

# BRANCHING OUT

FUNDS EUROPE TALKS TO PHILIPPE SEYLL, CLEARSTREAM BANKING'S CO-CHIEF EXECUTIVE OFFICER, ABOUT THE FIRM'S RECENT ACQUISITION AND PLANS FOR THE DISTRIBUTION MARKET.

**ON 23 APRIL**, Clearstream acquired Swisscanto Funds Centre (SFCL), the UK-based funds platform services provider from Zürcher Kantonalbank, expanding its funds servicing portfolio to include the management of distribution contracts and data processing.

Driven by market demand and responding to the need to bring more transparency to the distribution process, the acquisition not only allows Clearstream to further expand its Vestima service as a one stop shop for funds but also opens the door to closer collaborate with and serve a new business segment – the asset managers.

“We were getting more and more requests from existing customers to help them with the new regulatory challenges in the industry – namely MiFID II, which requires both investors/distributor banks and asset managers to have full control over the distribution chains and patterns.

“Distributor banks are required to ensure the product they are offering is suitable to the end-investor whereby the asset managers have to make sure they respect the target market guidelines. All of this requires data, transparency and specific KYC/AML tasks and services,” says Philippe Seyll, Co-CEO of Clearstream Banking and head of Investment Fund Services at Clearstream.

“When Vestima was launched 30 years ago, Clearstream anticipated that those firms that executed their



**“WITH THE ACQUISITION OF THE SFCL PLATFORM, CLEARSTREAM WILL GAIN THE REQUIRED EXPERTISE TO SUPPORT DISTRIBUTORS WITH TRULY VALUE-ADDED SERVICES.”**

own trades would later see it as a commoditised process with no strategic value and look to outsource it,” says Seyll. “Two years ago we had the same thoughts about the distribution process – that trailer fees and rules on the suitability of investors

would make distributor banks more inclined to outsource their distribution management to a centralised service.”

The big catalyst for this strategy has been MiFID II and its requirement for greater product governance from everyone along the fund processing chain, including distributors, as well as the need for greater transparency on fees. For distributors, this could well mean an eventual end to trailer fees, thereby further reducing their operating margin.

#### **Special link**

The logic of the SFCL acquisition is clear, says Seyll. “At Clearstream, we already have distributors as our clients. Those that are managing the process themselves are using the data that we provide them to verify their trailer

» \*Representatives from Clearstream Banking SA & Zürcher Kantonalbank

fees. What we needed was a link to the asset managers and that is what we get from SFCL.”

In addition to SFCL’s connection to asset managers, Seyll also believes there is a geographical fit between the two companies – SFCL has a domestic focus in the Swiss market, whereas Clearstream has traditionally focused more on the cross-border market.

Consequently, Clearstream will be looking to provide new ‘fund intermediation’ services, such as data provisioning and fee computation, to its existing cross-border funds processing clients while also looking to provide its cross-border service for fund processing, order routing and custody to SFCL’s existing users.

The range of products will be centred on four components, says Seyll – a distribution contract negotiation service to ensure best conditions and maximum coverage; compliance services for eligibility control and AML/KYC rules; data exchange to bring fund data from the asset managers to the distributors and distribution information from the distributors back to the asset managers; and a fee management service to compute, accrue and collect trailer or listing fees.

One might wonder why Clearstream would launch a new service that focuses on fees that may be removed from the market over time. Although trailer fees will be reduced following the implementation of MiFID II, they will not entirely disappear, says Seyll. “This new paradigm requires fund managers to find new ways to compensate fund sales representatives for their services.”

That same regulatory change is driving more distributors – that are currently managing those time-consuming trailer-fee calculation related tasks – to further look for external support, says Seyll. “With

the acquisition of the SFCL platform, Clearstream will gain the required expertise to support distributors with truly value-added services.”

This new product range should be available from early 2019, once the acquisition is officially and operationally completed, says Seyll. “We hope to close the deal this summer and then spend the next six months completing the integration of the different systems.

**“RIGHT NOW, WE ARE FOCUSED ON PREPARING THE INTEGRATION OF THE PLATFORMS, MAKING SURE THE CUSTODY FLOWS WILL BE SEAMLESS AND THAT THE NEW SERVICE IS FASTER, MORE SECURE AND MORE ACCURATE.”**

“Right now we are focused on preparing the integration of the platforms, making sure that the custody flows will be seamless and fully integrated and that the new service is faster, more secure and more accurate and offers an excellent fund collection mechanism.”

In addition to the operational advantages of a single, fully integrated system, Seyll believes that existing SFCL clients and those distributors that currently manage their own distribution process will also benefit from the increased scale of the merged entity. This includes the global distribution contracts that Clearstream has in place, with its reduced fees and increased rebates.

## Meaningful

The new entity will also give Clearstream access to more data that could prove useful to clients, not least in meeting their product governance and client suitability requirements – a service that is not typically available on a cross-border level, says Seyll.

This service will become increasingly attractive as firms employ more third parties in their processing chain, says Seyll. “Distributors or asset managers may have a clear understanding of their immediate clients, but when you have a company doing this on your behalf, or if there are other end investors further down the processing chain, it can make the process more difficult.

“We are gathering the data needed for this kind of suitability service and putting automation around it, but it will take time for the service to fully develop. The data has to be aggregated to be meaningful for both sides – the distributors and the asset managers.”

While Clearstream is looking to steadily expand its service offering to become the largest global fund intermediation platform, it has no intention of encroaching on its distributor clients’ own territory.

“We are a market infrastructure provider and are not concerned with power games,” says Seyll.

\*Pictured left to right are Philippe Seyll, Co-CEO & Head of Investment Fund Services at Clearstream Banking SA; Jeffrey Tessler, Member of the Executive Board of Deutsche Börse AG; Dr Stephanino Isele, Member of the Executive Board & Head of Institutionals & Multinationals at Zürcher Kantonalbank; Felix Oegerli, Head of Trading, Sales & Capital Markets at Zürcher Kantonalbank; Marc Heissenbüttel, Chief of Staff, Investment Banking at Zürcher Kantonalbank; and Tilman Fechter, Member of the Executive Board & Head of Sales and Relationship Management at Clearstream Banking SA.