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CROSS-BORDER DISTRIBUTION CONFERENCE 2019

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Introduction

On 12 February 2019, Deloitte Luxembourg and Elvinger Hoss, together with supporting partner Financial Times Live, organized the seventh edition of the highly successful annual Cross-Border Distribution Conference at the European Convention Center in Kirchberg, Luxembourg City.

Hundreds of industry participants from across Europe gathered to hear speeches and panel discussions focusing on navigating change and seizing opportunities, as well as opinions from eminent industry professionals.

Lou Kiesch, a partner at Deloitte Luxembourg, opened the conference by stating that it had come to be seen as a keynote event within the wider investment management industry. From a statistical perspective, 750 people from 270 different companies and 18 nationalities signed up to attend this year's event, all eager to hear 28 speakers discussing regulatory, political, and technical issues. He also confirmed that the conference would continue until organizers ran out of ideas and attendance numbers dropped.

In keeping with the conference theme of navigating change and seizing opportunities, attendees were encouraged to read the White Paper drafted especially for the event on how the Asia-Pacific is becoming a region of influence off the beaten track. Lou Kiesch then handed over to Jacques Elvinger, a partner at Elvinger Hoss, who delved deeper into the regulatory world. One particular topic—delegation of portfolio management—remains a key concern for our industry. At the same time and in the same place last year, he had strongly argued that there was no need to fix what was not broken. Although progress has been made, he said that he believed that the battle had not yet been won because the industry was not where it wanted to be.

No conference is currently complete without zooming in on Brexit. The European Union as we know it today is about to change dramatically. Information and preparation are key to tackling any major challenge, so let us now delve deeper into the topics to explore how best to prepare.

1. Keynote Opening Address

Speaker:

John Emerson

Former US Ambassador to Germany, Global Relationship Manager & Vice Chairman, Capital Group International

Are things really as bad as they seem?

Between 2013 and 2017, Mr. Emerson was the US Ambassador to Germany before resuming his career at Capital Group. During his tenure, the world witnessed many somber events including the Russian incursion into Ukraine, civil war in Syria, and the largest migration of refugees in Europe since World War II. These factors have all influenced the world as it is today, as have Brexit and the rise of populist nationalism across Europe and the United States.

In January 2017, the United States inaugurated Donald Trump as its 45th President following his successful "America First" campaign. It soon became clear that the President would embrace a more protectionist US foreign policy, which would undermine the multilateral institutions, rules, and cooperation that have guided the Europe–US relationship for over 70 years. Protectionism and nationalism are never far away from one another. Today, people are barraged with predictions of what can generally be described as impending doom from think tanks and other professional bodies. The capitalist model, if we believe everything we hear, would seem to be increasingly out of touch, and could, in part, potentially be the reason for the rise in nationalism across Europe and the US.

To understand how Europe and the US have reached the current status quo, it is important to understand the dynamics and forces at work, as these changes have not occurred overnight. Mr. Emerson highlighted three aspects that may assist us in deciphering how we got to where we are today. Firstly, nationalism, Brexit and protectionism: These elements all show how changes in society and economic forces must be understood and addressed. Secondly, there are trade disputes and the subsequent increased volatility in financial markets. Finally, we need to ask ourselves whether things are as bad as they seem when considering the broader picture.

For more than 70 years, the rules-based system of trade has helped lift millions out of poverty, which in turn has helped foster peace and prosperity. Technological innovation and globalization have helped countless numbers find jobs and furthered wealth creation. However, this rapid expansion has unfortunately not kept pace with many parts of the world's population. Indeed, many people are still feeling the effects of wealth destruction following the 2008 financial crash. Coupled with the loss of jobs to technology, as well as demographic, social and cultural changes, these factors are seen by many as perceived threats to their way of life, which helps fuel populist backlash. The trust that people place in their leaders and societal institutions, including the global financial system, is again under pressure. We live in an age where social media relentlessly generates information that is often neither balanced nor subjective. People choose the media outlets they wish to listen to, which tend to reflect their own feelings and views. These further fuel nationalist, populist views and mistrust. A possible political consequence of this loss of trust is increased regulation of the financial industry as politicians try to appease those they purport to represent.

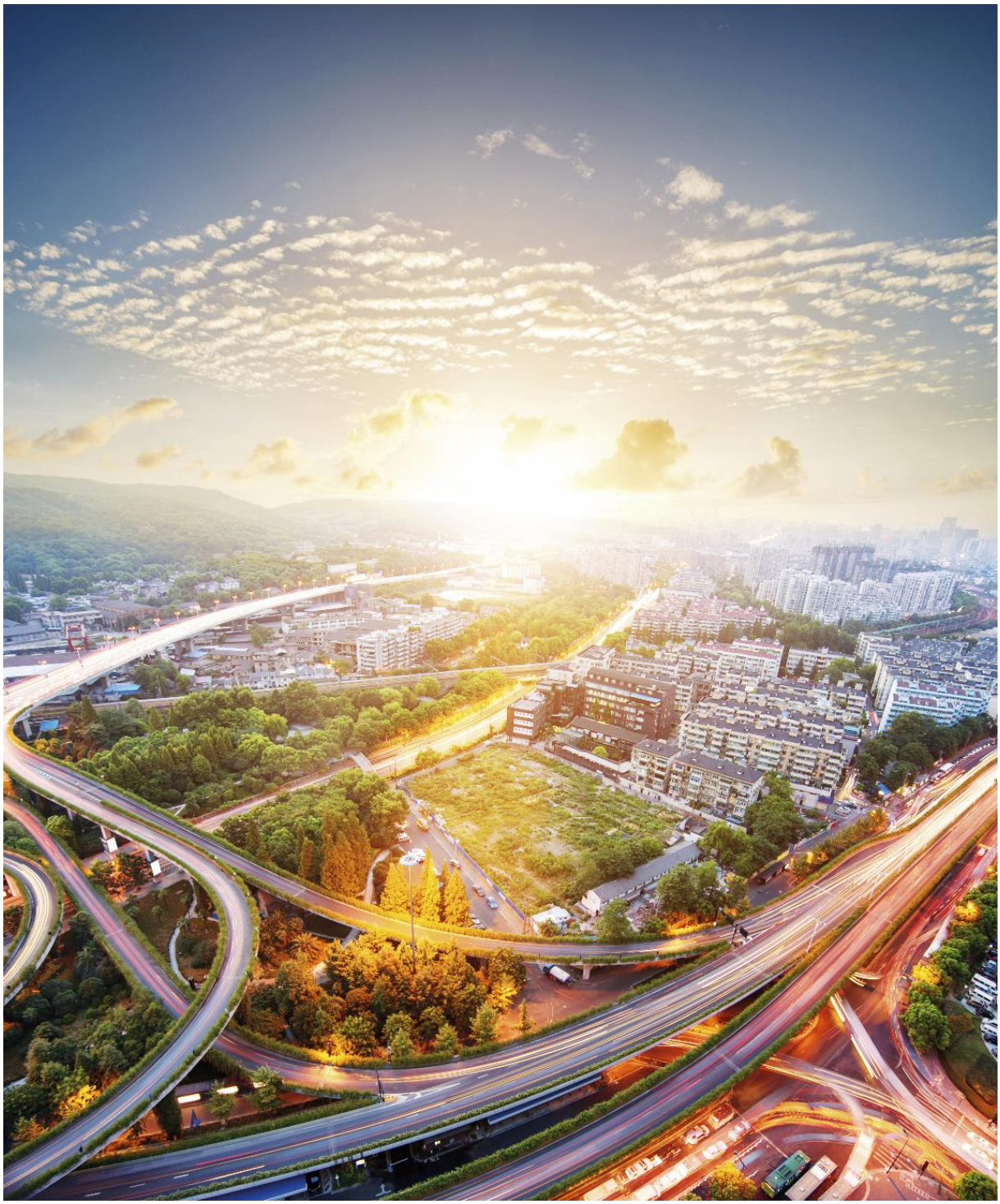
To address these issues, Mr. Emerson believes the world should neither reject globalization, nor revert to populist politics or inward-looking nationalism. Instead, using the combined efforts of governments, policy-makers and the business community, it should address the effects of technological advances and globalization to win back the trust that has been lost. Globalization of supply chains, digitalization of services, and automation of manufacturing all provide compelling reasons to revisit today's trade agreements, many of which were written long before these technological advances. The recent introduction of increased tariffs on goods and services can only serve to create trade wars instead of resetting the balance of trade. Serious dialogue is required to find common ground and to better address today's changing world.

Certainly, there are tough times ahead, but whilst addressing the issues of today and the challenges of tomorrow, we must not lose sight of how far the world has come since the dark days of the 20th century.

So, are things really as bad as they seem? In short, probably not. Fewer people are involved in armed conflict than ever before. Huge strides have been made in health care, eradicating diseases that last century would

have killed millions. Tens of thousands are lifted out of poverty every day; many more are learning to read and write to further their own goals and dreams. Cell phones and other technologies have shrunk the world and now enable businesses to grow where once the physical infrastructure required would have limited their development. For the first time in history, the middle class has become the world's largest demographic. Some 2.5 billion people in China, India, and Africa are now becoming consumers and providing significant opportunities for businesses.

Despite the challenges the world faces, at least there is dialogue to address them. In fact, the world is full of opportunity and outstanding progress.



2. EU Commission: Towards a more competitive landscape for cross-border fund distribution?

Speaker:

Ulf Linder

Deputy Head of the Asset Management Unit, DG FISMA EU Commission

During his speech, Mr. Linder provided detailed updates and information on the priorities of the EU Commission as regards implementing key policy changes focused on investment funds. He also shared the latest news on negotiations surrounding cross-border distribution legislation plus developments on the regulatory environment for sustainable finance. PRIIPs legislation was also covered.

As regards the omnibus initiative on cross-border barriers to fund distribution (the "Proposal"), the audience was reminded that the purpose of this legislation was not only to reduce friction between UCITS and AIFs when selling on a cross-border basis but also to make the cross-border distribution of such funds more efficient.

The Proposal deals with a number of major issues including: (i) the rules for the pre-marketing of AIFs, (ii) regulation of the information to be provided by the home Member State supervisory authorities, (iii) rules for the de-notification of funds, (iv) the removal of the requirement to provide local facilities, and (v) using ESMA as a potential notification portal. It is worth noting that the Proposal does not cover rules for the pre-marketing of UCITS; no review of this is planned until two years after the new legislation is incorporated into national legislation. The intended review should also include an evaluation of the use of reverse solicitation and the third-country passport.

The numerical thresholds for the de-notification envisaged in the original Proposal have been removed and replaced with further safeguards. At present, the Trilogue discussions are still ongoing as to how best to organize access to information at ESMA level. The EU Parliament has come out in favor of an interactive system where supervisory authorities would not only access the relevant information but also underlying material. At the time of publication, final details have not yet been released.

In terms of the AIFM Directive, the EU Commission has started its review of the framework (in line with Article 69 of the Directive) by publishing a detailed report on the application and functioning of the Directive. ESMA also intends to issue AIFM and AIF statistics for the first time, which have been collated thanks to the central AIFMD database that ESMA has been creating. As part of the review, the EU Commission intends to launch another call for evidence to collect feedback from various related stakeholders.

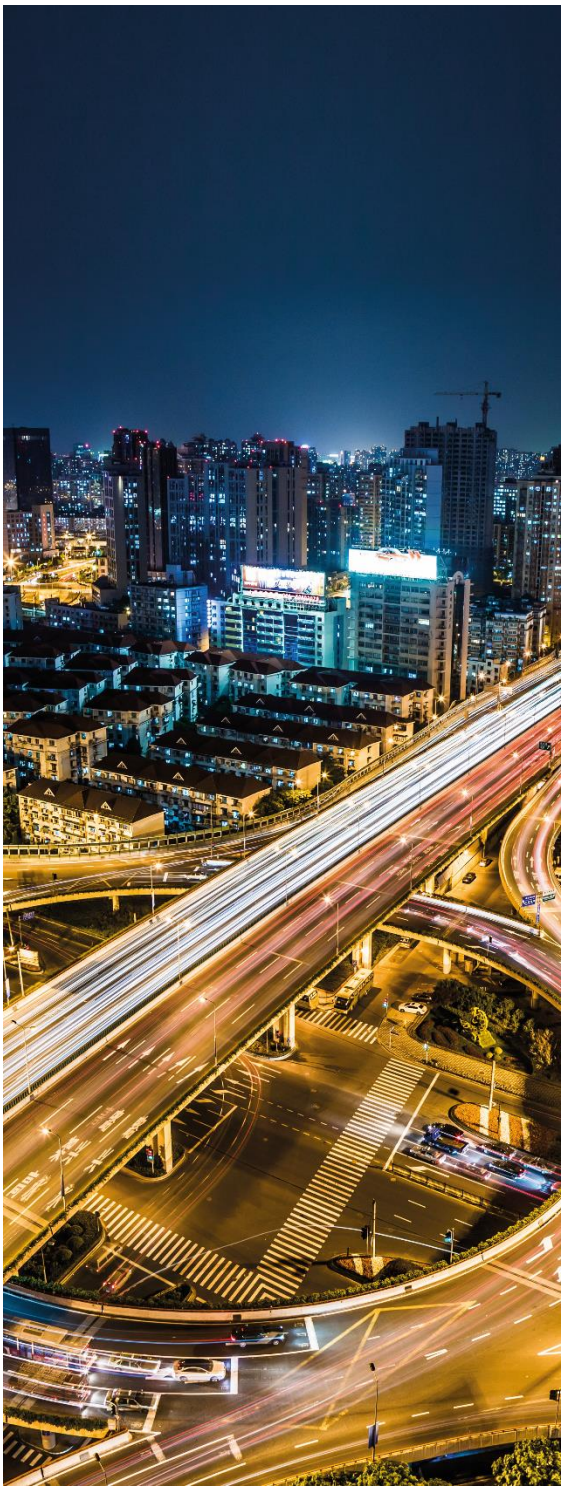
It is interesting to note that there are no current plans to release a UCITS VI Directive. As things stand, the co-legislators have decided to examine specific issues on a case-by-case basis rather than conducting a major, wide-reaching review.

Mr. Lindner also shared insights on the latest developments in relation to sustainable finance, which also forms part of the Capital Markets Union Action Plan. The program on sustainable finance is currently led by Commission Vice President Valdis Dombrovskis. The action plan outlined by the EU Commission for this segment is a comprehensive strategy to direct more private investment into green products.

As part of this strategy, the EU Commission has split sustainable finance into several streams including taxonomy and a green label. As regards taxonomy, the intention is to help investors identify the sectors with "green" activities. To achieve this, the EU Commission has created a special technical working group. The first focus of this working group is climate-related information with environmental issues being discussed as the second step. Social and governmental issues will also be integrated at a later stage. At the time of writing, the taxonomy proposal is under negotiation with the EU Council and EU Parliament.

In terms of its green label, the intention is that this label should provide investors with an indication of which financial products

meet a defined green standard. Rules will also be introduced to govern how financial products can be measured against a certain benchmark. While the EU Council appears to agree with the proposal of the EU Commission, the EU Parliament appears to be willing to take a more visionary approach and extend, for example, the disclosure definition to include any general negative impact that an economic activity could have in terms of environmental, social, and governance aspects. As we are still at the negotiation stage, the first outcomes are not expected for at least 18 to 24 months.



Mr. Linder concluded with a few words on PRIIPS. The original exemption period until 31 December 2019 has now been extended until 31 December 2021, as has the PRIIPs review. The European Supervisory Authorities will assist in this review and are already analyzing which issues (e.g., performance scenarios and transaction costs) could already be reviewed using current market experience. The EU Commission will also analyze whether the UCITS KIID could be completely replaced by the PRIIPS KID. Should the EU Commission conclude that this is the case, appropriate proposals will be drafted, and consumer testing will be carried out. This story is just beginning.

As things stand for UCITS, the co-legislators have decided to examine specific issues on a case-by-case basis rather than conducting a major, wide-reaching review

3. Planning ahead for regulatory change

Moderator:

Baptiste Aboulian

Group Editor, Ignites Europe and Ignites Asia, *Financial Times*

Panelists:

- **Vincent Ingham**, Director, Regulatory Policy, EFAMA
- **Giles Swan**, Director Global Funds Policy, ICI Global
- **Sheila Nicoll**, Head of Public Policy, Schroders
- **Sally Wong**, Chief Executive Officer, Hong Kong Investment Funds Association

What has worked, what has not, what next?

The panel discussion started where the previous speech had concluded—with PRIIPs. The consensus was that PRIIPs had started out well but appeared to have lost their way. The panelists felt that there had been too little consumer testing and cost/benefit analysis before implementation, and the industry had therefore lost track of what transaction cost disclosure was actually supposed to achieve. Whilst a complete overhaul of the regulation was not necessarily required, targeted adjustments such as cost disclosure based on the reduction in yields could prove beneficial. The panel welcomed the extension of the UCITS exemption and agreed that, whilst some issues currently faced by the industry could be addressed by Level 2 changes, we should not rule out a possible reopening of the Level 1 Directive.

Another key topic for discussion was the introduction of the Pan-European Personal Pension product (PEPP) and ESG investments. Both initiatives have great potential and the PEPP is particularly promising as a means to help supplement the current funding/saving gaps in pension schemes for both governments and individuals.

As regards ESG products, the panel noted that there was considerable demand from investors for such products; however, investors were not just looking for ESG investments but also socially conscious investments, currently accounting for around US$ 850 billion.

This raised an interesting question as regards the definition of ESG, with several panelists calling for a clear yet broad definition to be drawn up. A good example is whether the "E" part should focus on the environment and climate change alone or whether it should also include child labor, work safety, weapons production, and deforestation.

Another critical question is how ESG should be incorporated into the investment decision-making process. There has been a raft of regulation across the industry, but this is often fragmented and should be better coordinated. Ideally, regulators should not adopt different approaches and interpretations on points such as disclosure requirements. Several panelists also believed there was a real danger in labelling particular funds as "ESG Funds" whilst the rest of the industry continues with business as usual. If ESG is to be properly integrated into the investment process, then surely it should cover all products and not just those with the ESG label. Perhaps one solution is for the industry to listen to what clients want and where their specific ESG concerns lie; potentially it might be more appropriate for fund managers to explain their approach to these issues to clients, rather than necessarily just relying on labels.

Turning to sustainable finance, the discussion focused on three key conditions to ensure that the EU Commission's sustainable finance action plan would work. Firstly, a consistent and clear approach to its adoption and implementation; secondly, requiring appropriate disclosure to ensure retail clients were not overloaded with information, and thirdly, improvements in the standardization and quality of information provided by asset managers themselves about their ESG initiatives and material risks.

A critical question put to the panel related to where they thought regulators should focus their efforts over the next five years. Suggestions included examining how current regulations interact to ensure alignment of definitions and adoption of consistent concepts to remove ambiguity and arbitrage opportunities.

Perhaps regulators should either put themselves in the shoes of investors to see if the regulations actually achieve what they are meant to, or alternatively conduct more consumer testing. If investors had more say in how and what information they would like to receive, then perhaps confusing messages could be avoided.

Other suggestions included pension reform, the completion of the Capital Markets Union, consolidation and removal of duplicated reforms and regulations, and regulation of technology. However, given the forthcoming European elections, many parliamentarians with expert knowledge of our industry may be replaced. If this happens, more open dialogue with the new members to explain the needs of the industry will be essential before concrete actions can be taken

Lastly, the topic of international mutual fund regulation was introduced and the focus naturally turned to Brexit. The consensus was that the City of London would remain a major financial center and that the EU should retain strong links for the purposes of mutual supervision. Both bilateral and multilateral cooperation should be used to strengthen international standards.

In the short term, the panel agreed that the United Kingdom should not deviate from EU standards, particularly in asset management, and should work alongside the EU, in a similar vein to the Swiss, in developing a recognizable global brand. The United Kingdom should not be seen as cutting itself off from Europe and drifting out into the Atlantic Ocean.

Perhaps one solution is for the industry to listen to what clients want and where their specific ESG concerns lie

4. Keynote address

Speaker:

Verena Ross

Executive Director, European Securities and Markets Authority

The asset management industry is currently handling three vital considerations that are leading to regulatory developments on a national, regional, and global level: The ongoing importance of investment fund regulators and their impact on systemic risk; the cost and performance of retail products; and the Brexit challenge.

The asset management sector has seen rapid growth since the financial crisis that has contributed to the diversification of funding sources in the EU. Fourteen policies were issued in 2017 by the Financial Stability Board to address structural vulnerability from asset management activities, which also highlighted questions relating to liquidity and leverage. In response, ESMA is conducting its own analysis on liquidity and leverage particularly in the AIFM market and, for the first time, will publish a report based on cross-EU data provided by market players in order to provide a comprehensive overview of a market over 5 trillion euro in assets under management.

For most AIFs (excluding real estate funds), asset liquidity is determined by the frequency with which investors may redeem their holdings. Strong liquidity management is key to ESMA's investor protection and financial stability objective. Instances of liquidity stress have been successfully managed in the past, but this does not reduce the potential impact on investors and the financial system. Hence, it is essential to ensure funds are tested under normal and stressed liquidity conditions.

Further to ESMA's recommendation to develop guidance on the practices to be followed by managers for liquidity stress testing, the European Systemic Risk Board has proposed a set of recommendations addressing liquidity and leverage in investment funds, and a consultation was opened in February 2019 to address these topics. Thanks to such measures and discussions regarding industry-wide macro stress tests as a tool for supervisory authorities to monitor market and systemic risk, we now have a better understanding of where the main risks lie.

To ensure fair play across the EU, the Supervisory Coordination Network was created to allow supervision and authorization experts from National Competent Authorities (NCAs) to discuss current cases. This is the first time that NCAs have discussed cases consistently and in real time. This development goes hand in hand with the evolution of ESMA's role in ensuring the sharing of best practice.

Of course, there is still uncertainty around what Brexit will bring overall and for asset managers and their investors in particular; this is why Memoranda of Understanding have been a core priority for ESMA. Additionally, if the risks associated with leverage are well understood, and the risk of contagion is duly mitigated, this should not be a cause for concern.

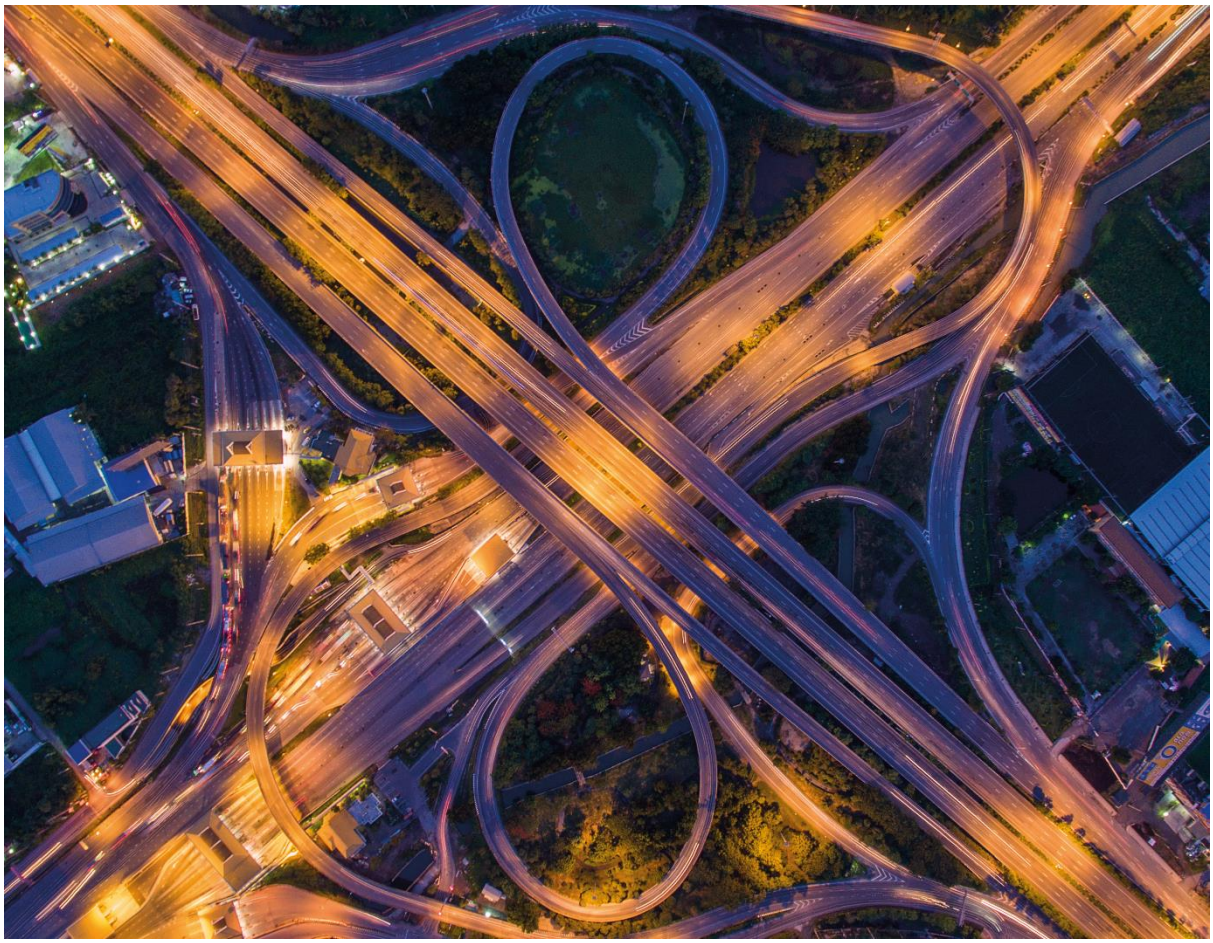
It is difficult to properly measure the use of leverage regionally and globally as measurement methods vary across jurisdictions and give rise to different interpretations. Hence work has been done by the International Organization of Securities Commissions in response to the Financial Stability Board's recommendation, firstly to establish a consistent measure of leverage in funds; secondly to enhance comparability; and thirdly to ensure analyses can be performed consistently around the world.

Pursuing its goal of investor protection, in January 2019 ESMA published an Annual Statistical Report providing an overview of the impact of past performance and costs on investors' decision-making in relation to UCITS, retail AIFs, and structured retail products. It is fundamental for retail investors to have comprehensive and comparable information to assess the benefits and risks associated with the products that they are being offered. Although the results are robust, ESMA will continue to report on the ongoing challenges associated with the quality, availability, and comparability of cost and performance data, particularly for retail AIFs and structured retail products, where a lack of information makes it difficult for ESMA to evaluate and maintain retail investor protection. Based on the available information, ESMA found that the total cost of a fund is a significant drain on fund performance, which affects retail investors

more than institutional investors. Fees for retail investors are nearly twice as high as those for institutional investors, with around 80 percent of these fees being classed as ongoing charges.

Legislative changes and increased transparency have had a positive impact on investor protection and enhanced the overall retail investor experience. ESMA is convinced that these changes are fundamental in building trust in fund manufacturers and fund distributors by providing clarity on the products they offer. These include the obligation to disclose expected costs prior to the provision of services, the obligation to unbundle charges, the ban on inducements, and the PRIIPs KID. Targeted amendments to the PRIIPs framework to extend it to UCITS have resulted in ESMA publishing a statement imposing higher expectations as regards the performance scenario presented to retail investors.

Conscious of the numerous challenges that the market is facing, specifically in the context of Brexit, ESMA has also focused on the potential use of letterbox entities. To prevent regulatory arbitrage, ESMA confirmed that entities established in an EU Member State as a result of Brexit must be sufficiently substantial.



It is difficult to properly measure the use of leverage regionally and globally as measurement methods vary across jurisdictions and give rise to different interpretations

5. Seizing opportunities for a new decade of asset management

Moderator:

Yuri Bender

Editor-in-Chief, Professional Wealth Management (PWM), Financial Times

Panelists:

- **Fiona Frick**, Group CEO, Unigestion
- **Amanda Ruch**, Global Head of Fee Management, Capital Group
- **James Bevan**, Chief Investment Officer, CCLA
- **Inès de Dinechin**, CEO, Aviva Investors France

During the course of the debate, the panelists touched on a wide array of topics with the potential to shape the future, including the general shift from active to passive management and whether this trend will slow down or even be reversed in the future. They also discussed how the universe of investment products and strategies is likely to develop in light of ESG, digital innovation, and the new generation of investors.

The shift from active to passive management, accompanied by an increasing number of ETFs in the market and significant reductions in fees over time, seems to have stabilized over the past two years. This is particularly the case on the equity side and a similar trend is expected on the fixed income side. In this context, it is crucial to understand the concept of "total costs" and to identify those fees for which transparency is lacking in terms of what is actually included in such costs, despite the greater degree of transparency for asset management fees. In terms of fee structures, although the panelists agreed that the situation was genuinely better when compared to the previous decade, with numerous interesting fund products with low fees, they noted that many retail investment funds still charge high fees. In terms of innovation, the panelists were looking forward to seeing more products reach the market that were innovative, suitable, and tailored to real investors' needs.

One topic that was discussed at length was the distinction between active and passive asset management. Some panelists shared the view that much of what has been classified as active over the past 40 years is effectively passive (i.e., expensively benchmarked investment funds). The deviation from active into passive management has certainly created confusion. To achieve absolute returns in all asset classes, asset managers should use their knowledge and expertise rather than just following market trends. Asset managers should also use innovation in their products and services, and continue to take investment decisions based on their expertise.

The future active management model should ideally be a mix of investment manager expertise and quantitative models. It was, however, stressed that pure quantitative models on their own might not work and had the potential to become risky. If it is true that the more knowledge one has, the greater the probability of making the right decision, then incorporating investment managers' wisdom and creativity into the decision-making process remains essential. There is a consistent view that asset managers should be much closer to the assets they invest in. There also appears to be a clear trend towards increased consolidation, meaning that in future asset managers offering more than segregated mandates are expected to be the leaders of tomorrow.

The ever-increasing focus on sustainability should continue according to the panelists, with ESG definitely becoming a future standard. The snowballing interest in sustainability will lead to increased pressure on asset managers to adopt a long-term focus on elements that will have an impact in a few years' time; ESG could be a way to achieve this. However, a shift of mentalities is necessary, as both investors and issuers have tended to focus on the (very) short term over the past decades. The panel believes that ESG eventually will become so fully integrated that it will be treated as one of the many investment criteria.

The universe of investment products is also likely to expand to include additional

alternative strategies. Recent changes influenced by reduced liquidity in the market coupled with a less favorable economic outlook suggest that only having long exposure to bonds and equities could become an inefficient and risky strategy. Asset managers will need to expand their universe of investments to include other sources of return, be it for diversification purposes or simply to boost portfolios. Private equity could be one such avenue. We should also not forget regulatory and industry-driven changes which, together with intense media scrutiny, are all factors that will shape the future of the investment fund industry.

A further challenge will be to understand and adapt to fee-conscious millennial investors. As this generation of investors effectively grew up with the internet, they have different expectations in terms of the client experience and also demand easy access to information on costs, for example. They are more likely than previous generations to want to compare and contrast high-performance products. To continue selling investment products, the industry must understand millennials and their motivations. We must not forget digital innovation—big data and machine learning—which could be employed to build market share and meet changing investor preferences. The challenge will be to combine all these factors and create new opportunities to devise more sophisticated investment processes.

The shift from active to passive management, accompanied by an increasing number of ETFs in the market and significant reductions in fees over time, seems to have stabilized over the past two years

6. One year of GDPR—where is data protection heading?

Speaker:

Mary Galligan

Managing Director, Risk and Financial Advisory, Deloitte & Touche LLP

When asked about the difference between privacy in the US and the EU, Ms. Galligan simply responded that personal identifiable information (PII) is given out more freely in the US compared to the EU.

People in the US appear to be less concerned with the repercussions of providing their personal data and expect that the companies receiving the data will protect it. The main difference is that the standard of what constitutes a breach of privacy is much higher under GDPR than in the US. In the US, a breach of privacy is generally defined as unauthorized access to a system, whereas GDPR sets a higher standard. This critical difference becomes very challenging for companies operating on a global scale with the US needing to do more to reach comparable levels.

Privacy in the US is very important as it covers companies against two main cyber risks: Firstly, the theft of operational technology, and secondly the theft of intellectual property. Companies face difficulties in prioritizing these risks and therefore in developing appropriate strategies to combat them. It is also certainly challenging to balance these risks against compliance with privacy regulations.

Companies operating globally must continuously ask themselves which privacy regulations they should follow. Certainly, by automatically selecting the most restrictive regulations, companies would then ensure compliance with the less restrictive regulations. However, this approach is labor intensive and comes with significant costs. Companies will also need to identify how compliance will be monitored and whether they have the necessary human resources to implement these regulations. However, you do not need to operate globally to experience the same issues. In the USA, 48 states have their own data protection laws, which are not always consistent or comparable, with Nevada having the least restrictive privacy laws. Effectively, this means there is no federal definition of PII in the US; having such a definition would benefit not only companies operating in the US but also businesses trading with the US. Unfortunately, a federal definition of PII is not likely to be drafted during the current US administration.

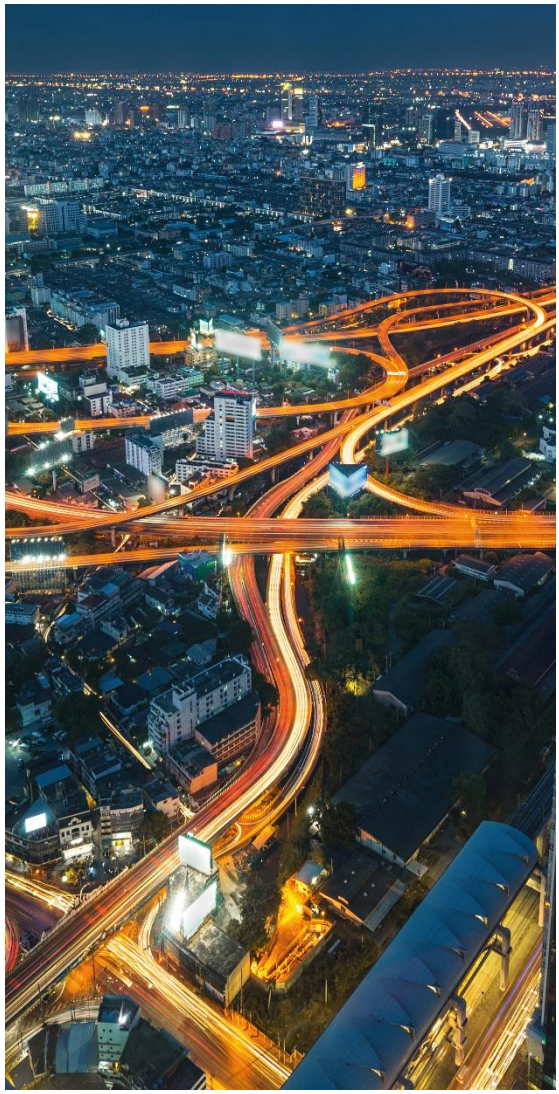
Companies have, however, changed their approach to privacy over the last 20 years. Previously, multinationals used to select the country that had the most suitable privacy regulations for their purposes; nowadays companies try to comply with multiple privacy regulations at the same time. This results in company strategy being more compliance-driven rather than focusing on protecting against cyber security risks. From a legal perspective, it would be easiest to follow the rules of the country with the most restrictive privacy laws. However, any fines associated with a breach of privacy laws often play a significant part in the decision-making process as to the choice of country. The bureaucracy associated with complying with GDPR and other privacy regulations is often mentioned as a key inhibitor to focusing on preventing cyber threats. Another challenge is for companies to create ethical technology. To be competitive, companies must develop their technologies at a rapid pace but ensuring that these developments comply with the relevant privacy regulations certainly slows down the process.

Another critical concern for companies is that regulators appear to punish all companies in the same way for breaches of privacy despite any potential extenuating circumstances. Companies that have taken all possible measures to protect PII are often punished in the same manner as companies that did very little to protect PII, for example in the event of a cyber-attack. Perhaps there should be a monetary incentive or reward for companies that fully comply with all necessary measures to protect PII. The punitive approach taken by regulators has had a chilling effect on companies. Many companies have information on cyber threats but are afraid to share it with the regulators, as they do

not wish to fall under their scrutiny. Again, regulators could incentivize companies to report threat information anonymously. Another option is to examine and address the root cause of cyber-attacks rather than each user having to protect themselves individually.

Clients of US companies can request audits to be carried out on those companies for aspects of cyber risks. The biggest challenge for companies is the lack of standardization of such cyber security audits leading to a patchwork approach. If such cyber audits could be standardized, companies could then complete a single regular cyber audit on themselves and share the results with all their clients. Standardized cyber audits and a US-federal definition of PII would certainly lead to cost and time savings on a substantial scale.

Although there seems to be little convergence between regulators around the world, each individual industry and its consumers can help drive the need for such convergence. Individuals will eventually wish to know what information/data is collected about them, how it is stored, who has access to it, and most importantly how it is used. It is clear that in the future, there will be too much data available. There is already growing interest in aggregating data rather than keeping individual data. Indeed, for some companies, aggregation will be the only way to ensure that data is useful. Whatever happens, this topic will remain on the agenda for years to come.



Companies have changed their approach to privacy over the last 20 years

7. Integrating gender diversity into ESG and the wider fund industry

Moderator:

Baptiste Aboulian

Group Editor, Ignites Europe and Ignites Asia, *Financial Times*

Panelists:

- **Ulrika Hasselgren**, Global Head of Sustainability and Impact Investment, Danske Bank
- **Karine Hirn**, Partner and Co-founder, East Capital
- **Rick Lacaille**, Executive Vice President and Global Chief Investment Officer, State Street Global Advisors
- **Denise Voss**, Conducting Officer, Franklin Templeton International Services

One of the key performance indicators for analyzing the social aspect of ESG investing is diversity. This element of the investment selection process has become even more important recently and gender diversity has become a proxy for the quality of the management team. It has become obvious that having a more diverse workforce means achieving better results for clients and investors alike. During the debate, the panelists shared their insights into why gender diversity has become such a critical discussion point and why the industry is lagging behind, and they suggested ways in which its structural impact on society could be defined and supported.

Despite investors being aware of the importance of gender balance, many do not explicitly request this characteristic when performing due diligence on asset managers. The question was raised as to why the investment management industry is so far behind other industries as regards its diversity; for example, around 48 percent of students in law and medical schools are women. As the investment management industry is a people-focused business, this does not make sense.

While attempts are being made to "enforce" gender diversity at senior management level, this does not usually filter down to the rest of the organization. The mere existence of a Gender Diversity Policy within the company does not mean real change is being sought unless the policy is actively monitored and implemented.

Investors should look for gender diversity as it is well known that such diversity provides new perspectives, boosts management quality, encourages teams to be diversified in terms of knowledge, and means that teams can draw on different skillsets. A lack of diversity in an organization could indicate a flawed hiring process, as the company will therefore not have the opportunity to address gaps in its knowledge and to benefit from the advantages offered by having a diverse workforce.

The gender balance can be analyzed by considering two main aspects: firstly, the presence of women in decision-making positions, and secondly the number of women in the investment management industry. Deloitte Luxembourg has conducted research on the number of women occupying board seats with women holding on average 15 percent of board seats worldwide but only 4 percent of CEO and board chair positions globally.

To assess the gender balance in the investment management industry, we could consider the number of women who are CFA® Charterholders. The rather surprising result is that less than one in five are women. Interestingly, during the CFA exams in June 2018, 52 percent of exam takers in China were women, compared to just 29 percent in the U.S. This could mean that the trend is reversed in Asian countries, compared to Europe and the US which could be the result of different approaches in terms of gender equality policies.

To define the impact of gender diversity in our society and analyze new approaches to effecting meaningful change, it is important to acknowledge the existence of structural gender inequality. The most important action that needs to be taken is to reduce discrepancies in terms of opportunities and create room for self-improvement for all employees. Another suggestion would be to consider different leadership approaches and to use gender diversification as a way to improve employees' efficiency and motivation.

A critical factor to bear in mind when attempting to create a gender-balanced company is to consider that change must happen naturally and cannot be forced. Setting explicit targets and trying to achieve

them through enforced policies could actually run the risk of devaluing the perceived competence levels of women in the team. To support this type of change, it is vital to consider the leadership skills of those that are supporting the change, and the fact that change must differ from a simple command and control approach.

It is crucial to start talking about the impact that gender diversity has on the efficiency of companies and it is fundamental to understand that inequality is the structural problem that needs to change. We must also consider the fact that although gender diversity is currently in the spotlight, there is a broader discussion to be had around diversification in terms of race and age to create better organizations.

Building diverse teams is hard work, but the resulting benefits of diversification to companies, employees, and ultimately clients are immeasurable.

Deloitte Luxembourg has conducted research on the number of women occupying board seats with women holding on average 15 percent of board seats worldwide but only 4 percent of CEO and board chair positions globally

8. From FinTech to RegTech-Game-changers in investment and fund management

Speaker

Jean Devambez

Global Head of Digital and Acceleration
BNP Paribas

Interviewer:

Baptiste Aboulian

Group Editor, Ignites Europe and Ignites Asia, Financial Times

New regulatory frameworks and the requirements associated with them are forcing companies to develop not only new services for clients but also new ways of working. The answer for many companies could be digital transformation.

BNP Paribas Securities Services is currently investigating how best to conduct a digital transformation within their organization in order to improve efficiency, enhance the client experience of existing services, develop new business models, and further improve and diversify service offerings. This last point is the most interesting and beneficial for their fund distribution service.

Innovation in terms of new business models can be influenced by internal and external variables. One example is BNP Paribas' in-house accelerator—a dedicated structure for FinTech start-ups that can be applied to fund distribution. This represents a change from the traditional process of creating a new business model for start-ups, where external factors, e.g., markets, can have a greater impact on structure and market penetration. Thanks to this incubator, developed projects combine both factors. Over the last two years, a number of projects have been developed and in the next two years BNP Paribas estimates that three to four successful initiatives could go live. FinTech start-up companies are considered key to success in terms of creating new revenue streams for companies. In the case of BNP, such companies have been structured as independent companies so that the bank will eventually be the sole shareholder.

Regulatory change, technological development, client expectations, and new competitors are the main challenges that their fund distribution service faces. As a result, it has become necessary to devise new services to help improve efficiency. When facing these challenges, BNP has focused on different initiatives including:

- Data leverage by using AI to efficiently collect fund data
- A common collaborative platform for data dissemination to asset management companies, funds, investors, and other recipients, to support oversight and the monitoring of the relationships among participants
- Blockchain operational platforms to manage client on-boarding, investment positions and related data analytics

In the last two years, the hype around blockchain has shown that these new technologies can generate benefits, despite the unavoidable time-lag between their creation and the point at which they become fully operational. The simple reason for this is that although the technology has already been developed, there is still no framework underpinning its use on a large scale. Other important considerations are the need for a high level of data privacy as well as scalability—two fundamental factors for the industry.

Companies also need experts in this field despite the rumors that digital innovation will reduce company headcounts. Experts are required to support the initial phase and the creation of a "Platform number one". The creation of this unique platform is necessary to support the high cost of setting up a blockchain for fund distribution that has been designed from the beginning to interconnect with other chains. Once the technology is proven to be successful, it can be connected to future new technologies, to attract volumes and reduce costs.

The strategy followed by BNP Paribas is to create a long-term project linking FinTech and blockchain, starting with three main steps:

- What is considered as reasonable in terms of client on-boarding, account opening, and KYC
- Allowing private usage of blockchain for a limited number of subjects

- Opening up blockchain to ensure it can be used by other BNP entities due to its inter-company operability

A RegTech solution developed by BNP Paribas started with investment in a full 1-to-1 process for a depositary and trust bank. The solution supported embedded services such as compliance verification and position reconciliation. This new initiative was launched in response to new regulatory challenges in a period in which the focus shifted from local to global and traditional tools proved incapable of providing the essential scale and efficiency to address these new requirements.

It is, however, important to understand how we can turn these new technologies from prototypes into real functioning structures. A fundamental milestone that needs to be reached is the creation of common standards to ensure inter-operability. It is also critical to understand what kind of entity (e.g., a blockchain market operator) would need to be created to manage the threats that infrastructure like blockchain may pose to inter-connected and regulated markets.

To measure the increasing importance of this type of technology and its implicit systemic risks, we should note that regulators have started to become more interested in FinTech. In particular, the EU Commission has begun to talk about the need to develop a standardized approach at regulatory level.

This potential need for a regulatory framework can be linked to the current absence of a common player that supports the creation of such operating standards. There are ongoing open discussions with different players to try to provide these common, standardized approaches at European level to support the development of these technologies and ensure their future success.

Innovation in terms of new business models can be influenced by internal and external variables

9. The impact of Brexit—which city will be Europe's financial hub in the future?

Moderator:

Yuri Bender

Editor-in-Chief, Professional Wealth Management (PWM), Financial Times

Panelists:

- **John Marshall,** British Ambassador to Luxembourg
- **Herman van Rompuy**, Former Prime Minister of Belgium, Former President of the European Council
- **Luc Frieden**, Partner, Elvinger Hoss Prussen, Former Minister of Finance of Luxembourg
- **Peter Grimmett**, Head of Regulatory Development, The M&G Group
- **Carla Jane Findlay-Dons**, Chief Global Regulatory and Market Strategist, Brown Brothers Harriman

The panel discussion started with an assessment of the impact of Brexit on asset managers based in the United Kingdom. Many have UK-domiciled funds that they have been either transferring to other Member States, notably Luxembourg and Ireland, or in some cases cloning such funds in these jurisdictions. Many have also either established new management companies in other Member States or focused on strengthening their operations and resources in such existing entities.

Although many EU regulators have theoretically agreed on Memoranda of Understanding (MoUs) that would allow EU-domiciled funds to continue to delegate asset management to companies in London,at the time of writing many MoUs are still awaiting signature. The lack of certainty around delegation is potentially stopping businesses from moving operations accordingly. The MoUs appear to bring some clarity for the world of UCITS and AIFMD but there is little information on what the consequences will be for MiFID delegation. Asset managers and investors need predictability and certainty. Without these, what will inevitably happen is harmful stagnation within the market.

While Brexit, and by extension the loss of passporting, was not the choice of the financial industry, regulators have proven responsive to the industry's wishes to maintain strong relationships between regulators and the industry for many aspects including investor protection. The UK government has demonstrated its wish for the financial services industry to remain close to the EU despite the UK losing access to passporting. There is an ambition on both sides to retain this closeness, as mentioned in the political declaration setting out the framework for the future relationship between the EU and the UK. Both sides hope that the EU withdrawal agreement will be ratified but it will still take time to negotiate the future relationship between the UK and the EU. Only once the deal is sealed can these discussions commence. There is talk of the EU Commission assessing equivalence for third countries, which is the status the UK would have after Brexit, but this is a fragile unilateral decision that could be withdrawn at any time. It was even suggested by some panelists that a no-deal could be considered as a deal simply because the future relationship between the UK and the EU will still have to be negotiated.

Financial services have demonstrated the strength of harmonization by conducting business through interconnectivity but they have also highlighted the fragility of harmonization when interconnectivity is undermined by events such as Brexit.

In terms of the relocation of the financial hub, Luxembourg is considered to be a potential winner. Nevertheless, while London is a global financial center, around 45 percent of banking activities actually take place in the EU-27. After Brexit, the UK will become a third country and it is to be expected that the EU-27 will defend their own interests. Cities such as Paris, Frankfurt, Dublin, Amsterdam, Luxembourg, and Brussels are all vying to make themselves as appealing as possible to attract business. While in the short term, Luxembourg will benefit from Brexit due to the relocation of financial activities from London, in the long term, Luxembourg will feel the loss of the UK at the EU negotiating table. Luxembourg and the UK were often of the same opinion at ECOFIN Council meetings as both countries have more cross-border activities than most

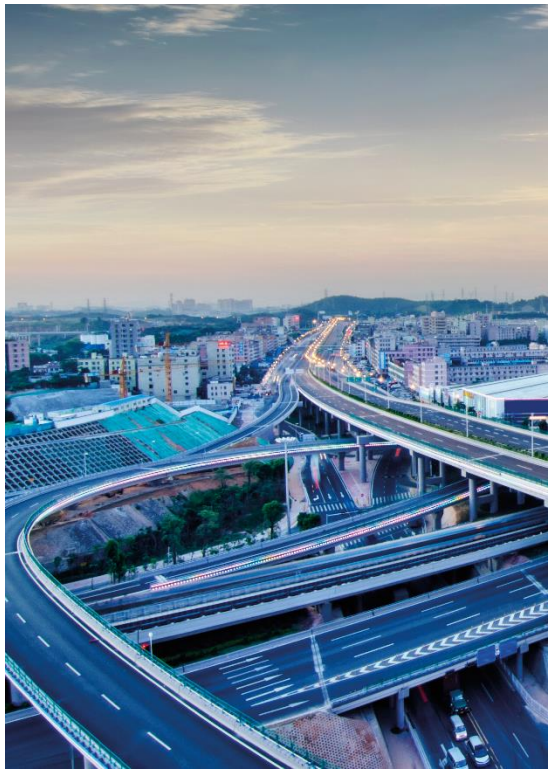
other jurisdictions. Luxembourg will lose a partner in shaping EU legislation, but it is hoped that the UK will instead become a close ally.

To conclude, the panel was asked whether Brexit could be a success, which led to a divergence of opinion. It was said that in today's world, sovereignty was really an illusion. You need common rules in a global environment such as financial services with the EU being best placed to develop such common rules. The panel also expressed deep regret in relation to Brexit. The UK fought in Europe's wars and should remain part of the continent's biggest peace project, i.e., the EU itself. If we want to share a common future, the UK and the EU will have to part amicably.

What has been surprising about Brexit is that the EU-27 has remained united and Brexit has not unleashed an implosion within the EU. According to recent Eurobarometer reports, the EU is experiencing its highest approval ratings in around 35 years. People do not want EU instability, hence there is a school of thought suggesting that the EU could become more united while the UK becomes less united.

Some panelists were not confident that Brexit could be considered a success. Questions will be raised by the next generation about the reasoning behind and the result of Brexit. While some people believe Brexit is not something that the next generation will be proud of, others say it will be up to the next generation to decide to re-join the EU; nothing is irreversible.

Other panelists had a more positive outlook on Brexit suggesting it would create real opportunities for London beyond 2020. Investors and asset managers will continue to seek diversification beyond UCITS. Alternatives could be launched from London such as variations on Open-Ended Investment Companies or similar UCITS-like products. These new investment vehicles could either compete with UCITS or complement UCITS. Furthermore, as Chair of the Commonwealth, the UK is in a good position to offer other alternatives such as a Commonwealth Passport. Whatever happens, London is more than just an EU financial center; it is a global financial center and will remain so.



Financial services have demonstrated the strength of harmonization by conducting business through interconnectivity but they have also highlighted the fragility of harmonization when interconnectivity is undermined by events such as Brexit

10. Glossary

AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Managers Directive
CEO	Chief Executive Officer
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union
ECOFIN	Economic and Financial Affairs Council
EMEA	Europe, Middle East and Africa
EFAMA	European Fund and Asset Management Association
ESG	Environment, Social, Governance
ESMA	European Securities and Markets Authority
ETF	Exchange Traded Fund
EU	European Union
EU-27	Remaining 27 Member States of the European Union excluding the United Kingdom
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
KID	Key Investor Information
KIID	Key Investor Information Document
KYC	Know Your Client / Customer
MiFID	Markets in Financial Instruments Directive
MoU	Memorandum of Understanding
NCA	National Competent Authorities
PEPP	Pan European Personal Pension product
PII	Personal Identification Information
PRIIPs	Packaged Retail and Insurance-based Investment Products
UCITS	Undertakings for Collective Investments in Transferable Securities
UK	United Kingdom
US	United States

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