

Clearstream moves into distribution support

BERNARD TANCRÉ, HEAD OF INVESTMENT FUND SERVICES AT CLEARSTREAM, TALKS TO *FUNDS EUROPE* ABOUT ITS DECISION TO MOVE INTO THE DISTRIBUTION SUPPORT SPACE AND TO ENHANCE ITS SUITE OF INVESTMENT FUND SERVICES.

SUCCESS IN CROSS-BORDER

fund distribution is built on a strong reputation for asset safety, flexible sales mechanisms and high standards of investor protection and efficiency. This should be backed by clear regulatory structures to ensure that fund buyers have access to affordable products that meet their investment objectives.

But distribution requirements never stand still and management companies, and their distribution partners, need constantly to refine their strategies to preserve competitive advantage and to ensure compliance with regulatory requirements.

“Adapt or perish, now as ever, is nature’s inexorable imperative,” HG Wells once told us – and this remains an abiding principle in the fund distribution world.

Commission flow

It is this constant need to adapt that has prompted Clearstream to add distribution support to its stable of investment fund services. Distributors are looking for more efficient ways to manage their distribution contracts and commission arrangements – and as a provider of order routing, settlement and fund custody services through its Vestima product, the Luxembourg-based post-trade arm of Deutsche Börse group believes it is well positioned to offer this service.

Until recently, however, the message from distribution clients was that they wanted to keep this process in-house. For many years, asset gathering firms have been making a healthy income from managing distributor fee payments on fund sales and they did not want a third-party provider to establish a service that might slice away at this income stream.

“CLIENTS FOUND THEMSELVES PASSING COMMISSION THROUGH TO DOWNSTREAM SALES AGENTS WITH LITTLE FINANCIAL COMPENSATION FOR DOING SO.”

Times are changing, however, and the commercial dynamics of the fund distribution layer are forcing sales intermediaries to rethink their approaches. Distribution contract and commission management are resource-intensive functions in an increasingly low-margin market – and with sales volumes gradually moving from commission-paying to ‘clean’ share classes (which do not have distributor

commission rolled into the price paid by the investor) this has placed a premium on transparency and cost efficiency. The second Markets in Financial Instruments Directive (Mifid II) has altered the distribution landscape – and companies need to adapt.

“In this environment, a number of our distribution clients asked us to establish a service to support commission and contract management,” says Bernard Tancré, Clearstream’s head of investment fund services. “Increasingly they found themselves passing commission through to downstream sales agents with little financial compensation for doing so. Understandably, they began to explore opportunities for outsourcing this responsibility – and we were well suited, as an established market infrastructure with a record of asset safety and strong relationships to manufacturer and distributor communities, to meet this commitment.”

Contract negotiation

Having reviewed the merits of building a distribution support solution in-house, Clearstream identified a potential acquisition candidate that would deliver a proven service to market substantially faster than would be possible by constructing its own.

Subsequently, it entered into exclusive

negotiations with Zürcher Kantonalbank (ZKB) and announced in April 2018 that it would acquire Swisscanto Funds Centre London (SFCL), a ZKB group subsidiary. The deal was completed six months later after securing approval from UK and Luxembourg regulators. The SFCL purchase added a distribution contract management platform and additional data processing capability to Clearstream's existing portfolio of investment fund services. This has been rebranded as Clearstream Fund Desk.

Fund Desk

With long experience in supporting asset manager and distributor communities through its Vestima product, Clearstream is targeting both of these client segments with its distribution support capability. Fund Desk provides a data exchange that manages transfers of data from fund manufacturer to distributor and vice versa. The service also streamlines distribution contract negotiation, offering a standardised distribution agreement framework that reduces the legal and compliance burden of negotiating distribution agreements with multiple distribution partners.

For a distributor, this provides a single point of access for fund documentation and product sheets across a wide community of asset managers. Under the Fund Desk solution, Clearstream provides access to an independent fund research provider, fundinfo, which offers an extensive library of fund information to investors and financial intermediaries. This includes access to fundinfo's Digital Advisor service, an automated advisory product that identifies suitable fund products for investor clients. This applies "intelligent algorithms" to the large pool of funds data that Clearstream has in its Fund Desk data repository to match the buyer's investment preferences to suitable fund products.

For asset managers, Fund Desk also provides dynamic reporting on volumes and sales trends for distribution of their products across Clearstream participants. This is available for the distributors that

have engaged in the distribution contract, but also immediately accessible for the entire universe of transactions flowing through Clearstream.

Importantly, this distribution support solution also helps asset managers to manage their compliance requirements (eg AML, KYC), including product governance requirements under Mifid II. Under the "target market" component of this regime, a management company must fulfil a product approval process that defines a target market of end clients for each financial instrument that it sells. It must be able to demonstrate that its distribution strategy is consistent with this target market and that all risks relating to these product sales are assessed on an ongoing basis.

This can be a laborious process, typically involving sending questionnaires and gathering in responses from each distribution partner in this network. Clearstream's distribution support solution aims to centralise and manage this service on behalf of asset management customers. More broadly, the service provides a range of analytics that enables the asset manager to monitor performance of its sales teams, and performance of its distribution partners, broken down by distributor, by asset class, by location or a choice of other factors.

Future ambitions

Reflecting on the acquisition of Swisscanto Funds Centre London, Tancré believes it is ironic that a large market infrastructure company such as Deutsche Börse Group should emerge as a disruptor in this segment of the investment funds industry. "In the past, distributor fee and contract management have been a lucrative business line for those offering this service," he says. "In becoming active in the distribution support area, as an agent rather than principal, Clearstream views this as an additional component of our third-party custodian franchise and one driven first and foremost by asset safety and market efficiency



"THIS IS DRIVEN FIRST AND FOREMOST BY ASSET SAFETY AND MARKET EFFICIENCY, RATHER THAN COMMERCIAL AMBITIONS."

rather than commercial ambitions."

In building on this development, Tancré says that Clearstream will continue to develop its investment fund services business into new markets and product areas according to the needs of its customers. In line with this strategy, Clearstream has reached an agreement with National Australia Bank to buy Ausmaq, its managed fund services arm based in Sydney. This deal remains subject to regulatory approval and, if successful, is likely to be finalised in the second half of 2019.

With this move, Clearstream will make its Vestima global funds platform available to a wide range of financial intermediaries in the Australian market (including custodian banks, wrap platforms and wealth managers). It will also deliver additional product reach to Ausmaq customers by providing direct access to international funds and alternative funds, strengthening the link from the Australian funds market back into global markets.