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Welcome to the First Issue of Global Market Update: News from Treasury Services EMEA

Dominic Broom, Head of Treasury Services EMEA, BNY Mellon

Dear Colleagues:

An unprecedented level of change is sweeping across the finance industry, stirred by sophisticated technological innovation, an influx of radically different non-bank entrants and a range of new regulatory initiatives. While this presents a somewhat unfamiliar and challenging landscape for banks to navigate – particularly when the sheer pace of change is itself an added burden – this period provides an opportunity to re-evaluate our approach and view the transaction space with fresh eyes. Certainly, BNY Mellon is committed to ensuring our partners are equipped with the tools they need to thrive in this transformational era, and to emerge in a stronger position than ever.

With such change afoot, it is vital that we provide our clients with regular communication around the developments impacting the industry as well as updates regarding our own strategic focus. With this in mind, we hope you find this inaugural Global Market Update informative, and I look forward to sharing our thinking in future issues, alongside the enhancements we are implementing to support your businesses in these times of change. Please do also access our [newsroom website](#), for all our latest updates and further details on the topics discussed herein.



Our Strategic Focus, Trends and Highlights of our Key Products and Services

How consumers around the world make payments

Speed, efficiency and transparency are key requirements when it comes to payment processing. As a result, countries are investing in various payments initiatives that will enable them to leverage today's technology in ways that will equip consumers across the globe with sophisticated, proficient transaction processing capabilities. The UK, for example, has been a pioneer in faster payment innovation, and in the US, plans are now also underway to implement a real-time payments system, which will transform the nation's payment culture and improve cash management capabilities.

Payments UK, the trade association for the payments industry, recently published a report in its World Class Payments series, titled '[How consumers around the world make payments](#)'. The report provides an overview of the various ways in which payments are being processed by different countries.

Maurice Cleaves, Chief Executive of Payments UK, commented: "Huge variations exist in both consumer payment behaviour and payment processing capabilities around the world, and our report highlights the trends, developments and the pace of change that is taking place across the different regions."

It has also been announced that the SEPA Instant Payments scheme is expected to be launched by the end of 2017. SWIFT also recently unveiled details around its new global payments innovation initiative – in which BNY Mellon will participate – which aims to enhance cross-border payments.

"SWIFT's new initiative aligns well with our own strategic commitment to global payments innovation in support of our clients," said Tony Brady, Managing Director and Global Head of Business Strategy & Market Solutions for BNY Mellon Treasury Services. "We are dedicated to providing payment services that are faster, more information-rich and more transparent in terms of tracking and fees, and we view the

project as an important opportunity to continue our longstanding collaboration with SWIFT on innovations that can enhance our clients' global payments experience."

Growing our CHAPS global footprint

BNY Mellon has been a Direct Participant in the CHAPS Scheme for nearly two years and is now a well-established member; sending and receiving sterling payments that require same-day settlement. Our Direct Participation in CHAPS has contributed significantly to our global footprint, and this has been underpinned by our client support and service model. Joining CHAPS has provided us with greater industry insights in many topics, including regulatory changes, which in turn allows us to help clients learn about the developments and to support them through any transitions. Having a seat on the CHAPS board has also enabled us to have input into CHAPS' strategic direction, positioning us at the forefront of future developments.

Delivering benefits to our clients

Following a consultation by The Bank of England in 2015 (in which BNY Mellon participated), it has been confirmed that the CHAPS settlement day will be extended by one hour and 40 minutes (from 16:00 to 17:40 UK time) from 20th June, 2016. We are pleased with this proposed initiative – which better aligns CHAPS with normal business hours – and supportive of this policy change, which will help us deliver the following benefits to our clients:

- The ability to make CHAPS Sterling payments later in the business day to fulfill sterling cash obligations;
- Increased flexibility and convenience
- Improved cash management capabilities

"CHAPS is a UK payments system that processes and settles important and time-dependent payments in sterling across The Bank of England's Real Time Gross Settlement System," said Tim Fitzpatrick, CEO of CHAPS Co. "BNY Mellon is an important member of CHAPS Co and their contribution has been valuable since they joined. We strongly believe

that the initiative to extend the CHAPS operating hours will deliver significant improvements and benefits to our Direct Participants and the customers that they serve.”

Matt Wells, Managing Director, Head of Global Cash Operations at BNY Mellon, commented, “There will be continual change in the global payments landscape in the coming years and BNY Mellon is well positioned to respond and work to ensure that benefits are always forwarded to our clients”

US Real Time Payment System *An era of payment transformation*

In an increasingly 24/7 world, consumer, small business and corporate needs and expectations are changing rapidly. Digitally enabled services and transactions are generating rising demand for greater speed, transparency and convenience, as consumers become ever-more discerning and demanding. These trends are driving the creation of a new generation of payment propositions, including the new US Real Time Payment System. As part of this transformation, payment processing will be radically improved, capitalising on real-time or near-real time capabilities; transparency of payment costs and receipt of funds will become standard; and execution risk will be reduced. Importantly, the client experience with payment processing will be the focus, ensuring that users of the payment system find it quick and easy to use, at a reasonable cost.

The launch of a new US payment system

BNY Mellon is working with clients, fintechs, industry workgroups and emerging consortiums to leverage advances in technology to modernise the payments landscape in the interest of our customers.

“Our next step is to participate in the development and launch of the first new payment system in the US in more than 40 years – the U.S. Real-time Payment System,” explained Michael Bellacosa, Managing Director and Head of Global Payments for BNY Mellon’s Treasury Services business. “The new system will offer a safer and more viable alternative for clearing low value US payments and provide

consumers and businesses with the ability to send and receive funds within the US in real-time – 24/7/365. The new system is planned to go live in 2017 and we will keep our clients up-to-date regarding our progress.”

Nigel Brigden, Consultant at the Association of Foreign Banks said: “BNY Mellon is a member of our Association and one of the early adopters to launch a real-time platform in the US. This significant initiative will demonstrate BNY Mellon’s position as being a catalyst for change.”

BNY Mellon’s FX enhancements

BNY Mellon is committed to enhancing its global payments infrastructure, and we passed an important milestone in September 2015 with the successful launch of our enhanced foreign exchange (FX) payment capabilities. This enables clients holding accounts in Frankfurt and London to use account balances in a single currency to instruct FX payments in various currencies, as desired.

Demonstrating BNY Mellon’s enterprise-wide approach to the development of new treasury services solutions, this FX payments offering seamlessly combines BNY Mellon’s extensive FX capabilities with the speed, efficiency and reporting features of BNY Mellon’s new global payments infrastructure. Partner banks are provided with a host of payment initiation options, including BNY Mellon’s proprietary TreasuryEdgeSM electronic portal, EDI ASC X12, and SWIFT.

“This important step continues the development of our new infrastructure and leverages its strengths as we look to build upon our leadership in global payment services,” said Alan Verschoyle-King, Executive Vice President, Global Head – Sales & Relationship Management at BNY Mellon Treasury Services. “Partnering with BNY Mellon’s FX business to expand the range of supported currencies demonstrates how our technology investments and business strategy are helping us deliver meaningful service improvements to support our clients.”



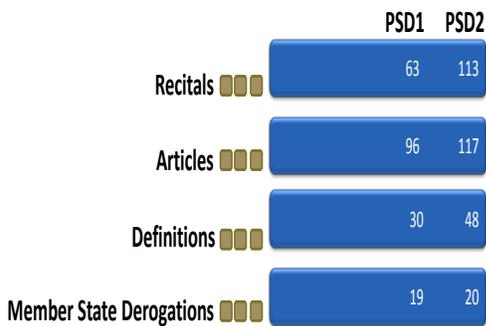
Regulatory and Industry Initiatives

Payment Services Directive 2 (PSD2)

The forthcoming arrival of The Payment Services Directive 2 (PSD2) is generating a great deal of discussion across the industry. The new regulation will contribute to a more integrated and efficient European payments market, driving change in terms of innovation, data transparency, security and increased competition. Certainly, it will deliver significant benefits to customers and pave the way for evolving payments landscapes.

At BNY Mellon, we consider PSD2 to be of strategic importance. We recognise that while it retains the same basic structure as the original Payment Services Directive (PSD1), it broadens the scope, as it captures a wider range of payment transactions, delivers innovation into the payments sphere and also addresses some of the concerns raised during the legislative process regarding questions of liability.

“It is expected that PSD2 will introduce a myriad of small amendments together with a number of significant changes so it is important to understand the difference to define what is in and out of scope for a business,” said Michael McKee, Partner at DLA Piper. “Particularly important is the extension of the requirements to cover all currencies and to cover the EU leg of any payments in or out of the EU. The table below shows how PSD1 compares to PSD2:



Therefore, we are not treating PSD2 simply as a compliance exercise, and are working to ensure that we position the requirements as improvements to the payment process that will harmonise the rules and create a more

consistent payment environment for our clients. We are engaged and working collaboratively with the industry to ensure that we are compliant with the provisions by the transposition date.

David Song, European Consultant at Payments UK explained: “Our role is to engage with our Members and European and UK stakeholders throughout the legislative and transposition process and provide the collective industry voice on PSD2”.

Honey Kirtley, Vice President, Senior Product Manager, GBP Clearing Solutions at BNY Mellon said: “PSD2 is anticipated to be far more intricate than the original PSD. We do not expect it to have a dramatic impact but our clients should not expect to be detached from the process. Therefore, organisations should keep track of the developments and leverage their associate groups and banking providers to ensure that they are aware of any important details that may arise from the ongoing PSD2 process.”

Payment Systems Regulator (PSR)

The Payment Systems Regulator (PSR) is a new, independent economic regulator for the UK’s £75 trillion payment systems industry. Established in 2015, it plays a vital role in the UK financial system. BNY Mellon works collaboratively with the PSR, supporting its work in the areas of access, governance, innovation and competition, and by contributing to calls for inputs.

Recently, the PSR published their access and governance report, which highlights the progress payment system operators are making towards creating more open and flexible direct access to payment systems, and inclusive and more transparent governance.

In a comment to BNY Mellon, Jana Mackintosh, Policy Manager, Payment Systems Regulator, said “The PSR is working to bring change to the payments industry, injecting competition and innovation where it is needed most and putting

the interests of the people and businesses that use payment systems front and centre. The good news is that the changes we have made on direct access are helping level the playing field. Barriers to access are being removed and this is clearing the way for new banks and payment service providers. In short, the payments sector is becoming more competitive. We are working closely with all our stakeholders and the input they provide will be invaluable in helping us to achieve our objectives.”

Action plan for strengthening the fight against terrorist financing

The European Commission (EC) published the above proposal on 8th February 2016, which suggests amendments to the Fourth Anti-Money Laundering Directive (4MLD) and calls for its speedier transposition. The Prudential Regulation Authority (PRA) has provided an [update](#) on its proposed rules on regulatory references.

IOSCO | Global securities markets' challenges

The Board of the International Organisation of Securities Commissions (IOSCO) recently met in Madrid to discuss and respond to the many ongoing and emerging challenges facing global securities markets. The discussion highlighted the recent market developments and volatility in world capital markets, and the challenges and opportunities posed by financial technology – with a particular focus on distributed ledger [technology](#)¹

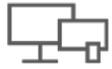
ECB | Banking Supervision: SSM priorities 2016

The European Central Bank (ECB) published its 2016 priorities for supervising the significant banks in the euro area. The five areas build on the assessment of key risks faced by banks in the current environment. Business model and profitability risk ranks highest, followed by other key issues with importance varying across the euro area [countries](#)².



1 <https://www.iosco.org/news/pdf/IOSCONEW5419.pdf>

2 https://www.bankingsupervision.europa.eu/ecb/pub/pdf/publication_supervisory_priorities_2016.en.pdf



Moving Forward with Emerging Technology

Evolving corporate culture

Who are the winners in the new era of emerging technology? We believe that this depends to a great extent on evolving corporate culture, and listening to and understanding customer needs and behaviour. With this in mind, BNY Mellon is leveraging the opportunities that change is delivering; exploring emerging technologies to adapt, learn and create new services to evolve our business. For example, new technology capabilities are allowing “big data” to be analysed and optimised – to the benefit of our business as well as our clients. Furthermore, it enables us to embrace new working practices, methodologies and processes, helping to enhance efficiency and transparency, and reduce costs.

The power of the blockchain

Fintech is creating waves across the finance industry with innovative, high tech ideas that will radically impact the way in which transactions are made. The most exciting, potential-filled concept is, of course, the blockchain: a cryptographically-secure, distributed ledger that transparently logs the details of every transaction in a mutual record that cannot be altered or removed. Though still in the early stages of development, the blockchain has the potential to improve speed, efficiency, security and cost effectiveness of the entire transaction process.

With bank-fintech collaboration gathering pace, a growing number of banks (including BNY Mellon) are exploring the capabilities of distributed ledger technology and the practicalities of how it could tangibly be applied to the world of global payments. It is hoped that this partnership approach could be the key to kick-starting developments in this respect.

Indeed, while it is clear that fintech may hold the power to radically alter payments as we know them, the blockchain is far more likely to successfully advance corporate payments if the concept is explored with the support of banks. With unmatched experience in the transaction

space and knowledge of financial regulation, banks – far from being just sources of investment – can bring their expertise to the table and work side-by-side with new market entrants to help shape a whole new payments age.

Professor Michael Mainelli, Executive Chairman, Z/Yen Group, stated, "Fintech is the culmination of decades of applying technology to finance. Banks face immediate challenges from fintech and the winners will be those that embrace fintech innovation and apply their understanding of client needs by working openly with disruptive technology and technologists. BNY Mellon is part of this group, ensuring customer needs are at the heart of its new business thinking about the future direction of the payments industry."

Tacitus: “A New International Monetary System in a New World Order”

BNY Mellon was an official sponsor of this year’s Worshipful Company of World Traders’ Tacitus Lecture and Debate centred on the topic of “A New International Monetary System in a New World Order”. The lecture, held on 25th February in London’s Guildhall, was delivered by Sir Paul Tucker CBE, former Deputy Governor of The Bank of England, and examined the geopolitics of the international monetary and financial system. The Tacitus Debate, which will take place this month, is designed to be a platform for further discussion of these topics.

The global financial landscape is evolving at an almost incomprehensible rate. BNY Mellon is embracing the changes and delivering new levels of innovation in order to strive to equip our clients with the tools they need to thrive in the transforming space. Furthermore, we are fostering strong industry and regulatory relationships with an eye to positioning BNY Mellon as a significant influencer in the payments and financial industry, and to enabling our experts to pass on our knowledge of key developments to our clients. We look forward to keeping you apprised in this respect in further editions of our newsletter.



BNY MELLON



Invested in Expertise

Treasury Services' Global Thought Leadership & Education Series

Thursday // April 21 // 2016
11:00 - 12:00 BST (12:00 - 13:00 CET)

Join BNY Mellon Treasury Services for a Webinar on Regulatory Change Impacts on Liquidity Investing

Please join us for an informative Webinar on Thursday, April 21 from 11:00 – 12:00 BST to learn about new industry regulatory changes – both underway and currently planned – that are set to impact the liquidity landscape in fundamental ways. Gerry Barber, Managing Director and Head of IMG Cash Solutions for EMEA, will explain how existing regulations under the Basel III accord, such as the Liquidity Coverage Ratio and Supplementary Leverage Ratio, and changes anticipated through money market fund reform are reshaping the treasury marketplace.

Whether businesses are long liquidity or rely on short-term credit – their liquidity strategies will be impacted in some manner as a result of the changes these new regulations will bring. This session is part of BNY Mellon's continuing efforts to share our insights, knowledge and expertise around impacts resulting from an evolving regulatory environment.

Please register via the link below or send an email to treasury@bnymellon.com. We look forward to your attendance at this informative and timely session.

This Webinar is part of BNY Mellon Treasury Services' ongoing Global Thought Leadership & Education series.

Look for invitations throughout this year on upcoming Webinars where our experts will discuss important issues that are affecting the treasury industry and impacting the way you do business.

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