaborate entertainment celebrating our fab-

ulous host nation, including geisha parades and an exciting taiko drum performance. It was the perfect end to a wonderful week in Osaka and we now look forward to some fabulous nights in Dubai next year.

Sibos past, Sibos future...

Reflections on Osaka 2012



The **session** I enjoyed the most was Monday's SWIFT Institute Colloquium: Making OTC derivatives safe. The **entertainment** I enjoyed the most was the Murex gathering at Osaka Castle Geihinkan, with a great contrast between a peaceful geisha show and the powerful taiko drum. **Next year** in Dubai I'm most looking forward to continuing the continuity of relationships with clients and prospects. *Frédéric Alcaras, Murex*



The **sessions** I most enjoyed was everything Innotribe! The **entertainment** I enjoyed the most was make your own sushi at the Standards Forum. **Next year** in Dubai I'm most looking forward to the heat! And a big turnout from people in the region. *Ioana Guiman, Allevio*



The **session** I enjoyed the most was the Compliance Forum opening address with Adam J. Szubin, director of the Office of Foreign Assets Control at the US Department of the Treasury. The **entertainment** I enjoyed the most was the Sumitomo Mitsui Banking Corporation reception at the Rihga Royal Hotel. **Next year** in Dubai I'm most looking forward to another great week of nearly 100 meetings with clients and prospects. *Claus Wagenblast-Franck, Danske Bank*



The **session** I enjoyed the most was the first part of the securities market infrastructure forum. The **entertainment** I enjoyed the most was the SunGard party. **Next year** in Dubai I am most looking forward to meeting more delegates. *Axel Pierron, Celent*



The **session** I enjoyed the most was 'In conversation with Benoît Cœuré'. The **entertainment** I enjoyed the most was the opportunity to network and catch up with colleagues and clients. **Next year** in Dubai I am most looking forward to furthering the debate on the implementation of T2S. *Siegfried Vonderau, Deutsche Bundesbank*

Takeaways

Snowflake rides again



Snowflake, the legendary Wells Fargo pony, was in town again this year. Every year Snowflake appears in a slightly different model, making her one of the most desirable collectibles in the Sibos exhibition. She was stabled on the Wells Fargo stand.

Sibos by numbers

1,700...

The number of Japanese delegates attending Japan Day on the last day of Sibos.

10...

Months until Dubai.

7,000

Lunches served in four days

6,200+...

Delegates makes Osaka 2012 officially the largest Sibos in Asia-Pacific to date.



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3m

Wanted: An Army of Compliance Officers http://www.enterpriseefficiency.com/author.asp?section_id=905&doc_id=253804 ... #sibos



SAP_SCN @SAP_SCNBrasil

12m

So true. RT @sgourley: Best quote so far - "the bank of the future will be a technology company with a banking license" #sibos #innotribe



Declan Barry @Declan_InvestNI

16m

At the airport on the way home, great response from #sibos and a lot of work done. I am now going to sleep for a month. #creamcracked



Marc Braet @marcbraet

37m

#sibos is over ! 32 meetings in 4 days. It was great 2013 will be very busy @IntixNv (@ RAMADA OSAKA | ラマダホテル大阪)



Standards Forum @standardsforum

57m

reusability at its best:most of our cardboard furniture is now a souvenir to take home for standards aficionados! #sfosaka #sibos



eunice @_eunicefoong_

1h

Things that I took back from #sibos 2012 - regulation, technology, mobile and moving from the west to the east!! Cya #sibos 2013 in Dubai.



Kirk Wylie @kirkwy

3h

On behalf of the whole @OpenGamma team, congratulations to Gust for winning the #sibos #innotribe startup challenge innovators category!



Phil Windley @windley

4h

I never did get the hang of using one of these with your pants on. #innotribe #sibos pic.twitter.com/9Z2K4bCu



Salil Ravindran @TimesRGud

6h

If #Sibos made the cake, the Japanese topped it up with their hospitality



Earthport @Earthport

7h

Enjoyed #Sibos #Osaka. Lots of lively debates and meetings on the future of #payments and the #banking industry

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