Issue 2, 2014

Sibos Issues

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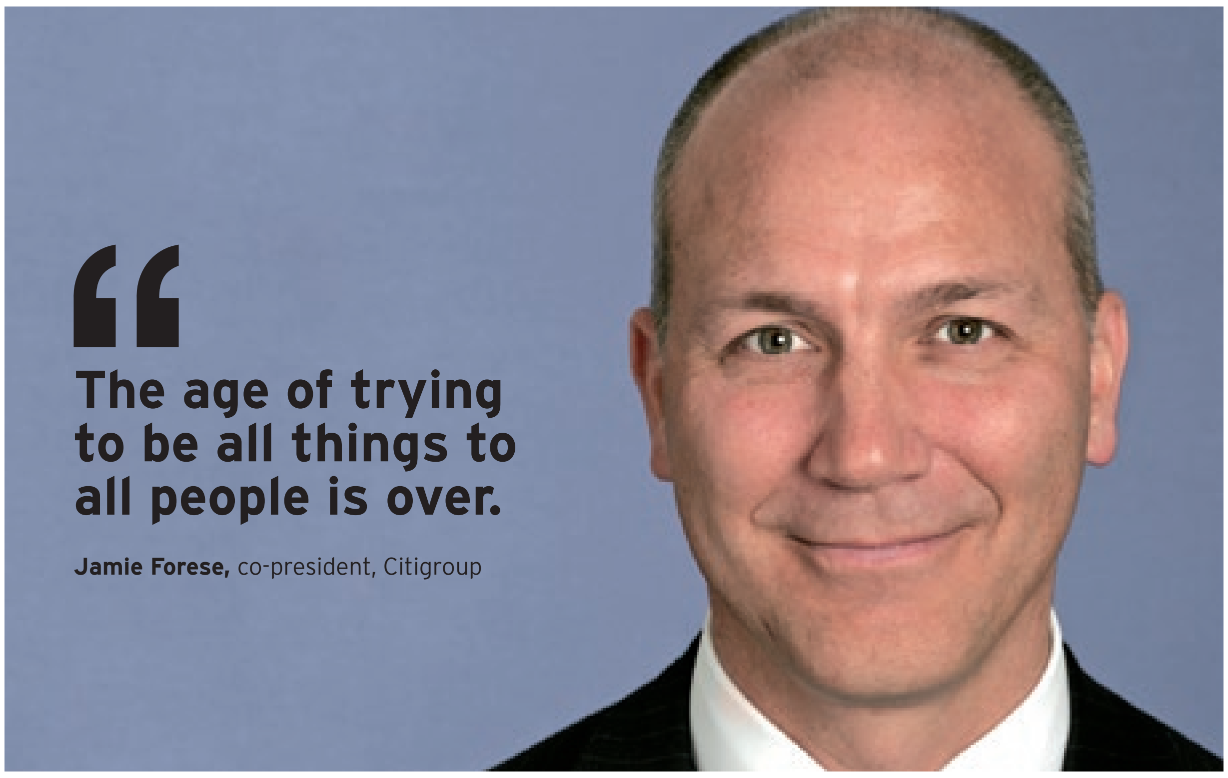
With Sibos getting ever closer, this edition of Sibos Issues features interviews with a number of this year's speakers, as well as updates on new features for Boston, such as Sibos University. All our plans are on track, so we look forward to welcoming you in September.
If you have not done so yet: register for Sibos 2014 and we'll see you there.

Best wishes
Sven Bossu, head of Sibos

IN BRIEF

The road to renewal



Jamie Forese, co-president of Citigroup and CEO of the bank's institutional clients group, gives Sibos Issues his thoughts on the post-crisis environment for banks ahead of his speech at Sibos 2014's opening plenary session in Boston.

When Boston last hosted Sibos, Bear Stearns and Lehman Brothers were still in business and concerns about the US sub-prime mortgage crisis were only just beginning to assume wider significance for the global financial system. Returning seven years later, Sibos delegates will undoubtedly reflect on the nature of the global financial crisis, the regulatory response and the competitive challenges that lie ahead as the banking industry looks to find new ways to serve retail and institutional clients.

Sibos 2014's opening speaker, Jamie Forese, is particularly well placed to assess the state of wholesale banking. Appointed CEO of Citi's institutional clients group in January 2013, New York-based Forese oversees a

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FINANCIAL INCLUSION

The smart path to savings growth

A four-year programme supported by The Gates Foundation offers practical insights on bringing banking to under-served populations.

The challenge of financial inclusion – extending access to formal financial services – is often seen as an issue for developing countries, where the 'unbanked' may be the majority. But this challenge, or opportunity, might be closer than you think.

A 2011 survey by the Financial Deposit Insurance Corporation found that over a quarter of US households were either unbanked or underbanked, relying to some extent on non-mainstream financial services, while one in 12 households were actually unbanked.

According to the World Bank's Global Financial Inclusion Database, approximately 2.5 billion people globally do not have a formal account at a financial

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The road to renewal

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wide spread of businesses from markets and securities services to treasury and trade solutions, and from corporate and investment banking to private banking.

How have banks responded to the challenges of the post-crisis environment?

Since the crisis, every large bank, and perhaps even every small bank too, has reviewed its strategy and for the most part decided to focus on the basics of banking and its own particular strengths.

The age of trying to be all things to all people and growing in an unconstrained capacity are over. At Citi, we decided to simplify our structure and get smaller. In the process, we got much stronger and much safer.

Having gone into a wide range of businesses, such as insurance and wealth management, we went back to operating two principal divisions, one serving individuals around the world and the other serving multinational corporations, financial institutions, and public sector entities around the world.

Since making that strategic choice, we have made a tremendous amount of progress in establishing consistent profitability, while also improving our capital and liquidity levels.

Citi's approach is in keeping with that of certain other large institutions. Is that leading to a more diverse and competitive post-crisis banking environment?

The competitive landscape has certainly changed. We see domestic and regional banks becoming more competitive and perhaps some global banks retrenching and narrowing their focus. We compete with a different set of banks in every market, every geography and every product segment.

One of Citi's strengths is the 'globality' we offer to clients. We maintain the 100-country footprint that we can use to our competitive advantage, but we don't compete in the same segments in all of those countries. Many other global players are focusing on their core strengths and have decided not to expand as aggressively globally, so we don't compete with every one of those firms in every market.

At the same time, we have seen the emergence and the strengthening of local players that are trying to become more prominent in their domestic and regional markets. Some global firms have de-emphasised Brazil, for example, but local competitors have got stronger, so the competitive landscape is shifting, but getting no easier.

Banks have also had to work to regain customer trust. What progress has been made and how much work remains?

The reputation of the industry has suffered, without a doubt; respect was lost and trust was broken. We have been working hard to repair that damage, not just for our bank, but for the industry overall. We have been trying to prove the value that banks provide to the economy and the wider society.

We are starting to make a lot of progress, in part because we are getting the support of individuals and small businesses who are advocating the need for banks. But we have still some way to go in articulating and demonstrating that what happened leading up to the crisis is not the essence of the industry.

> **What happened leading up to the crisis is not the essence of the industry.**
>
> **Jamie Forese,** co-president, Citigroup

The pace, scope and invasiveness of regulation has been a major challenge for banks in recent years. We might agree with the overall aims of regulation, but are the rules themselves really helping us to reach those aims or are they falling short?

In general, the regulatory and legislative proposals are all well-intended. They start from the premise of wanting to make the financial system safer, stronger and simpler. However, some of the detail in the proposals as they are currently written may not necessarily accomplish those principles as effectively as intended.

Sometimes the regulation overlaps, so there might be four regulatory proposals aiming to achieve the same thing where one will do. There are still elements of uncertainty: not all the rules have been finally written or implemented, so we still don't know the ultimate effect on the business. There also needs to be coordination both amongst regulatory groups in the US, and between US regulators and those outside this country.

That is improving, but still some of the goals of regulation – such as resolution planning – really do have to be coordinated globally to be effective. Due to the different legal vehicles in a multiplicity of countries, in order to effectively prepare and plan for a crisis in the future, there needs to be coordination amongst all parties.

We recognise that regulation needs to happen, and we would like to have a louder voice in helping to shape the future course of regulation. The financial industry has been discredited for the role that we played in the crisis, but we are genuine in wanting to fix the system – and have the experience and expertise to help find solutions. The crisis did a lot of damage to the economy, and a lot of damage to banks. No bank wants to see that history repeat itself. We'd like the regulatory and the legislative community to recognise that we want to be responsible participants in the re-regulation of the industry.

As well as the range of markets they operate in, how has the crisis changed how banks operate and organise themselves?

There is no doubt that the attention being paid to the control environment has increased substantially. It is no longer just the responsibility of the various control functions, the entire management of the bank feels responsible for the control structure. It is not just left to the lawyers to consider legal issues or to the compliance department to consider compliance issues, the entire business bears a responsibility for legal risk, compliance risk and reputational risks and considerations. The sense of responsibility sharing is far greater. There has also been a big increase in the resources that banks have dedicated to the control structure. To manage the weight of that increased expense, banks have been looking at outsourcing opportunities and working with third parties where the industry can benefit from one party doing a task on behalf of many.

But there is a check and balance issue to be considered in order to maintain the same level of control as you would have in-house. Although the industry is more open to arrangements such as outsourcing, banks don't want to lose accountability and prefer to take responsibility for certain elements.

> **Moving the regulatory goal posts increases conservatism and uncertainty.**
>
> **Jamie Forese,** co-president, Citigroup

What developments would be most welcome over the next couple of years to help banking get back to its core position in the economy?

I'd certainly like to see greater harmonisation of the regulatory paradigms around the world. It is very challenging to meet multiple standards, rules and laws, especially as some conflict with others. For example, swaps reporting obligations in the US contradict client confidentiality rules in other countries. It's a small example but it could lead to banks having to stop doing business in one jurisdiction because the two rules don't reconcile.

I also think the industry would welcome final certainty on rules: there are a lot of rules being introduced and it is hard to know which ones are final and which are subject to further change. For example, we are operating under the Basel III risk weighted asset paradigm, but the supplemental leverage ratio has been increased and becomes the binding constraint, and there may be further adjustments to capital requirements. Moving the goal posts increases conservatism and uncertainty, and this by-product prevents banks from lending to firms and individuals and growing our business, which are the very things that regulation was designed to improve. In that context, banks would welcome more certainty on things such as the capital adequacy framework.

Also, we have been advocating for many years now that the regulators create a standard portfolio that every bank can run through their own internal models in advance of providing them to regulators for stress testing. Every bank has different asset compositions, but if we could all first run the same portfolio through our internal models, we could then calibrate to identify how and why different banks' models give different answers. It would help us understand the regulators' process, and that greater degree of transparency would really be welcome. ■

Time to get out of commodities!

Outsourcing is increasingly seen as a strategic rather than a cost-saving decision.

The outsourcing solutions available to investment managers have evolved in recent years, driven by experience and innovation, to offer a wide range of options that blur traditional lines of responsibility. As in any industry, outsourcing in investment management initially focused on easily defined support services. While payroll and call centre services can be taken on by generalist outsourcing providers, specialists such as large custodian banks have also 'lifted out' entire back-office operations of investment management clients – often including the transfer of staff too – as well as developing niche products that handle specific workflows and processes, including reporting and valuation requirements.

But the style and complexity of service offerings available to investment managers today is quite different from the traditional view of outsourcing. Today's outsourcing firms are focusing on providing more sophisticated services in the middle and back office, and it is the development of these high-level outsourced services that will be explored in the Investment Management forum at Sibos 2014 in Boston.

"Asset managers need to think about which critical functions differentiate their offering, and which don't," says Richard Taggart, head of middle office outsourcing, North America at State Street's Investment Manager Services business.

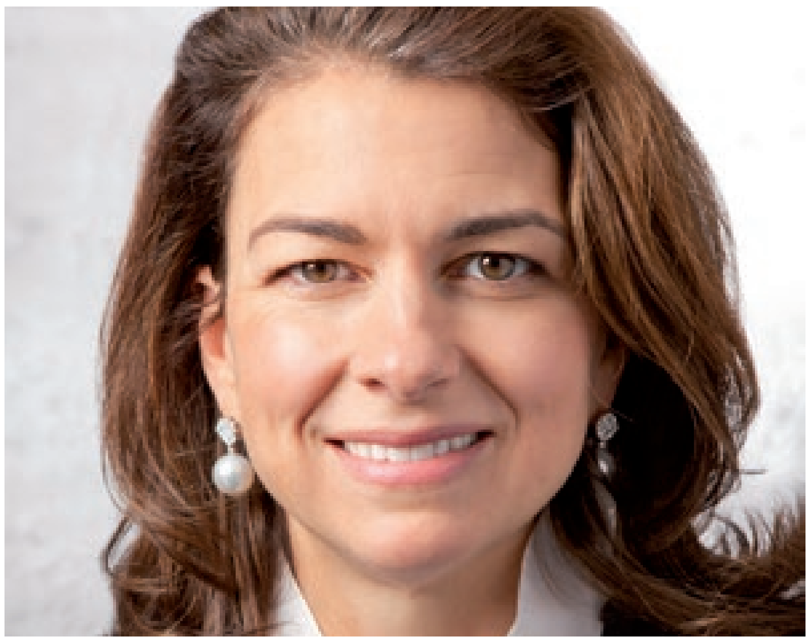
"Those functions that don't give a competitive advantage could benefit from improved cost and operational efficiency by being outsourced."

Common areas that buy-side firms are looking to outsource include trade processing, collateral management and enterprise data management. Some needs, such as collateral management, are being driven by regulatory changes, while others are being increasingly seen simply as non-core, commoditised operations that can be handled by a third party.

"The industry has matured to the point that outsourcing is viable and a lot of deals are being done as a result," Taggart adds, "Some are doing it simply to save money but others are looking at how it can add value to their business in other ways."

Many firms are beginning to realise that non-competitive core functions, such as processing, settlement and regulatory reporting can be done more effectively when taking advantage of the economies of scale that outsourcing arrangements can allow.

Markus Reutimann, group COO of Schroder Investment Management, echoes this sentiment. "Labour arbitrage is no longer solely about price, but about effective and lasting sourcing of skills and experience – particularly in information technology and data mining," he says.



Commoditising the office

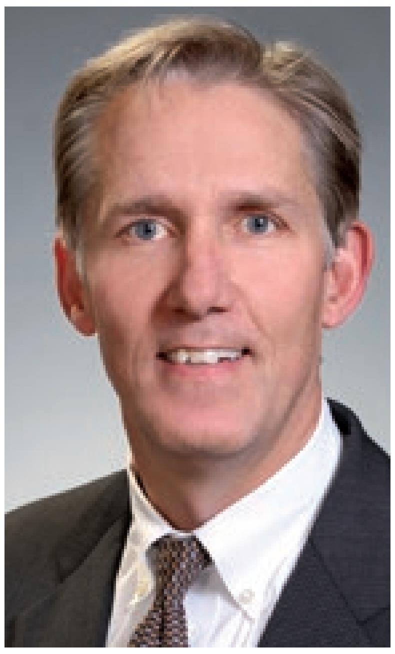
One firm that has a long history of outsourcing its post-trade functions is US-based fixed income investment manager PIMCO. The firm has been outsourcing many of its functions since 2000 and continues to look for new opportunities to outsource its operations. Evidence of PIMCO's commitment to outsourcing non-core activities can be seen in its headcount figures: almost a third of its 2,400 staff (737) are investment professionals, a significantly higher proportion than a number of its peers.

"The goal of outsourcing our post-trade is twofold," explains Cynthia Meyn, executive vice president and senior operations manager at PIMCO. "Firstly, it enables us to focus on our core competency, which is generating returns for our clients. Secondly, it enables us to realise greater efficiencies through the commoditisation of the work."

Meyn highlights the posting of futures margin, a post-trade activity that is essential, but simply offers no competitive benefit to PIMCO, as an example of how the industry as a whole can benefit from commoditising – and outsourcing – processes.

"For many functions, there is little point in having a proprietary system. By employing a vendor to perform certain work for us, every customer they add will actually help to improve the efficiency of the operation for everyone using that service," she adds.

In this way, although the vendors remain competitive, outsourced functions act almost like a utility with profit-making businesses, where the whole user community is able to benefit from either further cost reductions or a higher level of service.



> **Functions that don't give a competitive advantage could benefit from being outsourced.**
>
> **Richard Taggart,** head of middle office outsourcing, North America, Investment Manager Services, State Street

> **Post-trade outsourcing enables us to realise greater efficiencies through the commoditisation of the work.**
>
> **Cynthia Meyn,** senior operations manager, PIMCO

> **Labour arbitrage is no longer solely about price, but about effective and lasting sourcing of skills and experience.**
>
> **Markus Reutimann,** group COO, Schroder Investment Management

The professional service

Based on examples of undeniable bad practice across the finance sector, outsourcing has been tainted somewhat with a view that processes are too often simply offshored in an attempt to make them as cheap as possible with little regard for the quality of service offered.

Many multinationals – within the finance sector and beyond – have attracted criticism for outsourcing customer service functions to call centres far removed from their customers, which, through lack of direct connection to the business, may be unable to deal with more complex queries.

But today's outsourcing services for asset managers are in many cases proving to be quite the opposite. For example, a small boutique asset manager may not have a post-trade team, or even a dedicated trader, and will either rely on the portfolio manager or support staff to deal with such tasks. Such an approach introduces a number of elements of risk, particularly as volumes increase, due to the underlying complexities of market structure that only a professional trader should be expected to handle.

Similarly, niche asset managers are likely to conduct middle- and back-office functions in a highly manual way using Excel spreadsheets, for example, or even fax communication because of the perceived expense of using specialist solutions. As well as operational risks, the problem with not scaling up your processes in line with your business growth is the impact on high-added value staff, i.e. the portfolio manager who isn't able to spend her time making sound investments, which can hurt returns and the bottom line.

Branching out

As for the future, Taggart believes the growing burden of data management requirements in an increasingly regulated environment makes this area a likely candidate for outsourcing by investment managers.

"There is a much greater focus from regulators and within businesses on data governance and management, to ensure data integrity, timeliness and security," he says. "The sheer volume and breadth of data, coupled with the real need to better integrate risk and return analytics, makes this an expensive proposition that many will not want to take on alone."

For Meyn, the focus will be on opportunities to standardise and outsource processes in other asset classes at the point vendors are able to offer these services.

"As work on some of the more niche asset classes becomes standardised, then we will look at the advantages we can gain by using the greater scale that our vendor can offer us," she adds.

PIMCO is also keen to further leverage outsourcing globally, such as utilising vendor resources in Asia to be able to perform vital functions in time zones where it does not have a significant presence. ■

The smart path to savings growth

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institution. To explore ways of changing this situation, Rockefeller Philanthropy Advisors launched Gateway to Financial Innovations for Savings (GAFIS), a four-year project (2010-2013), managed by Bankable Frontier Associates (BFA), in partnership with five financial institutions in Latin America, Africa, and Asia.

The project is part funded by The Bill & Melinda Gates Foundation, which runs a Financial Services for the Poor programme to broaden the reach of digital payment systems, particularly in poor and rural areas. It set out to understand the factors that encourage or inhibit poor savers, affect institutional capacity to serve them and contribute to a sustainable business model. What the GAFIS project discovered will be the subject of a Big Issue Debate at Sibos, where BFA and representatives of the five banks will share their experiences.

No single solution

Not surprisingly, experiences varied, given that the five participant banks occupy different positions in their respective country's financial landscape. Equity Bank of Kenya is the country's largest retail bank by number of customers. Bancolombia (Colombia), ICICI Bank (India) and Standard Bank (South Africa) are large multi-segment banking, while Bansefi (Mexico), a state-owned bank, has a direct mandate to provide financial services to the poor. The resulting report does not propose a blueprint for financial inclusion, rather a direction in which to strive.

Initially focused on product development, the project soon accepted the importance of delivery channels, specifically agent banking. "Agents made the overall 'product offering' more compelling to the banks, because of cost implications; and to customers because of convenience," says Jeff Abrams, the BFA senior associate responsible for GAFIS. "Product does matter, but channel innovations were more significant at this stage of financial inclusion efforts for these banks."

Informal competition

The GAFIS report acknowledges that creating and sustaining a range of products covering credit, transactions and savings for low-balance accounts requires technology investment by banks. At the same time, competition comes not only from other financial institutions, but also community-based schemes, such as local savings clubs.

"In each market, the GAFIS banks were not the only banks pushing in these directions, although we think our banks were probably more aggressive and more innovative than most other banks in the respective markets," says Abrams, "but banks are often competing more with informal mechanisms, when it comes to market share for savings balances."

Informal alternatives offer convenience, comfort and low maintenance costs versus the benefits of bank accounts such as security and privacy. Abrams does not, however, see it as an all-or-nothing competition. "At one level, the banks' task is to try to convince the target segment to shift some or more of their portfolio from informal to formal and not necessarily to completely stop the informal," he says. "The next level of competition is versus other banks or formal service providers for that market share."

> **"The banks' task is to convince the target segment to shift some or more of their portfolio from informal to formal.**
>
> **Jeff Abrams,** senior associate, Bankable Frontier Associates

Exponential growth

Abrams' focus on delivery channels is endorsed by Kabelo Makeke, head of inclusive banking at GAFIS participant Standard Bank. "By transforming our back-end processes and making intelligent use of mobile technology, we have been able to reduce the costs of administering these accounts and cut our bank charges," says Makeke. "We expect the business to grow exponentially, not only as new customers come on board but as existing customers grow their financial needs."

Writing in the 'Stanford Social Innovation Review' in May, Chris Page, senior vice president of Rockefeller Financial Advisers, and David Porteous, founder and director of BFA, point out that, "Today, most poor people (90% of bank clients in GAFIS surveys in South Africa, Colombia, and Kenya) have access to a mobile phone with SMS messaging. As a result, some banks are using SMS messages and on-the-ground agents to catalyse initial deposits and build trust by confirming amounts. The programme's bank partners realised that they needed to offer services that were accessible from traditional, basic cell phones in addition to smartphones."

The GAFIS banks now have a collective 25,000 agents working on the ground, compared to just 2,600 in 2010. In total, more than four million new GAFIS-linked accounts were created over the course of the programme. "As a result of the combined effort of the five GAFIS banks, many new savers are active users," Page and Porteous observe. "In the last year of the project, the number of inactive accounts has gone down by about a third. If this trend continues, it would suggest these innovations have the capacity to make lasting change." ■

Protection must start with education

Global conflicts are adding fuel to growing concerns over cyber-attacks, making staff awareness a priority.

The need for all organisations to improve cyber-security has been increasingly apparent in recent years, but shifts in the geo-political landscape are further heightening awareness of the risks of cyber-attacks.

Malcolm Marshall, UK global lead at KPMG's cyber security practice, has warned that combatants in Ukraine, Syria and Palestine, as well as dissidents in China, are increasingly using cyber-attacks, targeted against a wide range of different firms.

> **Attackers may go to great lengths to remain anonymous, but they're not hiding their behaviour.**
>
> **David Wagner,** president, Entrust

Media outlets, technology companies and of course financial institutions, have all been seen as legitimate targets in this new form of 21st century warfare and firms need to ensure that their entire organisation is aware of the threat in order to prevent themselves falling prey to attacks.

A recently example is a sustained campaign of phishing attacks – where emails disguised as legitimate business services are used to extract usernames and passwords – against British public service broadcaster the BBC by the Syrian Electronic Army last year.

While blocking off the domains used by these attacks on internal computer systems was straightforward enough, many staff today may work from home, or use their smartphones and tablets to work, putting them outside of internal corporate protection.

When the BBC recognised this risk, it embarked on a staff education campaign to raise awareness of the risks and help employees to spot suspicious emails and bring them to the attention of the wider organisation.

> **Organisations must take human error out of the process.**
>
> **Kristin Lovejoy,** general manager, IBM Security Services division

Being aware

Cyber-crime has been named one of the greatest threats to financial institutions today and has been pushed to the forefront of the industry's agenda, with attacks varying from politically motivated to profit driven.

Most across the industry agree attacks are only becoming more sophisticated over time, ranging from a distributed denial of service (DDoS) to now manipulating a firms' trading system.

Politicians and governments are taking notice. In late June, the US Senate Homeland Security and Governmental Affairs Committee introduced a cyber-security act that would take a number of steps to modernise and address challenges in the country's defence capabilities.

The former chief of the US National Security Agency and the US Cyber Command, Keith Alexander, recently warned the financial industry was among the likely targets of a major cyber-attack and is reportedly offering his services as a cyber- consultant for as much as US$1 million a month.

It wouldn't be a surprise if banks decided to pay Alexander for the advice. A BT survey of 640 IT decision makers in financial services across 11 countries found that 45% experienced a DDoS attack over the past year. About 90% of those respondents said they had been hit multiple times.

According to Kristin Lovejoy, general manager of the IBM Security Services division, who will be speaking at Sibos 2014 in Boston, the average organisation is breached 2.2 times a week.

The most sophisticated institutions are the ones that detect those breaches, Lovejoy says. Smaller banks are only just beginning the journey of thinking about security and cyber- crime and so attacks often go undetected.

Steve Durbin, vice president at Information Security Forum, an independent organisation comprising of companies worldwide, including banks, says cyber-criminals are highly organised, intelligent and trained with access to the latest technology.

"They don't have budget limitations that some banks have and are able to use big data analytics to assess where information could be sourced from," Durbin says.

On alert

So what can banks do to protect their business? Lovejoy says the first step is getting to the root of the problem of 95% of cyber-breaches: human error.

"There is still a lot of sloppiness when it comes to IT management and so one of the most important things that any organisation needs to do is ensure that they have taken human error out of the process, to the extent that they can," she says.

Although banks are aware of the main dangers, including phishing emails, people still make mistakes by unsuspectingly clicking on fake website links and introducing malware into an organisation's systems, thus education amongst staff is key.

Durbin says banks also need to have situation awareness – an understanding of its greatest threats and vulnerabilities. "Banks need to think about how to gather information, get insight on a threat and play out different responses to situations."

Many institutions are still focused on getting systems up and running after an attack, but significant work is also needed to investigate how the breach occurred to ensure it doesn't happen again, he says.

"If you have been attacked once, there is a good chance that you'll be attacked a second time as the first attacker will gather reconnaissance on your systems and highlight potential areas of weakness."

Working together

Once a bank knows a cyber-breach has occurred, the next step is sharing the data with peers and law enforcement, to arm other institutions with the information to guard the industry from further attack.

David Wagner, president of Entrust, which provides identity-based security solutions, says banks are already working together, sharing information amongst themselves.

"Attackers may go to great lengths to remain anonymous to scoop IDs or IP addresses, but what they're not hiding is their behaviour," says Wagner, who will also be speaking at Sibos 2014 in Boston.

Collaboration between institutions was put to the test in the UK last November, when the Bank of England simulated a cyber-attack against the wholesale banking sector.

> **Cyber-criminals don't have the budget limitations that some banks have.**
>
> **Steve Durbin,** vice president, Information Security Forum

The Waking Shark II exercise consisted of a group of experts in a room, responding to different scenarios. The central bank found there had been considerable progress since a previous exercise in 2011, but identified a need for a single body to coordinate communication between institutions, if an attack were to take place.

Although the sharing of information among banks has improved, Durbin says sending vital data across jurisdictions remained a major issue because of differing regulation. "There is a role for vendors and organisations to help with the flow of information."

But regardless of how prepared and resilient banks are, Durbin says institutions will never be 100% protected. "Banks will always continue to be a target."

All banks can do is understand their vulnerabilities, have guards in place, be ready for an unprecedented attack and share the lessons learned with others. ■

"Too many firms get basics wrong."

The London Business Forum reflected a need for banks to work with regulators, but also to take the initiative on tackling financial crime.

Banks and regulators need to work together to fight financial crime, as some institutions are still falling behind on basic measures, according to Tracey McDermott, head of enforcement and financial crime at the UK's Financial Conduct Authority (FCA).

Speaking on a panel at SWIFT's 2014 London Business Forum in April, McDermott pointed out that, despite an apparent increase in headlines, the risk of financial crime was neither a new nor a temporary phenomenon. "The threat evolves over time," she said.

Nevertheless, financial crime is undoubtedly moving up the agenda at most financial institutions, which must deal with increasingly stringent know-your-customer (KYC) requirements, comply with anti-money laundering rules and keep up with multiple, frequently-updated sanctions lists.

Staying ahead

Regulators have higher expectations of banks, which must now demonstrate that systems in place for compliance are actually working. The FCA, for example, regularly conducts detailed reviews of how institutions are tackling financial crime issues.

"Our findings over the past few years have been mixed," McDermott said. "We do see many examples of good practice, but there are too many examples where firms are getting the basics wrong."

She said systems and controls policies that are adequate in principle often fall down when applied in practice. Firms are failing to act on flags, for example, by assuming they are incorrect. "We need this to change and we need to get the basics, which includes KYC, right."

Barbara Patow, head of global banking and markets financial crime compliance at HSBC, said banks needed to be sophisticated in their approach to KYC. "Technology can be used to bring us so far, but there also needs to be human intervention to get to understand it."

Banks must take a proactive approach, according to Patow, rather than waiting for regulators to impose further regulation to update their systems because the tactics, tools and strategies behind financial crime continued to evolve. "Banks are improving on an ongoing basis. We have to make our own systems and controls agile enough to take into account new standards in regulation."

While acknowledging that regulators have a role to play in helping institutions meet their obligations, McDermott called on banks to participate in a dialogue rather than be forced out of markets or product lines by rule changes.

"Risks change and often businesses react by simply exiting the market. We don't want a world in which fear of potential consequences means that legitimate business and consumers are denied access to critical financial services," she said.

Banks have scaled down, or even exited, their corresponding bank relationships, as KYC demands and transparency requirements such as the US Foreign Account Tax Compliance Act have turned corresponding banking into a potentially high-risk and high-cost area.

De-risking

The issue of clearing banks re-evaluating their presence in particular markets as part of a 'de-risking' strategy was also raised. McDermott said it was a huge issue and acknowledged that banks needed "to look at what certain businesses do and how they manage those risks".

Justine Walker, director, financial crime, sanctions and bribery, British Bankers' Association, said the topic of de-risking would be at the forefront over the next few years.

"We need to work with regulators on this," she said. "We really need to understand and unpick the drivers. Is it regulation, risk or cost that is driving this? I think it's a combination of all of them coming together and creating unintended consequences."

Walker said achieving the right balance between financial crime controls and responsibilities to customers was a complex challenge. Banks and regulators needed to work on developing a shared view of risk and have a consistent view globally where possible, she said.

McDermott underlined the need for banks and regulators to come together: although the issue of financial crime is becoming more prevalent, more work was needed to increase debate. The battle against fraudsters would never be won, she said, as they are constantly innovating and are the early adopters of the newest technology, but progress can be made.

"We need to seize the opportunity presented by the particular circumstances of the moment to move the financial crime agenda forward and work together," she said. ■

Bright future overshadowed by uncertainty

Cloud computing offers efficiency gains and cost savings when rolling out new technology, but will concerns over security and the movement of data prevail?

> Trading participants can test their trading applications in a cloud environment that simulates a fully functioning market.

Hauke Stars, member of the executive board, Deutsche Börse

Given the advances in cloud computing in recent years, it is somewhat surprising that adoption in the financial services industry remains fairly patchy. According to an Aite Group survey of IT executives at 29 financial institutions in 2013, just 45% had a formal policy on cloud usage in place. Anecdotal evidence suggests that despite clear benefits, there are still serious concerns over security.

"Cloud computing in financial services hasn't really advanced very much in the past few years," says Steve Rubinow, former chief information officer at NYSE Euronext and later FXall, and now chief technology officer at Catalina Marketing, a non-financial company focused on branding. "There are still two big concerns: the first issue on everyone's minds is the security of whatever is hosted in the cloud; and the second issue is the need to comply with regulations that prohibit data from moving outside jurisdictions."

One of the benefits of the cloud model is that data can theoretically be hosted on the other side of the world if that happens to be more efficient from the provider's perspective. But some jurisdictions prohibit free movement of data outside the country in which it was generated. This has held many participants back from adopting cloud-based services.

There remains a lack of clarity about exactly what is currently permissible, and how policy might evolve in the future. A statement on cloud computing issued in 2012 by the US Federal Financial Institutions Examination Council, a US agency that promulgates standards on behalf of multiple regulators, set out certain due diligence recommendations and risk considerations, but stopped short of explicitly addressing the data location issue. Meanwhile the European Union is currently in the process of updating its Data Protection Directive, which some believe could provide answers.

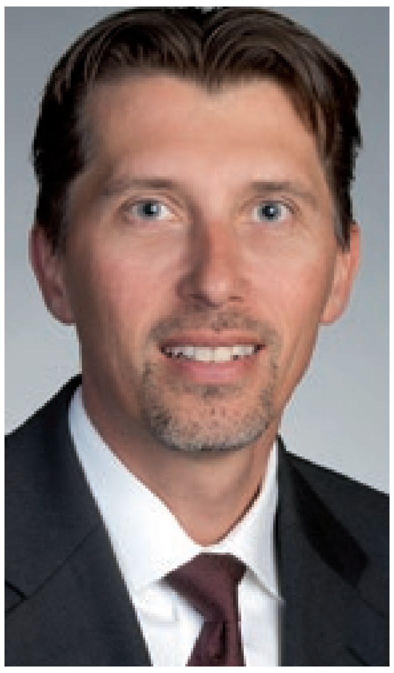
"Data privacy and protection is a key component of cloud computing. Banks need to know in advance where the data is going to be collected, where it will be sent and processed, and ultimately where it's going to be stored. There is also the question of what happens to the data if the financial institution decides to discontinue the service with a particular provider, and how they then get their data back. All of this needs to be defined in advance," says David Albertazzi, senior analyst at Aite Group.

Concerns over data and security clearly are still serious enough to deter many banks from participating in the cloud, particularly those whose operations span multiple jurisdictions. But some observers believe greater attention should be paid to what can be achieved through cloud computing.

On the bright side

One of the biggest attractions is cost. At a time when nearly all banks are facing up to the increased demands of regulation and looking to run more cost-efficient operations, cloud computing allows firms to avoid major upfront investments when rolling out new systems, and instead pay for hosting services as they need them. But some warn that to focus on cost is to overlook the real innovation of the cloud.

"Most banks have invested heavily in their internal infrastructure and would approach cloud as a way to reduce costs, but the exceptions are those that recognise cloud as a vehicle to leverage market innovation. The ability to quickly operationalize new capabilities without having to invest millions of dollars is the real advantage," says Shafqat Azim, senior managing partner at Gartner and head of its digital enterprise transformation practice.



Among other factors driving firms to consider cloud-based services are the increased use of browser technology, the rising complexity and volume of data in financial markets, and increased regulation, says Aite's Albertazzi. But for the most part, use of the cloud tends to be confined to less business critical processes such as email, human resources systems or fraud detection, where there is rarely any serious differentiation from one firm to another.

"There has been a change in culture and mindset since the financial crisis that is leading banks to re-evaluate their strategies and consider cloud-based solutions. There is also a greater willingness among banks to collaborate in cloud services, usually for functions like co-operative anti-fraud networks where there is no competitive advantage," says Albertazzi.

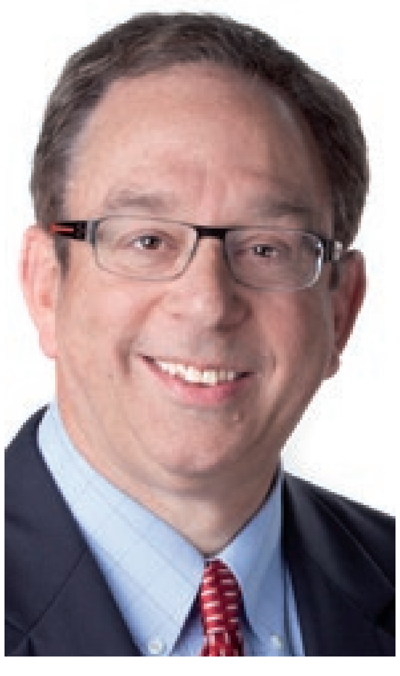
> There is a greater willingness among banks to collaborate in cloud services.

David Albertazzi, senior analyst, Aite Group

But Azim is less optimistic. "There is still a hesitance, at least within the large IT departments, to adopt cloud as a delivery model for services, and part of the reason is that people are still looking at some of the constraints and limitations that existed 12-18 months ago," he says.

Whether more mission-critical banking technology such as trading platforms or sales systems would ever migrate to a cloud-hosted model remains to be seen, but banks would probably opt for their own private cloud to host such proprietary technology. A private cloud, often the more popular route for large banks, may offer greater security but less scalability at the enterprise level. And given the importance of latency in trading, any extra milliseconds that are added by cloud hosting could be a problem for traders.

"I don't know of any mission-critical applications that are being hosted in the cloud at the moment," says Rubinow. "Large institutions would probably rather do that in-house to maintain security and reliability. Having applications virtualised also introduces latency, which is detrimental in trading, so it's more likely the peripheral systems that would be hosted."



> Having applications virtualised also introduces latency, which is detrimental in trading.

Steve Rubinow, chief technology officer, Catalina Marketing

Warming up

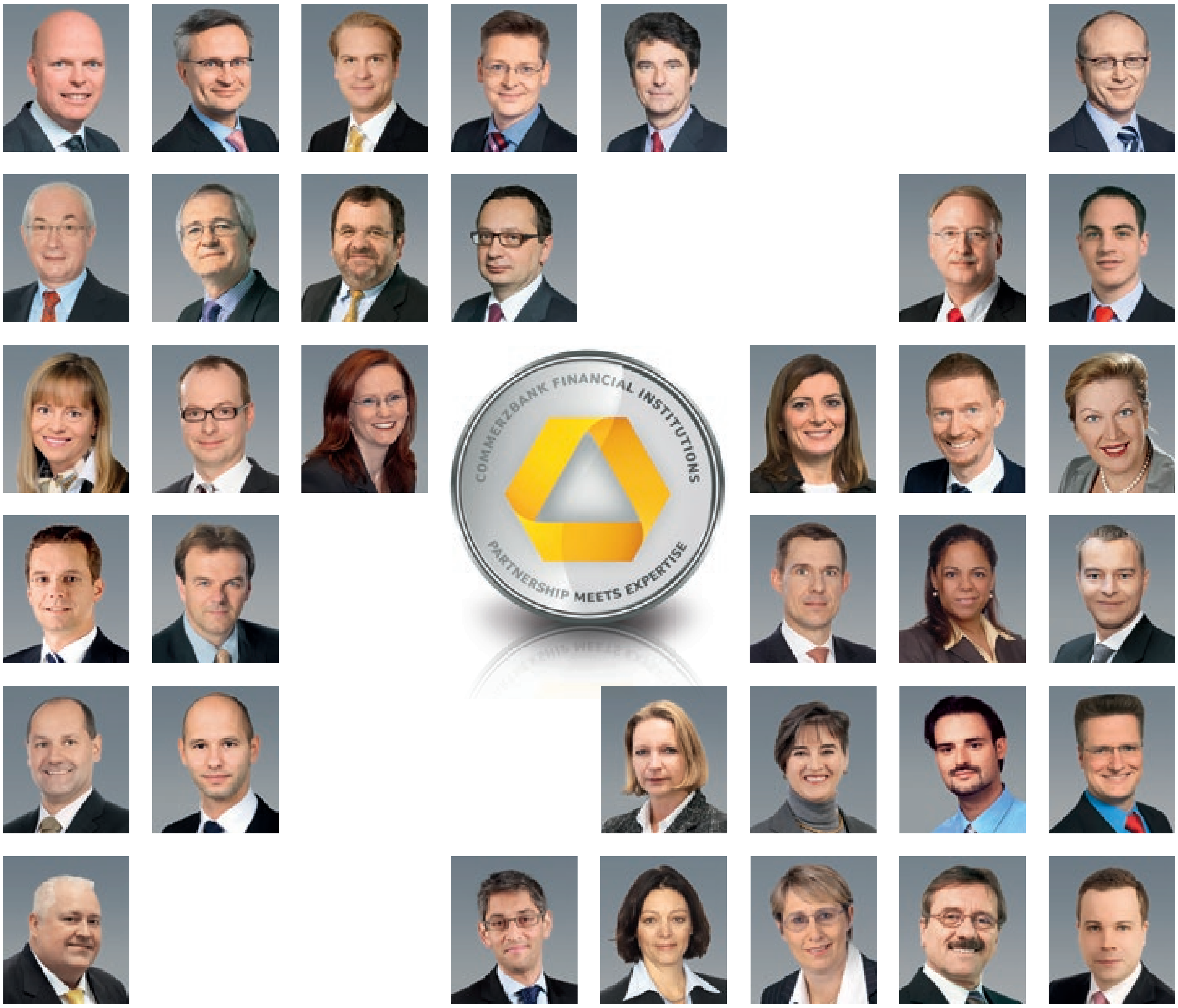
While concerns clearly remain over the risks posed by cloud hosting, there are signs that financial services firms are beginning to warm to the concept. By the end of 2013, IT spend on capital markets cloud services had reached U$2.2 billion, up from US$1.8 billion in 2012, according to a new research report by Aite Group, published as Sibos Issues went to press. That figure is expected to rise to US$2.5 billion this year and US$3.2 billion by 2017. Cost reduction remains by far the biggest driver, Aite Group found, while security is still the biggest concern.

Hauke Stars, member of the Deutsche Börse executive board responsible for information technology and market data and services, says all of the exchange's services are geared towards greater agility and better economics for clients, so using the cloud is something of a no-brainer – where permitted.

Regulation prevents use of cloud functionality in its core exchange business, but testing facilities is another matter. In January, Deutsche Börse's market data and services division acquired Impendium Systems, a London-based firm that deploys cloud-based software solutions to help customers' achieve regulatory compliance in Europe, North America and Asia-Pacific.

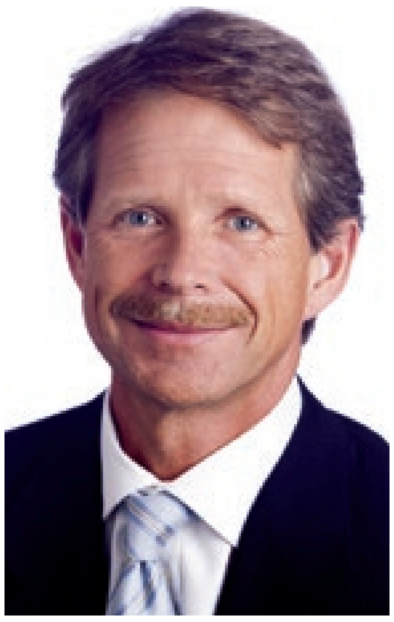
"We relieve our clients of investment in infrastructure and the related innovation, operating and maintenance expenses by offering them software functionality from the cloud. So our trading participants can test their trading applications in a cloud environment that simulates a fully functioning market," says Stars.

To any chief technology officer still battling against internal reluctance to use the cloud, Rubinow's advice is to pick a part of the business where a team can experiment with cloud services at a local level without causing problems for the entire firm. "It is possible to carve out experimental pieces and get first-hand experience with some of the limitations and the benefits. Realistically that is the best way for banks to determine which parts of the enterprise cloud might be suited to," he says. ■


COMMERZBANK FINANCIAL INSTITUTIONS
PARTNERSHIP MEETS EXPERTISE

Visible hurdles to liquidity reporting

Are banks ready to meet the 2015 deadline set by the Basel Committee?



> **Within financial institutions, liquidity responsibilities lie in multiple sites.**
>
> **George Doolittle,** head of global payment services, Wells Fargo

When regulatory reforms are announced well in advance, there are two common reactions from those affected. One is to begin preparations to ensure readiness. Another – perhaps more common – is to wish the challenge away until the deadline looms. For intraday liquidity reporting, first broached by the Basel Committee on Banking Supervision (BCBS) in 2008, that deadline is now imminent.

Building on principles for sound liquidity risk management first unveiled in 2008, the BCBS last year published a set of seven monitoring tools, designed to enable banking supervisors to better track banks' ability to meet payment and settlement obligations on a timely basis.

Imperfect view

From 1 January 2015, internationally active banks will have to report on their intraday liquidity flows to their regulator on a monthly basis in all countries and for all currencies in which they operate. With less than 20% of payments over the SWIFT network reported intraday, there seems to be some way to go before the industry is prepared. But questions remain about how BCBS recommendations will be implemented in each jurisdiction.

George Doolittle, executive vice president and head of global payment services for Wells Fargo, admits that the challenge is not trivial. "Within financial institutions, liquidity responsibilities lie in multiple sites, not always coordinated, and the regulators have not yet issued harmonised rules," he points out. "Most group treasurers have an imperfect view of their company's positions at the last millisecond," he says.

"The changes BCBS require centre around the availability of far more granular data than seen previously," confirms Yera Hagopian, head of liquidity solutions, Barclays. "Indeed, there will likely be much focus on the transaction-level data that SWIFT can provide. For many institutions, data already exists, buried in systems focused on end-of-day positions. However, the task to find and then aggregate data across a complex organisation is a massive one."

While individual institutions may have carried out in-depth analysis on their own readiness, the regulatory landscape remains unclear. "Today group treasurers are much better educated about what they need to do in moments of crisis, but overall they are still waiting to get a clearer view of what the regulators want," says Doolittle.

Standards reform

Nor should the task of gaining a comprehensive view of each institution's position be underestimated. "There are a lot of definitional issues," says Doolittle. One of the most important, he suggests, relates to timestamps. "Different banks have different definitions based on their own systems. Real-time gross settlement systems in different countries also have their own definitions. Multilateral netting systems have others. How you carry timestamps through the systems is therefore a big challenge," says Doolittle, who, on behalf of the Payments Market Practice Group, has been liaising with the Liquidity Implementation Taskforce, a group of 19 banks and nine global brokers, to discuss common requirements. As chair of the cash and trade committee of the US SWIFT National Member Group, Doolittle is proposing standards changes which would include time-stamping in MT 900 and 910 messages.

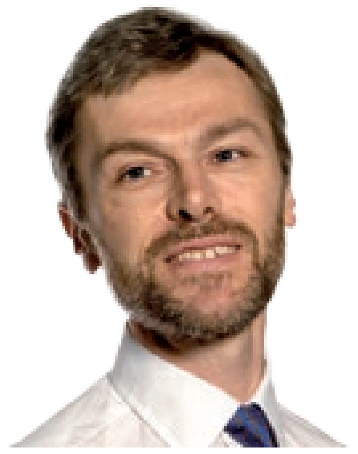
"Correspondents will need to ensure they maximise their coverage of the MT900 and 910 message suite," says Hagopian. "Beyond the capability issue, there also appears to be a legacy of end-of-day liquidity management where MT942s/950s or internet banking platforms were used to monitor positions at close of business," she notes. "To correct this, banks will need to request MT900s and 910s are received from correspondents, but may also need to change how they generate payment instructions to ensure receipt of the required confirmations."

Beyond the data requirements, intraday liquidity regulation could drive wider changes such as concentration towards large payments providers, adding pressure on both system capacity and collateral, thereby increasing costs. Banks are establishing collateral optimisation teams in preparation, but Hagopian sees positives too. "Greater visibility on usage of intraday headroom provides banks with the ability to build behavioural models and move towards dynamic pricing to align with peak demand," she says. ■

MARKET INFRASTRUCTURES

Raising the resilience bar

Operational and financial stability has never been a bigger priority.



> **We have reached a new level of resilience.**
>
> **John Trundle,** CEO, Euroclear UK and Ireland

With regulation mandating a more central role in financial markets for market infrastructures, a recent panel discussion hosted by SWIFT revealed how infrastructure providers are evolving to meet tougher operational and financial resilience requirements.

In particular, the principles for financial market infrastructures issued jointly by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions (CPSS-IOSCO) have prompted infrastructure operators to raise the level of assurance they can provide in the event of a default.

A panel at SWIFT's London Business Forum in April, 'The evolution of market infrastructures: meeting the resilience challenge', showed that increased resilience is being driven in part by increased complexity. Big data, cloud computing, greater competition, more regulation, shorter transaction cycles and increased security risks are among the forces leading market infrastructures to concentrate on three resilience priorities: operational risk, cyber-crime, and recovery and resolution. The end-goal is to ensure a financial institution cannot be dragged down by a market infrastructure failing, or vice versa.

Market integrity

Coen Voormeulen, division director, cash and payment systems, De Nederlandsche Bank, said: "There is increased complexity in cash and securities and a real-time demand for faster payments in the retail sector, notably in the UK. The slack in market infrastructure reduces the integrity of the system."

Despite the many pressures, panellists expressed confidence in the response of their organisations to new challenges. John Trundle, chief executive officer, Euroclear UK and Ireland, said the Bank of England had found the international central securities depository (ICSD) to be fully aligned with regulatory requirements in terms of its operational risk, cyber-crime and recovery plans. Euroclear UK and Ireland's operations are now supported by three data centres, Trundle added. "We have reached a new level of resilience. We feel comfortable with it," he said.

Payments market infrastructures have also upgraded their operations substantially, in part due to regulation, said Voormeulen. "There is rigorous planning and management," he added. He also warned of the threat of cyber-crime. "We have to up our game from what has been a good practice area to a financial science."

James Barclay, executive director for global market infrastructures at J.P. Morgan, said stability, predictability and clarity are key to resilience. The regulatory requirement for institutional clients to clear OTC derivatives trades through central counterparties (CCPs) has knock-on implications for clearing brokers, as members and effectively part-owners, in terms of the resilience of such market infrastructures, Barclay suggested.

"There is an obligation to be resilient to ensure customers are comfortable with you as an institution," he added. "When considering the need to clear OTC derivatives through CCPs, there should be the same level of resolution across the board. There is a new requirement to demonstrate resilience for either market infrastructures or banks so that one does not drag down the other."

Financial resilience

Turning to financial resilience, Trundle noted that while the need for CCPs to use their balance sheets was well established, it is also important for ICSDs to give assurances to participants, via use of balance sheet to take on risk. "As part of regulation, this has to be part of the capital structure; ICSDs should have six months of operational expenses with a buffer of nine months. The regulation sets what that recapitalisation should be. But the infrastructure also has to continue to operate. There is a case around the public good and continuity of supply for users and clients," he said.

Mark Hale, director of business and operations at CHAPS, a UK payments infrastructure provider that adheres to CPSS-IOSCO principles, noted that transparency and sharing information with regulators and other stakeholders is key to resilience. "At the first level, all shareholders are directly involved in the organisation," he said. "There is a level of assurance through a financial layer. The challenge is to make sure there is substance over form. We need to engage with [stakeholders] on what that form might be."

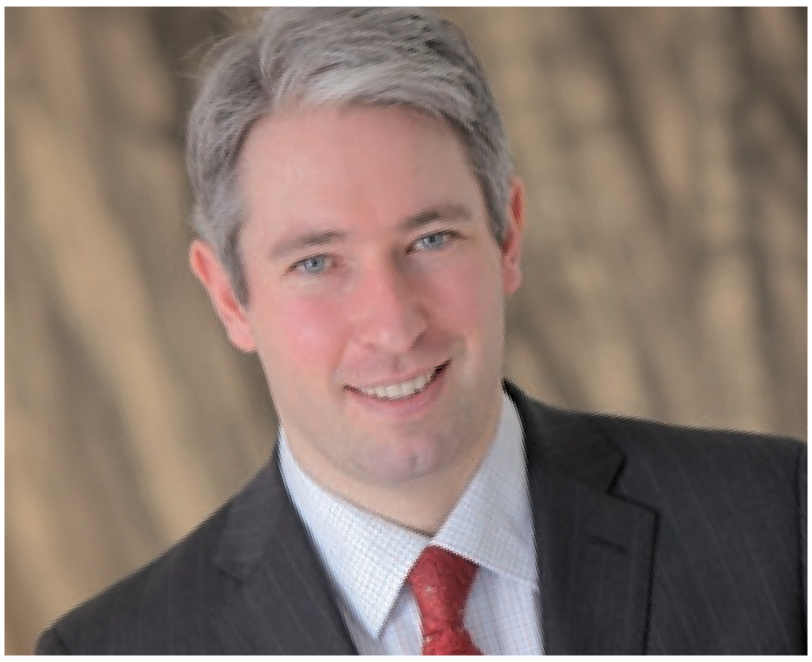
Trundle said information sharing was already improving, noting that Euroclear's control report is now a public document.

Panellists could agree that market infrastructures were responding to changing expectations for assurance and resilience, equally they also suggested more work is needed – collectively and individually – to tackle complexities to come from big data, cloud computing and cyber-crime. ■

Beyond Bitcoin

We've all been told that Bitcoin is built on disruptive technology. But will banks be the disrupted or the disruptors?

Crypto-currencies may be disruptive, but they're also potentially inspirational. Discussing the hype currently surrounding Bitcoin et al, Professor Jem Bendell, director, Institute for Leadership and Sustainability, University of Cumbria, says, "Crypto-fame helps more people understand that currency systems are things we can design, rather than just take for granted. That's empowering a new generation of people, many of whom are not simply motivated by financial return but want a fairer and better world." Idealists and entrepreneurs gave us much of the internet and social media; now many of them are working on crypto-currencies. Bendell continues: "The current talk is about disruption, and yet we should speak of positive transformation in the relationship of banking and the economy."



Crypto-currencies have solved the problem of how to prove unique ownership of a digital asset.

Adam Shapiro, director, Promontory Financial Group

opportunity to level the playing field. Shapiro also says: "If we're looking at how technology can enable banks to disrupt markets where they've been priced out in the past, the much greater automation inherent in digital currencies potentially presents great opportunities for banks as the technology develops."

So this is how we turn the whole issue on its head. Crypto-currencies may threaten to disrupt banking business, yes, but banks can just as effectively use crypto-currencies to disrupt, let's say, the remittance business. Wim Raymaekers, head of banking markets, SWIFT, observes: "Even in the world of crypto-currencies, we are seeing intermediaries appear; there is an eco-system of providers." This may be a sign of early maturity, but it's also an unequivocal indication that there's an op-

It's not about the coins. It's not about the currency. It's about the protocol.

Peter Vander Auwera, co-founder of Innotribe, SWIFT

There may be challenges associated with crypto-currencies today, but there's also "a new generation", as Bendell puts it, working to turn those challenges into opportunities. Adam Shapiro, director, Promontory Financial Group, says: "The banks that are going to do well in this brave new world will look past the current noise about Bitcoin. Instead, they'll ask themselves: given the power of the underlying technology, what are the threats and opportunities it creates for our specific business?" The advent of crypto-currencies could herald an opportunity here. Banks can stop being defensive and start being pro-active; those early intermediaries can offer many services, but in the long run, they can't offer the security, the reach or the credibility to counterparties that banks can offer. The tide has turned in our favour.

Early days

But let's not get carried away with our own hype either. The underlying technology of crypto-currencies may add value to banks' capacity to offer secure intermediation, and they may enable banks to offer services that in the past they've found infeasible for cost and/or other reasons, but these are still early days. Bendell says: "The ledger systems, the currency units, the forms of issuance and the governance of the current generation of crypto-currencies are flawed, and so the current generation may not be the ones that succeed long term." Note also here the distinction that is now widely made between the individual crypto-currencies themselves and their underlying technologies. We're no longer talking about, for example, that high-profile currency unit represented by a gold-coloured coin with a big B on the front; we're talking about the whole of the technology that lies behind all of them. Peter Vander Auwera, co-founder of Innotribe, SWIFT, says: "It's not about the coins. It's not about the currency. It's about the protocol."

Before we go too far forward, let's take a step back. Shapiro defines crypto-currencies in three ways. "First, it's an alternative store of value. Secondly, the technology offers the potential for cheap, fast and global payments transactions where businesses and consumers can choose whether or not to use financial intermediaries. That is a very powerful technology and it's good for banks to engage with it as they think about how they can ensure that they are the beneficiaries of disruption rather than being disrupted," he says. "The third thing, which is much less developed but still interesting, is that crypto-currencies have solved the problem of how to prove unique ownership of a digital asset."

Now, this is thought-provoking. Richard Brown, executive architect, industry innovation, banking and financial markets, IBM UK, says: "Leave aside the value of Bitcoins, and think of them as scarce digital tokens. There is a limited number of them, and there is a ledger that allows you to prove and transfer ownership. There is nothing to stop an issuer asserting that a particular set of Bitcoins represents ownership of a particular set of securities." And we're not just talking about the ownership of conventional securities. Udayan Goyal, founder and managing partner of start-up investor Anthemis Group, says: "Any two parties in agreement can use this technology to track anything which can be recorded. The ledgers become tamper-proof, transparent and have very light computational requirements in comparison to other traditional two-sided ledger systems."

Anybody interested in international payments, securities custody or even the financial implications of the internet of things should pay attention.

Richard Brown, executive architect, industry innovation, banking and financial markets, IBM UK

Source of inspiration

Brown concedes that there are still obstacles to the development of such 'digital bearer bonds' – his term – but like Bendell above, cites the quality of the people working to remove those obstacles. Brown says: "My starting point is that there are a large number of really motivated, well-funded and thoughtful people working on this. Anybody interested in international payments, securities custody or even the financial implications of the internet of things should pay attention."

They shouldn't just pay attention, Brown continues, because all those clever people are removing obstacles, nor indeed because of specific opportunities, but because the work being done in this space is itself "potentially a source of inspiration". This discussion is unusual in that it's about ideas that people haven't had yet; the practical implication of this is that we can't be prescriptive in our expectations. Bendell says: "For banking professionals to look at currency innovation from the narrow perspective of protecting or growing business would be a form of normalised insanity. Instead, we need to come together to analyse the kind of banking that is compatible with, and supports, a restored environment, thriving real economy, and social cohesion." ■

Currency systems are things we can design, rather than just take for granted.

Professor Jem Bendell, director, Institute for Leadership and Sustainability, University of Cumbria

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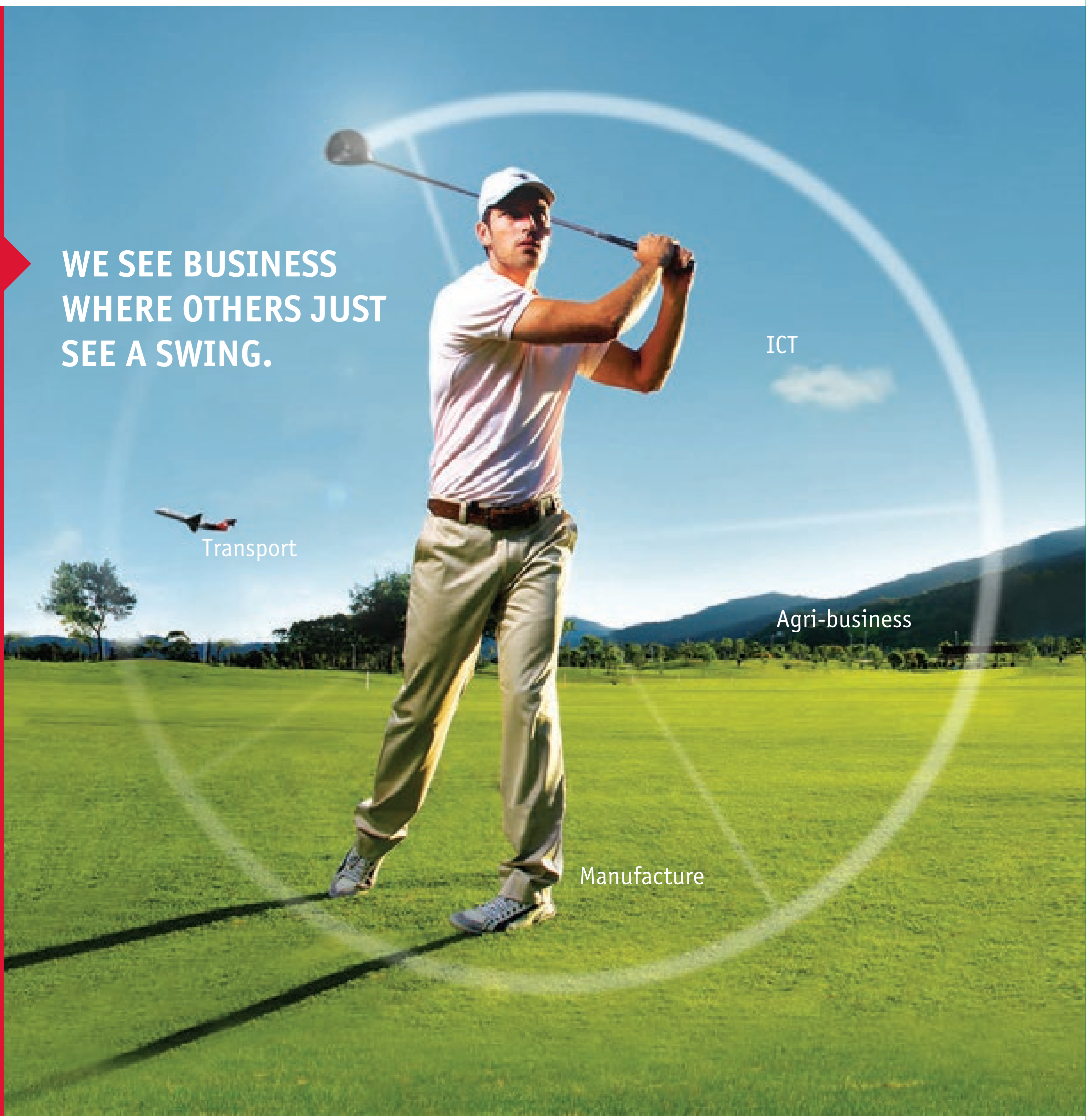

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Many steps on the road to internationalisation

Rapid developments and expanding settlement platforms are fast making the renminbi an international currency.

The development of the renminbi (RMB) into an almost freely convertible currency that enjoys widespread international use represents an important step in China's economic development. China's rising levels of trade and investment around the world requires careful planning to develop and modify platforms, policies and products required to facilitate commerce and comply with regulations around the world.

Large multinational corporations need to learn about and keep abreast of the latest developments and procedures to handle the conversion and remittance of RMB. The currency's internationalisation will affect their treasury management and payment practices. Treasury managers need to know how to utilise the latest banking services, which are evolving to deal with this unique situation.

Despite its growing international use, the RMB's liberalisation outside of China is only a recent event. It started in Hong Kong in 2003 by allowing retail depositors to exchange RMB and by 2009 China issued its first offshore RMB-denominated bond. In 2010, the People's Bank of China (PBOC) and Hong Kong Monetary Authority permitted Hong Kong banks and their customers to invoice and settle trade in RMB.

The offshore renminbi markets have steadily expanded over the last three years in trade, deposits, bond issuance and FX trading. "All of these steps are important and occur in a bilateral manner, but in no specific order," observes Alex Medana, director, securities markets for Asia at SWIFT. "The practical focus is not full convertibility, but in improving the usability of the renminbi. About 1,500 institutions are dealing in the currency and the participants are growing." Indeed the expanding availability of offshore renminbi has "increased its utility to a point where it is actively traded among counterparties outside of China."

Fundamental demand

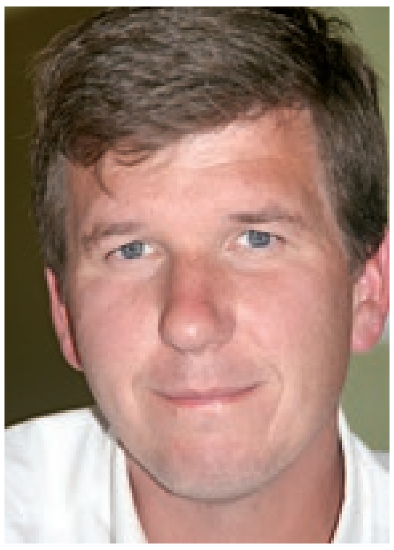
China's expanding economy has fuelled fundamental, long-term demand for many commodities such as oil, which is driving the renminbi's use and recognition. According to Oliver Brinkmann, head of capital markets and treasury solutions for Greater China at Deutsche Bank, "The RMB is steadily moving towards being a leading global currency. Today, it is the world's eighth largest trading currency and the second largest trade finance currency. Large trade deals like the recent Gazprom natural gas agreement with Russia underscore the single sizeable trades that underpin the other activities. We see strong momentum for RMB international trade settlement as it has moved from 22nd place to second place in a matter of three years."

An extensive international banking infrastructure has been established to manage the RMB's expanding flows. Brinkmann points out, "Clearing infrastructure continues to improve and broaden as the PBOC has signed memoranda of understanding with London, Frankfurt and other locations to become RMB clearing centres. This is an example of the widening acceptance of the RMB."

The recent establishment of the Shanghai Free Trade Zone is an important development towards liberalising currency movements onshore in Brinkmann's view. "A Chinese or foreign company operating in the zone can execute a foreign exchange payment to an associated company offshore with few restrictions. In connection with the recently introduced two-way RMB cross-border sweep, there is no need to apply for a foreign debt quota that is directly related to working capital in order to bring funds onshore. The Free Trade Zone allows the RMB to move more freely between on and offshore, and with fewer restrictions than before," he says.

The overall effect of these reforms, direct stock market access and special zones is to create better conditions for corporate treasury management. "Treasury management in China has become more efficient for mainland corporates operating globally and for foreign subsidiaries in China," asserts Brinkmann.

> **"Treasury management in China has become more efficient for mainland corporates operating globally and for foreign subsidiaries in China.**
>
> **Oliver Brinkmann,** head of capital markets and treasury solutions for Greater China, Deutsche Bank



Mutual recognition

Since 2009, the RMB has experienced multiple acts of liberalisation covering both the current and capital accounts. By now, current account has largely been liberalised so the RMB can be freely used and exchanged as a trade settlement currency for goods and services. Capital account-related reforms are expected to continue through gradual changes in regulatory schemes such as Renminbi Qualified Foreign Institutional Investor and Qualified Foreign Institutional Investor quotas, which improve access to the onshore securities markets.

Rex Wong, managing director, asset servicing, Asia at BNY Mellon, believes that the mutual recognition of investment products between Hong Kong and China will compel market participants and regulators to speed up product development and investor education. "The Chinese government has been supportive of the exchange-traded fund (ETF) market. Regulators are careful with ETF launches to ensure that market making is adequate. So the market is moving in the right direction," he says.

> **"The practical focus is not full convertibility, but in improving the usability of the renminbi.**
>
> **Alex Medana,** director, securities markets, Asia, SWIFT

In April, new rules were enacted to allow direct share trading between Hong Kong and Shanghai that reduced capital controls for up to 550 billion yuan of stock transactions. A total of 266 Hong Kong listed stocks and 560 mainland A-shares are included in the plan, known as the Shanghai-Hong Kong Stock Connect, as well as the constituent stocks of major indexes. Initially scheduled for 2007, Beijing delayed the plan due to concerns over cross-border currency management issues. But, after a series of successful reforms China moved ahead with the implementation of the scheme, which is another channel to directly gain access to onshore markets. The Shanghai-Hong Kong Stock Connect is due to go live before the end of the year, but a number of questions on fees and taxes are currently outstanding,

However, the Chinese government remains cautious about 'hot money' and carefully monitors the flow of forex trading and its effect on the renminbi. "The government is positive about seeing the renminbi used offshore for trade and investment. They are trying to gain confidence on the flows of renminbi and want to encourage its use as a reserve currency beyond just trade," says Wong.

> **"There is a strong 'Chinese wall' between the domestic and the international market.**
>
> **Ludovic Blanquet,** Asia-Pacific business development director, Misys

Complete liberalisation

Technology platform vendors are carefully watching the RMB's movements towards complete liberalisation in order to service Chinese and foreign clients. Ludovic Blanquet, Asia-Pacific business development director at Misys, observes, "The biggest challenge we face today is the existence of two parallel markets both from a business and technology point of view. There is a strong 'Chinese wall' between the domestic and the international market which creates a number of points of friction. These include higher operating costs, duplicated legal, control and compliance frameworks, arbitrage opportunities for the smartest players and higher capital costs."

Progressive reforms, new platforms and services over the last ten years may result in free convertibility by 2020 according to a report from Standard Chartered. Opening up China's capital account will create numerous challenges, but it represents the removal of the final obstacle for domestic Chinese businesses joining the world's trade and financial markets, thereby improving their efficiency through healthy, free market competition. ■

Academia comes to Sibos

SWIFT Institute launches one-day programme, but academics also join main conference.

The opening day of Sibos 2014 will see the introduction of a new feature that aims to provide attendees with an experience quite distinct to that of the wider conference. Orchestrated by the SWIFT Institute, Sibos University will seek to merge academic research with the finance industry in a way not previously attempted at Sibos. With 15 speakers from a number of eminent universities worldwide, Sibos University is intended to provide its audience with a full day of lectures, discussing key issues affecting both the global finance industry and the world beyond. Lectures will be given on topics such as market infrastructures, virtual currencies, the cloud, and financial inclusion, each followed by Q&A sessions to allow delegates to engage directly with academics.

Since April 2012, the SWIFT Institute has fulfilled the role of SWIFT's research division, supporting research on a diverse range of issues, including financial inclusion, standards, derivatives market infrastructure and small-cap funding. Sibos University will feature several of the academics with whom the SWIFT Institute has already worked, such as Stuart Weinstein (professor of practice informed legal education, head of Coventry Law School), Renée Adams (Commonwealth Bank chair in finance, Australian School of Business) and Ron Berndsen (endowed professor of financial infrastructure and system risk, University of Tilburg). But Sibos University will also involve a host of new academics not previously associated with SWIFT. Doug Shulman (senior fellow, Harvard Kennedy School, Mossavar-Rahmani Center for Business and Government) and Robert Pozen (senior lecturer, Harvard Business School and MIT Sloan School of Management) will give Monday's closing lectures on 'big data' and 'Extreme Productivity' (the subject and title of Pozen's new book, free signed copies of which will be available to the first 200 people to arrive for Sibos University's concluding cocktail reception).

Sibos University will continue to bridge the gap between academia and industry throughout the week, with its featured lecturers also contributing to the main Sibos programme. Joanne Yates (Sloan distinguished professor of management, MIT Sloan School of Management) will also be involved in the Standards Forum on the Wednesday, while Tom Kirchmaier (lecturer in business economics and strategy, Manchester Business School, and senior fellow, financial markets group at The London School of Economics and Political Science) will continue the discussion on women in finance at the 'Does diversity matter?' session on the Thursday. In addition, Sibos University will continue throughout the week with regular lunchtime lectures, concluding on Thursday with Jay Rosengard (director of the financial sector programme at the Harvard Kennedy School, Mossavar-Rahmani Center for Business and Government) who will lecture on 'What is financial inclusion and why should we care?'. This follows Thursday's big issue debate on financial inclusion, and leads up to the closing plenary with Bill Gates on financial institutions and sustainability in the developing world, a topic on which the SWIFT Institute held its first dedicated conference in 2013. ■

QUICK OFF THE MARK?

Photo: iStockphoto

Bringing a welcome element of athleticism to the conference, Sibos 2014 will see the introduction of the inaugural Sibos Fun Run & Walk – the first ever Sibos-organised athletic event. Taking place in the Boston Harbor on Wednesday, 1 September, the five-kilometre event can be either run or walked as participants enjoy the scenic views of Pleasure Bay on Castle Island, home to Fort Independence.

Runners and walkers will have to be up early for pick-ups from official Sibos hotels at 5:30am, with the run itself starting at 6:30am. Participants will be back in time for Sibos, with organisers ensuring they are returned to their hotels by 8am.

For those opting to run the event more seriously, the top three times attained in both male and female categories will be officially announced the same day at Sibos, and publicised on Sibos.com. Anyone keen to get involved can download the Sibos 'Couch to 5k' plan from Sibos.com, which provides a seven-week guide to preparing for the event.

Register now on sibos.com. ■

A NEW FACE FOR SIBOS TV

Sibos is pleased to announce Daisy McAndrew as the new face of Sibos TV for Sibos 2014. Daisy is best known for her role as a newscaster for ITV News in the UK. The show's one-time economics editor, she has also previously worked as a co-host on 'The Daily Politics' with Andrew Neil, ex-editor of 'The Sunday Times', and as a presenter for 'Yesterday in Parliament' on BBC Breakfast. Grilling politicians is one thing, but tackling the use of ISO 20022 in financial message standards is quite another, Daisy! ■

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THE ART OF SIBOS

Sibos 2014 sees the introduction of a new kind of exhibition to conference. Art@Sibos will provide delegates with a more creative perspective on the key issues facing the financial industry. Alongside the many debates, speeches, lectures and workshops, the exhibition of installation art is intended to provide attendees with both intellectual recovery and professional respite.

The Sibos Gallery's theme – 'The Banker's Briefcase' – structures an assortment of individual pieces of art intended to provoke an alternative kind of contemplation with regards to the conceptual and physical luggage currently both encumbering and equipping the banking industry. The exhibition is interactive, allowing delegates to walk around and within, as well as touch, some of the installations.

Sibos has partnered with a local art studio to develop each work of art. As conference approaches over the coming weeks, the themes, artists and works of art will begin to be revealed to delegates on sibos.com. ■

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