



**Andy Agathangelou**, Founding Chair, Transparency Task Force

12<sup>th</sup> December 2018, Global Custody Forum, Hilton Tower Bridge, London

# **The Compelling Correlation between Credibility and Confidence; and why it matters to Custodians**

➤ **Plus an invitation to be included in an initiative**



# About <sup>THE</sup> TRANSPARENCY TASK FORCE

- We are the collaborative, campaigning community, **dedicated to driving up the levels of transparency in financial services**, right around the world
- We believe that higher levels of transparency are a pre-requisite for **fairer, safer, more stable and more efficient markets that will deliver better value for money** and better outcomes
- Furthermore, because of **the correlation between transparency, truthfulness and trustworthiness**, we expect our work will help to repair the reputational damage the sector has been suffering for decades



# About <sup>THE</sup> TRANSPARENCY <sub>TASK FORCE</sub> mission

- We believe **the financial ecosystem is profoundly important to the wellbeing of society**, the global economy and political stability; **but there's a great deal wrong with it that needs fixing**
- Our mission: **"To help Fix Financial Services by harnessing the transformational power of transparency"**
- That begs the question **"what needs fixing?"**



# What is <sup>THE</sup> TRANSPARENCY TASK FORCE

helping  
to fix?

- Hidden costs and risks
- Opportunistic opacity
- Opportunistic obfuscation
- Opportunistic complexity
- Short-termism
- Insufficient client-centricity
- Damaging incentive structures
- Asymmetries of information
- Regulatory capture (USA?)
- Scams and scandals
- A 'profit before principle' mindset
- Routine reputational damage
- Conflicts of interest
- Financial instability
- Malpractice; lack of market integrity
- Miss-selling
- The Engagement Deficit
- The Understanding Deficit

➤ **The Trust Deficit**



# Key insights from the 2018 Edelman Trust Barometer

- An annual global study in its 18<sup>th</sup> year; 28 countries; 33,000 respondents
- The Financial services sector scores a very poor 15th out of 15 (i.e. last) in terms of general levels of trustworthiness

## The Top 5 Factors decreasing trust in financial services companies:

- #5 Difficulty addressing problems
- #4 Not responsive
- #3 Unwanted selling
- **#2 Confusing products/services**
- **#1 No product/cost transparency**

# The compelling correlation between credibility and confidence

- The financial services sector has to be trusted to function effectively
- If we take trust out of financial services we have nothing
- Therefore, it is vital that the sector is always seen to behave in a transparent, truthful and trustworthy way



# The compelling correlation between credibility and confidence

- On the basis that custodians are *“those that have the responsibility of protecting something”* and that Global Custodians *“run the plumbing for the international finance system, they touch everything”* it is clear that Global Custodians have a vital part to play in defending the trustworthiness of the finance sector as a whole
- Furthermore, *if there is no confidence in the ability of Global Custodians to protect, they have no value; and the credibility of the entire financial ecosystem is in jeopardy*



# What can go wrong?



*“Bank of New York Mellon Corp. got a spanking this past April. The London branch of the world’s largest custodian bank, with \$28.5 trillion in assets under custody and administration, was **fined £126 million (\$185 million) by the U.K.’s Financial Conduct Authority for failing to follow the rules.***

*The FCA found that between November 2007, when Bank of New York Co. bought Mellon Financial Corp., and August 2012, the custodian **had inadequately safeguarded British clients’ assets against the event of insolvency.** Although BNY Mellon’s London branch represents only about 5 percent of the firm’s global custodied assets, it’s considered systemically important to the U.K. market.”*

# So how should Global Custodians behave?

- They must display the very highest ethical standards at all times
- They must be profoundly and positively prudent
- They must become hypervigilant and hypersensitive to any risk of malfeasance, malpractice or misconduct
- They must work collaboratively to take evasive action against significant risks and threads to the brand of Global Custodians
  - you are invited to be part of an initiative to facilitate that collaboration

# A thought exercise for you...

- Imagine you had to attempt to predict which part of the Global Custodian market might give rise to a serious failure
- Complete the sentence: ***“In my opinion, if I had to attempt to predict which part of the Global Custodian market might give rise to a serious failure, I would predict it to be.....”***
- Failure in relation to **Technology, Cyber Security, Big Data?**
- Systemic failures in relation to **Regulation and Compliance?**
- **Central Securities Depositories Regulation?**
- The **Shareholder Rights Directive?**
- **Securities Financing Transactions?**
- Failures in relation to **Segregation and Safekeeping?**
- Failures in relation to **Taxation?**
- Failures in relation to **Fraud?**
- Failures in relation to **Frontier Markets?**
- Failures in relation to **ESG?**
- Failures in relation to **Revenues Opacity?**

# A prudent and pragmatic initiative:

A review of the risks that might undermine the credibility of (and therefore the confidence in) the Global Custodian market

➤ *Get in touch if you want to be included*