Big banks join TCA study

Bank of America Merrill Lynch, Citi, Nomura and UBS are collaborating with execution management system vendor TradingScreen to set guidelines, highlight issues, and collect buy-side feedback on Transaction Cost Analysis. The consortium, called OpenTCA, has issued a consultation paper and survey to set guidelines for developing consistent, industry-wide standards.

"There are liquidity destinations and sell-side institutions that add a great deal of value by delivering transactions at a low-cost to the buy-side. However, it is hard for the buy-side to identify the strong performers and avoid the poor performers because there are no clear industry-accepted standards for measuring transaction costs," said Robert Kay, head of analytics at TradingScreen.

"OpenTCA is working to address this critical problem by bringing together buy and sell-side firms to set clear standards for measurement, so there is a common taxonomy and common tools for analysing transaction costs."

The consultation paper, written with the banks, highlights areas where the value of analysis is reduced in the absence of a common approach across fundamental components of TCA. These include the basis of calculation of common benchmarks and the basis for inclusion or exclusion of venues and trades in calculating relevant market activity.

The consultation paper also makes recommendations in a number of areas. "The industry generally recognises TCA should become the cornerstone of an effective dialogue between buy and sell-side about trading effectiveness," said Kay. "However, that will only happen if there is broad agreement across the industry about what should be measured, how it should be measured and how results should be presented. Recognising its importance the four investment banks committed significant resources towards starting a process to build that agreement." ***BT***

■ *www.tradingscreen.com*

UBS rogue trader charged with fraud after $2.3 billion loss

Internal monitoring and control systems did not prevent fake hedging positions allegedly entered by Kweku Adoboli

By Neil Ainger

A rogue trader working on UBS' delta one trading desk in London has cost the bank $2.3 billion and caused the resignation of its chief executive, Oswald Gruebel. Kweku Adoboli was charged at the City of London Magistrates Court on 22 September with two counts of fraud and of false accounting, spanning three years.

The primary fraud offence allegedly took place between 1 January and 14 September this year, according to the prosecutor David Levy at the hearing on 22 September, when Adoboli was remanded in custody until 20 October. But it appears that a second fraud offence took place between 1 October 2008, at the height of the banking crisis, and 31 December 2010, meaning that Adoboli's nefarious activities went unspotted for three years until he voluntarily handed himself in on 15 September. The 31-year old said in court that he was "sorry beyond words" about what he had done and "appalled" at the consequences of his "disastrous miscalculations".

UBS' internal monitoring and control systems apparently failed to spot his rogue trading, although the *Wall Street Journal* carried a report just as were are going to press that Sergio Ermotti, the interim chief executive and ex-EMEA head at UBS, sent a memo to staff saying: "Our internal investigation indicates that risk and operational systems did detect unauthorised or unexplained activity but this was not sufficiently investigated". The heads of UBS' global equities business, Francois Gouws and Yassine Bouhara resigned upon the news which indicates a procedural and cultural failure at the bank.

The case brings to mind previous rogue traders such as Nick Leeson who broke Barings Bank and Jérôme Kerviel who cost Société Générale €4.9 billion ($6 billion) back in 2008. Indeed the similarities with Kerviel are uncanny as he too worked on a delta one trading desk and was also 31 years' old at the time of his arrest. Crucially, both men booked fake hedging positions into bank systems to hide their losses and had previously worked in the back office before moving on to trading activities, giving them knowledge of how to avoid the internal staff and trade flow monitoring and control systems that investment banks use. This suggests a potential systemic weak point exists (*see our Vox Pop feature on page 12* for possible solutions and reactions). The coincidences don't stop there either – UBS' chief risk officer, Maureen Miskovic, held a similar position at Lehman Brothers back in 2008 when it went bankrupt, and has now had the misfortune to preside over another infamous case where risk assessments have failed utterly.

Adoboli worked for UBS' global synthetic equities division in London and specialised in buying and selling Exchanged Traded Funds, a type of tradable share that tracks movements in other indexes or commodities. His delta one trading was supposed to be low risk as it is normally covered by corresponding hedging positions. The tiny differences in price (the delta) between the two can lead to big profits in high volume trading but equally big loses if the hedging is either defective or false, as in this case.

UBS maintains that no client positions were affected by Adoboli's rogue trades, which are thought to be centred on ETF foreign exchange deals. These obviously got out of control when the Swiss central bank effectively devalued the Franc last month by pegging it to the Euro, forcing Adoboli to give himself up as his position spun out of control with no counter-weighting hedging in place. Judging by the fact he has been charged with an earlier fraud offence dating back to 2008 it appears that he may have successfully dug himself out of a hole once but not a second time once volatile markets returned.

The fact that no internal warnings went off - or at least they were ignored - for over three years at UBS is cause for grave concern. This latest breach proves that technology alone is not enough to prevent rogue trading by a determined individual. It could potentially

Adoboli had previously worked in the back office – just like Jérôme Kerviel at SocGen

be very damaging for UBS which had to be saved by the Swiss state during the crash of 2008 after suffering huge £35bn losses on toxic assets – the Parliament there is presently discussing new laws to prevent banks becoming 'too big to fail' and cut the risk of this ever happening again. UBS had to pay a $780m fine to the US authorities recently as well over a controversial tax evasion case.

Job losses of 3,500 people were only recently announced at the Swiss firm, some of which fell at its investment banking operations in London. The cost savings from UBS' job-cutting exercise are coincidentally about the same size as Adoboli's losses. The timing of these latest headlines surrounding rogue trading couldn't have been worse for the industry and will no doubt revive the discussion about so-called 'casino' investment banks and what can be done to control them (*see report on page 7*).

The chairman of UBS, Kaspar Villiger, said Oswald Gruebel, the departing chief executive, felt "it was his duty to assume responsibility for the recent unauthorised trading incident". He also added that in future "the investment bank will be less complex, carry less risk and use less capital to produce reliable returns", signalling a more risk-averse approach from now on for the struggling bank. ***BT***

Full Google Wallet launched

The final launch version of the Google Wallet app which allows users to employ NFC technology on their mobile phone to tap, pay and save, just as they would with a real wallet, has been unveiled following field trials earlier in the year.

The e-wallet application can only be used on Sprint's Nexus S 4G handset at the moment, via an over-the-air release. But in a surprise announcement at the official launch on 19 September Google also revealed that support for Visa, American Express and Discover cards will soon be added to the e-commerce application that supports Mobile Contactless Payments, discount and loyalty schemes and the Offers coupon function.

Additional functionality such as transport cards, flight boarding passes, tickets, and so forth will be added to the google wallet at a later date.

Presently, only Citi MasterCard customers and a Google Prepaid card be used to fund the app, which was initially unveiled in May for testing with these financial services launch partners on board. They will presumably have at least until the end of the year or beyond to use their 'favoured status' to try to gain an advantage before the app is opened up more widely.

By promising to open up to other card schemes Google has been true to its word in wanting an open e-commerce ecosystem for its new launch.

It now has access to the Visa, Amex and Discover Near Field Communication acceptance technology specifications and is expected to add these capabilities to future versions of its e-wallet.

The Google Wallet is designed for use with its own Android open mobile operating system – the main rival to Apple's proprietary iOS for the iPhone. It is disappointing that other smartphones apart from the Nexus S 4G cannot yet be used however, freezing out those desiring different handsets for the time-being. "We look forward to bringing Google Wallet to more phones in the future," said a spokesperson. ***BT***

LSE's Monte Titoli opens settlement link with Euroclear UK&I

Monte Titoli, the European Central Securities Depositary and settlement services provider owned by the London Stock Exchange Group, has established a new link with Euroclear UK & Ireland. The move will assist the harmonisation of cross-border trading and post-trade services, assert the partners, ahead of the planned implementation of the Target 2 Securities platform, which has been delayed until 2015 by the ECB (*see page 6*).

The post-trade link is the ninth such agreement that the LSE's Monte Titoli unit has now agreed, following on from the recent announcement of its enhancement of the Swiss link with SIX-SIS to Delivery Versus Payment status. A similar link has been introduced with Clearstream, the German CSD. Deals already exist with Clearstream Luxembourg and ICSDs such as Euroclear Bank.

Monte Titoli's cross-border settlement strategy is taking shape alongside the development of the European Central Bank's centralising T2S programme, which aims to integrate and harmonise cross-border settlement across Europe and is necessarily driving the post-trade market at this time.

Monte Titoli says that it aims to be the first CSD in Europe to migrate to T2S in the first wave of implementations, which was originally scheduled to happen in September 2014 but was put back until 2015 after Jean-Michel Godeffroy, T2S programme board chairman at the ECB, said at Sibos that "it was not realistic to stick to the present date" of 2014 and that a delay of "several months but less than a year" was necessary.

Commenting on the latest Euroclear UK & Ireland link-up, Kevin Milne, director of post-trade at LSE Group, said that, "this is a great step forward for Monte Titoli's cross-border network strategy and is a direct response to customer demand. We now have nine settlement links connecting major European and US markets, which underlines our strong commitment to operate as a gateway for global settlement and custody for the Italian and international financial community." ***BT***

RBS and Monitise enter into mobile services partnership

RBS' Technology Services unit has signed a five-year partnership agreement with Monitise to support its mobile banking and payments services across its banking divisions. By standardising on the Monitise processing platform to support its mobile apps and services, RBS is obviously hoping to benefit from economies-of-scale savings and to give itself the flexibility to support new smartphone devices and operating systems as they emerge. The contract covers RBS and NatWest UK Retail banking operations, Citizens Bank in the US, Ulster Bank and RBS' Global Corporate and Business units.

According to Will Jones, general manager for Monitise's RBS partnership, new apps have been developed for launch on the Monitise platform in the near future as part of the partnership project, which is called 'Quantum Leap'. With a name like that the new services will have to involve more than text alerts and deliver advanced services like P2P payments or the like to justify the hype.

"It really does deliver a leap forward in terms of client innovation and convenience," maintains Jones, "with 'helpful banking' [RBS' advertising mantra at the moment] at the heart of these new apps. The integrated technology is fully flexible and lets the bank optimise every app to take advantage of what advanced handsets can do," he adds.

Naturally enough, Monitise's group chief executive Alastair Lukies, believes that RBS has positioned itself well to embrace the mobile money evolution with this strategic deal. "Mobile, like any banking and payments ecosystem, needs to be easy-to-use, secure and interoperable and RBS are putting their customers first by recognising mobile as a channel in its own right," he said. "It's not just another 'access point' for the internet to them or a call centre. There are 5.5 billion mobile phones globally and organisations that understand and utilise this channel best are going to get closer to their customers." ***BT***

King quits as £47.1 million charge ramps up losses at VocaLink

Contract restructuring and increased capital charges add up to big loss for UK payment processing provider

By David Bannister

UK payment processing provider VocaLink has recorded a loss of £25.4 million for the financial year 2010 as the result of an exceptional charge of £47.1 million relating to the "restructuring of a contract".

Without the exceptional item, the company showed operating profit more than doubled to £25.1 million, on turnover that was flat at £164.8 million. Overheads had been substantially reduced, according to the figures filed at Companies House – down by 16% at £139.7 million. Capital expenditure was up substantially at £39.5 million, including £12 million relating to data centre consolidation.

According to the report, the exceptional charge consisted largely of an impairment charge of £12.1 million and a further provision of £20.3 million "for future losses". A further £14.7 million was written down in relation to capitalised development costs for SEPA systems, which had "reduced expectations of revenue growth due to the delay in the development of the market for SEPA transactions".

As the results were being filed at Companies House, it was announced to staff that Marion King is to step down as chief executive of the company at the end of this year after nine years in the post. A search for a successor is underway.

In an exclusive interview with *Banking Technology*, King said that she made the decision to move on earlier this year in order to seek out "new challenges" after nine years. She declined to discuss what her next role will be, but said that her decision to go was not associated with any specific job offer.

"After nine years with the company, I decided – around about Easter – that I wanted to take on a couple more big challenges at this stage in my career. It is my view that I can best achieve that elsewhere, on the basis that I have done everything I set out to do and more [at VocaLink]," she said. "When I joined, it was with a five year horizon in my mind, but I stayed longer because it has been fun and we have achieved so much with the company."

King was appointed as chief executive of VocaLink precursor BACS in 2002 and oversaw its transformation into Voca and the later merger with the Link ATM network in 2007, which brought together the processing capabilities of BACS with the real-time capabilities of Link.

King said that the merger was the highlight of her time at the company, as it created the basis for the development of the UK Faster Payments Service. ***BT***

Target2 Securities delay confirmed by ECB

By Neil Ainger

A year's delay to the launch of Europe's Target2 Securities platform was confirmed during the recent Sibos conference. The European Central Bank's T2S programme board chairman, Jean-Michel Godeffroy, admitted that "it was not realistic to stick to the present date" of 2014 and that a delay of "several months but less than a year" was needed.

The announcement came during a Eurosystem session at the conference, with Godeffroy putting the delay down to the amount of change requests from users of the common settlement platform, the need to expand user testing as central securities depositories and others didn't think nine months was enough time, and the fact that the ECB wanted a "buffer".

Haggling over the price of using T2S is obviously still going on, with the ECB having to set its transaction costs high enough to cover its costs, while still being cheap enough to allow CSDs to develop new competitive services off the back of it. Diana Chan, chief executive of EuroCCP, said she viewed the cost recovery business model as dangerous: "There is no benchmark or competitive pressure, so how do you know the total cost is the lowest it possibly can be?"

Kevin Milne, director of post-trade at the London Stock Exchange Group, said he was convinced that T2S would eventually deliver cost efficiencies but he urged Europe to get on with it and not tolerate more delay. "Not everyone will be a winner," he said, "but the time for implementation is here." ***BT***

Visa Europe launches mobile P2P payments and alerts

Visa Europe member banks will be able to offer their customers mobile person-to-person payment and alert services from this month. The new capability was announced by Visa Europe's chief executive Peter Ayliffe in a keynote speech at the EFMA conference in Paris at the end of September. It gives smaller banks the tools to respond to growing consumer interest in mobile banking and money management, although some larger banks may chose to develop their own offerings.

Visa Europe has developed the new services in conjunction with UK mobile money specialist Monitise, in which the card scheme owns a minority stake, having already rolled out a similar offering in the US earlier in the year

The P2P payments application will enable registered users to quickly move funds to any Visa cardholder in Europe from their mobile phone. The app makes it easy and fast to send money to a contact in the users' address book, such as to to pay a shared restaurant bill. Payments can also be sent to a mobile phone number or to a particular Visa card number. The recipient does not have to be registered with the service.

At present the solution is only available as an English-language Android app, supporting transfers in a single currency for Visa and V Pay European cardholders, but other mobile operating systems and multiple currencies will be added shortly says Visa. Support for payments to and from non-European countries will also be added as the service is rolled out and linked to other regional initiatives.

The mobile alert solution instantly tells registered cardholders whenever their card has been used to make a purchase or to withdraw cash through Visa Europe's extensive payment network. Visa Europe hopes it will help to fight fraud by making users more aware of the transactions flowing through their accounts and aid customers' book keeping.

"The way we pay is changing, driven by the rapid uptake of new technologies and growing consumer demand for more flexible payments. This announcement is the first in a series of new products and services that Visa Europe will be launching in the coming months to reflect the fundamental shift in consumer behaviour," said Ayliffe. "We are already seeing the early adoption of mobile payments and in the coming months we will see the arrival of mainstream NFC technologies, advanced loyalty and e-commerce services, and ultimately, the launch of a new digital wallet." ***BT***

ICB final report advocates ring-fencing but not until 2019

Estimated cost to UK banking industry is up to £7 billion says ICB chairman Sir John Vickers

By Neil Ainger

The Independent Commission on Banking published its final report on 12 September, confirming its view that UK banks should ring-fence their retail banking operations from their riskier investment banking operations, but not until 2019.

Commission chairman Sir John Vickers estimated that his recommendations would cost banks between £4-7 billion and said that his proposals would, "make it easier and less costly to resolve banks that get into trouble." He was referring to the separate boards and legal entities that will be created to enact a 'chinese wall' between the retail and investment banking arms of universal banks, such as RBS or Barclays, preventing cross-subsidiaries and ensuring orderly failures.

The size of the ring-fence has been estimated at up to £2 trillion by Vickers. The Chancellor George Osborne accepted the recommendations in Parliament and now has to turn them into law, with a government white paper likely before the end of the year.

The other key proposals reconfirm the idea of a 10% capital buffer, first floated in March's interim report, which is more than the 7% envisaged under the international Basle III capital adequacy rules – which are also due to come into force in 2019. In addition, the ICB suggested that the biggest banks should keep between 17-20% of high quality assets and bonds that can be easily converted into liquidity as a further 'loss absorbing' safeguard against future turbulence. This means that banks in the UK will face more stringent legislation than elsewhere in the world, although the authorities are hoping that others will take a lead from their recommendations. Banks will no doubt be lobbying strongly to get the measures revised downwards to the international Basel III standards.

> **"Banks will have to review their IT systems in light of the ring-fence, but we would not expect the changes to necessarily lead to increased IT costs."**
>
> Mark Jenkinson, Capco

An account switching service to automatically redirect customers' direct debits and standing orders when they change retail bank remains in the final proposals, as the ICB believes this will encourage competition. But the idea of selling off more Lloyds Banking Group branches than the EU demanded for the state aid it received during the banking crisis has been quietly dropped.

In terms of the technology impacts of the final ICB report, the relatively simple account switching idea would require the most immediate action but work towards achieving this is already underway under the auspices of the Payments Council with an end date of 2013 envisaged. The key ring-fencing proposal would require considerable organisational upheaval and the worry is that it may also require banks to duplicate core data and IT systems to ensure the survivability of a High Street banking operation, undoing much of the integration and risk aggregation work that banks have been doing in recent years.

According to Mark Jenkinson, a partner at the Capco consultancy UK banking team, "banks will have to review their IT systems in light of the ring-fence, but we would not expect the changes to necessarily lead to increased IT costs. We expect most large [universal] banks to put in place a shared service IT model across their retail and investment banking divisions, rather than implementing two completely different IT functions." ***BT***

China's **Ping An Bank** has introduced a bank-wide daily liquidity and interest-rate risk management solution from Fiserv that also handles its regulatory reporting. In addition, the bank chose to replace its in-house funds transfer pricing solution, which lacked key functionality such as forward funds transfer pricing projection and analysis. The Fiserv Asset Liability Management solution and other software was selected after a competitive tender process, based upon the proven ability of the product technology at other banks and the vendor's subject matter expertise. This was demonstrated after Fiserv presented educational courses on ALM, funds transfer pricing and risk adjusted return on capital to the board of directors and senior managers and users at Ping An Bank.

European Credit Management, a fixed income asset management firm with €8.5 billion under investment has moved its credit derivatives and total return swaps products on to the Infosys Finacle Treasury trading platform, alongside its foreign exchange, bonds and other derivatives products. By consolidating its operations on to one platform the asset manager expects to benefit from reduced operational errors and data duplication, thereby cutting its costs and simplifying internal training requirements. ECM also expects to benefit from Infosys' association with the FinCad Alliance Program, which will enable them to access FinCad's extensive derivatives analytics library. Access to this built-in pricing based upon industry-standard analytics should improve ECM's valuation and risk capabilities, making them more responsive to the marketplace.

Santander has launched a text alert service for its UK online account holders and savings customers, who can now sign up to get messages sent to their mobile phone providing balance information and the latest deposit and debit data. The move is part of Santander's attempts to improve its customer service scores after coming last in the UK complaints league table last year and to integrate its UK operations better, consisting of Abbey, Alliance + Leicester and parts of Bradford & Bingley, creating a more cohesive whole. The move comes on top of the re-launch of its online banking service in August, which introduced a single platform where customers can go to see all the information about their accounts, savings and credit cards, and sign up for paperless statements. An email alert service preceded the mobile text alert service that has now been added to the technology refresh. The SMS alert service has four options: a high-value credit alert when a payment exceeds £100; a low balance alert that warns when accounts reach as low as £1; a debit alert with a minimum of £50; and a high balance alert which tells customers when a savings goal has been reached.

To support its ambitious growth plans to spread out further from its Kerala base in India, Dhanlaxmi Bank, which already has 275 branches and 1.6 million customers across 14 states, has rolled out switching and ATM processing Software from FIS. It authorises online payments and also supports a new mobile banking interface. The upgrade to its core processing capabilities extends the retail and wholesale product offerings available to Dhanlaxmi Bank's customers and means that 460 'badged' ATMs are now available to customers in India with access to FIS' supported network of more than 3,000 cash machines across India also guaranteed. The new online transaction and banking services, which can now be accessed on mobile devices too, is intended to further increase the bank's geographical reach.

Swedbank is rolling out the Protiva corporate solution from Gemalto to improve the internal security it has over 20,000 employees accessing data networks and physical premises, including branches around the world. Initially deployed in Sweden and the 'home' Baltic countries, the Public Key Infrastructure solution will eventually be implemented at a number of smaller representative offices by the end of the year. The solution includes a server platform and software applications for complete card management, plus the support and maintenance services necessary for when access details are lost or renewals needed. Personalisation and fulfilment services are run out of Gemalto's Stockholm offices and email encryption and e-signing services are also included as part of the contract, alongside the remote access to company networks.

MoneYou, a subsidiary of ABN Amro, is to implement its mobile savings application in the Netherlands and Germany for the Android, BlackBerry and Windows Phone 7 mobile operating systems, by installing the Kony software platform. The service, which is an extension to an existing internet banking savings app allows retail bank customers to open an account via their handset and to set savings goals in appropriately titled folders such as holiday or car fund folders. Email encouragements can also be sent to yourself when milestones are reached and users can advertise their savings goals with friends – if they're interested – on Twitter, Facebook and LinkedIn via the social media links provided. The service is already available natively to iPad and iPhone users in Germany and the Netherlands but MoneYou didn't want to expend time and money on adding new operating systems with a local partner as they had done before, instead opting for Kony's customisable solution to roll it out to other mobile operating systems.

HSBC has launched two new UK social media sites to store all of its comment and information about the bank's position on key issues affecting personal finance and business banking. Aimed at bloggers, commentators and other interested parties the sites, with Twitter and Facebook links, have been designed to be a 'go to' site for those interested in finding out the latest research and news from HSBC Bank UK. Videos and images can be accessed via YouTube and Flickr links too, alongside press releases and other viewpoint information. Trending information can be seen for the personal finance business via twitter.com/@hsbc_uk_press and the business unit at twitter.com/@hsbcukbusiness.

BHF-Bank, a long established private bank and asset manager in Germany, is outsourcing the majority of its IT system management and processing needs to Atos. The IT services provider will take over responsibility for the bank's workplace computers, file and email services as well as its telecommunications and network technology. BHF-Bank employees responsible for these services, mainly based out of its computer centre in Offenbach, Germany, will transfer over to Atos as part of the unpriced outsourcing contract. The aim of the move is to cut costs, while the bank claims it simultaneously wants to modernise the IT infrastructure at BHF-Bank and enhance its ability to introduce products more quickly. Atos will assume full responsibility for the German bank's IT services by the first quarter of 2012, providing processing support from its offices in Frankfurt and its European nearshore outsourcing centre in Poland. ***BT***