Your handy guide to 2019

Middle East to see biggest ever liquidity event through Saudi Arabia developments

Kapil Seth, head of HSBC Securities Services, Middle East and North Africa

The rapid development of the Middle East's capital markets is reflected through wider participation of global investors and accelerated by inclusion in key Emerging Market indices. In 2018, Kuwait joined the FTSE Russell Emerging Market index while 2019 will see Saudi Arabia, the region's largest and most liquid equity market, included in the Emerging Market indices of both MSCI and FTSE Russell. Our expectation is that this will trigger approximately $14 billion in passive inflows into the Saudi Stock Market. When you combine the passive flows with the broader capital market reforms, I expect we will see billions more of actively managed capital flow into Saudi Arabia, creating the region's biggest ever liquidity event. Greater international capital flows will lay the groundwork for Saudi Arabia to establish itself as a truly global capital market, capable of hosting the world's largest companies and accommodating the needs of the world's largest investors.

Expect a number of emerging markets to be put up for review in the second half of 2019.

Stewart Gladstone, director, sales and relationship management for emerging markets, Societe Generale

Emerging markets will be up for review in 2019

As we approach the end of 2018, engagement with partners and clients indicates that Brexit continues to draw attention away from strategic initiatives and anything other than mandatory changes within agent bank networks. Movement between providers in frontier markets and smaller emerging markets has been limited and this looks unlikely to change in the near term. This is largely due to the absence of a justifiable cost reduction versus the heightened cost to run an RFP and ultimately transition business. Exceptions have generally only been seen when a requirement to review an incumbent custodian is driven by risk, regulation or changes in ownership of providers, as has been seen recently in the Polish, Romanian and Russian markets. However, discussions in several meetings during SIBOS this year indicated that we should expect a number of emerging markets to be put up for review in the second half of 2019.

Stanislas Beneteau, UK head of financial intermediaries & corporates, BNP Paribas Securities Services

London can take the lead on tapping China's institutional investor base

We have high hopes for this scheme, which will open up China's locally listed companies, to a broader pool of international investors. We expect significant interest from mid-tier foreign investors in particular, who haven't had access to A shares before. The scheme could give London a head and shoulders lead in the competition to tap China's institutional investor base and vast equity market. And with Brexit around the corner, it could reinforce London's status as a global financial centre. The scheme could also have "collateral benefits" for the securities lending and borrowing activity. The mismatch in settlement cycles and different time zones between London and China for example could leave brokers with a funding gap, opening up opportunities for liquidity providers. We expect to see a number of well-known companies listing GDRs in 2019 to gain access to the Chinese investor base.

Walter Verbeke, global head of business model and innovation, Euroclear

Crypto: The dawn of a new asset class

Despite the initial hype and volatility around cryptocurrencies, we do see momentum within capital markets towards a new asset class. One example is the piloting of securities token offerings (STOs) as a possible small and medium size enterprise funding channel. We have also seen good progress in the DLT/blockchain space within the securities world. Some of the initiatives that are contributing to this momentum include LiquidShare in Paris, Australia Stock Exchange's work with Digital Asset Holdings and the World Bank's recent launch of the first blockchain based bond - BONDI.

Asset managers, custodians and market infrastructures are all moving into or closely following the crypto asset space. It will be interesting to see in 2019 how all these market players address the need for crypto and digital assets. The objective will be the same, whether it be in the traditional physical security or crypto world – a need for a safe and efficient environment that gives comfort, allows liquidity generation for investors and the facilitation of trading and servicing of those assets.

Chris Remondi, partner, Brown Brothers Harriman

Asset managers will embrace horizontal integration

The pressure on asset managers to deliver returns while improving their operating models to support growth, increase efficiency and improve risk oversight will not diminish in the year ahead. But 2019 will be the year in which asset managers begin to realise the opportunity of horizontal integration across their operating models, counterparties, and third-party providers. Emerging technologies, improved connectivity and an ability to create an enterprise view of data across mandates and end-to-end operating models will provide opportunities to improve overall performance. Increased competency in all of these areas will grow in importance as margin compression continues its downward trend.

Tony Freeman, executive director, government & industry relations, DTCC

Get ready for SDR, CSDR and SFTR

With most Brexit preparations out of the way, the market will focus on the Settlement Discipline Regime (SDR) component of the Central Securities Depositories Regulation (CSDR) due to enter into force in 2020. It will become increasingly clear how complex and expensive the new buy-in and failed trade penalties will be. As such, industry collaboration, across the buy-side and sell-side, will be essential for an orderly roll-out.

Other areas of regulatory focus during 2019 and into 2020 will be centred on the Securities Financing Transactions Regulation (SFTR) and phases four and five of the uncleared margin rules. Both are new regulations which will drive new technology and operational processes across the buy-side and sell-side and so preparations will need to begin in earnest early next year.

Lastly, I anticipate that mainstream institutional investors will continue to shun cryptocurrencies but projects such as the Swedish central bank's e-Krona initiative will spur custodian banks to launch crypto asset capabilities.

Teresa Parker, CEO & president of EMEA, Northern Trust

Technology to separate the best from the best

Emerging technologies are transforming custodians' and their clients' business models. We believe that the intelligent use of next generation technology, deployed alongside a firm's existing infrastructure, is what will set one custodian apart from another. Through 2019, we will continue to see an evolution of successful business models based on clients' and financial sustainability. In the digital age, strategically-focused firms will deploy best-of-breed data services to generate real efficiencies and improved decision making. Digital technologies will enable a greater richness, depth, and accessibility of data than has ever been possible before. For tomorrow's leading institutions, they will even underpin business model transformations that will take the industry to a new level.

Viraj Kulkarni, founder and CEO, Pivot Management Consulting

Indian markets to flourish as developments continue

The next year holds promise of continued political stability in India. There will be a focus on ease of doing business, greater efficiency due to the common application form for foreign portfolio investors (FPIs), while interoperability between the clearing houses also goes live.

Enabling omnibus structure and depository receipts at GIFT City exchanges will spur activity for custodians. Continuity of inflows from FDI, FPIs and the AIF segment will shift custodians key focus from operational efficiencies to business and client development. The custodian wish list for 2019 in India includes - development in the depository receipts and SBL space, along with advances in the bond market, improvements in the KYC process and regulators starting to reconnect with global investors.

Enabling custodians to outsource operations will significantly bring down the cost of doing business and improve the attractiveness of India. Implementation of the Khan Committee report holds greater harmonisation and efficacy for investors and custodians. Indian custodians service, rated amongst the highest worldwide in the Global Custodian Survey, will have to continue investing in technology, analytics and next gen fund accounting solutions.

Richard Street, head of global client coverage UK, Europe & Middle East, RBC Investor & Treasury Services

Asset managers will up their demands

As we move into the New Year, I believe we will see asset managers demanding more from their providers to drive greater value and remain competitive in an ever-challenging market. As cost pressures continue to rise, asset managers will seek increased efficiencies and rely on their providers to help them deliver new capabilities and savings.

Forward thinking providers will partner with their clients to facilitate a more advanced data environment, offering solutions with significant flexibility. These data services will benefit asset managers across all functions to become a 'golden data source' supporting not just operational performance, but offering insight and adding value in all areas of business management, regulatory reporting, sales and distributions and investment departments.

Cécile Nagel, CEO of EuroCCP

Brexit will have long-lasting impact and expect M&A and tech developments

Brexit will continue to dominate the agenda. While market participants have already invested significant resources preparing for the UK's departure from the EU, unknowns remain. Thus far the industry has focused on the official exit date. However, 29 March will only mark the beginning of fundamental changes that will affect financial services firms throughout 2019 and beyond.

I also expect regulatory change and M&A to continue to drive the agenda for market infrastructures, especially as firms look to build out their technology and broaden their products and services offering.

With regards to technology, I expect to see artificial intelligence (AI) and machine learning (ML) based analytics to gain ground. Data has long been at the centre of all technology innovation in the financial services space, with AI and ML making some of the great advances this year. As we move into 2019, these technologies will likely be the driving force behind increasingly intelligent trading decisions and increased operational efficiency in post-trade.

Growth for ETFs, ESG and private markets

Daron Pearce, CEO, BNY Mellon Asset Servicing EMEA

First, ETFs. We are seeing increased interest in launching new fund ranges in Europe, from both US asset managers and larger UK managers. This could add up to a significant number of new entrants to the European ETF market in 2019.

Second, private markets. The potential for alpha through exposure to private equity, real estate, infrastructure and private debt continues to encourage capital. Private debt is a particularly strong growth area. 2019 may see an accelerated focus by private markets investment managers on processes and outsourcing.

Third, if 2018 has been the year of talking about ESG then in 2019 we are likely to see that turn more decidedly into action. While some key elements are not fully in place – in particular the measurement of non-financial performance – 2019 may be the year when ESG truly goes mainstream.

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A year when politics will trump business

Peter Randall, president, SETL

2019 will be a year when politics will trump business. Instability between the two biggest trade blocs, China and the USA, uncertainty in the relationship between the UK and the EU, and troubling re-alignments in the near and Middle East, coupled with on-going background worries about global terrorism and cyber disruption present a difficult to navigate backdrop for markets in 2019. It is likely that most of this is already in the prices for most assets but central bank actions in response to the termination of the various quantitative easing programmes will likely reveal tighter than expected bond markets which may push up interest rates as well. Expect volatility, remember it is your friend. I expect to see markets creeping around looking for action, then bursts of frenetic adjustments followed by periods of ennui.

Custodians will branch out further into ESG

Paul Sinthunont, analyst, Aite Group

The move towards holistic investment analysis with the incorporation of environmental, social and governance factors (ESG) has opened new business opportunities for custody and asset servicing. One of the new opportunities includes ESG reporting. For example, CACEIS recently launched a reporting service and partnering with Vigeo Eiris, a large ESG data provider to support the ESG related reporting. The other area of opportunity will be data and analytics, a need State Street is already servicing with the ESGX platform, a web-based tool that helps identify and quantify clients' ESG exposures. The platform supports multiple ESG data vendors and also acts as redistributor of the data. As ESG integration continues to move into the mainstream and reporting becomes increasingly standardized and potentially mandatory, it presents strong area of growth for custodians. At this early stage, it will be seen as a differentiating factor, with partnerships or even acquisition of ESG data providers by custodians, likely for 2019.

Gary Tenkman, president & managing director, Ultimus Fund Solutions

From regulatory closure to new business plans

We believe that 2019 will be a year of regulatory closure. Closure, meaning that many open and ongoing actions driven by our governments and regu-la-tors will be finalised; firms and funds will have adopted their updated policies, procedures, and structural changes; and we all move forward in a slightly altered and somewhat more complex world.

By the end of 2019, mutual fund modernisation will have fully taken effect for all large AUM fund families (>$1 billion) and required procedures will have been adopted. Formal filings of Form N-PORT will commence for large funds in March, with the remaining fund families completing their filings exactly one year later in 2020. Likewise, large funds will have implemented the newly required liquidity management procedures by December 2019, with smaller funds following suit six months later in mid-2020. We also think 2019 could include clarity from the SEC on a Fiduciary Rule, potentially leading to resolution on one of the industry's biggest question marks. Lastly, of particular concern to global managers or advisers with European affiliates, will be the final chapter to the Brexit saga. By this time in 2019, we expect to have a far better picture of what an EU without Britain will look like.

With these changes behind us and a clearer regulatory landscape ahead, we expect more resources can be put towards new business plans to expand and invest in growth, and we are excited about what opportunity that holds for the industry.

Henrique Santos, head of securities services, Brazil, Deutsche Bank

Regulatory scrutiny around beneficial ownership to increase in Brazil

From a regulatory perspective, we should expect an increase in the regulatory scrutiny around beneficial ownership during 2019. In the last couple years, the Brazilian Tax Authority has been increasing its requirements around the identification of the final beneficial owners for non-resident investors, and this is still a trend. From a securities services perspective, Brazil is aiming to change its settlement cycle to T+2 from T+3. The goal is to harmonize the Brazilian market with other markets around the globe and bring more efficiency to all investors. This will also require investors to become more efficient in their processes.

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Jonathan Watkins, managing editor, Global Custodian

Sub custody M&A

I believe that in 2019 we will see a merger between two big multi-market sub-custody players. Consolidation has been rife among fund administrators, stock exchanges and asset managers in recent years, and with regulatory, cost and technological pressures facing custodians, a merger is on the horizon. It's a tough business to be in with clients demanding more for less and custodians constantly re-assessing their business models to stay competitive. In 2019, the operational cost benefits of such a deal may be too tempting to ignore for two of the market's players. Despite their inherent cultural and business differences, it could even be a central securities depository and a sub-custodian that merge.