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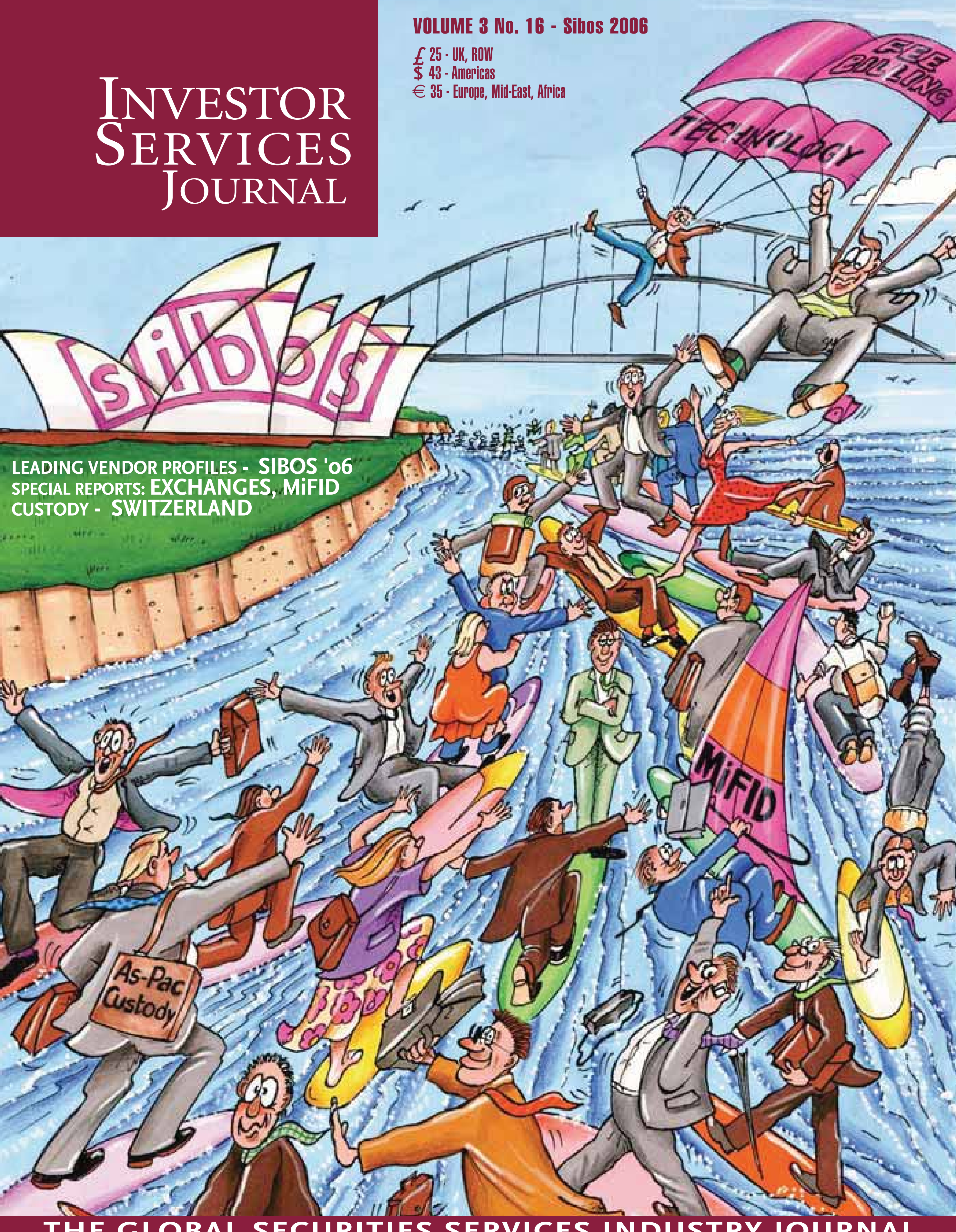

LEADING VENDOR PROFILES - SIBOS '06
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INVESTOR SERVICES JOURNAL

VOL 3 No. 16 - Sibos 2006

TO SYDNEY, SWIFTLY

We extend a hearty greeting from the SIBOS edition of ISJ. 'Raising Ambitions' constitutes the theme for this years event, which, whilst giving a wide scope for us all to focus on, also lends itself nicely to some of the issues that the financial services community have dealt with over the past few months and will have to address in the coming year.

Technology and automation will continue to be key ingredients in the financial services mix, and a continued drive towards STP needs to be seen from the SWIFT community. The dropping of barriers and opening up of markets will also be critical over the next twelve months, with the ascension of Bulgaria and Romania to European Member States in January, and MiFID as the catalyst behind the EU's Financial Services Action Plan.

With this idea in mind, we profile ING's securities services business in Central and Eastern Europe, looking at the increasing maturity of the market infrastructures in this part of the world and how her countries are grabbing the attention of foreign investors.

ISJ also analyses the Swiss securities industry and the contrasting views of market participants as to whether this is the most boring market on earth or indeed a haven of creativity, innovation and technological development.

Our Asia Pacific feature addresses the changing custody market in the region, since its collapse in 1997, and looks at what efforts are being made by its respective countries to attract foreign investment and break down the barriers which have, until recently, hampered domestic investors.

In response to a letter we received about the ownership implications of the LSE, in the last edition of the magazine (ISJ 15), Rachel Gibbs has written our Special Report this month, looking at the cost and resource streamlining exercise of international mergers.

On a lighter note, those of us who are lucky enough to be attending SIBOS this year will no doubt be scheduled for numerous meetings, lunches and dinner dates. Not wanting to feel left out, our resident disaster recovery expert, Keith Ford, brings us his insight in the potentially dangerous but thoroughly enjoyable world of corporate entertaining.

Our panel discussion in this edition focuses on SIBOS; analysing its evolution since the inaugural event in Brussels in 1978 and what this years conference has to offer.

Finally, we would like to officially welcome Giles Turner and Vanessa Nicholson to the editorial staff at ISJ.

So, that's it for this edition Im afraid. Justin Lawson, Kenny Thomas and myself will be out in Sydney this October (just a small bash, with a couple of friends) and we look forward to seeing you all out there. Give us a call if you fancy meeting up!

Deputy Editor - Alan Duerden

ISJ SIBOS 2006 TEAM...

from left to right:
Alan Duerden,
Justin Lawson,
Kenny Thomas

2006 PPA MAGAZINE AWARDS
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Managing Editor: Mark Latham (Mark.Latham@ISJforum.com)
Deputy Editor: Alan Duerden (Alan.Duerden@ISJforum.com)
Contributing Editor: Brian Bollen. Contributors: Keith Ford, Michelle Price, Rachel Gibbs, Rekha Menon
Reporters: Giles Turner (Giles.Turner@ISJforum.com), Vanessa Nicholson (Vanessa.Nicholson@ISJforum.com)

Publishing Manager: Nicola Barker-Moseley (Nicola@ISJforum.com)
Account Managers: Kenny Thomas (Kenny.Thomas@ISJforum.com)
Nicholas Parsons (Nick@ISJforum.com),
Ben Katzler (Ben.Katzler@ISJforum.com)
Directory Sales: Monique Theart (Monique.Theart@ISJforum.com)
Operations Manager: Katerina Dimitrova (Katerina@ISJforum.com)

Publisher: Justin Lawson (Justin.Lawson@ISJforum.com)
Chairman: Mark Latham (Mark.Latham@ISJforum.com)

investor intelligence partners

INVESTOR SERVICES JOURNAL
37-38 Margaret Street, London W1G 0JF
T: +44 (0) 20 7493 9966 F: +44 (0) 20 7493 3366 W: www.ISJforum.com

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Alan.Duerden@ISJforum.com

RECIPE FOR SUCCESS

Commitment and experience combined with low turnover in personnel are all key ingredients to a good service model for UK pensions. All trustees should ask their custodian to undertake this litmus test regularly. The other benchmarks should be a good on-line tool, and for trustees to ask themselves one simple question: "Have I recently been asked to act as a reference for new business by them?"

Pension funds will look increasingly to sign up organisations that have a combination of experienced account teams and best of breed, user-friendly technology. At JPMorgan, we recognise building a Pension Practice for the 21st century is a different proposition to that of 20 years ago and have taken a gentle step back to understand the importance of this mix of virtues. We think over the next couple of years that our progress in the technology field together with combining some excellent established blood in the account teams with new hires will provide a tempting proposition to the industry.

"Consistency of customer service is clearly the watchword."

The backbone and secret weapon of it all is our Bournemouth service centre, which this year celebrates its 20th anniversary. Consistency of customer service, including processing services, is clearly the watchword in all things a custodian does for trustees. It is, if you like, the flight to quality.

Benjie Fraser, Senior Vice President, Head of business development for pensions, JPMorgan Worldwide Securities Services.

LINKING THE PHYSICAL AND FINANCIAL SUPPLY CHAIN

Banks who are major global or regional players in supplying corporate banking services are well aware that the "playing field" has already changed i.e. Corporates are taking leadership in driving the working capital improvement benefits to be derived from more closely linking their Physical and Financial Supply Chains and that the proprietary world is dying if not yet dead.

The recent SWIFT announcement of Corporate Access is certainly an indication of this. More importantly, Banks are providing advanced offerings such as Supply Chain Financing, Cash Pooling, and Cross-Border remittances which extend well beyond traditional services into a more collaborative model where the corporate, its counterparties, its employees as well as some of the markets in which it operates participate in the Financial Supply Chain.

"Standards organisations maintain pressure on Banks to provide solutions which really deliver value."

Corporates want Banks to invest in Financial Supply Chain solutions as long as it will not lock them into specific Bank(s); this is investment they do not have to make. The standards organizations such as TWIST and Rosetta Net will certainly maintain the pressure on the Banks to provide solutions which really deliver Value, but they are unlikely to be a motive force to deliver the solutions themselves.

Like it or not, the Corporates and Banks will have to work out the ultimate Financial Supply Chain solutions collaboratively to provide value to both sides.

Joe Mazzetti, EVP Corporate Development, FundTech Corporation.

NEW INVESTMENT MARKETS IN THE MIDDLE EAST

Historically, investment into Middle East markets has been very limited primarily due to restrictions on property ownership and foreign ownership of businesses, in addition, political instability has also limited investor enthusiasm.

However, with the recent economic upturn throughout the Gulf Cooperation Council (GCC) region, investors from outside the Middle East are looking for ways to tap the growth. The energy, tourism, real estate and infrastructure sectors are all experiencing tremendous growth and are increasingly attractive to foreign investors.

Coupled with economic growth is a gradual opening to foreign investment with more "free zones" throughout the region, where foreign ownership restrictions do not apply to land or business and, the emergence of well regulated stock exchanges and investment products open to foreign investors. Islamic products in particular are proving popular as they tend not to have the same ownership restrictions as traditional equity investments. Sophisticated investment products such as REITS, Sukuk securitizations etc. meet the investment criteria of both local and foreign investors.

"Islamic products in particular are proving popular."

The opening of the Dubai International Financial Exchange (DIFX) is a major development for the region. With international standards of regulation, it has ambitions to become the primary exchange between London and Hong Kong and is already proving popular with both local and foreign investors.

As the economies of the Middle East continue to expand and open to foreign investment, opportunities for foreign investors to enter the market will increase.

Tahir Jawed, Dubai Managing Partner, Maples and Calder

BUYING TIME

Compliance with the Single Euro Payments Area (SEPA) project is driving significant challenges in Europe, with executives at many of the largest financial institutions reporting much higher estimates of investment costs and fearing that business and technology resources will be stretched as a result.

SEPA, along with related initiatives, is a regulatory effort to simplify and standardise the vast and fragmented payments market in Europe and reduce cross-border hindrances to payments processing.

However, I foresee a lot of premature grey hair among IT executives before this is over. While banks are not required to be fully SEPA compliant by 2008, the fact that nearly two-thirds of executives Accenture surveyed say they will seek temporary interim solutions is worrying. They're incurring extra expense, buying themselves just two years to get to their final SEPA solution. For those using this approach, the ideal answer is to select an interim solution that can be expanded upon to support full compliance later on.

Noel Gordon, managing director of Accenture's Banking practice in Europe, Africa and Latin America.

Market Infrastructure
Dubai – **Hawkamah Institute for Corporate Governance** (Hawkamah), a subsidiary of the **Dubai International Financial Centre Authority**, has announced that it has signed a Memorandum of Understanding (MoU) with the Yemeni Ministry of Finance to actively promote and improve corporate governance practices in Yemen. Hawkamah will also provide corporate governance advice to the Yemeni authorities in relation to the legal and regulatory issues relevant to the establishment of the country's first stock market and capital market authority.

Prague – The **Prague Stock Exchange** obtained from the **Czech National Bank** an extended licence to trade new types of investment instruments, namely leveraged certificates, option certificates and warrants. The new licence also extends the scope of underlying assets for futures trading. The current licence for derivative market organisation, held by the Prague Stock Exchange since 2001, has allowed for exchange trading of only a selected portfolio of investment instruments.

Berlin – Investor confidence has plummeted to a record five year low; a few days after the German chancellor Angela Merkel proudly stated that her country was no longer the "sick man of Europe." According to the think-tank **ZEW**, the German VAT rise combined with rising oil prices could affect domestic spending. ZEW's economic expectations index, based on a six month poll of 307 analysts and institutional investors, fell by 20.7 points to minus 5.6 points in August, 40.6 points below it's average of plus 35. The news for Germany's 'best friend' however, was much rosier. France's economic growth in the second quarter was the best in 20 years, Thierry Breton, finance minister stated recently. There was a 1.1 percent expansion in the economy between the months of April and June that was described by Breton as "exceptional." The predicted GDP growth for France is set to increase by 1.9 percent for 2006.

Paris – **Société Générale Securities Services**, SGSS, one of the world's largest securities services and brokerage organizations, has successfully rolled out the Web Reporting module of **4sight Financial Software's** Securities Finance solution, which is used to manage its wide range of securities lending and borrowing programs. SGSS selected 4sight Securities Finance in 2004, following an intensive competitive review of a number of vendors.

Technology
London – **BNP Paribas Securities Services Athens** (BNP Paribas) has obtained authorisation from the **Central Bank of Cyprus** to access the Cypriot national CSD and clearing system on a 'remote' membership basis. The Cyprus Stock Exchange and the Athens Stock Exchange have recently established a common trading and settlement platform based on Greece's 'SAT' system, which has now been tested by users.

London – **Royalblue** (LSE:RYB), provider of **Fidessa**, announced that **Hoodless Brennan Plc,** the UK provider of online execution and full traditional stock-broking services, has gone live with Fidessa Workstation positions in its London and Bristol offices. Hoodless Brennan is using the Fidessa Workstation to replace all of its current Knowledge Technology Solutions' QuoteTerminal positions within its corporate finance and retail divisions.

Funds & Administration
London – Hedge funds underperformed during the last quarter according to the Global Summary of **MSCI Hedge Fund Indices** performance. Hedge funds underperformed during the last quarter. The overall performance of the MSCI Hedge Fund Composite Index was lower for the second quarter of 2006 than the last quarter, with returns of 0.1% compared to 5.3% previously. The MSCI Hedge Fund Composite Index outperformed equities and underperformed fixed income in the second quarter of 2006. The MSCI Hedge Fund Composite Index returned 0.1% while the MSCI World Equity Index declined 0.5% and the MSCI World Sovereign Debt Index gained 3.2%.

Custody & Outsourcing
London – **Jardine Lloyd Thompson Benefit Solutions** (JLT) has signed a letter of intent with Paternoster to act as service partner to provide a range of services to support their business plan in the Defined Benefit (DB) buy out market. Paternoster recently raised £500 million to focus on solutions to DB scheme closures and buy outs. JLT will provide actuarial pricing support services as well as long-term policy administration. JLT and Paternoster will also work together to offer pension scheme administration and wind up services to the DB market.

Legal and Compliance
London – **NatWest** is under investigation by the **UK's Information Commissioner's Office** (ICO) for claims that it dumped the confidential financial details of its customers in a skip. The consumer group Scamsdirect alerted the ICO that NatWest failed to dispose of customer information securely. Scamsdirect says it found confidential customer information in a rubbish bin outside an RBS/NatWest branch in Fareham, Hampshire. The items include such detailed personal information that the woman who tipped off Scamsdirect had been stealing from people's accounts for fifteen years by taking black bin bags full of documents from the skips and walking away unchallenged.

Securities Financing and Lending
Sofia – **The Central Depository AD** (CDAD) of Bulgaria is working on the introduction of settlement procedures regarding securities lending transactions. Currently there are no securities lending in the Bulgarian market although the Law on Public Offering of Securities provides for such types of transactions.

News - Americas

Market Infrastructure
New York – **JPMorgan Chase** announced that it has been selected by the **New York State Department of Labor** to provide a range of banking services that will help speed payment of unemployment insurance benefits. The contract means JPMorgan Chase will provide check processing, accounting and reconciliation, debit cards and payment collection services. Direct deposit services are also planned for future implementation. The bank will be responsible for providing payments to 680,000 unemployment insurance benefit claimants each year and processing any overpayments.

Toronto – **Belzberg Technologies Inc.** (TSX:BLZ) and its wholly owned subsidiary, **Electronic Brokerage Systems, LLC**, has announced that, subject to regulatory approval, it has entered into an agreement to acquire the business and assets of Nandra Group Inc., an independent Direct Access service provider on the floor of the NYSE. Utilizing Belzberg's recently released Chat Trader, the new, combined direct access service will offer institutions the ability to use any standard Instant Messaging service from AOL, Google, Yahoo, or MSN to communicate and send orders directly to NYSE floor traders or execute orders directly to the DOT or the NYSE hybrid trading systems.

New York – **Windstream Corporation** (NYSE: WIN) has selected **Bear Wagner Specialists LLC** to trade Windstream shares on the **New York Stock Exchange**. Windstream was formed through the spin-off of Alltel Corporation's landline business and merger with VALOR Communications Group. Windstream is the largest telecommunications and entertainment services company focused on serving rural America.

New York – According to the **Financial Times Nasdaq** is ready for a price war with **The New York Stock Exchange** (Nyse) if the latter drops tariffs when new trading legislation is introduced on 2007. The new legislation (Reg NMS), a set of market-structure reforms that will theoretically force brokers and exchanges to guarantee investors the best available price has pushed Nasdaq towards an aggressive strategy of large price reductions in order to capture a greater percent of the market ahead of the regulation switch.

Technology
Chicago – **Trading Technologies International, Inc**. (TT) announced today that it has extended its existing U.S. software license agreement to enable **Goldman, Sachs & Co.,** to distribute TT's software to its European clients via a high-speed network based in London. "This agreement enables our clients to trade futures globally via TT's X_TRADER platform from our London based network," said Jack McCabe, Managing Director of Goldman Sachs. "This will provide enhanced speed and reliability for traders based in Europe."

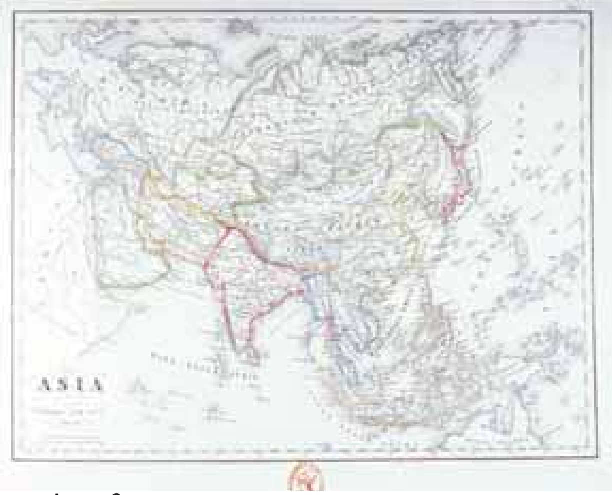
Securties Financing and Lending
Toronto – **Manulife Financial Corporation** has announced that it has installed and successfully gone live with **4sight Financial Software Ltd's** Securities Finance solution for its Securities Lending, Repo and Reverse Repo books of business. The software will provide Manulife with a tool to manage the borrowing and lending of instruments held in portfolios run by its MFC Global Investment Management & John Hancock Financial divisions.

Washington – An Estonian man has agreed to return around $550,000 of trading profits and pay a $15,000 penalty to settle electronic theft charges, according to the **Securities and Exchange Commission**. Kristjan Lepik, of Tallinn, agreed to pay with accepted or denying that he traded on corporate information obtained through sneak peeks at information distributed by **Business Wire**, a commercial distributor of business news. The SEC estimated that Lepik and Peek made at least $7.8 million of profits trading on hundreds of press releases issued by more than 200 U.S. companies in 2005.

Legal and Compliance
Pittsburgh - **Mellon Financial Corporation** has announced that its subsidiary, Mellon Bank, N.A., has entered into a settlement agreement with the United States Attorney for the **Western District of Pennsylvania** that relates to the April 2001 incident in Mellon's Pittsburgh IRS Processing Unit. Under the terms of the agreement, Mellon has agreed to have an independent third party monitor compliance with the terms of the agreement for a three-year period. No monetary penalties or fines are being imposed by the agreement, although Mellon will reimburse the federal government for $30,000 of costs incurred by an outside vendor.

Chicago – **CBOT Holdings, Inc**. (NYSE: BOT) and its wholly-owned subsidiary the **Board of Trade of the City of Chicago, Inc**. (the "CBOT") have announced they filed a lawsuit against the **Chicago Board Options Exchange, Inc**. The lawsuit seeks to enforce the rights of the CBOT's full members to participate in the CBOE's restructuring. The CBOT seeks, among other things, an injunction requiring the CBOE to allow the full members of the CBOT who hold an Exercise Right and meet certain other requirements to participate equally in any distribution of CBOE stock, as the CBOT claims are required by the CBOE's own Certificate of Incorporation and subsequent agreements between the CBOT and CBOE.

New York – **Detica** has announced that it has entered into a conditional agreement to acquire the entire fully-diluted share capital of M.A. International Limited ("**m.a.partners**") for up to approximately £32.3 million.



Market Infrastructure
Tokyo – The **Japanese Central Bank** has held the interest rate at 0.25%. Only a month ago the bank raised interest rates from zero, the first time in six years. Many have seen this a sign of the banks confidence in the economy that has grown at an annualized rate of 0.8%. The second largest economy in the world has also seen unemployment figures fall to 4.1%, reaching an eight year low.

Hong Kong – **HSBC** has entered into an agreement with **Westpac** to acquire its sub-custody and clearing business in Australia and New Zealand. The consideration will be up to A$150 million (approximately US$112.5 million) subject to the business meeting certain performance standards over a six month transition period. Nick Bryan, Head of HSBC Securities Services in Asia-Pacific, said: "The acquisition will make HSBC the leading sub-custody and clearing player in Australia and New Zealand and demonstrates our commitment to these markets."

Singapore – **Eurex** has announced that it has connected its first member firm directly to its Singapore telecommunications hub: **Transmarket Group Pte Limited** began trading from the telecommunications hub on August 4. Two additional firms are currently in the connection process. The Eurex telecommunications hub in Singapore offers members direct access to Eurex's benchmark product range.

Singapore – **Singapore Exchange Limited** (SGX) has announced that the SGX-ASX trading link service will be discontinued at the close of business day on Friday, 29 September 2006. In February 2006, the **Australia Stock Exchange** (ASX) discontinued the inbound service from ASX to SGX. SGX kept the outbound service (from SGX to ASX) operational and under review. Due to persistently low demand, SGX has decided to discontinue the outbound service. Both SGX and ASX have agreed to close the SGX-ASX trading link.

Beijing – **Unisys Corporation** (NYSE: UIS) has announced that the **Tianjin Payment Document Clearing and Settlement Center** (Center) of the **People's Bank of China** signed a contract to acquire and deploy the Unisys check processing system. The project includes Unisys Network Document Processor solutions with a built-in digital signature function that represents the first application of its kind in China, laying the foundation for secured image exchange and check truncation capabilities.

Mumbai – **i-flex solutions** (Reuters: IFLX.BO & IFLX.NS), an IT solutions provider to the global financial services industry, has announced that it has entered into a definitive agreement to acquire **Mantas**. Mantas, a provider of anti-money laundering and compliance software and services headquartered in Herndon, Virginia, USA, in an all cash transaction at a price of USD 122.6 million. To fund this acquisition, i-flex Board of Directors have decided, subject to shareholders approval, to make a preferential allotment of i-flex shares to **Oracle**, who are already a majority shareholder of i-flex.

New Dehli – **HSBC** has launched a derivatives clearing service for institutional investors in India. Local and cross-border investors can now clear both equities and derivatives trades through HSBC. HSBC's Custody and Clearing business in India has officially commenced operations as a Professional Clearing Member of the derivatives segment of the National Stock Exchange of India (NSE).

Tokyo – **Royalblue** (LSE:RYB), provider of Fidessa, today announced that **Goodmorning Shinhan Securities**, a Korean-based securities brokerage and investment banking house, has signed up to receive order flow from Fidessa's global connectivity network. With Goodmorning Shinhan Securities, Fidessa users will now be able to trade equities, derivatives and perform DMA trading directly on the Korea Stock Exchange (KSE).

Legal and Compliance
Toyko – **Mizuho Financial Group Inc.**, Japan's second biggest lender, has demanded compensation from the **Tokyo Stock Exchange** (TSE) to the sum of ¥40.4 bn ($345 million) for failing to stop a trading error last year. The TSE however has no intention of paying Mizuho a single yen said Taizo Nishimuro, president of the TSE in a press briefing. It has received a message from Mizuho threatening a lawsuit if the money isn't paid by September 15th. The trading error occurred when the TSE computer systems didn't respond to Mizuho's attempt to cancel the sale of 610,000 J-com shares for one yen each. The intention was to sell one share for 610,000 yen for one share. Mizho had to then buy back the shares at a massive loss, on top of this disaster Morgan Stanley reportedly ended up with a 31.5% share in J-com.

Shanghai – The **Chinese Government** has sent more than 100 investigators to Shanghai to investigate a possible corruption scandal involving the city's social security system, according to a Times report. A number of prominent local businessmen are being questioned in their links to the system that manages more that 10 bn yuan ($1.25 bn) in funds. Mr Zhang, head of Shanghai's Labour and Social Security System, and China's 16th richest man, is suspected of misconduct regarding a 3.2 bn yuan loan of city pension funds to toll road operator **Fuxi Investment Holding Co**.

Jersey

This month, the Jersey Funds Association and Jersey Finance Limited, the representative arm of the Finance Industry in Jersey, held a presentation and consultation event aimed at establishing a future strategic direction for the funds industry. The proposals to emerge from the event aim to create the optimal conditions to establish Jersey as the location of choice for funds business in Europe.

Two themes dominated discussion - the development of further fund categories aimed at the most sophisticated investors, and the desire to build on initial successes in attracting fund managers to re-locate to Jersey. The Industry is working hard to develop these themes and is creating a new marketing group made up of representatives from the Jersey Funds Industry to help steer promotion of the funds industry.

Another example of the collaboration underway is the recently issued consultation paper on proposed changes to the Jersey Expert Fund Guide from the Island's financial regulator, the Jersey Financial Services Commission.

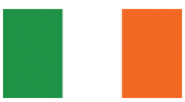
This is aimed at introducing greater clarity and flexibility to the regime, include clarification on how an Expert Fund may be listed on a stock exchange, clarification of the amount of initial minimum investment in an Expert Fund and the recognition that there may be cases where there are exceptional circumstances justifying a degree of relaxation from the Commission's normal policy.

Now, Jersey is making a conscious effort to use its past natural growth and stake its claim in becoming a European funds centre of choice.

Graeme McArthur, representative of the Jersey Funds Association and Managing Director of Northern Trust in Jersey.

See ISJ Channel Island report page 14

Ireland



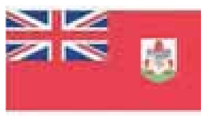
As golf enthusiasts eagerly await the commencement of the Ryder Cup in late September, delegates who attended the DFIA/NICSA Annual Global Funds conference in Ireland earlier this summer will be remembering and reminiscing about their time at the K Club, the conference venue and host venue of the Ryder Cup 2006. Delegates who played golf will no doubt replay every golf hole along with Padraig Harrington, Tiger Woods and the rest of the golf pros, hoping and praying that just maybe, just maybe, they had a better shot, swing or putt! Wishful thinking? Maybe not as the conference certainly brought out the best in speakers and delegates alike and has set a strong precedent for next year, the planning for which is already under way.

Conference 2007 plans aside, the Irish industry is gearing up for Autumn and the DFIA is planning to host two industry briefing seminars in Asia. The first of these seminars is scheduled to take place in Hong Kong, in association with the Hong Kong Investment Fund Association (HKIFA) on 17th October and the second will take place in Tokyo on 19th October. The seminars are aimed at fund promoters, fund managers and those working in the funds industry in the Asian region and will enable the Irish industry to profile the jurisdiction, highlighting the latest developments while also emphasising the services the Irish industry can offer to non-Irish domiciled funds. The agendas for each seminar are currently being prepared and will cover such topics as an overview of the Irish industry, updates on the legal and regulatory framework, UCITS III, alternative investment funds, asset pooling, distribution, tax updates, listing updates and the like. Detailed programmes and booking forms will be circulated in early September. In addition the DFIA is planning to host its industry briefing seminars in the US in November. Watch this space for more details.

Deirdre Norris, is director of marketing and communications, Dublin Funds Industry Association.

Clarification: On the Dublin Domiciles Report in our last issue we stated that "ISJ staffers contributed to this report" this should have read "ISJ staffers wrote this report" as the byline author was away and thus did not contribute to the report. We would like to apologise for any confusion caused.

Bermuda



Proactive Bermuda: In late 2005, a New Product Development Committee was established as a joint initiative between the Bermuda International Business Association, the Bermuda Stock Exchange (BSX) and the Bermuda Monetary Authority (BMA) to stimulate creative thinking and devise new products that would appeal to global investors. The first product developed, "Launch 'n List' leverages the fact that Bermuda has a fully electronic stock exchange with Designated Investment Exchange status as well as a regulatory authority with a practical but effective approach to regulation that supports development of bespoke products for the investor. It is an example of innovative yet quality business that Bermuda can provide to the discerning global investor and is the brainchild of a collaboration between the public and private sector.

The co-operation between the Bermuda authorities and the BSX means that funds can apply to incorporate and be classified under fund regulations at the same time that initial application is made to the BSX for listing in as little as two weeks' time so Bermuda is an extremely convenient, speedy and user-friendly jurisdiction to set up listed funds.

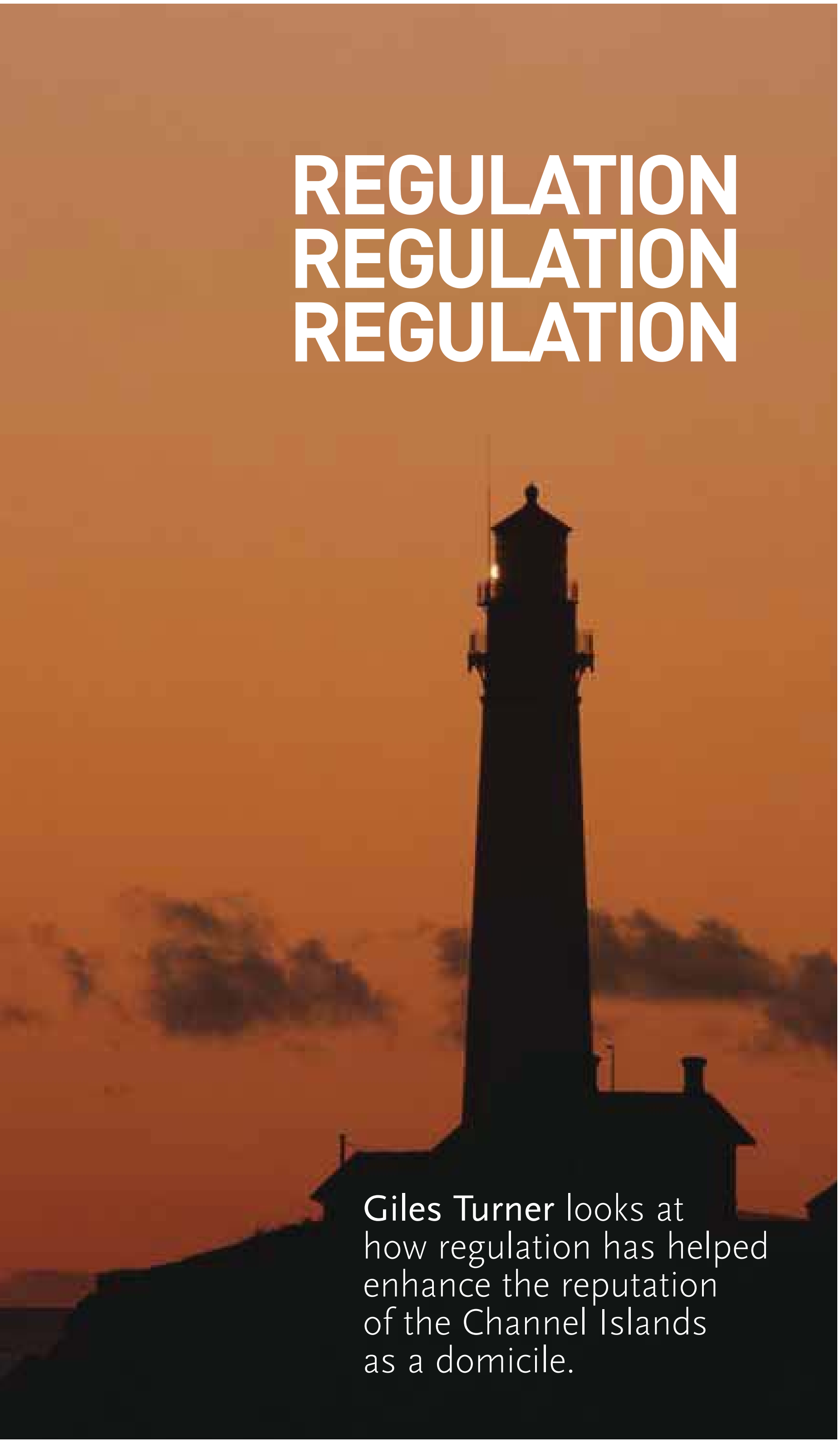
Funds usually list for two main reasons - listing ensures that the shares of the funds are considered liquid assets, which many institutional investors prefer and secondly, hedge funds are, largely, unregulated so listing provides a layer of comfort to investors that there is an independent, regulatory body monitoring the funds. However, many larger exchanges have increased their regulatory approach to the extent that it is inappropriate and impinges on the fund managers' ability to effectively carry out their strategy.

The "Designated Investment Exchange" recognition given to the BSX reflects that it is a properly managed exchange with sophisticated trading platforms and not just a mere listing board. The strength offered by the BSX is that it has effective regulation yet still has the ability to be nimble and flexible in its approach to funds wishing to list. .

Greg Wojciechowski, President and CEO of the Bermuda Stock Exchange, said, "We continually see issuers coming from jurisdictions all over the world seeking to incorporate in Bermuda and list on the BSX. The Launch 'n List product was a logical extension to offer our clients a one-stop solution. This new product will not only support the funds industry but we believe it will also be important for other products, such as private equity and debt transactions.'

Going Forward: The demands of the financial marketplace remain key in dictating the pace of innovation and legislative reform. Bermuda is proud to increasingly set the pace of change rather than merely responding to it. Prepared to meet the challenge Bermuda also, continually strives to keep its accomplishments on the world's radar screen.

Susan V. Stirling, Acting CEO & Marketing Director, Bermuda International Business Association



REGULATION REGULATION REGULATION

Giles Turner looks at how regulation has helped enhance the reputation of the Channel Islands as a domicile.

The combination of light taxes and death duties has given Jersey and Guernsey the reputation of a financial tax haven. However it is not the lack of regulation, but rather the existence and coherence of regulation that seems to sets the Islands apart from other fund domiciles.

Looking back at the history of securities investment within the Channel Islands it is easy to presume that increased regulation would deter investment. Andrew Howat, MD at Investec Fund Administration states that both Islands benefited form the rather archaic sounding Stamp Duty Land Tax breaks previously available from the British Government. "Although this loophole has now been closed, the depth of expertise is such that the property sector has continued to go from strength to strength."

It is both the Islands diversification and the increased regulation that has helped this jurisdiction to flourish financially. "The regulatory environment is attractive to investment managers and fund sponsors targeting institutional and high net worth investors. The Channel Islands have always been viewed as having a pro-active regulatory regime that is business friendly and has its pulse on the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needs of the financial industry community, in balance with a high fiduciary oversight regime” states Ron Nutter, Global Head of Corporate and Institutional Operations, Royal Bank of Canada Global Private Banking.

Regarding investment diversification, there has been a surge in closed ended property deals. “Some of these are AIM listed to attract institutional money, others are private placement,” states Howat. “A high number of institutional investor private equity schemes have been prevalent over the past 12 months. There are also a large number of traditional private equity schemes being sponsored by high profile venture capital institutions.” Nick Kershaw of Ogier also backs the recent importance of property funds being a huge growth area, particularly in Jersey. “Both more property structures and public property funds have grown in the past three years, many structured as Jersey Property Unit Trusts.”

“A high number of institutional investor private equity schemes have been prevalent over the past 12 months. There are also a large number of traditional private equity schemes being sponsored by high profile venture capital institutions.”

Even the separate islands have moved apart regarding financial specialities. “Guernsey has very much developed as a centre for the more alternative type of product and so having done them for the past 20 or so years there has been a high degree of specialisation, primarily in the administration of the more alternative types of products,” states Gavin Farrell, Partner in Charge of Funds at Ozannes.

Regarding competition, The Cayman Islands may attract the lions share of investment, yet as Farrell states the “there has been an increased demand for using a European jurisdiction which is more regulated such as Guernsey for hedge funds. This satisfies the distribution policy of the hedge fund manager and more importantly the tax aspect. By having the hedge fund in Guernsey you can demonstrate a greater degree of central management and control by being placed offshore UK because at times it is more difficult to do so in the Caribbean.” It is this regulated atmosphere that gives the service providers and fund promoters confidence. “What is needed is continued flexibility to regulatory requirements, thus keeping the balance between not being over burdensome and ensuring a welcoming but controlled regulatory environment. All of this is in the face of very loose regulatory environments in jurisdictions such as the Isle of Man and The British Virgin Islands,” says Howat.

Historically, regulation development began back in the late 1990’s when the UK government sent Anthony Edwards to assess the Islands financial regulation and report back on the situation. An independent regulatory body called the Jersey Financial Services Commission was set up and initiated a swathe of regulation in order to counter money laundering, tighten up controls of existing trust funds and introduced ‘due diligence’ checks on new and existing businesses. Since 2000 Jersey has been under constant examination from the OECD and, as a consequence of the international scrutiny on global financial transactions due to the spread of terrorism, the need for offshore markets to be strictly regulated is increasing by the year. In 2002 due to Government pressure Jersey signed the EU tax transparency package which contained future implications for the removal of the Jersey Exempt Tax Company, a foundation stone for most Trust packages.

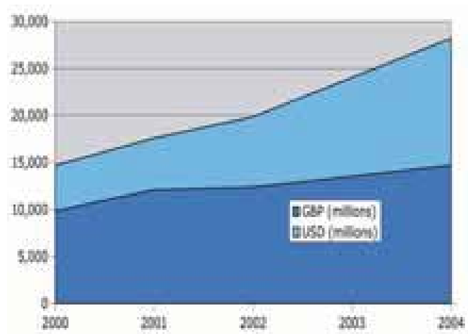
Although this external regulation would seem to deter rather than encourage investment, it has forced the Islands financial services to increase dialogue regarding regulation and therefore a need to create an efficient framework. Indeed, the Channel Islands have a reputation for attracting fund promoters because of the flexible regulatory structure. “Both islands have introduced a regulatory framework to attract funds aimed at sophisticated and institutional investors, namely the Expert Fund regime in Jersey and Qualified Investor Funds (QIF) in Guernsey,” says Nutter. “These enactments have positioned both islands in a very competitive landscape to other jurisdictions, and specifically, domiciles for alternative investment funds.” The willingness to interact with various intuitions is giving the Islands a positive reputation regarding future investment, as Susan Clark, Managing Director of Fund Administration, The Royal Bank of Scotland International states “The opportunity to open dialogue and a willingness to work together enables the industries to identify opportunities and find acceptable solutions for evolving market requirements.”

An example of willingness to work towards market solutions was the creation of in February 2005 of QIF’s by the Guernsey Financial Services Commission (GFSC). The new authorization process aimed to reduce the authorization timescale (which prior to QIF introduction took to between four and six weeks) to less than three working days. This was achieved by taking the due diligence burden that was introduced in the 1990’s and moving it from the GFSC to the fund administrators.

Another example of positive dialogue concerning regulation and the solution of market requirements are the proposals by Peter Harwood that were accepted by the GSFC. The GSFC summarised Harwood’s proposals as follows:

“The key recommendation is to

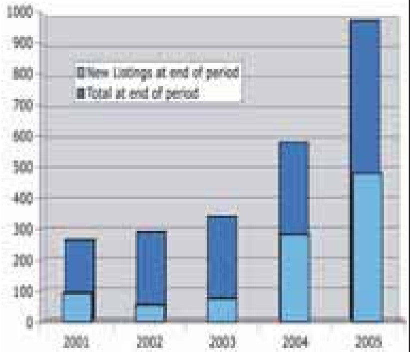
Growth Areas



Our graph shows the steady growth in CI domiciled funds by market capitalisation and the marked increase in US dollar denominated funds from 2000 to 2004.

Source: Channel Islands Stock Exchange

List to Port



New listings of CI funds have risen sharply this century.

Source: Channel Islands Stock Exchange

create a “registered” fund sector, alongside the existing “regulated” sector. Unlike regulated funds, registered funds would not need prior approval from GFSC. The report suggests that the same framework should apply to both open and closed end funds, which should be subject to a dedicated Funds Law, leaving the existing Protection of Investors Law to deal with other aspects of investment business. It also recommends public offers should be made subject to specific Prospectus legislation, rather than to the current Control of Borrowing regime, and that provision of service to certain funds domiciled outside Gurney should be liberalised.”

This desire for the regulatory, political and financial bodies to interact in order to enhance flexibility and commercial awareness has helped Guernsey attract investment. “The regulator deals directly with the fund administrators, lawyers, accountants who are dealing with the clients and the end users of Guernsey as an offshore jurisdiction,” says Farrell. “The GFSC has always been flexible in listening to the recommendations of the industry.”

Regarding regulation in the other Channel Island, Jersey’s Expert Fund regime can be regarded as a catalyst for the regional financial industry. This Expert Fund was set up for potential investment other than traditional equities and bonds. These alternatives range from asset classes including hedge funds to private equity funds and property funds. As Kershaw explains, “In the last 2 or 3 years, one of the key drivers of new fund business is the establishment of the Expert Fund. The EF is a new regulatory category of funds which allows the establishment of a fund aimed at professional or high networth investors in a very short timescale, a maximum period of four days after the submission of the application papers and it combines this speed with light regulatory conditions.”

Because regulation within the domicile is up to date and sophisticated, Jersey combines a fast track regulatory process and also maintains a high degree of regulatory integrity. The island is also looking towards the future; Jersey Finance is setting up a training and education committee to create discussion with the Government concerning the capacity and skill base within the finance industry. This is essential because in order to attract increased investment the Islands practitioners need to ensure that they can bring in individuals with the relevant skill, expertise and depth. As a recent Economics graduate, not many of my contemporaries were talking about careers in the Channel Islands! The Channel Islands have recognised this deficiency and are striving to do more on a local level in order to ensure that the regional financial sector can become a viable option for ambitious graduates. Again, it is this forward-looking philosophy that stands the Channel Islands in good stead. At present, there are 250 Expert Funds in Jersey and 21 Qualified Investor Funds in Guernsey

> Perhaps the biggest incentive for potential investors is simply a case of time zones.

Perhaps the biggest incentive for potential investors is simply a case of time zones. “The fact that we are in the European time zone,” says Farrell, “and more importantly within the UK time zone, makes an offshore extension of the British Isles as well as the offshore extension of other European jurisdictions bar one or two hours difference in time zone.” The beneficial juxtaposition of working hours between the UK, the Channel Islands and Europe make for a much more efficient trading and investment platform in comparison to the Cayman Islands for example. It is important to not overstress the importance of location in today’s global and liquid economy. “Europe is still an important source of business for the Channel Islands and the Islands proximity, versus the Caribbean, combined with pro-active regulatory regimes, is attractive to European mainland participants. Location alone is not the only criterion for a fund sponsor domiciling their funds in the Channel Islands,” says Nutter.

However it is this time zone convenience that gives the Channel Islands a significant advantage as Kershaw explains. “One would be hard pressed to find a significant competitor to the Channel Islands within the European time zone as an offshore centre. Much of that is historical in the fact that they have gained a significant momentum and there is a significant infrastructure in Jersey and Guernsey both in the large number of specialised fund administrators and also the relatively large, quality legal and accountancy firms. The infrastructure is there to support the establishment of funds.”

At the beginning of the decade there was some negative opinion of the Channel Islands potential, that the financial possibilities of the centre would collapse to the financial clout of the neighbouring EU and the soaring property market would force the local inhabitants abroad and lead to the implosion of the local economy, yet the investment continues to pour into the Islands.

The next decade should be a fruitful time for the Islands as long as dialogue and diversification within the Island continues. According to Clark; “there is value in having the ability to choose Island based functionary services which can offer a true “one stop shop” and this can be delivered by both Islands. The Islands offer fund management, fund administration, custody, trustees, banking, corporate governance, compliance and secretarial services, supplemented with strong legal and accountancy services. There are also scenarios where promoters may choose to use service providers where they have an established relationship, located in a variety of jurisdictions. With the breadth and diversity the Islands have at their disposal we are confident that we can generally meet even the most demanding of requirements.” ISJ

NYSE & LSE

Consolidation among Exchanges has brought compliance and regulatory issues to the surface. Rachel Gibbs reports.

Acronyms in ACTION

In the last issue*, Richard Saunders of the IMA (Investment Management Association) responded to the Chairman of the Financial Services Authority, Callum McCarthy's, urge ** to discuss the long-term implications of the change of ownership of a UK RIE (Recognised Investment Exchange).

It highlighted the fact that the LSE regime is based upon market developed solutions which have evolved with the sophistication of the market, and that any change in ownership should not prejudice these strengths. There are also others in the industry arguing that it would be reprehensible to allow foreign control of a primary piece of financial infrastructure that affects UK companies and the domestic economy.

While these concerns are valid, it is important to establish why mergers are happening; the fact they may be a necessity in competing on a global stage; and to determine what precautions can be taken to protect our financial institutions from foreign regulation.

There has been significant consolidation with exchanges recently. The NASDAQ bid for the LSE in March, and is likely to mount another attempt. In June, Euronext accepted a $10 bn cash and stock deal from NYSE to create NYSE-Euronext. John Thain, the NYSE Chief Executive, has also said that NYSE-Euronext would be interested in merger opportunities in Asia, and the LSE.

This trend demonstrates the likelihood that more markets will merge to combine costs and resources, especially in a key financial centres such as London.

Euronext is the first cross-border exchange, combining bourses in Paris, Amsterdam, and Brussels (2000); Lisbon (2002) and LIFFE in London (2001). It claims its success is attributable to the implementation of a horizontal market model applying global vision at a local level and generates synergies by incorporating the individual strengths and assets of each local market.

From a regulatory perspective, although it has a unified operational structure, the five countries Euronext operates in have kept their own financial regulation bodies.

The NYSE-Euronext merger, however, creates the first trans-Atlantic securities market. This is uncharted territory and raises questions of compliance between European-based Euronext, and its US owner's regulatory structure.

The main concern is the possibility that European companies might be subject to America's stringent accountancy law and, more specifically, its Sarbanes-Oxley (Sox) rules, which comprise of complex legislation that establishes standards for US public companies.

> "The question is not whether some of these exchanges will merge, but rather when, and how."

To-date, however, both Thain and the SEC have attempted to assure the financial community that there will be no interference with how NYSE-Euronext is run in Europe.

Harvey Pitt, Chairman of the Securities and Exchange Commission (SEC) from 2001–2003 states: "I believe the SEC means what it says, however, there are no guarantees. A change in Congress or a change in SEC leadership could bring people with different philosophies. I am doubtful that will happen, but I offer no guarantees!"

Eddy Wymeersch, president of Belgium's Banking, Finance and Insurance Commission, has also commented that, "We have been able to deal for five to six years with a multi-national structure [in Euronext]. I see no reason why it will work less well with the US.'

Whether the long-term consolidation of equities markets is beneficial to the industry remains unknown. It would seem, however, unavoidable. As Christopher Cox, Chairman of the SEC states: "The question is not whether some of these exchanges will merge, but rather only when, and how."

As commerce becomes centralised, with technology allowing us to rely less on geographical boundaries, exchanges have been merging in order to reduce costs, decrease execution time and increase their offerings in various time zones.

Thain has also said that although exchanges have very high fixed costs, once you have met them, they are extremely profitable. According to Reuters, Thain aims to reduce costs by $400 million over three years, by combining annual technology costs, consolidating data centres, and reducing the number of networks it uses.

In the UK, Callum McCarthy points out that neither the FSA nor the SEC consider that US ownership of the LSE would result in it being forced to take on its regulations.

Ed Ball, minister for the City of London, has also indicated that the Government is keen for the LSE to remain subject to UK regulation if it was to be taken over by a foreign company. At a recent meeting with Thain, he discussed concerns regarding regulatory controls of a takeover, and that 'it was long-term assurance' that the Government and the FSA needed to establish. Furthermore, the meeting covered areas being discussed in Brussels, including accounting standards and corporate governance.

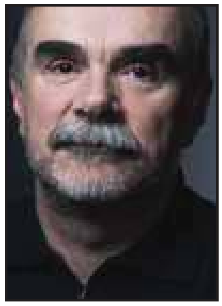
McCarthy has also stated that, over time, a combined group may seek to harmonise aspects of both markets in respect to trading platforms, rules, membership arrangements and listing of companies. This integration could lead to the creation of a single market covering all securities.

If long-term assurance of the FSA's control over UK RIEs were compromised, the UK could incorporate a break-up clause in any deal if there was an attempt to impose foreign regulations on companies listed on its combined exchanges.

Exchange mergers are on the increase and it looks like this trend will continue. To-date, exchange mergers have been effective at accomplishing the goals of the businesses involved, and rather than reducing quality of service, have actually served to expand offerings and create a more streamlined and client-friendly infrastructure. ISJ

*ISJ V3 No.15 - July 2006, **FSA Statement 12 June 2006, For full text see **ISJforum.com**

Nat Sey



Predrag Dizdarevic

ISJ invites **industry experts** to comment on the latest issues and developments in the world of **Reference Data**.

IS THE REFERENCE DATA HYPE JUSTIFIED?

Nat Sey, Manager of Delivery and Infrastructure, FT Interactive Data

It's estimated that 60 per cent of all failed trades occur as a result of inaccurate reference data. Additionally, many firms feel uneasy about the availability and quality of their reference data repositories.

These days, it seems impossible to open an industry broadsheet without being confronted with alarmist statements concerning reference data and how we should all collectively be ashamed of ourselves for letting it fall into such a state of disrepair. While as an industry, we may be prepared to shoulder some of that shame, is the situation really so dire? Is the scaremongering really justified?

In absolute terms, probably not. Will the sky fall in if we don't immediately adopt industrial strength reference data solutions? Highly unlikely.

The truth of the matter is that the widespread ill treatment of reference data is nothing new; indeed it has been like that for a very long time. What are new are the drivers for change: namely a renewed focus on regulatory requirements – and the need to meet them – as well as a desire to reduce both risk and cost.

Whilst all these factors are important, it is regulation that is causing the most concern. If we cannot trust the content and processes that underpin our decision-making, how much faith can we place in our decisions?

Given that years of under-investment in reference data content, infrastructure and processing has resulted in a situation where most commentators would agree that an urgent resolution is required, is the hyping of the 'reference data problem' justified? Surely this must be an example of where the end does indeed justify the means.

Left to its devices, the industry has successfully ignored the growing problem – and that problem has now come home to roost. Without the scare tactics employed over recent times, the industry might still be largely unaware as to the gravity of the 'reference data problem'. Scare tactics they might well be, but they also appear to be essential to kick-start any progress.

WILL OUTSOURCING GAIN MAINSTREAM ADOPTION?

Predrag Dizdarevic, Executive Vice President, Capco

We recently published a survey that we conducted with the London Business School "Services Sourcing and the Banking and financial services industries – Exploding Myths and Describing Emerging Practices" that helps to demystify the role of global sourcing within the financial services industry.

Several interesting trends emerged from the study. First the study found that the Global Sourcing Model is well established among the world's leading financial services organizations even for "vertical business processes" often assumed to be too difficult to outsource or offshore. Over 50% of survey respondents who outsource business processes already use alternative sourcing strategies for these vertical or core processes. The view that core processes can not be outsourced, as it would involve too much risk and loss of control, and that outsourcing only lends itself to non-core processes, appears to have dissipated. Based on the study, we found that experienced companies were prepared to make the trade-off if, it allowed them access to superior skills, quality and lower costs from the third party vendors.

Additionally, the research found that firms no longer think about "whether to outsource" or "offshore" in terms of single functions and a single vendor; instead they are beginning to manage sophisticated sourcing frameworks that integrate multiple-vendors, multiple-geographies and vertical, business specific processes. Nearly 25 per cent of the respondents reported that they already use a combination of resources onshore and offshore, in-house and outsourced. Leading firms are in fact deploying a compartmentalised model for sourcing. For example, a U.S. Bank may have their equity research processes being performed in India, derivatives in Russia, customer service in Ireland and reference data in both the U.S. and India.

Another interesting trend we see is the reason firms are moving more rapidly toward outsourcing. Historically, cost reduction has been the number one driver. While cost reduction is still a significant driver, others such as quality improvement, access to talent and flexibility are all increasing in importance. But when it comes to reference data we see ROI running neck and neck with other drivers, as firms struggling to understand the costs associated with these activities. Instead, firms are looking at outsourcing as a way to free their talent, so as to focus on value added activities, as well as help them to respond to ever changing and continually evolving regulations.

We believe that outsourcing will provide firms with a way to gain competitive advantage, particularly a modularized or componentized model that allows firms to operate in a more agile and dynamic way. The ability to be nimble and flexible is the only way to stay ahead in an ever changing market place.

Brian Filanowski

WHAT ARE THE CONSEQUENCES OF NEGLECTING TO EMPLOY A COMPLETE DATA VISION FROM THE OUTSET?

Brian Filanowski, Product Manager, Reuters DataScope Select

In today's data-centric work environment developers and data analysts are experiencing tremendous internal and external pressures for cost efficiencies and high quality, reliable data. The element that often poses the greatest challenge is implementing a complete data management vision from the outset.

A complete forward-looking data management vision needs to be employed from the inception of collection modelling and from the initial strategy of the data environment.

Programmers need to identify and plan for the data needs of each business function within the enterprise. It is, however, commonplace for a programmer in their haste to deploy a data solution to only address the immediate needs of their data users.

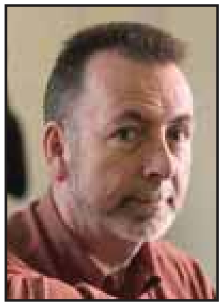
With today's increasing demand for accurate, timely and comprehensive data, developers and data analysts are under tremendous pressure to process even greater volumes of data and to deliver it quickly to the many supporting applications within the enterprise. Hence, many data projects are rushed through the planning and modelling stages of data management in an effort to quickly meet the needs of a specific business function and/or user. Although this often results in meeting the immediate need for data, it rarely meets the long term data needs of the company. The implications are costly. For example, if a data delivery model is hastily deployed, the likelihood that the data manager will have to spend additional development cycles to modify the data collection design and delivery model is far greater. Additionally, if the data requirements are not fully addressed from the outset it is likely the data manager may also need to acquire additional data content to meet the unmet business needs.

It is essential during the initial stages of data collection, modeling and planning to do so in a comprehensive manner to successfully support all the various types of data needed by data users and distribution models within the enterprise.

How many times have you heard of a functional business group within your company establishing a data project to bring in new content to meet a specific need only to later learn that the data was already available within the company, except not within their reach due to design limitations? All too often, I'm afraid. One must question how much this stunts growth.

Thousands of hours and dollars are spent every year in re-developing, re-mapping and consulting fees in an effort to modify data distribution models. These expenses can easily be avoided if time is dedicated to developing a complete strategic vision and comprehensive data management plan. Proper planning will significantly reduce costs and help mitigate enterprise data processing inefficiencies. The Collection Modeling Plan demands a complete future data vision to be successful.

Paul Kennedy



WHAT ARE THE INFORMATION MANAGEMENT CHALLENGES FACING ASSET MANAGERS?

Paul Kennedy, VP Product Management, GoldenSource

Investment Managers today need to keep up with new regulations, meet internal cost and return-on-investment targets, while at the same time evolve existing infrastructure and ageing legacy systems to deal with the increasing competitiveness of the investment business.

Operational efficiency and back-office initiatives such as those inspired by STP/T+n had previously failed to engage the asset management community. However, the focus has shifted away from cost containment toward strategic investment for building the systems and processes needed to support growth and regulatory compliance.

Today there are many information management challenges facing asset managers:

- Increasing regulatory pressures (e.g. Know Your Customer, Sarbanes Oxley, Basel II, MiFID)
- Disparate data repositories and little or no data sharing across applications or business units
- High operational costs to fix data discrepancies across the enterprise – large amounts of time spent reconciling inconsistencies
- Difficulty in obtaining a holistic view into revenues, profitability, risks, customer relationships

These challenges have prompted increased awareness among Asset Managers of the need for effective data management, not only to conduct business and service clients but also to enable performance analytics, risk analysis and effective portfolio decisions.

The asset management community is at a crossroads. Ongoing consolidation is creating a new kind of player: a diversified global institution that needs to balance cost containment with more fundamental strategic drivers. Creating new complex investment products and maintaining high-quality customer relationships is a real challenge when the corporate strategy is all about cost-effective growth. In the buy-side world it pays to have access to a single source of trusted data for any financial product, all customers and counterparties and entire global business activity.

Data Management is not an operational or IT issue – it is a business issue that needs to be at the core of what asset managers do. Demonstrating investment performance, world-class customer service and regulatory compliance is impossible without a coherent data management strategy.

Adopting an Enterprise Data Management strategy can help asset management firms overcome the challenges surrounding a disconnected data infrastructure. By transforming siloed, multiple, disparate master files into a single enterprise data source that is accurate, accessible and actionable enterprise-wide, the buy-side can improve price determination and transparency, risk management, regulatory reporting and move towards greater efficiencies in the full cycle of transaction fulfillment.

Ian Dunning

WILL THE TRANSITION TO THE SINGLE EUROPEAN PAYMENTS AREA (FOR UNIFORM NATIONAL AND CROSS-BORDER TRANSACTIONS) BE STRAIGHTFORWARD?

Ian Dunning, Managing Director, CB.Net

The Single European Payments Area (SEPA) is designed to create a uniform pan-European payment area by removing the differences between making national and cross-border transactions. The next stage of the EU Directive 2560/2001, which comes into force in January 2008, requires all financial institutions making payments within the SEPA to be armed with the beneficiary's International Bank Account Number (IBAN) and corresponding Bank Indentifier Code (BIC).

However, this is far from straightforward and will require financial institutions to invest significantly in both software and reference data management.

While around 4000 banks within the SEPA have identifying (non-SWIFT) BICs, it is estimated that 2000 do not have BICs at all. Therefore, about 6000 banks within the SEPA are not connected to SWIFT and do not have a SWIFT-enabled routing BIC, which is necessary to effect the transfer.

Unless banks are able to check the IBAN against the identifying BIC and the SWIFT-enabled routing BIC at the point of transaction, they will not be able to guarantee the cost of the transaction, the transfer cycle or whether the transfer will be affected.

In order to be SEPA compliant at the point of transaction, banks will have to have the ability to mathematically check the IBAN, check that the BIC provided is valid and cross-check the local code element in the IBAN against the details for the BIC. If these match, and the BIC is a SWIFT BIC, then transaction can proceed. If they match, but the BIC is a non-SWIFT BIC, the bank will need to access the SWIFT BIC of a correspondent bank to proceed with the transaction. If the BIC and IBAN do not match, then a check will have to be made to see whether the bank that corresponds with the IBAN has nominated the bank that corresponds with the BIC as its correspondent, before being able to proceed with the transaction.

Financial institutions need to act now to ensure they are able to access the relevant reference data, including the SWIFT-enabled routing BIC, and have the appropriate systems in place to process this data to meet the strict requirements and timeframe of the Directive.

Jennifer Wilson

WHAT CHALLENGES DO ORGANISATIONS FACE AS THEY DEFINE AND EXECUTE A GLOBAL REFERENCE DATA MANAGEMENT STRATEGY?

Jennifer Wilson, Managing Director, Eagle Investment Systems LLC

We see two major challenges for organisations trying to implement a global reference data management strategy: ongoing data governance and defining the operating model. The good news is that the business case to address reference data is strong. Companies realise that their business is dependent upon the ability to create an environment where data is validated, accurate, and provided in a consistent manner to all data constituents. Secondly, with regulatory scrutiny ever increasing, reference data is at the core of risk mitigation initiatives related to such regulations as Basel II, MiFID, Patriot Act, and SOX, to name a few.

Establishing a data governance policy is a critical challenge faced by organisations as they execute their data management strategy. In our experience, to be successful, an organisation needs to identify an individual, governing council, back/middle office team to hold responsibility for data quality. More importantly, the identified individual or team must have sponsorship from the highest executive level with implicit authority to define, document, implement and enforce data quality processes and standards across the entire organisation, including satellite locations. So critical is this role that for some larger firms a position, generally referred to as a CDO – Chief Data Officer – has been established to oversee this responsibility. The majority of our clients leverage our reference manager product, which allows for varying authorisation levels; enabling clients to create composite security records, establish validation rules (the product contains over 200 standard validations), and monitor security data to ensure it is 'fit for purpose' before releasing to other third party systems, or into the Data Warehouse for access by data users.

At the end of the day, organisations that successfully implement global reference data management strategy have strong executive sponsorship, 'buy-in' from local offices, an individual in place that is responsible for owning the data management process, and a flexible technology solution positioned at the core of their strategy.

Defining the right operating model for managing data in an organisation is an important step towards successfully implementing a global reference data management strategy. Whether a centralised or decentralised operation, we suggest the process of managing data be done in a centralised manner. This provides several inherent benefits. With a centralised data collection point, vendor feeds and duplicate requests for information are reduced, thus saving the organisation time and money. Once data is collected, shared data cleansing can take place, where the data is prepared and ultimately distributed in a consistent process to various locations in a 'Hub-n-Spoke' manner. Then, local offices can add additional validations and possibly supplement with more data specific to their market. In our experience, organisations that are successful in managing their reference data typically leverage a data warehouse/hub coupled with a system module designed around the reference data management process.

Darren Purcell

WHAT ARE THE CHALLENGES LINKING DATA TO MANAGE CONCENTRATION LIMITS AND COUNTERPARTY RISK?

Darren Purcell, Director, Standard & Poor's

One of the largest challenges faced by the reference data industry right now is the linking of different data components. The lack of an International Business Entity Identifier (IBEI), concerns over the timing and accuracy of identifiers and the dependency on internal identifiers are some of the issues that have contributed to on-going requirement for data mapping and linkage tools. These issues are brought sharply into focus by Basel II and UCITS III that require close management of concentration limits (UCITS III) and increased understanding of counterparty risk (Basel II).

Standard & Poor's has recently worked on projects for both UCITS III and Basel II compliance that highlights the importance of reference data management and the increased focus on issuer and entity information.

The measurement of concentration limits within UCITS III articles requires that the relationships of instruments, the issuers, entities and the entity parent be established. Increased instrument complexity and the growing use of derivatives mean that this is an increasingly difficult problem. Many firms still rely on manual processes to link different reference data components, but as volumes, complexity and regulation increase this becomes even more time consuming and prone to error.

Equally when it comes to establishing counterparty exposure for Basel II, firms need to have a complete understanding of the relationships between an instrument, the issuer, entity and the global parent and which other entities are linked to the global parent in order to have a complete understanding of the credit risk that they are exposed to.

Comprehensive reference data matching is required to identify the hidden links between standard and non-standard identifiers, across global and domestic markets. Equally the relationships between instruments, issuers, entities, parents and obligors need to be highlighted. We believe a fully automated service will aggregate and determine exposure at the parent entity level for more reliable calculations of concentration limits and counterparty exposure.

REFERENCE DATA NEWS:

TAP EXPANDS INTO ASIA

New York — TAP Solutions (TAP) has continued its expansion in the market and reference data management industry, signing an Australian financial services firm.

This unnamed client marks the third in six months for TAP, following wins at The Olayan Group in March and Mizuho Securities USA in May.

With 21 out-of-the-box feed managers and data management modules that deploy data to downstream systems and users, installation of TAPMaster has already taken place at all three of these new clients' operations centers. TAPMaster is now supported on three continents.

TAP expects more international sales in September, as well as the release of several new feed managers from some of the world's leading data vendors.

CB.NET TO SHOWCASE ONLINE REFERENCE DATA SERVICE AT SIBOS

London - At SIBOS this year CB.Net, a reference data provider, will demonstrate the CB.Net Payments Reference Data Service (PRDS) that allows greater online product offerings.

CB.Net's website will allow access to payment data in various formats such a Bank Identification Codes (BIC's), International Bank Account Numbers (IBAN's) and payment channel information. A free trial of all CB.Net services will be available through the website as will enhanced search and navigation tools.

There is also access through the website to CB.Net's international payments directory BankSearchPlus, which is updated at a daily rate with Standard Settlement Instructions (SSI's), BIC's and national clearing codes of 4,700 banks in 217 countries worldwide.

Reputed as an 'Achilles Heel' of securities services, reference data is in the limelight and getting the overhaul it deserves.

Nat Sey of Interactive Data explores.....

THE REFERENCE DATA CHALLENGE

The industry already knows that reference data is of critical importance. We no longer need to be told that reference data, 'the lifeblood of transactions', must be correct. Many articles sdiscuss with commendable effort why one piece of content is reference data and another is not. Most would agree that one man's reference data is another man's fundamental or static data. So, setting aside academic discussions for the moment, what are the pillars of reference data requirements that contribute to the willingness to deal with the reference data challenge? And what of the risk?

The accepted wisdom is that on average, reference data makes up approximately 70 per cent of a transaction's content. Further to that, 60 per cent of all failed trades arise as a result of poor or inaccurate reference data. Besides trade processing failures, the increased and sustained interest in reference data is borne out of several trends, including algorithmic trading requirements, the ever-increasing levels of regulation, and corporate actions processing risk.

Trade processing failures

Whilst trade processing failure rates have reduced in percentage terms, volumes have clearly increased dramatically. The result, of course, is a much greater number of failures that must be rectified. This problem will not go away by itself and with the timing of processing becoming ever more important, the failures are becoming increasingly unacceptable from an operational perspective – and more and more embarrassing from a business perspective. There is no escaping the fact that prevention is far better than cure; the content must be cleaner and better interpreted than it is at present.

Algorithmic trading requirements

Content is now needed to fuel algorithms, and the content must be correct. There is little point in hosting algorithmic systems on super-fast next-generation architectures in order to reduce the decision process and execution times by fractions of milliseconds, if the underlying reference data is missing and must be keyed in by a clerk when he returns from lunch. So speed of access is becoming paramount.

Increasing regulation

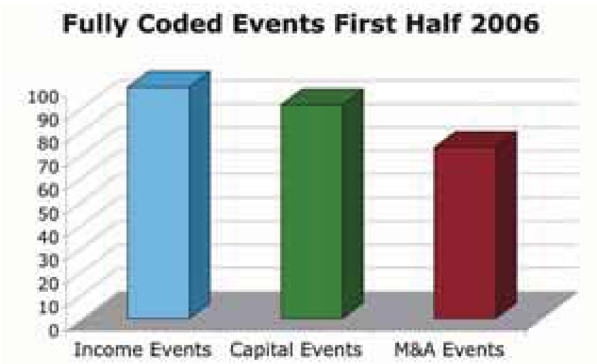
UCITS III, BASEL II, MiFID, Reg NMS, the Patriot Act, Sarbanes-Oxley, Know Your Customer… What next? No one knows exactly, and that is precisely the point. Who knows what we will need to keep track of tomorrow and how much history will be required? Perhaps the safest bet is to get access and warehouse it now, or strike up a relationship with a partner who you can trust to help you achieve this. The European Union Financial Services Action Plan is far from complete and EU member states are compelled to implement legislative decisions made at EU level into regional law. In many cases, the risk of non-compliance appears to be withdrawal of an organisation's European passport to operate in EU jurisdictions other than its own. If that were to be enforced, how could a global business retrench its business within its regional borders overnight? Concern over compliance with existing regulatory commitments is a powerful driver; fear of the unknown is proving to be an additional worry.

Corporate actions processing risk

Although not regulatory at this time, the pressures on the olde world of corporate actions processing are many and varied. Once again, accepted wisdom indicates that the more time passes, the more firms are suffering increasingly alarming processing failures …always silently and without fanfare. But judging by the resurgent interest in automated corporate action projects, the tide is once again turning. The general regional and asset type diversification of assets under management has only served to make the task of asset management – and in particular corporate actions processing – more challenging. Getting the static data right is one thing, but then repeating the feat with event data on an ongoing basis, and with ever increasing volumes and new unfamiliar markets, is quite another. Add to that mix a sprinkling of regional differences in disclosure practices and the result is a great recipe for significant reputational risk.

Hype or reality?

Over the past five years we have seen a growth in specialist publications, user groups and all manner of conferences that concentrate solely on reference data. A cynic might suggest that such opportunism was inevitable once the grain of reference data doubt had been sown. In all honesty though, such publications,

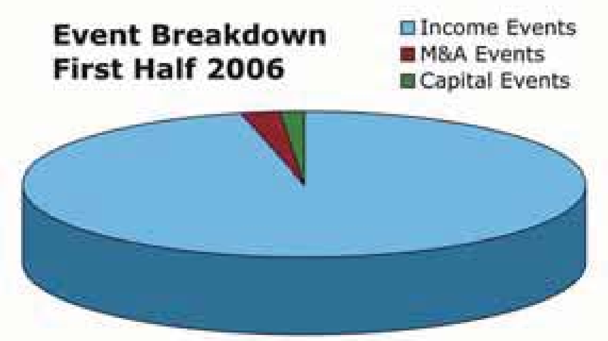


groups and events serve the industry well. Prior to the elevated level of reference data awareness, it was quite clear that the industry had no interest in dealing with an issue that was considered to be 'in containment'. Clearly all the risks were there, but if we did not talk about them too loudly, then all would be well. The industry appears to have abandoned the ostrich approach, thanks in no small part to those who have strived to make the unpopular not only popular, but even fashionable.

The good news is that as a result of this increased awareness, the industry has now mobilised an army of reference data heads, managers, tsars and consultants to fight the good cause. The acid-test, however, is not what industry pundits consider important, but what the industry's end users worry about ...and there has been a marked increase in clients looking for reference data solutions.

Major milestones

The Market Data Provider User Group (MDPUG) has gone where other industry groups of vendors have previously feared to tread. MDPUG concluded that in the corporate actions space, data standards are not and should not be an area of competition. Its membership agreed to coalesce around an agreed implementation of ISO 15022 in order to make the end-user experience easier. The concern was that with the inherent flexibility of the standard and the inevitable interpretation of the guidelines, each data vendor's implementation would have looked similar – yet different enough to cause severe processing errors and result in loss of confidence amongst the user base. This risk has, in fact, been reduced by means of 'soak testing' with software applications vendors, and in general, the software vendors' view has been that data vendor offerings have been much easier to process than content received from custodians. MDPUG has been admirably chaired by SWIFT and the hope is that the group's interest will not be limited to just corporate actions.



The rationale here is that the underlying core content from each data vendor is not so different. It is, after all, trying to address the needs of the same audience. Clearly there will always be differences in quality and timeliness, as well as client support. Certain data vendors will also choose to focus on areas of competence that will allow them to deliver specialist services to their client base – and that is where they will continue to compete. However, the core information such as an identification code, or the fact that a rights issue is taking place, is or should be the same. Once normalised, this content needs to be delivered to the user in the form that can most easily be processed.

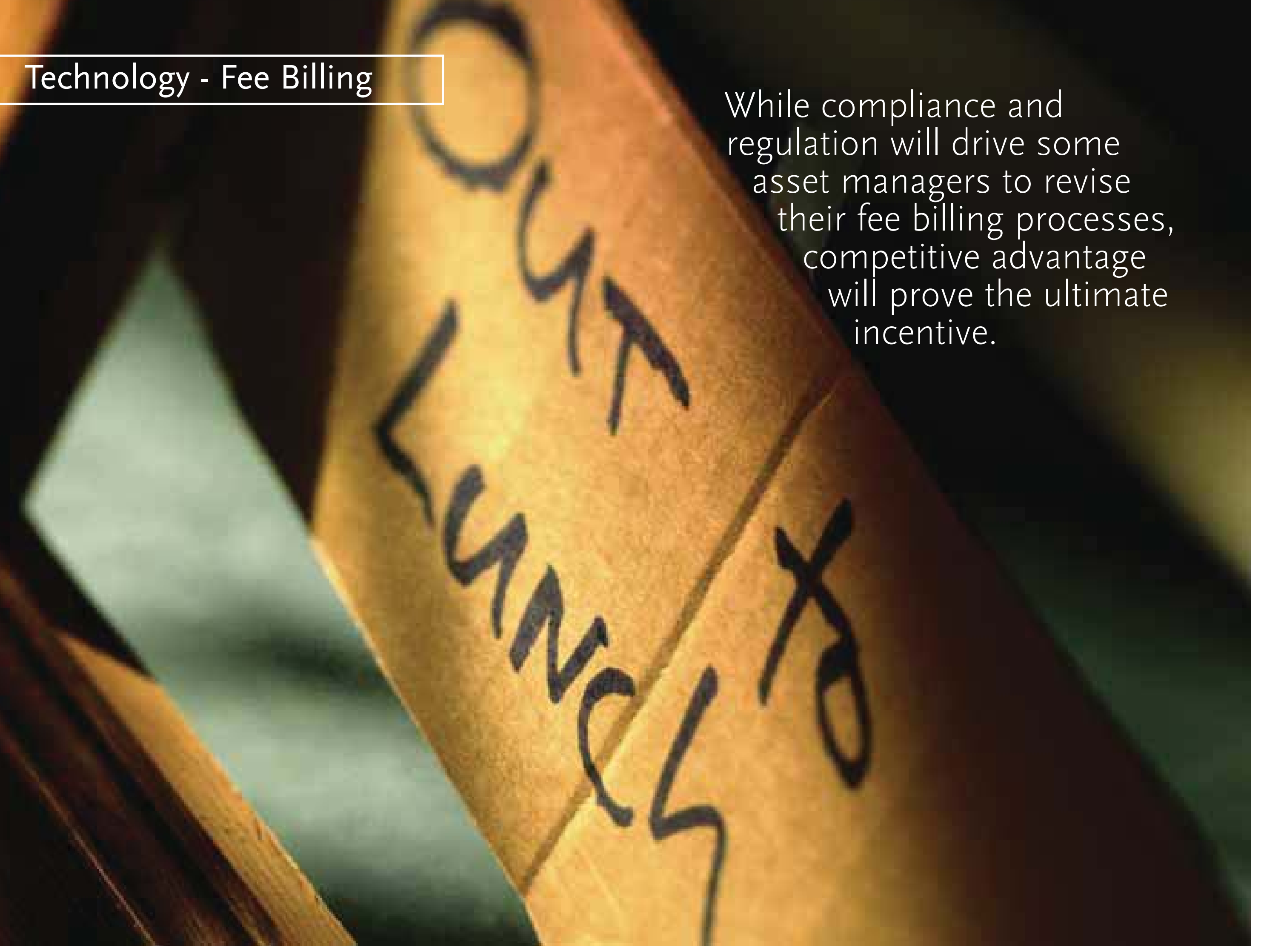
For this reason, in 2005, FT Interactive Data chose to connect to the SWIFT network so customers can receive their ISO 15022-based services in a very similar fashion to notifications from their other counterparties. They can now perform compare and contrast functions on the content and so create 'golden copy' records, and perhaps pre-populate records with vendor content in advance, whilst awaiting counterparty communications. FT Interactive Data sees this development as a major milestone in the process of making content and services easier to consume, whilst pushing the value of such services towards the content and functionality rather than the format and delivery channels.

"Prevention is far better than cure; the content must be cleaner and better interpreted than it is at present."

So, progress is being made and we have the means to enable coding of content to such an extent that STP becomes a reality. But at the point of consumption there is often a marked difference between the automated processing rates of static data and event data. The latter always seems to lag behind. The problem appears to be one of interpretation and trust in the processes and applications. Bear in mind: once a reliable source is found, the benefits can be considerable (see figure 1).

Interactive Data Corporation (NYSE: IDC) is a leading global provider of securities pricing, financial information and analytics to institutional and individual investors. FT Interactive Data, an Interactive Data business, provides global securities pricing, evaluations, dividend, corporate action and reference data on more than 3.5 million securities, including daily evaluations for approximately 2.5 million fixed income and international equity issues.

FT Interactive Data has developed offerings to help firms meet their increased credit, market and operational risk management requirements. Such services include the ground-breaking Fair Value Information Service, evaluations for thinly traded securities, risk and analytical data, business entity data, EUSD data …and of course, high quality reference data and ISO 15022 formatted corporate actions data. ISJ



While compliance and regulation will drive some asset managers to revise their fee billing processes, competitive advantage will prove the ultimate incentive.

Michelle Price gets to grips with one of the back-office's more mysterious processes.

IN SIGHT BUT OUT OF MIND?

Regrettably (particularly for those writing on the topic) securities fee billing is one of those subjects that, when mentioned, is met by a resounding silence, promptly followed by a panoply of irrelevant Google hits. (Apparently students are more concerned about fee billing than you guys.) For years the subject has been regarded, if it's been regarded at all, as the 'poor relation' of the manifold back-office processes with which we are now preoccupied. Despite the obvious incentive, it seems no one is particularly concerned about picking up their cheque, for which, you would have us believe, you all work very hard.

Sadly, over-politeness does not account for this phenomenon. Rather, it is the highly manual, paper-based, fragmented business processes that are largely to blame for inefficiencies in this area. Perceived as a non-core function, fee billing among the buy side community, has suffered from a sustained lack of investment over the past ten years. Even at the largest firms, much of the billing process, including invoices and fee calculations, is largely cobbled together through the use of the ubiquitous Excel spreadsheet and Microsoft word, with some tedious manual calculations to finish off. Consequently, fee billing now represents an area of the back-office fraught with glaring, if often unidentified, potential and actual operational errors.

As Daniel Carpenter, new business sales director at wealth management solutions provider Investmaster comments, a lack of integration among the various back-office systems and the highly manual nature of the work, is not only laborious to manage, but often proves a cumbersome burden to the business. The overuse of spreadsheets creates maintenance problems, often leading to the duplication of work-

Fee billing now represents an area of the back-office fraught with glaring operational errors

books or the creation of new workbooks for each fund. "Rates need to be maintained or amended in many spreadsheets as opposed to in a single instance," he explains. Spreadsheets offer extremely limited audit trails, and can obscure one-off changes to billing structures. It is also well documented that their lack of internal controls makes them serial fat-finger offenders.

Some organisations have tried to build out functionality in their legacy systems, but this is neither flexible nor practical in the majority of cases. Often bills are consequently inaccurate because the correct data cannot be extracted when or where required. Instances of both under-billing and over-billing are very common, as Seth Johnson of Redi2 Technologies, a revenue management vendor, comments. "Sometimes there is a real look of shock on the finance manager's face when he or she receives the details of an under-billing or over-billing." He continues: "It is difficult to fully capture the cost savings and benefits associated with mitigating operational risks that, if left unaddressed, could ultimately cause a client to question the integrity and the accuracy of their fund manager's back-office operations."

As Johnson suggests, among the most important of the various problems found in the fee billing area is the fundamental cost to the business. All the above operational demands require a high head count, as Gary Liley, sales director at Bonairesoft, provider of automated revenue management and fee billing solutions, testifies. "People we've spoken to have said they can spend 90% of the average month completing their billing cycle, and they can only improve this by investing in more bodies." Compounding this issue, Excel spreadsheets solutions are largely unauditable requiring manual workflow authorisations that cause further delays in issuing invoices, thereby impacting an organisation's cash flow. The latter issue is among the chief detriments to the business, as Liley's anecdotal evidence confirms. "One organisation we dealt with found that for every day's delay in billing, it had a negative impact of some $80,000 in their business cashflow. Customers using our solutions are currently responsible for five to six trillion dollars of funds under management so there are huge sums of money involved as a percentage cost per day." Liley adds: "It is the biggest disconnect we've ever seen between the front and back office."

All in all, the area is a bit of a mess, albeit one that has, for a long time, been swept under the proverbial carpet. But this state of affairs cannot persist for a great deal longer, due to two major themes within the marketplace: First, the increasing competitiveness of the financial services industry, driven partly by the ongoing proliferation of hedge funds, and the decline in alpha. This development has placed institutional sales teams under significant pressure to win new business and retain clients, while exerting simultaneous pressure on the back office to provide excellent service levels. Second, the growth in compliance, and the general drive toward increased transparency, which means organisations need, essentially, to put their houses in order.

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The former issue, as we shall see later, will have long term future implications for the way in which fee billing will become conceptualised as an operation. The latter regulatory theme however, is already having an impact on the area of fee billing, especially in the US. Indeed, if you want to know why anyone should care about fee billing, then the case of Bridgeway Capital is a salutary case in point.

In September 2004, the SEC found Bridgeway Capital, a Texas-based corporation providing investment advisory services to Bridgeway Funds, an investment company operating 11 mutual funds, guilty of charging three of the funds operated by Bridgeway Funds performance-based compensation in violation of Section 205 of the Investment Advisers Act of 1940. According to the SEC, Bridgeway Capital charged each fund an illegal performance-based fee against the fund's then current assets, instead of against its assets averaged over the period during which the fund's performance was computed, as Section 205 requires. As a result of its oversight, Bridgeway Capital charged the three funds and, consequently, their respective shareholders, approximately $4.4 million in the aggregate more than it would have if its performance-based fees had complied with Section 205.

By way of recompense, the fund was compelled to reimburse its investors the $4.4 million overcharged, plus pre-judgment interest of $458,764. Bridgeway also agreed, upon settlement, to pay a fine of $250,000, and its president and founder, John Montgomery, also had to pay a personal fine of $50,000.

It is not just the immediate financial reprisals, but the significant administrative and staffing costs, spent time, reputational damage and lost sleep, that make the prospect of a serious foul-up truly harrowing for fund managers.

Bridgeway was penalised under existing legislation, however both the US and Europe are currently faced with a growing regulatory burden. With Basell II, the EU Consultation Papers, Sarbanes Oxley and the Solvency Act, the financial services industry as a whole has been progressively called upon to address the underlying risks and stability of internal processes and technology controls. "CEOs and senior management have become increasingly asked to sign off on financials, and verify they are correct," explains Tom Dackow, president and CEO of Interactive Technologies, a fee billing vendor acquired by Fiserv in 2005. "The fact that you're not entirely sure if bills are correct, or whether you have captured everything, or if the revenues are right, means there's an increased level of concern and liability associated with not properly automating this area."

Furthermore, the Markets in Financial Instruments Directive (MiFID) is currently doing its part to promote heightened transparency in both the pre and post trade areas. This should have at least an indirect impact on the issue of fee billing, which, as we have seen, is often overly-intricate and thereby inscrutable to clients and finance officers alike, as Liley explains. "We've spoken to senior fund managers, and asked how they do their fee billing and they've said they don't know, 'we just debit the client's portfolio'." Finally, to further embellish this dystopian vision of regulatory saturation, ISJ has learnt that the UK Financial Services Authority has expressed an interest in the area of fee billing, although nothing concrete has yet emerged. All in all, it seems there is a great deal to drive asset managers of all sizes to review their

billing procedures and audit trails, in a bid to prove a commitment to that catch all phenomenon, 'best practices'.

Johnson confirms the regulatory aspect is now a concern expressed by clients undertaking fee billing automation projects. "There is always a component of compliance that has increased the value and cost benefit of the project, and firms do need and want to address those concerns. Once we've worked with a client for several months we often uncover issues that they weren't so free to express or expose at the onset of our relationship." In addition, he continues: "Once the project is underway we see that reputational issues were a significant factor causing the project to be addressed."

Competitive advantage will ultimately prove the most compelling reason to redress the fee billing issue.

According to Carpenter however, there is a natural limit to how far the spectre of compliance and scandals will drive such projects. "There is momentum in this area and it is definitely getting the attention it deserves," he confirms. However, he continues: "Retention, new business and quality customer servicing will play a significant role in changing peoples attitudes to adopting such systems." As Tom Dackow elaborates, clients are becoming increasingly demanding of their fund managers, a phenomenon that is fast becoming a major cause of fee billing complexity. "For many years firms would literally publish their rates; but over last 10 years, and more so more recently, there has been enormous push back from customers that don't like the rates; so the whole thing became more complicated."

With a multitude of investment venues to choose from, clients are becoming pickier, and harder to please. In order to woo new clients and retain current ones, fund managers are having to deploy increasingly sophisticated fee strategies. "Fee basis and rates are becoming ever more complex as in order to win business mandates sales teams are striking convoluted deals," says Carpenter. Liley agrees: "The fund managers are running around seeking to win business, and each and every time they cut a completely different fee schedule, and then they come back and say 'we've just won a portfolio, here's what I've agreed, can someone please automate that'."

Beside the fiendish complexity this trend is now creating for the finance officer in calculating bills, it is often not clear how beneficial, if at all, these deals are for the institution. Due to both pressures of time and lack of sophistication in the fee billing area, managers are not always able to make the necessary forecasts, or scenario test potential deals to see at what point the fund will break even. Being able to do so will serve, in future, as an important tool to fund managers in getting a leg up, and it is a functionality that vendors in the area are keen to boast about. Prior to taking deals to market, fund managers enjoying this capability will be able to model a set of fee structures, to prevent the creation of deals with extremely thin, or far off, returns.

In this way, competitive advantage will ultimately prove the most compelling reason to redress the fee billing issue. According to Johnson, this is a conceptual shift that the sell side is already beginning to make. "We have noticed that on the sell side, the billing solution in use is often a bolt on to the system of record they already have in place. Such billing modules are inherently limited – and this is what they have realised in the past, but only now are taking the initiative to address." In plugging the leakages, billing the system itself creates revenue, which: "effectively changes billing operations from a cost centre to a revenue centre", says Johnson. Organisations that make efforts to improve their billing processes will enjoy increased revenue management, and several organisations are now realising that back office process improvements can produce a greater return on overall investment that they have traditionally thought.

Fee billing, admittedly among the less fashionable of topics this industry has to offer, represents one of the several neglected back office processes that, if put in order, can ultimately improve the service a fund offers it clients, improve its profitability, reduce costs, and provide some competitive advantage. While regulation will take the buy side community so far, it will ultimately be this realisation that prompts a full-scale and appropriate revision of this area. It is heartening however, to hear that among some organisations awareness is growing, as Johnson concludes. "We are seeing the appetite for improving back-office billing operations continuing to increase because of the competitive advantage this area can offer – firms are beginning to realise this." ISJ

In the wizzy-wizzy world of technology, one minute can be an eternity.

Keith Ford reports on how to claw back those precious minutes from Father Time.

'You spin me right round baby, right round'

In today's world of commerce just how many inventions do you think actually really save us time?

As a fully fledged member of the modern technology enabled work force it would be fascinating to visit an office in the 1930's and compare the available business tools for the thrusting executive of the time to those available today.

That simple memo of the time would presumably have been drafted onto a blank printed memo form in pencil by the author. Would that form have then gone to a typing pool to be transcribed onto an official memo document? At that time no executive would type!

Spinvox. An idea so simple in concept no doubt we all wish we had thought of it.

I assume a further edit by the busy executive would be made before it was re-typed in full and then his secretary would have put it into an internal mail envelope. This would then be deposited into an internal mailbox to be collected and delivered two floors down in the building by the internal mail team.

Compare that with typing an email and pressing a send button. It does seem at face value that technology has helped us by saving time, but is it that the technology has helped or is it the change of the workflow process. The typing still has to take place but this time by the author. Technology has enabled us to edit that original document rather than have to complete a full re-type and also deliver it without physically having to transport the document to a different location. Has the invention of presentation software made making presentations easier? The flipchart was invented when we ran out space on the cave wall. Or do we now just prepare many more presentations because we have the tool. The same must be true of spreadsheets, even I remember A3 sheets of paper with many columns and rows, you needed a calculator and pencil with a rubber, it's just that it was never as convenient as Excel, so now we use the spreadsheet tool all the time.

I ask the question because I have been having a nightmare with Mobile telephone voicemail since we were introduced. At first I thought that an answering service was a great idea. Hey, it had always worked at home. I got back to a machine that had recorded my messages and I could replay them at leisure, pick up a pen and scribble down notes. The relationship changes rapidly if, as I leave a client meeting in a rush, late for my next meeting, probably driving the car, or running for a train.

I have no pens to hand and end up trying to remember the number I then key it into the phone and end up dialling a wrong number, blood pressure is increasing as I repeat this process several times. Finally I end up scribbling the number on the back of my hand with a borrowed pen.

To my great joy and no surprise, I find that I am not the only mobile user that has experienced this problem, just one of the many who have done nothing about it.

Christina Domecq, yes from that great family that brought us the ultimate grannies Christmas tipple, has given us Spinvox. An idea so simple in concept no doubt we all wish we had thought of it.

When you receive a voicemail the spoken word is transcribed to written word and sent to you as an SMS and an Email and that's it. You can then read the message, decide on its priority, delete it and ignore it, or extract the number and call them right back. It's so great and so simple I really don't have to expound about its qualities any further. It's the most useful piece of technology I have found this Century. Don't believe me, try it yourself at www.Spinvox.com ISJ

UK and Irish pension funds are dominating the European equity landscape. **Standard Life** talks to ISJ about its **Managed Fund**.

HIGH STANDARD

Who are the fund managers?

The asset allocation of the Managed fund is the responsibility of the Irish "Global Investment Group" - a strategy group responsible for deciding how best to reflect our House View within the multi-asset Irish managed fund. The House View reflects our outlook on all of the major global asset classes.

Paul Smyth, Investment Director, Standard Life Investments in Ireland, is responsible for the day to day management of the fund, including the implementation of asset allocation. Each of the underlying portfolios within the fund is then actively managed against a local benchmark by our asset class teams across each individual region.

Does the pension fund participate in a securities lending programme?

The Fund's investments will not be used for stock lending purposes.

How much of the funds assets are allocated towards alternative investment instruments?

At present, none of the fund's assets are allocated towards "alternative investments". With regard to Private Equity for example, the structure of the fund and its daily pricing requirements do not allow access to this asset class – as it is not a "permitted link." There are also no significant demands from institutional clients within the Irish market for hedge/absolute return funds.

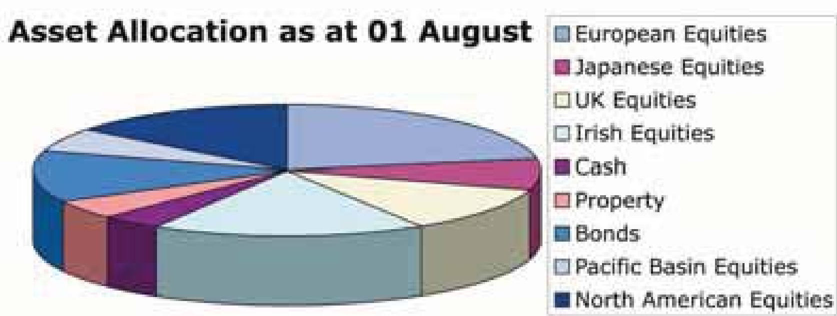
What is the investment strategy?

The fund's investment strategy is to invest in a broad range of global assets and to outperform the local Managed fund universe by 1.0% per annum. We have the resources and skills to do this while preserving an acceptable risk profile for our clients. We seek to add value by actively managing both asset allocation and stock selection.

Asset Allocation positions are managed relative to this local benchmark and we seek to add one-third of this 1.0% out performance target by adopting active investment positions across all of these asset classes, at all times in line with the current house view.

Stock selection within each of the geographic regions follows our "Focus on Change" investment philosophy. This process is aimed at understanding the key drivers for each company and we use our research expertise to identify how changes in these factors will impact on the consensus outlook for that company. The research process is specifically designed to enable us to obtain a superior information flow on key issues affecting the companies in which we invest - analysing, communicating and responding to this flow of information more effectively and more quickly than our competition.

Two thirds of our out-performance target is intended to come from our stock selection skills.



How important is corporate governance and socially responsible investment?

Corporate governance and socially responsible investment is extremely important to us. Our engagement policy with the companies that we invest in, particularly within our UK and European portfolios, is to enhance and improve shareholder value through constructive consultation with companies on corporate governance and corporate social responsibility issues. We also seek to contribute to the development of principles and standards of corporate governance and corporate social responsibility that are consistent with the best interests of our clients. We communicate our principles and policies on these issues to our clients and the companies that we invest in.

UK and Irish pension funds continue to have significantly higher exposure to equities than other European pension funds. Why is this and how is this trend affecting Standard Life?

Presently the managed fund has approximately 79% invested in global equities. The high equity content stems from the fact that historically most pension funds in Ireland were Defined Benefit schemes that could take a long term view on its assets. Asset allocation was therefore driven by a desire to reach a high return within an acceptable risk limit.

The introduction of new accounting regulations combined with this relatively high weighting in equities in the average Managed fund, has encouraged many Defined Benefit schemes in recent years to de-risk and allocate a larger proportion of the scheme's assets to safer asset classes such as fixed interest. For example, many of our larger defined benefit clients are moving away from the Managed fund structure to what we call a "Benchmark Brief" structure allocating monies away from equities to asset classes that more closely match their liabilities. To satisfy client demand in this area, we have recently launched a Euro-zone inflation linked bond fund and an extended duration bond fund.

The Asia Pacific region was crippled in the late '90s by currency depreciation. Now however, investment is growing and the region is finally finding its feet again.

Alan Duerden looks at the range of developing markets and the way in which they are attracting investment back to Asia Pacific.

Building Bridges, Breaking Barriers

'Variety is the spice of life', according to the age-old aphorism, and variety is certainly something that the Asia Pacific region is not short of.

The 'doldrum' years of the late 1990's seem to be coming to an end, and in what is essentially a regional patchwork of financial markets with differing economic maturity, investor confidence is growing and countries like Australia, China and India are emerging as economic powers, and getting stronger by the year.

"Over the last three years we have seen incremental, year-on-year growth of 20-30 per cent, and we are seeing this across all the markets," says James Hogan, Global Head of Custody & Clearing, HSBC Securities Services. "There has been a lot of focus on emerging markets in the larger sense and this is particularly reflected in our three biggest markets, which are Hong Kong, Tokyo and Australia. The growth in those three is really a proxy for how the wider region is doing at the moment."

"The Asia Pacific region has seen extreme growth is the mutual funds industry."

One area where the Asia Pacific region has seen extreme growth is the mutual funds industry and it is seen as an up-and-coming market place for this type of collective investment.

In April of this year AIM Investments announced they were to set up seven new retail mutual funds, which included a China fund and Japan fund, both managed by Invesco out of Hong Kong and Tokyo respectively.

Also, a report released in August by Xinhua, China's official news agency, reported that the mutual finds industry in China had experienced a sharp rise in net profits in the first half of the year. The 104

THE 90's ASIA CRISIS AT A GLANCE

The Asian financial crisis can be attributed to four main issues:

1. A shortage of foreign exchange which caused a sharp decline in the value of currencies and equities in Thailand, Indonesia, South Korea

2. Inadequately developed financial sectors and mechanisms for allocating capital in the troubled Asian economies

3. Effects of the crisis on both the United States and the world, and

4. The role, operations, and replenishment of funds of the International Monetary Fund

funds used in the analysis showed a net profit of $3.9 bn, compared to losses of $115 million for the same period last year.

So where has this sudden burst of interest come from and what is the Asia Pacific region doing to drive up investor confidence – the one thing that it has lacked for the past few years?

To understand what has shaped the region over the last decade we must go back to the summer of 1997 when the Asian market was hit by two waves of currency depreciation that not only affected currencies, but also stock markets, and other asset prices in several Asian countries. Indonesia, South Korea and Thailand were most affected by the first decline in currency value, which reverberated in Hong Kong, Malaysia, Laos and the Philippines. The effects of the crisis were felt in markets around the world and consequentially confidence, especially among foreign investors, was lost.

"We had the Asian crisis and there was a flying away of funds," says Hogan. "There are now, however, more controlled regulatory measures being put in place and I think all the markets have learned from their experiences in the late 90's. When you look at the growth opportunities, you can see that there is a lot more sustainable growth and that is particularly true of countries like India and China, where the are investment opportunities."

> "There is also a lot more awareness about corporate governance and many new rules and regulations have been introduced."

The various government bodies also seem to have learned a number of lessons since 1997 and the flow of funds into the Asia Pacific markets is being done on a measured basis in an effort to inspire confidence among foreign investors.

Coupled with this, a heightened degree of political stability and a more involved relationship with financial regulators is doing no harm in buffing up Asia Pacific's reputation.

"In the past few years, political stability has been getting better in the region, and a lot of Asian countries have put effort into improving their capital market infrastructure," says Lawrence Au, Asia Pacific, Head of Northern Trust. "There is also a lot more awareness about corporate governance and many new rules and regulations have been introduced to make a much larger space for investors' voices. When you add all of these together it gives a strong attraction for money from outside Asia to invest in the region."

China opened its capital market for the first time since the crisis, about three years ago, allowing foreign investors to invest directly in other countries and opened up new ground for the securities services industry. Similarly, in other countries in the region, steps have been made to create new opportunities for foreign investment and countries like India, Malaysia, Taiwan and Korea are offering themselves up to securities lending.

Success in gaining investor confidence is, however, a two-way process that not only needs foreign investment directed into a region, but also has to allow domestic investors to invest in foreign markets, and this is something that Asia Pacific is addressing too.

In Malaysia for example, where mutual funds were previously allowed to invest only 10 per cent of their assets offshore, last year this was increased to 30 per cent. The result is that some companies, such as Citigroup, have seen a surge of Malaysian investment into their custody business.

Similarly, in China, the relaxation of market rules has helped stimulate its foreign investment capital. At the end of 2005, the China Securities Regulatory Commission (CSRC) announced that they would review the countries Qualified Foreign Institutional Investor (QFII) scheme, with a view to allowing various categories of domestic investor to invest offshore for the first time. Their assessment of the scheme included the simplification of the QFII application and approval processes, relaxation on restrictions for fund repatriation, and the reformation of the clearing system to accommodate settlement mechanisms preferred by foreign investors.

Chong Jin Leow, Head of Investor Services, Bank of New York in Asia, agrees that this move by the Chinese regulators is a positive step, saying: "In China the QDII scheme will allow $4.3 bn of investment to go offshore, and whilst this may not be significant for in comparison to the American and European markets, it is big for the Asia-Pacific domestic markets."

"Besides China, India has also simplified the procedures for foreign investors who are investing in India through the Foreign Direct Investment route," One such simplification is the approval for sale of shares and convertible debentures from residents to non-residents. The approval for these investments will be transferred from the Foreign Investment Promotion Board, which requires government approval, to the Reserve Bank of India.

The growth in the Asia Pacific securities industry is a combination of the macro-economic situation and de-regulation that is making it increasingly attractive for foreign investors to invest in the region and domestic investors to invest out of. This has resulted in a number of the larger custodian banks 'setting up shop' in the region, which could have a number of affects.

"When more and more players have an interest in the Asia Pacific region it will definitely enhance competition for the benefits of the investor and, personally, I see this as a very positive trend," says KK Tse, Statestreet.

> "The region does lend itself to diversity, with markets representing different stages of securities evolution."

Leow agrees, saying: "The global custody and accounting arena are already competitive, and what is becoming increasingly competitive is the area of securities lending and transition management. I think everyone will lift their game and become more sophisticated."

The move of larger custodians to the Asia Pacific region may not only be positive in terms of competition, but also because the major players in the industry bring with them expertise, skills, a proven track record and will facilitate growth. However, as Mike Sleightholme, Head of Custody & Clearing for Asia Pacific, Citigroup, says: "This is very much a scale business and to support the kind of technology investments that are required, you have got to have scale and being a single market, or in some cases a single regional provider, it is difficult to sustain the types of investment that are needed."

Once the larger banks go into a market they tend to dominate. They have the expertise and the credibility where a local bank maybe struggling in areas of domestic securities or with domestic investors. The whole financial services industry is somewhat typified by consolidation at the moment and HSBC's purchase of the sub-custody business of Westpac is an example. Westpac realised that they did not have the appetite to invest into renewing the business on a domestic basis so their strategy was to exit that business instead.

The region does lend itself to diversity, with markets representing different stages of securities evolution. A market like Australia is ahead of many of the western European markets in many respects. There are more unique, but well-developed markets like Japan, and markets like Vietnam that has only had a securities market for 4 or 5 years and very basic infrastructure. This can be both a help and hindrance.

Having a number of markets at many different levels of maturity is problematic for the region; making it difficult to move towards regionalisation like we are seeing in Europe, through the consolidation of stock exchanges and clearing services, like Euroclear and Clearstream.

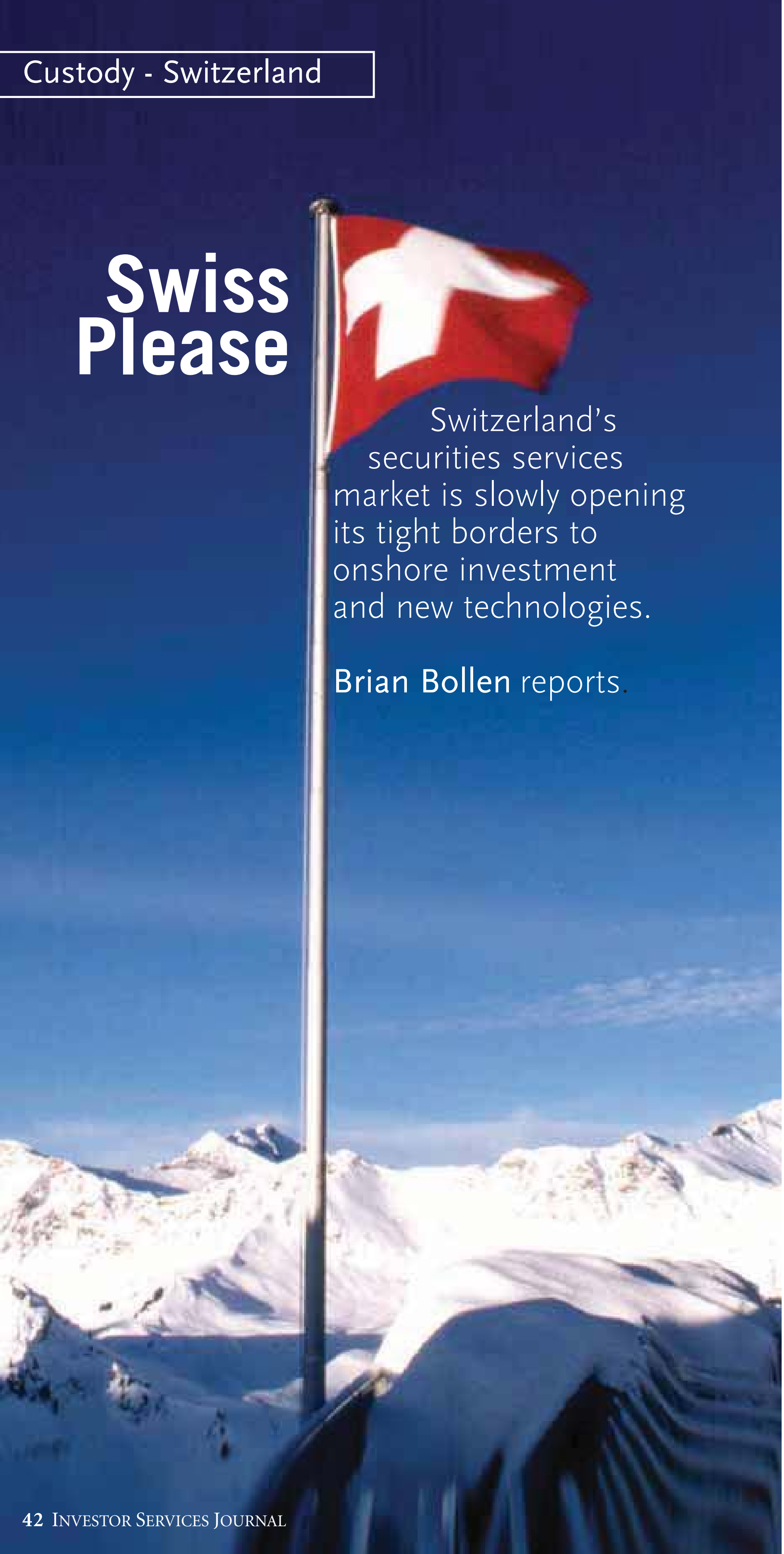
"Many of the country's pension funds, when they look at the world they don't look at it from an Asia Pacific perspective, but very much from their country perspective," explains Tse. "When a Korean or Malaysian pension fund say they want to invest globally, they mean anything outside the country."

Mike Sleightholme expands, saying: "Where the disparity between markets becomes an issue, is when you start talking about the idea of regional integration."

On that note, though Europe has been working towards regional integration, it has taken decades to end up with a reasonable level of political, legal and economic integration. "Asia doesn't have any of that yet," he continues. "So the idea of bringing about a single clearing infrastructure in Asia is more complex, and with many more vested interests, than in Europe."

Through de-regulation however, these intra-country barriers may be broken down and the Chinese authorities are already citing the year 2015 as the time when regional integration between countries' financial markets will be at its peak in Asia Pacific.

India and China are currently driving investment in the region, and their dependence on the economies of the West is gradually lessening. Markets are now allowing, for the first time, or expanding, the ability for domestic investors to invest offshore and this trend will only grow going forward. ISJ



Swiss Please

Switzerland's securities services market is slowly opening its tight borders to onshore investment and new technologies.

Brian Bollen reports.

Switzerland is a land of contrasts. A land of startling contrasts. The beauty of its lakes and mountains will take away the breath of any reasonably sentient being, however, pockets of ugliness can be found littering the landscape and cause the heart to sink. There are contrasting views, too, on the Swiss securities services market. Some market participants view it with great excitement and boundless optimism, while others remark that it's arguably the most boring market on the planet. As always, it is likely that the truth is to be found somewhere between these two extremes.

There has been exciting new growth in recent times.

Garrick Smith, the half-Swiss head of the ambitious and expanding BNP Paribas Securities Services arm in Zurich, is one of those whose own glass is distinctly half-full, rather than half-empty. "We are just entering into the Global Custody market after having launched our Swiss domestic custody operations five years ago with tremendous success," he says. "It's extremely exciting and full of opportunities as mandates from insurance companies and pension funds that have been held by one firm for eight to 10 years are undergoing a period of re-evaluation to reflect changes that have taken place since they were first awarded. We are very upbeat, especially after winning

a 20bn client mandate. The biggest development that lies ahead is the new fund law that comes into force next year, promoting the issuance of onshore institutional funds through legal entities similar to SICAV's. But even without that there has been exciting new growth in recent times. We believe that will continue."

By contrast, Stacy Scapino, Global Director for Mercer Sentinel Group, is much more sanguine. "Switzerland is as it always has been; a market characterised by local funds using local players as their custodians. They are very loyal to traditions and long-established relationships, and there is not a great deal of monitoring of providers taking place, whether the provider be a custodian, an investment manager or a transition manager. I'd personally like to see it change, but it's a tough nut to crack. There are opportunities for institutional funds who want to take a look at themselves and benchmark against the international operators, but these rarely occur."

René Charrière, managing director and head of State Street's investor services business in Switzerland, believes the custody market is to a large extent saturated. "Only time will tell whether all current players in the custody business will remain in the market, but one can suspect that a consolidation process will take place," he observes. State Street, it should be noted, is arguably the only global custodian to be firmly established in Switzerland.

"The key strengths of most Swiss banks that serve as global custodians are asset management and relationship banking/wealth management and not IT development/maintenance and operations management," he continues. "The latter can – and probably will – be outsourced at some point. The unit trust market is also still growing. This process is partially driven by innovation.

As with the custody industry, the fund management industry (partially), and the fund administration industry (generally), will face a consolidation process in the near future.

"For a global player that can offer global custody and mutual fund administration services in various locations, the future looks rather optimistic. Institutional investors (e.g. banks, asset managers, insurers etc.) will investigate cross-boarder solutions that enable them to streamline their processes and reduce cost."

SIS SegaIntersettle is confident that the country's custody and fund markets are growing robustly. "The value of assets under custody at the end of 2005 stood at Sfr4,412bn says Ernst Bollharder, a Member of the Executive Committee at SIS SegaInterSettle. "That represents growth of around 25% over the corresponding figure for the previous year." When asked to suggest why, he answers in a modest, very Swiss way. "Our professionalism," he says, quietly and confidently. "Our portfolio management ability attracts investors and assets, and Switzerland boasts a very efficient STP infrastructure, which helps to add to its reputation for high quality."

It's not rocket science. It's that Swiss approach to making things work properly that delivers food that satisfies without fattening the consumer, and trains that run on time, transforming rail travel from a commuting nightmare into an enjoyable way of travelling. And, one of the country's best kept secrets, it offers excellent value for money. "Tax benefits are not the main driving forces behind the Swiss banking business," he adds. "Growth will continue. Our banks have an excellent reputation, and we benefit directly from that."

> "We would estimate that there is something like $400bn-$600bn for global custodians to target."

The key drivers in the market are innovation and the desire to streamline processes and reduce costs, comments Charrière. "For the time being – however – institutional investors tend to stay rather on the sidelines. Revenue streams are satisfactory and the appetite to outsource is limited. We are confident, however, that institutional investors are evaluating the potential solutions/co-operations that can be implemented in the future.

"Institutional investors are under pressure to deliver decent and sustainable returns for their shareholders/beneficiaries. This is not any easy task to be accomplished. As resources are limited, more and more investors analyse alternatives to optimise their processes and to delegate dedicated functions to specialists that are not competitors in their core business.

There are two points of view on where the market is going, he argues. The dominance of the Swiss market with regards to wealth management will probably shrink in the long run. The volume of the assets under management will remain high, however. Furthermore, some of the big Swiss players will also play a key role in other markets ("onshore banking"). This will enable them to benefit even more from global solutions developed together with global partners. The funds industry will lose territory against structured products of all kinds. As time to market is shorter and the minimum size is smaller, more and more of these products could take market share from the traditional mutual fund industry, he argues. Key players are well positioned in both markets.

The new law which comes into effect in Switzerland governing collective investment schemes will become effective on January 1, 2007, and State Street has something to say on this too. "It is our opinion that this new law – despite the fact that new types of companies (SICAV and limited partnership) will be permitted – will not have a major impact on the market," says Charrière. "Swiss-domiciled institutional investors will certainly use the new types of companies but as they are already well established in locations where such legal formats were permitted a long time ago already, repatriation is not to be expected. Changes of international rules and regulations will keep global players continuously busy. Such developments help larger players to strengthen their position as smaller firms face more and more difficulties to bear the cost of adapting."

Oliver Berger, head of JPMorgan WSS in Germany and Switzerland, describes Switzerland as a mature market but also as an attractive market. He firmly believes the timing is perfect for market entry as existing providers (both local and international) are losing market share. "The big challenge is to keep up the necessary investment in technology. I believe that some established global custodians are having difficulties showing their full potential. On that basis we've developed a model where we're working with a local partner on Swiss reporting issues to bring us up to the necessary level. We have teamed up with a local swiss provider in order to go from 0 to 100 on reporting requirements."

"Switzerland is a very attractive pensions market, with very large pools of

funds. We would estimate that there is something like $400bn-$600bn for global custodians to target. The Swiss market has traditionally used Luxembourg-based products, and the Swiss banks have Luxembourg operations to manufacture and distribute products into Switzerland. Recently we have been seeing a market for institutional funds developing. For this you need a fondsleitsung (a fund administration vehicle to a German KAG) and a Swiss depot bank, which we have in Geneva.

"The Swiss market is growing by 5-10% a year, and after the UK and the Netherlands is the most developed market in Europe. Many investors in Switzerland, after 10 years working with global custodians, are asking whether they're ready for the next five years. Are they being provided with the right infrastructure? Do we have the same tools available to compete as we have elsewhere in Europe? We believe our technology advantage and our experience enable us to provide something the Swiss market doesn't currently offer. Any global custodian needs to address the local versus global argument in filling client needs worldwide, underlining the importance of our partnership with a local player to produce reports that meet requirements that are specific to the Swiss market.

"Switzerland is a fairly conservative country. Over the last 12-18 months we have seen something of a changing of the guard at senior level in pension funds and insurance companies, and the Swiss are becoming more used to working with American banks. This new openness to globalisation is encouraging them to think very differently."

Isabelle Salomone, Head of Business Development, Société Générale Securities Services, Zurich, revisits much of the same ground as her rivals when discussing Switzerland. "It's a very mature market, with one of the largest pension industries in Europe, and a significant number of local and foreign players offering a wide range of custody services," she says.

But she goes on to paint a much more vivid picture than some, suggesting the market possesses an unsuspected latent energy. "Our vision is that Switzerland is a dynamic marketplace in terms of new products and offering opportunities to

Smoothing the path?

niche players," she says. "In fact the securities market tries continuously to get the best possible ratio between standardised processes and tailor-made developments." The global front-to-back-office

"The Swiss market is growing by 5-10% a year, and after the UK and the Netherlands is the most developed market in Europe."

outsourcing of back-office architecture and processing chain, developed recently by SGSS Switzerland, illustrates the situation well, she argues. "Our product covers everything from order routing to clearing and custody via the full range of value added services such securities lending and foreign exchange. Nevertheless, the services are offered on a modular basis where the client (broker, bank, fund manager) has the total freedom to choose these that he really needs, without being faced with a "take it (all) or leave it" approach."

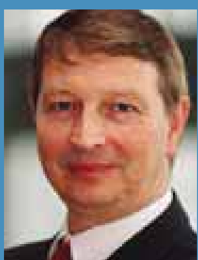
"Innovation, flexibility, state of the art of technology solutions, and high client focus are for us the key words to progress and grow in a mature market," she continues. "In addition, such an approach places us in a good position if any changes (such as mergers for example) should take place within the European financial landscape. The introduction on the Central Counterpart services to the Swiss mid-cap exchange (SWX), the new Investment Funds Law, as well as the adaptation of Mifid to the Swiss legal and regulatory framework are for us the core subjects for the coming months," she concludes.

One aspect of the Swiss market that truly differentiates it from many others is the leading position that a number of local banks occupy in industry league tables. Rivals view this as contentious at best, and argue that it is misleading for UBS, Credit Suisse and Pictet to be classified as strategic custody players when the bulk of their assets come from their own institution's funds. "One can say that the three main local players (UBS, Credit Suisse and Pictet) benefit from their core banking activities, private banking and asset management/mutual funds," observes one global custodian.

"None of the three is a true leading custody player in the sense of providing custody services to external clients. Does it matter? Yes and no! It is certainly helpful to develop products and services on the basis of a strong internal demand. At the same time one has to say that it is great to be considered a partner that helps to support "external demand". We are often asked to support new product ideas and to deliver solutions that would take too much time to be developed by our customers' own IT department. In addition, we are often in the situation to approach existing customers with ideas and solutions for products and services that we developed elsewhere already. Size therefore has more advantages than disadvantages."

"Innovations and new regulations increase the complexity in our business. We see this increased complexity as a huge challenge that drives our product and service development departments to come up with solutions that fit the needs of our customers. Firms that can not cope with these challenges will struggle. As a result, the concentration process will further develop and lead to fewer

Surf's up at sibos



Patrik Neutjens

Raising ambitions Sibos 2006

THE CONFERENCE AT A GLANCE

Following "Time for growth" in 2004 and "Transformation" in 2005, this year's Sibos theme "Raising Ambitions" invites the global financial community to agree on new ambitions and to plan and realise them fast and efficiently. Against the backdrop of our growing cooperative space and the increasing need for interoperability, we need to solve current issues, complete existing projects and jointly tackle ambitions on future opportunities.

The theme, which is extremely relevant for the hosting region, is about growth and 'opening up' new ways of doing things to achieve our collective ambitions. It is about emerging markets, corporate space, global and regional market infrastructures, integration and transaction management, partnerships, cooperation with regulatory bodies, improving automation in securities and derivatives as well as SWIFT, standards and solutions.

We expect over 5,500 executives and technology managers from the banking and securities industry in Sydney to share ideas, network and help set the future agenda of the financial services industry.

We look forward to seeing you in Sydney.

Patrik Neutjens is the Director of Sibos.

Raising Ambitions could not be a more relevant theme for this years SIBOS regarding the Asia Pacific region. Many Asian nations have progressively liberalised their economies in recent years in an effort to integrate with the world economy and drives such as the South Asian Association for Regional Cooperation have been created to try and unify the Asian states into a more coherent region.

Within the Asian economies, rapid growth, averaging 5 per cent over the past 20 years, coupled with differences between regional markets and economic sophistication make for a case of extremes. As a result, Asia has to work towards increasing liquidity believes Philippe Albert Metoudi, Regional Director Asia Pacific for Clearstream. "You have countries that are highly sophisticated and some that are way behind so there must be some form of unified market in order for there to be an increase in global investment. There has to be continuing development for securities lending, automation is also a big issue for some countries and whilst there are many good initiatives, more work needs to be done."

> The present theme plans for future problems rather than solving old infrastructural difficulties.

Based in Sydney, SIBOS this year has an Asian flavour, and it must been seen as a positive educational experience for delegates that don't participate heavily in the Asian markets. Thankfully, positive communication was not only behind the conception of Sibos, but part of it's continued development. "My first SIBOS was in 1985, where banks were striving to find standardised communication methods between them, and where costs in real terms were excessive in comparison to today," says Graham Bright, Head of International Sales from Financial Tradeware. "From membership fees to interface fees, these were orders of magnitude greater than today, with technologies that relied on proprietary operating systems. SIBOS was much more about operational issues such as key exchanges, standardising payment messages between correspondents and countries, linking to mainframes for information feeds to allow confirmation processing and cash reconciliation." Where the old focus lay in operational issues and the establishment of a link between networks, the present theme of Raising Ambitions looks to the future and plans for future problems rather than solving old infrastructural difficulties.

Martine Brachet, Head of Interbank Relations at Societe Generale is expecting progress in Sydney, and said: "We are expecting much more from the next SIBOS where strategic issues might yet take the lead over technical and classical ones." It is these strategic issues that are so crucial for the Asia Pacific region.

However, will SIBOS just be a displaced European and American event, or will it really attempt to tackle Asian Market issues? At least three lectures during the SIBOS week hope to tackle this topic:

- **How infrastructural change will move the market in Asia-Pacific** (11:00am Monday 9th),
- **India and Globalisation - Is the window of opportunity really open?** (09:00am Tuesday 10th)
- **Raising ambitions in Asia Pacific** (11:00am Tuesday 10th).

But is the Asia-Pacific region ready to grasp the opportunities that might be coming its way? Mike West, of ADP Brokerage Services Group states that: "A number of Asian countries are going through regulatory change, Japan for example is going towards a paperless equities model. Taiwan is consolidating its exchanges. In China and India there is a lot of infrastructural change that is taking place through which expansion can happen. It's about gearing up to capture these growth opportunities."

One growth opportunity that West does seem confident about is the move towards outsourcing into the region. "The current outsourcing trends are here to stay and will continue to evolve and most firms generally have an off sourcing strategy." Denis Peters, Director of Euroclear, agrees with this and believes that "outsourcing will remain a viable alternative under the right circumstances. One of the primary target markets for outsourcing today is India, but as other markets catch up with India's success, we are likely to see a more competitive environment develop among offshore centers."

The current focus on outsourcing however highlights the fact that interest in Asian topics are really European and North American interests under a different guise and as a result SIBOS, at least for the significant future, will be a European and North American event. Rather surprisingly however, is that SIBOS may perhaps have more of a European influence when based in Asia as Metoudi points out. "When I first attended SIBOS in Sydney 1997, I did not expect many Europeans to attend," he says. "It turned out to be quite different, lots of key European decision makers attended because if you are a high level European bank, sending people to Sydney is expensive. Instead of for example Copenhagen where you send a number of people because the conference is close by, you only send the key decision makers to Sydney so as a consequence I remember my first SIBOS being very productive." It will be interesting to see if this years SIBOS lives up to its Sydney predecessor in regards to European and American influence.

Raising this problem also brings up possibilities and difficulties of SIBOS logistics. Should it follow the Asia/America/Europe triptych; should it stay in Europe and North America or should it branch out and visit other continents? In supporting the Europe and North America proposition, many people, including our deputy editor, are not looking forward to the idea of travelling 23 hours from London, working non-stop one week and then travelling 23 hours back on the Sunday and starting work again on Monday morning. Many think that Sibos is a European and US event, and therefore SIBOS should be in those countries biennially. Bob Gallagher, Senior Director at Investor Bank & Trust Company believes that SIBOS would be more convenient in terms of travel for most Sibos attendees when it is held in Europe and America because that's where the major custodian and investor bases are, and he's not he only one. However there are viable alternatives for SIBOS. Metoudi believes that it would be a good idea for SIBOS to be held in Europe more often, but SIBOS should also branch out. He has been a speaker at the Swift Middle East and Africa regional conferences for the past six years and recently attended the Swift regional conference in Maputo. Whilst there he noticed that a large number of bankers have said it would be nice to have SIBOS in Africa. Many people including Metoudi now believe that Africa has the recourses and the security to hold SIBOS. This does not have to fit in to the cyclical routine that exists at present, but a one off SIBOS in Africa, perhaps building off the back of the next World Cup in South Africa would do wonders for the regional economic and social confidence.

> Many people now believe that Africa has the recourses and the security to hold SIBOS.

The possibilities of networking in Africa and the opportunities that might arise from such a venture should be of interest to any SIBOS regular. Indeed, it is impossible to ignore the fact that top of every attendee's mind at SIBOS is the possibility of meeting new clients and building up one's reputation with existing clients. In a SIBOS led survey polled after Copenhagen 2005, 'Networking Opportunities' was top reaching 8.2 out of ten regarding SIBOS satisfaction.

However the popularity and growth of SIBOS has not always had a positive effect on networking possibilities as Gallagher explains. "My first SIBOS was at Geneva in 1994; there the exhibitors hall is where a lot of the networking took place and ten years ago you had the opportunity to roam around the hall, meet with various vendors, and not have a predefined agenda. Compare that to now, where three months ahead of the conference vendors start hounding you and you end up with more requests for appointments than there are hours in the day, let alone the ability to attend some of the seminars."

Perhaps the need to for vendors to make their trip cost effective means that they try and meet as many people as possible and this turns out to be counterproductive. Looking back, the first Sibos Conference was held in a hotel in Brussels in 1978, only 300 delegates attended. Last year Copenhagen hosted a conference that drew a record 6500 delegates, and Sydney 2006 offers the prospect of even more visitors from across the financial sector. Yet this growth in size may be at the expense of networking efficiency as we all clamber for appointments and business cards. Neal Meacham, Head of Custody at Swedbank treads a similar path when asked what he would improve regarding the existing SIBOS format. "Perhaps there should be more space for meeting clients. Not a place where you book various meeting halls but an area for talking and discussing where you can sit down and grab a cup of coffee." I'm sure that Starbucks would be happy to help out!

Peters echo's this sentiment. "Many of our clients, business partners and service providers attend SIBOS, so we are able to see many of them in the span of a week to complement the visits we have with them during the year. SIBOS provides excellent networking possibilities, where the openness and conviviality of the environment makes for a pleasant and productive week of formal and informal dialogue."

It is these networking possibilities that make the Raising Ambitions such an important theme for this years SIBOS. One positive face-it-face dialogue can solve problems and plan future developments far quicker than a thousand emails and phone conversations. But for anything positive to come out of this years SIBOS, the Asian region has to think positive. Let us hope that Asia lives up to its expectations. ISJ

An industry-leading outsourcing vendor for global transaction processing and investor communication services to banks, brokerages, fund managers and issuing companies. ADP provides integrated multi-currency securities processing solutions to support securities operations in almost any instrument and market. Investor communication services include proxy voting services in over 82 markets, company reports, meeting notification and vote tabulation for all beneficial shareholders.

CONTACT

MIKE WEST, VICE PRESIDENT, INTERNATIONAL MARKETING
THE ISIS BUILDING
193 MARSH WALL
LONDONE14 9SG, UK
TELE - +44 (0)207 551 3000
EMAIL – INFO@BSG.ADP.COM

Stand No: E10

Bank Austria Creditanstalt (BA-CA) and its affiliates through-out Central and Eastern Europe (including Bank BPH (Poland), International Moscow Bank and HVB brands) is recognised as one of the leaders in the specialised provision emerging market custody. The group offers both custody to both domestic and foreign investors or their agents in 14 markets across the region.

CONTACT DETAILS

MICHAEL ASCHAUER, HEAD OF CUSTODY, CEE
DAVID PENSTONE, CEE REGIONAL SALES AND RELATIONSHIP MANAGEMENT
RADOSLAW IGNATOWICZ, POLAND, LOCAL HEAD OF CUSTODY
ATTILA SZALAY-BERZEVICZY, HUNGARY, LOCAL HEAD OF CUSTODY
DORA HORVATH, HUNGARY, LOCAL RELATIONSHIP MANAGER
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Stand No: C08

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CONTACT DETAILS

CHARLES COCK
GLOBAL HEAD OF SALES AND RELATIONSHIP MANAGEMENT, +33 (0)1 42 98 42 30

STEVE CHEW
HEAD OF SALES AND RELATIONSHIP MANAGEMENT
FINANCIAL INTERMEDIARIES, +44 (0)20 7595 1685.

Stand No: B02

Clearstream is the premier international settlement & custody organisation offering a comprehensive service covering both domestic and internationally traded bonds, equities and investment funds. Since July 2002, Clearstream has been an integrated part of Deutsche Borse Group.
In Q4 2006, Clearstream will launch the 'Next Generation of Collateral Management Services' and the Central Facility for Funds is Clearstream's latest initiative to offer a more efficient post trade solution for investment funds domiciled in Luxembourg.

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Stand No: J10

Cognotec is a leading provider of component-based connectivity solutions that enable financial institutions to deliver tailored, real-time, streaming FX trading services to clients. Cognotec has partnered with over 90 banks in more than 23 countries to create customised FX trading solutions combining leading-edge technology, functionality and features. Cognotec also offers consultative and customer services from its regional offices located in Singapore, Tokyo, New York and London.

CONTACT DETAILS

SINGAPORE – TEL + 65 6837 2008
TOKYO – TEL +81 33507 5776
LONDON – TEL +44 207448 5917
EMAIL – INFO@COGNOTEC.COM
WEB – WWW.COGNOTEC.COM

Stand No: F12

With 19 offices and over 1500 staff globally, DSTi offers the most comprehensive suite of technology solutions for the global financial services community. Over 700 clients, ranging from single-site installations to large global institutions with operations in every financial centre, rely on DSTi to help them run their business more effectively.

Products on Show

DSTi's investment management solutions include front, middle and back office functionality that handles multi-currency portfolios for both institutional and retail markets. The suite of products can be used either as stand-alone applications or brought together in flexible combinations according to specific needs.

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Stand No: E04

peterevans is a leading independent provider of front to back office solutions for the financial services sector. Clearly focused on the securities and investment market, the company proudly launches its new product line at SIBOS 2006.
This new suite of applications offers a comprehensive, configurable, fully integrated, browser based, front to back solution that can be either deployed as a single application or integrated as components into your existing platform.

CONTACT DETAILS

NEW BROAD STREET HOUSE
35 NEW BROAD STREET
LONDON, EC2M 1NH, UK
TELE - +44 (0)29 20402200
WEB - WWW.PETERVANS.COM

Stand No: E14

As the leading supplier of custody services in the Nordic and Baltic Region, we at SEB recognise our responsibility towards our customers.
A blend of personal service, advanced communication solutions and IT systems means that we can provide sub-custody services of the highest standards. Our Pan-Nordic Custody system and Internet Solution give clients fast and consistent reporting and speed up the clearing and settlement processes. In addition, we take pride in keeping our client base fully up-to-date with any changes or events that could have a bearing in any of the markets in which we act as sub-custodian.

CONTACT DETAILS

MIKAEL BJORKNERT: MIKAEL.BJORKNERT@SEB.SE
GORAN FORS: GORAN.FORS@SEB.SE
ULF NOREN: ULF.NOREN@SEB.SE
YVONNE SILJELOF: YVONNE.SILJELOF@SEB.SE
CATHARINA BURESTEN: CATHARINA.BURESTEN@SEB.SE

Stand No: B03

The SIBOS 2006 Panel Debate

Key Themes past and present and their market impact

Martin Hofer, Head of Custody, RZB. Hofer joined RZB in spring 2000 and since then has headed the custody department including RZB's fund administration product. Before joining RZB, Hofer had been working for Bank Austria Creditanstalt for 10 years where he was in charge of the bank's EURO and Y2K project. Hofer successfully re-launched RZB's custody product with a clear focus on quality, efficiency and further expansion towards CEE.

James Balbo, Managing Director, Asset Services, The Depository Trust & Clearing Corporation (DTCC). Balbo oversees Asset Services Product Management which includes the core depository products of Underwriting, Corporate Actions, Securities Processing, and Global Tax Services. Balbo has more than 20 years' experience in the securities processing industry.

Marsha Parker, CEO & technology products architect, eFLOW. Parker has over 30 years computing experience from a career that has spanned the globe and has focussed on the transaction management, middleware and process re-engineering sectors. The introduction of MiFID, Basel II, UCITS III and Sarbanes-Oxley has had a profound impact on Marsha's product design and implementation.

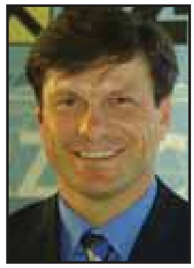
Mike Hampson, Head, Financial Institutions Solutions, Transaction Banking, ABN AMRO. Hampson joined Transaction Banking early in 2005 as head of business re-engineering with the responsibility for developing the strategic roadmap for the business. He has been with ABN AMRO since 1997 holding numerous senior operations and change related positions.

Tim Lind, GoldenSource. Lind is responsible for strategic planning and product management at GoldenSource, and brings more than 18 years experience in the international financial services industry market. His expertise includes enterprise data management and infrastructure, integration technology, business process outsourcing, market and reference data. Lind is also acting Secretariat of the EDM Council.

Christel Leonhard, Head of Sales, Securities Services, Danske Bank. She has been head of sales since November 2005, but has been with the bank since 1984, before joining the Securities Services area she held various positions in Danske Markets, including Sales of FX/Derivaties and Marketing of Danske e-Markets.

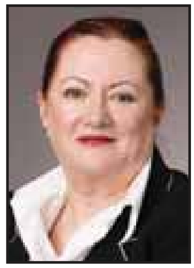
Geoff Harries, Director of Securities Product Management, CheckFree Software. Harries joined CheckFree Software in May 2000 as Securities Product Development Manager, with responsibility to provide strategic direction for the company's financial messaging products. Geoff has brought to market innovative solutions for electronic trade confirmation and settlement across a variety of instrument classes and successfully delivered the first commercially available solution for central matching.

Martin Hofer



James Balbo

Marsha Parker



Mike Hampson

Tim Lind

Christel Leonhard

Geoff Harries

David Vander

Gus Ferreira

David Vander, Managing Director, Banking, Financial Services Group, Microsoft Corp. Vander's background is as a strategist within financial services, specialising in business transformation around technology, with a focus on strategic execution. He has more than 15 years' experience developing business strategies, strategic infrastructure planning and implementing technology projects.

Gus Ferreira, Head of Infrastructure at Standard Banks' Financial Asset Services Division. Standard Bank offers the most comprehensive range of custodial services across South Africa and Sub-Saharan Africa. In his current position, Gus is responsible for all the systems supporting the custody and value added products that form part of the product set offered to domestic, regional and international institutional investors.

Last year, SIBOS's challenge for the industry was to raise its aspiration levels and capitalise on the financial community's assets and potentials. Has the industry seen much change in response to this?

Leonard: SIBOS is not setting the agenda for the development of the financial community – it is the other way round. However, the organisers of SIBOS has a very strong talent for picking themes which is a concern or a driver for the financial industry, and the theme of Sibos 2005, Transformation, was no exception. Harmonisation, competition and cooperation are part of the transformation of the industry, and although often perceived as threats at first glance, a lot of the ongoing transformation is actually presenting new opportunities for creating business in new ways.

Lind: The theme from last year was "transformation" within the financial services industry with an "adapt or die" warning to institutions that are unable to cope with change. It's been said that things do not change; we change. When you consider that banks have traditionally embraced a culture that is adverse to risk and prone to status quo, one year is too short to measure meaningful change in the individuals that comprise the leadership of this industry. Banks are still more accustomed to playing defence rather than offence. However, there are hopeful signs that the vision of our industry leaders will embrace sustainable technology that can enhance the long-term competitive position of an institution, allow it to manage unforeseen change, and move beyond the reactionary dilemma that many banks find themselves in when dealing with regulatory mandates and evolving market structure.

Hampson: Change is obviously constant in the financial services industry, as it is for all users of financial services. But every year sees some key developmental milestones. This year, the most obvious of these is the agreement of the specifications (Rulebooks) and principles (Frameworks) for the Single Euro Payment Area (SEPA). With these in place, banks can start their journey to SEPA compliance on the one hand, and on the other, to making the strategic decisions about how to deliver payments in Europe cost-effectively.

SWIFTNet Investigations and Exceptions will go live in September, bringing further efficiency to this important operational area. It's good to see the detailed pilot work coming to fruition.

Harries: SIBOS is not a catalyst for change; it is one conference for certain players in the industry since 84% of participants are from commercial banks and software vendors. Much of the work happens in targeted market practice and industry initiated working parties outside of SIBOS, especially when related to the securities industry. If SWIFT wants to see the ambition fulfilled they not only need to lay down the challenge but also invest in people and processes to make this happen and bring more than 1% broker dealer participation and 2% investment manager participation to the table.

Balbo: In today's environment, we are constantly challenged to reinvent ourselves so that we can better serve our customers. There's ongoing, positive change in the industry, but many companies are scrambling just to keep up with new developments. If they don't keep up, if they don't reinvent themselves for today's market, they'll be brushed aside. The corporate landscape is littered with service organizations that fell by the wayside because they lulled themselves into a false sense of confidence.

Parker: This change is definitely happening in the market whether or not SIBOS was the motivator, and we've most certainly seen a change in aspirations. MiFID is a catalyst of this more than anything, but financial institutions still need to have higher expectations of their systems providers. One of the sticking points is that organisations aren't focused enough in strategically addressing issues and tend to lurch from problem to problem. In our experience vendors exacerbate this situation, choosing to focus only on critical issues rather than building relationships with their clients and understanding both their tactical and strategic business requirements.

"One of the sticking points is that organisations aren't focused enough in strategically addressing issues and tend to lurch from problem to problem."

Vander: There has been a significant response by the industry to the multi-faceted demands of increased competition, new products and services, better customer service and margin compression. Financial institutions have recognized the need to adopt robust industry XML standards - as a good means of improving how well they leverage existing assets, improve efficiency and build connections. We have seen demonstrable progress from our customers toward putting in place more efficient services, infrastructures and technological platforms.

Hofer: RZB Group is an active participant of the SIBOS conferences with a strong focus to capitalize on the platform being offered. All the participants face the same or similar securities and payment related infrastructures that follow two major global trends – harmonization and standardization. The name of the game is crystal clear – bring down barriers and offer a cost efficient environment of production. The one that offers the most dynamic in-house infrastructure being in line with above mentioned trends will dominate his home market in the various product lines. Not only adoption or reaction to the global trends but driving the initiatives in the home markets will generate the differentiating factors to the peers.

Ferreira: Looking at the African continent, the drive to raise ambitions is firmly entrenched in the manner in which markets are embracing change. In South Africa the market is focused on further reducing settlement risk by dematerialising Money Market Instruments. Although this initiative has had a long gestation period, and has encountered numerous obstacles, all market participants are still focused and determined to complete this initiative. Bonds and Equities have already undergone the transformation and the benefits of operating in an electronic environment have reduced the systemic risk within the market. Following this the market will look at whether it is possible to extract further efficiencies from the settlement process thereby taking the market to the next level.

The theme for this year's SIBOS is "Raising Ambitions", what does this say to you?

Hampson: From my perspective "Raising Ambitions" is a call to action – and a very timely one at that; encouraging the entire SWIFT community, and indeed the financial industry as a whole, to create and explore new opportunities for ourselves and our clients. In our industry it can be all too easy to focus on the considerable challenges. Raising ambitions reminds us that by combining innovative thinking, powerful technology and globalised markets we can deliver new levels of service to our clients.

Harries: Raising ambitions in SWIFT's terms is about creating a collective ambition. It is specifically about emerging markets, corporate space, global and regional infrastructures, integration and transaction management. To me ambition is not focussed in today's world of ROI. The industry and individuals may have ambition, and SWIFT may want to raise ambition, but this has to be founded in the capacity of firms to take on projects in this era of enforced investment in regulatory compliance.

Leonard: We must all constantly try to raise our ambitions, both as individuals and as corporations. Excellence in product delivery and services is a must for the financial industry in an environment of strong competition and high expectations from all stakeholders.

Balbo: It says that we have to raise the bar and keep pushing toward straight-through processing (STP) – that's our ultimate objective. First we need to get far enough ahead of customers to anticipate and imagine the infrastructure we'll need to support new markets and new customers. For example, we're in the process of re-engineering our core systems for underwriting and corporate actions to carry us into the 21st century. The reengineering will create a single platform from 60 separate systems, offering streamlined processing, reduced costs, greater flexibility, and the capability to handle increasingly sophisticated types of securities – both U.S. and global – while supporting new asset servicing requirements, complex corporate actions, and international messaging standards. And while we are designing new infrastructure, we also need to keep pace with everyday challenges – increasing volumes and major industry innovations. Customers expect us to continue to provide expert, safe and reliable

CCP, Heye

service that's fast, efficient, transparent and offered at low cost.
Parker: This change is definitely happening in the market whether or not SIBOS was the motivator, and we've most certainly seen a change in aspirations. MiFID is a catalyst of this more than anything, but financial institutions still need to have higher expectations of their systems providers. One of the sticking points is that organisations aren't focused enough in strategically addressing issues and tend to lurch from problem to problem. In our experience vendors exacerbate this situation, choosing to focus only on critical issues rather than building relationships with their clients and understanding both their tactical and strategic business requirements.
Lind: It says that the ambitions of leadership must look beyond next quarter's financial results. It says that institutions need a plan for sustainable growth and to recognize that customers have the same ambitions in terms of efficiency and automation as banks have. It's time to change the culture, impeach the status quo, and encourage innovation by embracing mavericks instead of shooting them. It's time to start playing a little offense.
Vander: The intent should be to raise people's expectations of both themselves and their assets. Nothing should remain untouched. All preconceived notions of the right services, solutions, and infrastructure should be laid on the table for review, and rational, rigorous debate should be encouraged. Financial institutions need to ensure that all aspects of the organisation are kept open to transformation. This is because the potential benefits of today's technology are too great and the risks previously associated in large scale transformative efforts have been minimized. There is now even less of a reason not to have a good hard look at current operations, processes and infrastructure. New business models, products, services and technologies will change everyone's perception of what a payment is, how financial messaging is performed, and who constitutes a customer.
Hofer: "Raising Ambitions" as theme for this year's SIBOS sounds quite interesting. For us as banking group active in developing countries in CEE a theme like that means more focus on the steering of developments and trends in the infrastructure of the markets. It goes without saying that harmonisation and standardisation keep on dominating our agenda. Hence, we do hope that "Raising Ambitions" means to explore and expand further the opportunities and the role of the SIBOS platform.
Ferreira: From Standard Banks' perspective this is about emerging markets and the use of technology and product specialist knowledge to fuel the growth in these emerging markets. Every emerging market is different with varying regulatory environments, investment potential and technology infrastructure/capability. Raising ambitions is about doing things differently and operating in environments that one would typically shy away from. It is about redeployment of technology solutions in a manner that is efficient and cost effective but still delivers value in those markets currently deprived of these solutions. Raising ambitions is also about becoming involved in the market in which you operate and being part of the reform process. As an organisation we have spent a considerable amount of time with regulators in the various emerging markets imparting knowledge and experiences which we hope will allow reform to happen at a quicker pace by building on this partnership platform.

> "We're glad to see extensive discussion surrounding Asia-Pacific including China and India, because those are very rapidly growing markets."

What do you feel are the most important topics being discussed at this year's event?
Hampson: Perhaps the two overriding preoccupations for banks are compliance and infrastructure. Be it SEPA, MiFID, Know Your Customer, Basel II, Sarbanes Oxley, or other more local regulatory issues, regulatory compliance is simply a must have. It requires both the right processes and procedures and the necessary technology. Then it becomes a "build, buy or outsource" decision. Similarly, access to the right infrastructure is critical to remaining competitive. At Sibos, we expect there will be much discussion this year around the strategic decisions banks will have to make. Partnering will also be very relevant to these discussions as, in a time of business change, it can help banks to control their operating costs, optimise capital investment and increase revenues. Finally, this year's focus on globalisation is critical. With sessions looking at infrastructure changes in the Asia-Pacific region, the opportunities in India and world trade, it is clear that globalisation will continue to be a trend shaping the future of this industry.
Harries: By far the most important topic is OTC processing. The volumes in credit are doubling year on year making this the fastest growing traded instrument class. We need standards in this area to ensure firms can process these contracts efficiently and with minimal risk.
Leonard: The most important topics are those dealing with regulatory and market driven changes in the securities area, including those of the emerging markets. One session aims to capture the SEPA-project's achievements in the European payments arena, and these could well be used as inspiration for us in the securities industry. The European Payments Council (EPC) has achieved at lot through establishing a constructive dialogue between market participants and the EU and local legislators. The securities industry should follow the same road.
Balbo: Globalisation is particularly important. We're glad to see extensive discussion surrounding Asia-Pacific including China and India, because those are very rapidly growing markets, drawing capital and interest from around the globe. As they grow, their need for a supportive infrastructure will grow commensurately. And we know we have to focus on the needs of our customers as they expand globally. That, coupled with industry consolidation, has moved all of us toward a more global marketplace. Think about it. When did we envision the merger of exchanges on different continents? Or that credit default swaps would grow on a global basis from $4 trillion to $17 trillion in two years?
Customers want a broader range of solutions that produce results. Today more than 70% of credit derivatives traded globally are confirmed through DTCC's Deriv/SERV, but this is just the beginning. Right now we're building a global trade information warehouse for all credit derivatives contracts, regardless of where the trade originates. The warehouse will keep "the golden copy" and handle the servicing of these contracts during their lifecycle.
Parker: The processing of complex OTC derivatives transactions is something we're focused on and committed to as a company, and it will be interesting to see the results of discussions in this area.
Lind: Within the next 25 years, if current trends continue, China will overtake the United States as the world's largest economy. The impact of growth in Asia-Pac markets will have profound effects on global trade, the banking industry, and the performance of capital markets in western economies. These will be important topics at Sibos this year. I also like the session on automation of post-trade derivatives processing. If you are searching for an area where banks need greater ambition for automation and operational risk management you don't need to look any further than how they process privately-negotiated derivatives.
Vander: The most important topics being discussed at this year's event are as follows:

Benefits for corporates that standardize their banking communications around SWIFTNet

How corporates should think about Enterprise Financial Messaging.

How banks can best size their payments infrastructure for the changes occurring in the industry and maximize their competitiveness, while not suffering breaks in the services they provide their customers.

The best investments to make for core infrastructure simplification, and for adding business intelligence into payments processing, as a way to identify and develop new payments-based products and services; Efficiency, New Products and Services, Transparency World trade.

Hofer: The topics of most interest to us are all securities and payment infrastructure related ones. We foresee a challenging harmonization and standardization process ahead of the industry in order to bring operational risks down to a minimum level and to increase efficiencies in the back office in a steadily rising cross border transactions activity. The values generated by those specific tasks reduce our risk exposure as well as our cost base. Those synergies can be passed on to our clients resulting in a full STP environment bearing a small price tag.

Ferreira: There are a number of sessions at Sibos that interest me and which are related and relevant to the financial markets in which we operate in today, both from a developed and a developing market perspective. Given Standard Bank's strategy to operate in emerging markets the topics on how infrastructural changes will move the markets in Asia-Pacific and the related topic of 'Securities Market Reform: Heaven, Hell or Purgatory are especially relevant. As a custodian Bank operating on a Regional basis across Sub-Saharan Africa, the challenges relating to market reform and the infrastructural nature of the market are initiatives that we feel strongly about and are active participants in. It will be very interesting to see what we in Africa can learn from the experience of the markets in the Asia-Pacific region. This is not to say that models that work in one region will necessary work in another region. From an Africa perspective we need to identify the successes and also the challenges faced in these regions and see how it applies to Africa. Based on these experiences and lessons we can continue to create an African model that is relevant to the market and its stakeholders.

If you were setting the topics is there anything you would like to be discussed which is not on the agenda?

Hampson: I think the Sibos agenda has captured the major topics facing our industry. As well as the formal sessions, Sibos is also invaluable as a forum for sharing ideas, and formulating the questions which will doubtless appear on future agendas. We look forward to participating in these discussions.

Harries: Collateral management appears to have fallen off the agenda.

Balbo: It's a broad, fairly comprehensive agenda that SIBOS has put together this year and they are covering a great deal in a few days, going from sessions on globalization to disaster and terrorism. We would have liked to have seen a session on global corporate actions since it's an area where we've had great success in recent years and will be adding new corporate action solutions once the reengineering of underwriting and corporate actions is complete. But it's also important because of the risks associated with corporate actions. Studies sponsored by DTCC and prepared by Oxera, an independent economics consultancy in Europe, have shown that corporate actions have a significant impact on trading prices, trading volume and trade price volatility and that individual securities firms could face potential risks from just one complex corporate action event.

> "It's a broad, fairly comprehensive agenda that SIBOS has put together this year and they are covering a great deal in a few days."

Parker: As you would expect, SIBOS is an excellent forum for all those involved in messaging, which we would like to see become more trade-oriented so that participants can view messages from a trade-centric view rather than as disparate data in a workflow.

There is also a need for true hands-free STP, where there is no human intervention whatsoever from trade execution through to settlement. All too often STP isn't straight-through at all, with institutions accepting STP initiatives that aren't fully automated in their execution. All too often STP stands for Straight to Paper, where part of a process is automated but fails to link to subsequent processes systemically.

Lind: Sibos is the most professionally run conference in this business and SWIFT does a great job in catering to such a diverse community of users in the topics they have selected. If there were one topic I'd like to see more of it would be the progress in how banks are managing regulatory mandates. We've all been inundated on this subject but the lack of clarity on the specific impact on IT infrastructure brought about by directives such as MiFID is shocking.

Vander: Technological transformation in financial services – what is over the horizon in the payments, treasury and cash management areas and how financial institutions need to prepare themselves? Technology executives believe that business process automation and integration of systems are strong drivers to reducing costs, improving operational efficiency, and capturing new business opportunities. How can technology vendors simplify the industry transformation successfully?

Ferreira: I would like to see more topics addressing interoperability between the actual trading in securities and the settlement of the securities and how do we move towards having a common messaging protocol between the two.

I would also like to see more discussions designed at unravelling the Hedge Fund and Derivatives industry and looking at ways in which we can simplify the exchange of information between providers.

Hofer: Although the SIBOS platform is more infrastructural driven a broader focus towards Client Relationship Management would help to transport and transform the challenges on the product side to the CRM world with all its impacts and implications on the value chain of a successful product.

More than 20 exchanges and 40 CSD's rely on SWIFT for secure messaging services, connectivity and common message standards to communicate with their members. Is this a perfect system or one you would like to see changed?

Harries: SWIFT have bought together many participants and there are now clear industry standards imposed on messaging, however, the reliance that many of the Exchanges and CSD's place on SWIFT could lead to elongated delays should the network fail. It also restricts the member's choice of communication which may lead to complacency within both SWIFT and the Exchanges/CSD's and can also place cost limitations on CSD/Exchange members from investigating other communication methods.

Leonard: Neither SWIFT nor any other communications infrastructure can be described as perfect. However, reliability and robustness are key words for SWIFT – and well proven during more than 30 years of service delivery. The securities industry is pleased with SWIFT's increased focus on the MT500-series which supports our own strive for still higher efficiency and better quality.

Parker: SWIFT in principle is excellent. It's a fantastic system that is extremely well architected. Some aspects of XML, though, are unhealthy evolutions of what was intended, and some architectural changes could be made to message types to improve their

functionality. Having said this, SWIFT has stood the test of time and stood it well.

Lind: While many exchanges and CSD's may be technically connected to the network and SWIFT has done well to get so many to join, the reality is the amount of messages actually exchanged between this type of user and their members is virtually nothing compared to their counterparts representing the payments settlement infrastructures. Euroclear and Clearstream were some of the first depositories to show leadership in the use of standards and have demonstrated the value of using standardized messaging within their community. Many others may give lip service to supporting standards but push their own proprietary standards and networks instead. It would be nice if more market infrastructures have the same commitment to using standardised messaging as they do in talking about them.

Vander: There are enormous benefits to be had by corporate banks and corporations as they standardize their banking communications around robust industry standards. Leaders such as SWIFT are critical to the industry and to driving forward the efficiency gains that come from widely accepted standardization. There will be some consolidation of service providers and a continual marching toward real-time and zero latency business. SWIFT is helping to progress this by working with the industry to determine solutions to this and achieve standardisation.

Hofer: For the time being SWIFT is definitely regarded as the most preferred means of transport when it comes to the need of a reliable highly standardized communication method. Although other facilities are available the dominating one is still SWIFT. This fact speaks for itself.

Ferreira: No system is entirely perfect and one needs to answer this question on the basis of whether the system is optimal and relevant in the space in which it operates. From a securities services perspective SWIFT has been instrumental in standardising communication between financial institutions and providing guaranteed delivery and increasing levels of STP within the settlement and clearing arena. This has been extremely relevant in addressing the needs of the market and whether it is perfect or not is a function of the scope that is covered by the SWIFT messages and whether it meets the needs of the user community. We need to speed up the process of user and market consultation and deliver improved solutions for corporate action and proxy voting components of the service model. Initiatives to reform market infrastructures on a local and global scale seem to be a hot topic at the moment.

In the past few editions of ISJ we have focused on the growth of the developing financial markets around the world in Asia, Africa and Eastern Europe. How open are the windows of opportunity in these developing markets for securities service providers and technology vendors?

Leonard: The development in Emerging Markets has been very fast over the last couple of years and we have seen a significant opening of the markets in the Emerging Markets - especially in Central and Eastern Europe. In regard to openness Emerging Asia and Africa still lacks behind, but we are optimistic that the positive trends will continue in the coming years and obviously the growth potential is enormous.

Balbo: The entire world is looking at future growth coming out of these new markets, Asia in particular. China is already the sixth largest economy in the world and India is not too far behind it. The rise of such large economies within a relatively short time span is unprecedented and will represent a major shift in the world's financial markets.

"The developing financial markets offer a fantastic opportunity as they are effectively financial 'greenfields'."

The financial services industry hasn't missed any of this and companies have been laying the groundwork for future growth and cooperation with Asia. DTCC has had an ongoing dialogue with our Asian counterparts for many years and has information sharing and collaboration agreements with the central securities depositories of Japan, Korea and Taiwan.

Parker: The developing financial markets offer a fantastic opportunity as they are effectively financial 'greenfields'. These infrastructures haven't necessarily inherited systems and processes - and associated problems - to the degree that more mature markets have. The developing markets are in a position to set their strategy, and more developed and senior markets that open their doors to help will benefit also. There is an opportunity to make the right decisions the first time around, and if they can learn by other people's mistakes they will do very well.

Lind: Securities service providers and larger technology vendors have been seeking opportunities in developing markets for years so I would argue they are already open. However, with an investment industry putting a higher premium on quality and stability, emerging markets will be more closely evaluated for their risk/return proposition. Customers demand local support, commitment, focus, and knowledge of the particulars of each market, so vendors and financial institutions need to make significant investments to expand their footprint. Only the larger firms need apply.

Vander: There is significant excitement about the growth potential and demonstrable desire from institutions that wish to capitalize on these markets. Skills, both business and technical, will be a challenge as these markets compete for the best efficiencies and resources in a global marketplace that is far more established. Some of these regions also still have significant physical and market infrastructural challenges to overcome before these opportunities can be taken advantage of.

Ferreira: The importance of emerging markets is something that Standard Bank recognized a number of years ago when it embarked on a strategy to develop a regional banking network across Sub-Saharan Africa and develop its international banking operations. As a bank we are extremely excited about the opportunities in these emerging markets and the ability to participate in their development. In Nigeria, in particular, we have seen a tremendous amount of regulatory activity designed to improve corporate governance, investor protection and ensure that minimum standards apply in the banking sector. These market and regulatory reforms have seen the establishment of Pension Fund Administrators and Pension Fund Custodians followed closely last year, by the consolidation of the banking industry due to the introduction of minimum capital requirements. As with any regulatory change, the challenge for the market is to ensure that service providers are capable of providing the systems, infrastructure and operational capability necessary to meet the new regulatory requirements. Securities service providers and vendors must also be in a position to play a knowledge transfer role and being relevant in the market they are active in. In changing and evolving market conditions, participants need to become catalysts and advocates of change with a view to introduce products and services that support the development of these markets. So, from our experience, the opportunities are there in emerging markets but it requires a long-term commitment to the market and the ability to mobilise the necessary infrastructure to deliver solutions whilst at the same time, investing in the knowledge transfer across the regulatory and operational spectrum.

Hofer: To cut a long story short – As long as we operate in developing market environments the windows of opportunity are wide open. ISJ

Stepping Up As One?

The issues around European Cross-Border Clearing & Settlement are growing with momentum.

Rekha Menon looks at what will be needed for true pan-European integration.

The European cross-border clearing and settlement arena has been the focus of intense discussion and debate over the past few years, and the reasons are there for all to see. An efficient clearing and settlement post-trading infrastructure is critical to the EU financial market integration process. However, due to the fragmented nature of cross-border infrastructure arrangements in the EU, cross-border equity transactions are much more expensive than domestic transactions. It is estimated that on an average, a cross-border transaction costs twice to six times more than a domestic transaction in Europe. Further, compared to the US, where there is a single post-trading infrastructure, a domestic transaction in the current EU post-trading infrastructures is nearly eight times more expensive. Available studies suggest that in the EU aggregate excess cost of post-trading for investors is between Euro2 billion and Euro5 billion. There are therefore important economic gains to be had from improving the efficiency of clearing and settlement in the EU.

To this effect, the European Commission has over the past half decade initiated several discussions and industry consultations. Most notably the Giovannini Group Report of 2001 provided a detailed analysis of 15 key barriers to efficient cross-border clearing and settlement while the Giovannini Group Report of 2003 put forward a detailed roadmap to remove these barriers. "Nine out of the 15 barriers identified by the Giovanini group stemmed from the difference between countries in legal, regulatory and fiscal procedures issues. The other six were to be addressed by market participants," explains Bruno Rossignol, spokesperson for Clearstream. In the latter, he says that there has been some progress in areas such as better identification of securities for example; ISIN, corporate action practices, intraday finality of settlement and operating hours for depositories. But, he points out solutions do not depend only on market participants. For instance, Rossignol says, the harmonisation of settlement schedules and dates (barrier 4 and 7) depend on the implementation of the unified pan-European large-value payment system Target2, to take place in 2007. Denis Peters, Director Corporate Communications at Euroclear says that while there has been considerable progress on the six barriers assigned to the market, work by the public sector to remove the remaining nine barriers has been rather slow. Diana Dijmarescu, Treasury and Securities Services, JPMorgan concurs. Legal barriers highlighted in the Giovannini report, for instance, she says are among the most difficult to remove. "Overall industry efforts are progressively removing the Giovannini barriers, but we have to recognize that it is a slow progress," states Dijmarescu.

> "It is estimated that on an average, a cross-border transaction costs twice to six times more than a domestic transaction in Europe."

Impatient with this slow progress, the European Commission indicated over the past 24 months that it would issue an official directive to accelerate the process. But while market players largely supported and even welcomed this suggestion, the Commission has steered clear of a legislation. Rather, in a speech to the Economic and Monetary Affairs Committee of the European Parliament in July this year, Charlie McCreevy, the commissioner in charge of the European Union's Internal Market and Services, said, that the Commission would rely on a 'code of conduct' or principles designed to eliminate competitive distortions and stimulate transparent pricing.

He said that the fact that there are a large number of factors which add costs to cross-frontier trading in shares, makes any policy response complex. "What is clear is that there is no single measure which I can propose that would bring about the changes necessary. We have to continue with an approach that is varied, proportionate and cognisant of the ongoing changes taking place in the market. I am convinced," McCreevy continues, "that if the Commission were to propose any kind of a regulatory measure, we could slow down, or even block the restructuring process already underway - possibly even for years. A regulation now would be a distraction to market participants. It could lead to an outcome far less optimal than letting things evolve and then assessing what, if anything, is necessary at EU level."

Outlining the code of conduct, McCreevy said that by the end of the year the Commission wanted to see in place measures to improve price transparency, and by the end of June 2007, the introduction of a protocol that would ensure interoperability between each exchange, clearinghouse, central counterparties and central securities depository. And by end 2007, the code of conduct states that there should be separate accounting and price unbundling of the main clearing and settlement activities. While agreeing that this was an ambitious agenda, McCreevy said that it would be backed up by continuous verification and external auditing.

Both leading infrastructure providers, Clearstream and Euroclear support the European Commission's decision not to issue a directive. "Like many market participants, we didn't wish to see a directive imposed because we do not consider a directive or other new regulation as a necessary step towards integrated financial markets in Europe," says Rossignol. "We prefer to see the market come up with ways to reduce the lack of harmonization and standardization." Clearstream, he says, will contribute to the code of conduct applying to cash equities presented by Commissioner McCreevy.

Peters of Euroclear calls the code of conduct a sensible and pragmatic alternative to a prescriptive directive. Euroclear, he said, especially supports the Commission's encouragement of Member States to accelerate work on removing the fiscal barriers identified in the Giovannini Group reports. "We have long expressed our views that it is essential that these barriers, which the public sector is responsible for eliminating, are removed as quickly as possible in order to lower the costs of cross-border clearing and settlement."

"Of great merit is the European Central Bank's (ECB) recent proposal of creating a harmonised securities settlement system in the euro area."

The industry is however divided in its opinion about this voluntary code of conduct as against a clear-cut directive. Unlike Clearstream and Euroclear, several players are skeptical about the industry's ability to self-regulate. Lee Cutrone, managing director, industry relations at Omgeo, states that while the decision of the Commission is certainly understandable, given the complexity of the problem at hand, Omgeo has concerns about the industry's ability to voluntarily implement this kind of change across the various constituencies involved in the post-trade process. "In our business, there are three things that drive lasting change, a crisis, a clear economic incentive or regulation. None of these conditions truly apply in this case. Fortunately, there is no existing crisis to be managed; there is also no consistent economic driver among the parties to the transaction; and now there is no regulation to drive this change," states Cutrone, adding that the consequence of all this is that at some future point, more may well be needed from the Commission to drive such an industry-wide change.

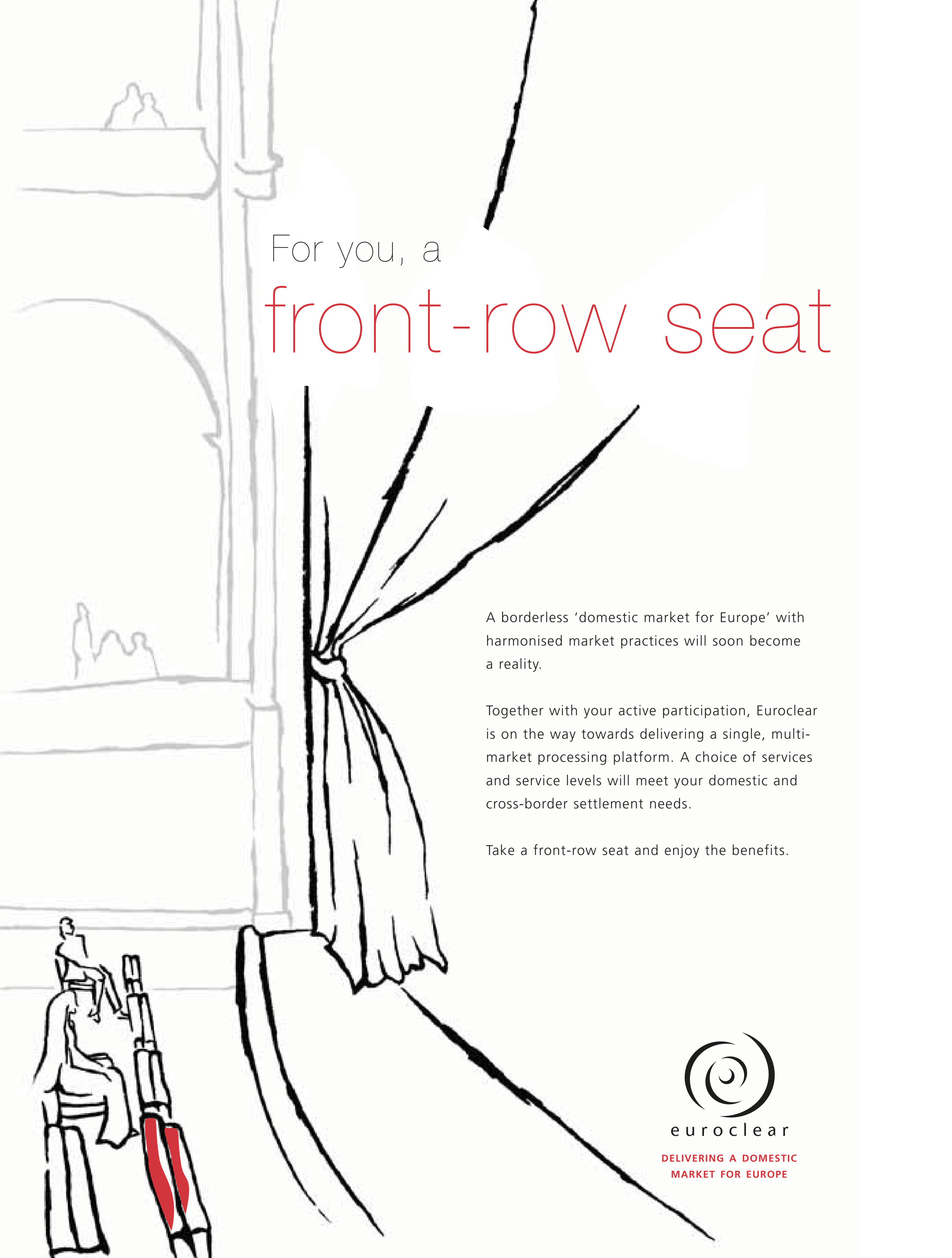
Steve Chew, head of coverage for financial intermediaries at BNP Securities Services too agrees that legislation will ultimately be required. According to him, the code of conduct lacks clarity. Further, he says, with there being too many divergent interests among industry players, it would be difficult to find consensus on a plan of action. "Assuming that all parties reach an agreement on the steps to take, the current development would be regarded as a major step forward. Unfortunately, that is not so and I think legislation will finally be required."

Of great merit, he continues, is the European Central Bank's (ECB) recent proposal of creating a harmonised securities settlement system in the euro area. This, Chew says, could bring greater impetus for change in the settlement space. Dijmarescu, of JP Morgan too labels the concept extremely interesting and believes that it may potentially benefit the industry by bringing more consolidation. Placed at the heart of the securities settlement process, ECB's initiative aims to replace the fragmented service currently provided along national lines. The idea would be to provide a clean interface to Target2, leading to the processing of both securities and cash settlements in Euro on a single platform through common procedures.

The implementation of such a facility, which would be fully owned and operated by the Eurosystem, says the ECB, would allow large cost savings as a result of the high level of technical harmonisation that this facility would entail for all market participants and would represent a major step towards a single Eurosystem interface with the market.

No doubt, such a service would be highly effective, however, the road towards implementation has its own challenges. Euroclear has just launched the first two phases of its own Single Settlement Engine (SSE), a platform designed to provide the foundation for a single, multi-currency platform to settle domestic and cross-border fixed-income and equity trades across Belgium, France, Ireland, the UK, the Netherlands and for other trading counterparties outside European markets. Peters of Euroclear refrains from commenting on ECB's initiative saying that their plans are as yet very unclear. Euroclear is however involved in discussions which are underway and a final decision on the ECB project is expected by early 2007.

ISJ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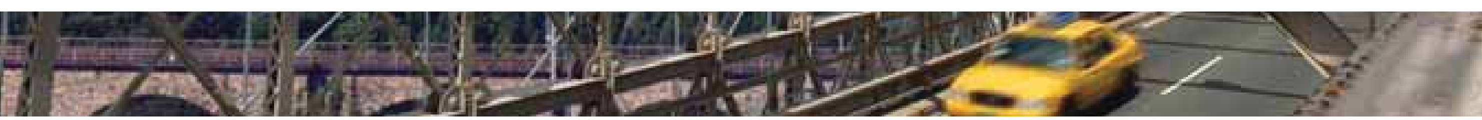

ING became an ambassador for foreign investors in Poland's financial market when the Iron Curtain was drawn back.

Harry Devroe, Director Securities Services CEE at ING Securities Services, gives ISJ a unique insight into ING's business in Central and Eastern Europe.

N

Rising in the East

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The growing maturity of the individual countries that make up Central and Eastern Europe (CEE) is reflected in and underpinned by the increasing interest shown by foreign investment. Harry J. Devroe, Director Securities Services CEE, ING Securities Services shares his views with ISJ on the market and future opportunities.

In late 1989 Eastern Europe finally broke free from the Soviet Union, said goodbye to Communism and attempted to construct a market based on private ownership rather than a central economy in an attempt to follow the successes of Western Europe since 1945.

In the early 1990's, soon after this Iron Curtain was lifted, ING moved into Central and Eastern Europe and has offered custody services in a number of countries such as Bulgaria, the Czech Republic, Hungary, Poland, Romania, Russia, the Slovak Republic and Ukraine. Initially, many of the aforementioned countries dabbled with the idea of adopting the privatization methods used by many Western countries, such as offering the public enterprise stock. However this was a slow method and within the space of a few years Eastern Europe had thousands of companies to privatise. Yet rapid solutions bring a variety of different problems. A key problem for foreign investors is that the purchase of too many large national enterprises by foreign investors is politically undesirable, however there are positive methods that can be implemented. Devroe states: "It should be noted that over the few years after the securities services product was developed and launched by ING in Poland our Bank managed to gain the significant share on the market and currently is one of the three leading custodians operating in Poland. Through its lobbying efforts and pro-active approach to the issues raised by our clients in Poland ING gained the reputation of a leading voice in articulating the foreign investors' concerns and issues experienced on the Polish market by finding the best possible solutions and lobbying for necessary changes with local regulators." As shares were given directly to workers and managers during privatisation in Poland, and shares in large industrial enterprises were distributed to newly created investment funds, ING being seen as a problem solver by

> "The purchase of too many large national enterprises by foreign investors is politically undesirable."

Poland's new client base is a successful approach to the CEE, as supposed to Italian bank UniCredit's method of direct investment in regional banks in CEE which has, according to Devroe and various press reports, caused some problems with the Polish government.

Indeed, it is not surprising that ING and other large investors have ventured into the Eastern European market. Once considered the "black hole" of Europe, Slovakia is now seen as an investment gem by foreign investors. In 2004, the Governmental Agency for Foreign Investment (Sario), recorded 47 projects worth EUR1.7 bn. In the first half of 2005 alone, some 40 projects worth EUR2 bn were put forward.

It is hardly unexpected therefore, that the entry into the European Union in May 2004 of Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia profoundly affected the market, as Devroe states: "There was a pattern of increased investment appetite in Poland with bigger interest coming from more conservative clients that had not invested before Poland joined the EU." This is also visible in other types of investments in Poland particularly in relation to real estate investment where the demand from foreign investors increased rapidly over the past two years. It is not just Poland that saw the benefit of the EU expansion. Devroe explains: "With the EU accession the Czech market became a new investment target for those fund managers, who were previously seeing the market as the purely Eastern (post-communist) one. There was a visible increase of interest shown by the US fund managers for instance." With Bulgaria and Romania expecting to obtain EU approval for accession in January 2007, a decision that will be made on the 26th September 2006, interest can only be expected to increase.

There is already growing foreign appetite to invest in these countries. EU accession generated significant additional investment inflow for Hungary and as the legal harmonization continued, so too did foreign investment; since 1989 Hungary has received up to $60 billion in foreign investment. Yet increased investment does not always result in increased growth. "Since the May 2006 elections and the difficulties of the central budget and announced regulatory steps," says Devroe. "Downgrading by Standard and Poor results in a more difficult economic environment in the past few months for the country. It is however expected that the huge deficit should be corrected." It perhaps testament to investors caution that there has been such an wobble in economic faith in Hungary during 2006 because along with the Czech Republic, Hungary holds the highest rating among the CEE transition economies despite the Standard and Poor downgrading.

A positive method in measuring the development of the CEE countries is assessing the economic influence of the European Bank for Reconstruction and Development (EBRD) within the region. The bank was founded in 1991 and uses investment to help build the new market economies and according to their website; "Takes risks that supports private investors and does not crowd them out." Yet the EBRD is decreasing its investment in the CEE as these countries become financially independent. Devroe states: "As of 31 December 2005, EBRD had signed 44 investments in the Slovak Republic totalling nearly EUR1.1 bn. In 2001 EBRD committed EUR340 million while in 2005 they committed only EUR60 million." Instead, EBRD investment is moving further eastward to less mature economies. "Russia's share of EBRD financing is due to reach forty-one percent by 2010 as the bank scales down its operations in central and Eastern Europe," Devroe continues, "Last year, commitments to Russia accounted for twenty-four percent of all EBRD deals." Not only are the CEE ceasing to need economic aid from NGO's and Western economies, but the are making the transition to provider rather than reciever. "In a Word Bank publication dated February 2006," says Devroe, "it revealed that in 2005 the Czech Republic graduated from being a recipient of development assistance to full developmental partner, contributing with its experience and resources to the development of other countries." There are always two sides to every coin, and although the EBRD may have moved eastward, the EU still funds heavily into the CEE. Poland for example, stands to benefit from EU funds up to $23.2 billion, available through 2006.

Yet this aid has not been wasted. Due to EU funding and admittance Poland has upped its export volume by 12 per cent in 2004; growth in Poland this year is estimated to be above 5%; unemployment is decreasing and inflation is one of the lowest in Europe. Foreign firms, such as Toyota and Google, are making overtures for future investment and because of combined funding and EU enlargement many of these CEE countries have the ability be both low-wage and high-tech. The competition and consolidation of the market across the CEE is therefore to be expected. In 2005 Italian bank UniCredit and Germany's HVB Group joined forces to become one of Europe's banking groups. According to Devroe; "HVB/BACA has historically been a strong competitor in CEE. However ING has not experienced any effect of the merger in CEE markets. Most of the CEE markets are fairly small in size and the merger will not bring significant market share in the area of custody."

"Competition and consolidation of the market across the CEE is to be expected."

Looking back at ING's influence and long-standing presence in CEE, the bank started to offer Custody services in 1994 in the Czech Republic and ING's regional network amongst the 8 countries is "supported by continuing investments in software and professional employees dedicated to providing highly rated service to our clients as reported by various industry publications," says Devroe. "Our goal is to stay in the custody business as ING and develop it further." ING's approach in Poland regarding diplomatic client solutions seems to be a general policy. "This rule of individual approach backed by a high degree of flexibility is aimed at offering ING tailored solutions to our clients."

As the EU grows and the liquidity between the member states increases, it is likely that foreign investment will also increase, regardless of slight economic reversals such as Hungary's downgrading. ING looks set to provide clients with comprehensive support. "Our bank is always ready to amend its products accordingly to the clients' requirements," says Devroe. "We are prepared to lobby for changes as indicated by the client so that foreign investment can benefit from a more mature and friendly operational environment." ISJ

Malcolm Gilroy of **United Bank of Africa** analyses the relationship between commercial and central banks in liberalising capital in emerging markets.

Banking on Change

Malcolm Gilroy

It is a fact that newly emerging market economies are frequently moribund as a result of the lack of liquidity in the capital markets system. This lack of market liquidity leads to a lack of leverage in the economy; everything needs to be paid for in cash. Imagine America in the late eighteen hundreds and early nineteen hundreds with no credit market to finance its railroad system or its rapidly growing industrial companies, their growth would have been severely curtailed or completely non existent.

In addition to this lack of liquidity the market also suffers from a lack of banking products as there is no long term debt market. The banks simply borrow from the public by taking in deposits which they then lend to the government by buying Treasury Bills. Because of the generous spreads they make from this activity there is no incentive to lend to the private sector, either institutional or retail. The lack of long-term, fixed-rate financing means that banks cannot manage a long term asset exposure and frequently end up with the public or private sector taking unhedgeable foreign exchange risk. There are few consumer lending initiatives as a result and the public is unable to obtain mortgage financing or any other form of consumer loan. There is thus no wealth creation and people work very hard to eek out a hand-to-mouth existence.

In all economies there is a critical need for capital markets in the form of long term bond markets and stock markets. Governments must be able to borrow in local currency and corporations need to be able to raise both equity and long-term fixed rate financing in order to build sustainable companies. The availability of permanent capital and long term loans allows governments to privatize certain industries, and as the economy grows, this will lead to higher employment, lower crime rates, less corruption, better infrastructure and the higher productivity levels will result in lower inflation.

From the retail standpoint the advent of a long term fixed rate market will allow banks to offer mortgages to the general population. Most people in emerging markets are not lazy; the traders and farmers work from dusk till dawn but cannot get ahead because all their money goes on survival, rents are high and frequently require large down-payments. Were the monthly rent cheque going into building capital people would take care of their dwelling and furnish it thus creating wealth that can be handed down to the next generation. In addition mortgages would be insured and over time family wealth would build the start of a middle class which is the most important ingredient in building a sustainable economy.

> "Imagine America in the 1800's with no credit market to finance its railroads."

The question arises; 'why then is it so difficult to for a country to build its capital markets into a meaningful conduit to economic prosperity?' The answer lies in the fact that no one person or institution manages the capital markets of a country. The Central Bank regulates the banking system, the Finance Department of government controls fiscal policy and through the SEC regulates private sector investment functions and the private sector reports to a host of independent entrepreneurs and business managers. Thus for a capital market to begin it requires the Central Bank to co-operate with the Finance Department and many other departments in government to create an enabling environment for the banking sector to do its job of leveraging the economy.

The rest of government needs to provide the economy with a stable political environment and to ensure that there are both natural borrowers and natural lenders in the market. To do this they may need to enact pension reforms and tax reforms; they must ensure that the commercial legislative system is just and that laws are adhered to and that justice is swift. This may require the creation of special commercial courts which are not clogged up with interminable delays. The government also needs to ensure that there is a robust and well regulated employment sector and that education is of a high standard. In addition they need to provide a healthy population because a sick workforce is useless. Last but not least they are responsible for regulating securities markets and ensuring that investors are protected.

Once the government has done its job it is now the turn of the banking sector. They need to participate in the capital markets and build companies that are strong market intermediaries. They also need to create a new banking culture, one that embraces a corporate lending philosophy, takes some risk and at the same time manages risk so as to protect their depositors and shareholders. In addition to the institutional market they need to provide consumer banking products; mortgages; consumer loans and micro finance; to the man and woman on the street. Leasing and insurance are also critical areas of finance that help to grow an economy.

Let me go back to the example of Nigeria. I first visited Nigeria as a consultant for IFC, who had been approached by the government and the market to advise them on the rejuvenation of the bond market. There had been quite an active bond market in the seventies; when the Federal government tried to tap the market in 2003 they managed to sell 3 year bonds and some 5 year bonds but the 7 and 10 year tranches failed miserably. This was because the bonds were very illiquid for a number of reasons: firstly they could not be categorized as liquid assets by the banks, which for many of the 90 odd banks in the country was a problem as they needed liquidity; secondly they were traded across the Nigerian Stock Exchange and thus for institutional investors were very expensive to trade. There were few natural buyers of long bonds as most employers in the private sector did not have pension plans and the insurance industry was quite small.

> "Banks need to create a new culture that embraces corporate lending and takes managed risks."

In addition no single entity or group was charged with the responsibility of underwriting the issue and insuring its success. It should be noted at this point that the Nigerian Stock Exchange was one of the key movers in inviting IFC to make recommendations that would help rejuvenate the market.

Let us fast-forward to June 2006. Firstly, the banking industry has been successfully reformed and instead of 90, mostly poorly capitalized, weak banks we now have 25 banks with a minimum of 25 billion Naira in first tier capital, many banks have much more.

Secondly the Pension Fund Reform Act is now law and it requires that employers with more than 5 employees must pay 15% of an employee's salary into a pension fund for that employee. This has spawned an industry of pension fund managers with a real need for long term bonds, as bonds will make up the vast majority of the assets in the newly formed pension plans.

Thirdly the Finance Department has had some notable successes in fiscal policy reform: they have paid off the Paris Club; attained an international credit rating from two major credit rating services and built a foreign reserve account of some $30 billion. This has attracted significant interest amongst international investors.

Fourthly the insurance industry is now being reformed and minimum capital levels have been raised for all insurance companies as well. The result is that the Debt Management Office, a branch of the Ministry of Finance is now in a position to appoint a Primary Dealer panel and in fact has recently done so. This was the recommendation of the IFC team retained in 2004 of which I spoke earlier. The DMO has appointed a panel of 15 financial intermediaries (banks and discount houses) who are required to guarantee participation at auctions and also to ensure a liquid secondary market by quoting two-way prices upon request, from an existing institutional account, for all FGN bonds. This will be an over-the-counter market for institutions, with minimal trading costs involved. Retail clients can still purchase bonds through their stock brokers on the NSE.

What has been created by all these initiatives is an infrastructure that will nurture the bond market, not just federal government bonds, but corporate and state bonds as well. Once a solid government bond market is in place it supports the market for lesser credits which can raise money in the market as well. Banks will be able to raise five year money at fixed rates and pass these funds on to both retail and corporate customers at a spread over their cost. This allows the bank a profit and gives borrowers the assurance that their interest costs will not increase over the term of the loan.

Now it is time for the banking sector to respond. In fact they already have. In the case of UBA we have built a state-of-the-art dealing room at our headquarters in Lagos that will house up to forty professional traders. It is from this facility that we shall source investments, both equity and fixed income from across Nigeria and indeed the rest of Africa. We shall sell these investments globally.

The Central Bank of Nigeria, together with the Finance Department, in co-operation with the rest of the government has laid the foundation of a successful capital market. The banking sector will in turn see to it that capital is made available to fund economic expansion, in Nigeria and throughout the region. This is what a good relationship between commercial and central banks should be able to achieve.

Steven Faulkner from UBA Bank will be attending this years SIBOS in Sydney. ISJ

Win some, Lose some?

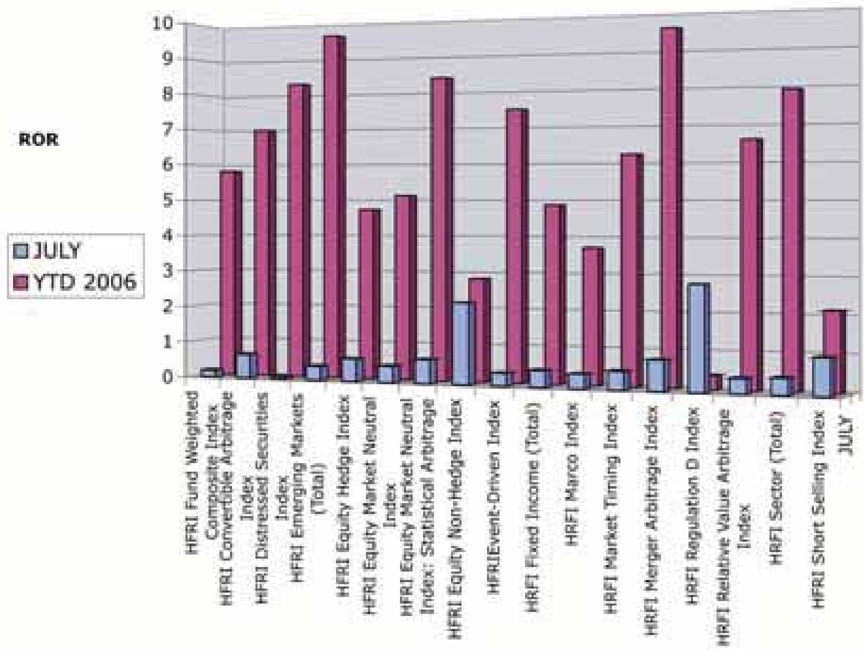
Hedge Funds have had a quiet time when measuring basic point increase, with only the HFRI Short Selling Index reaching above one basic point at 1.01. However in ratio to the year to date, there have been some sizable increases.

The HFRI Short Selling Index has increased by 47.17%, with the Year to Date total only being 2.14, up from 1.13 in June total.

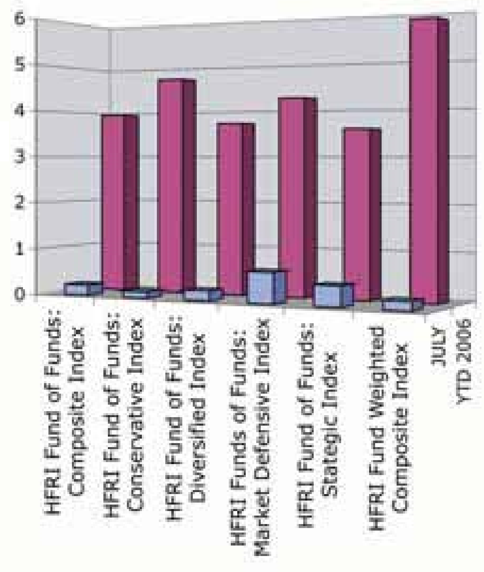
The HFRI Equity Non-Hedge Index also increased by 78.44%, up 2.22 basic points in July to reach 2.83.

The largest HFRI Fund Weight Composite Index, the HRFI Emerging Markets, only increased only 4.05%, rising 0.39 points in July to reach the giddy heights of 9.63 basic points.See figs. 1 & 2.

1 HFR Hedge Funds Index Rate of Return July 06

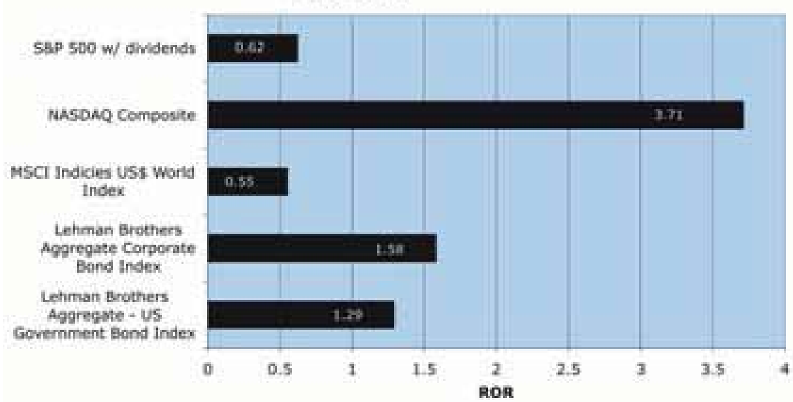


2 Fund of Hedge Fund Indices Rate of Return Jul 2006

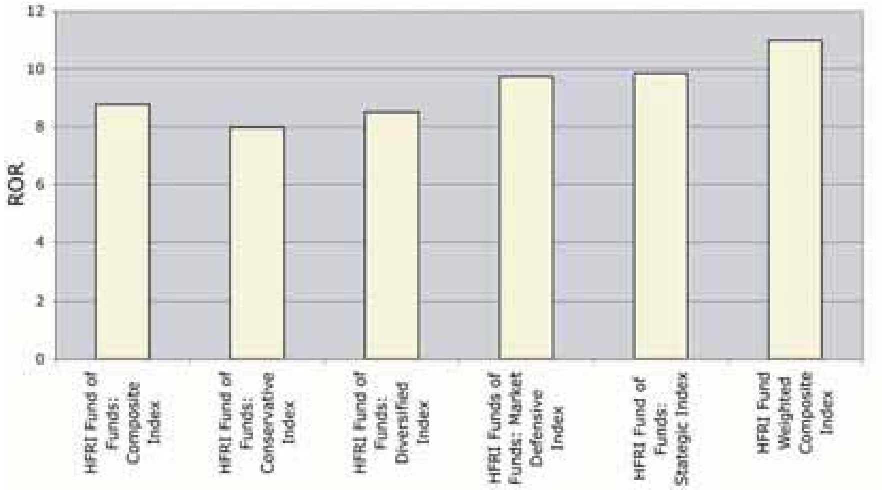


Within the Fund of Hedge Fund Indices the Market Defensive Index increased by 0.65 to a 2006 total of 4.25. Apart from this increase it was slight uniform increase across the board in July with the difference only being 0.52 basic points between the lowest perform (The Conservative Index with a 0.13 increase) and the highest (The aforementioned Market Defensive Index). See figs. 3 & 4.

3 Market Benchmarks Monthly Rate of Return - July 2006



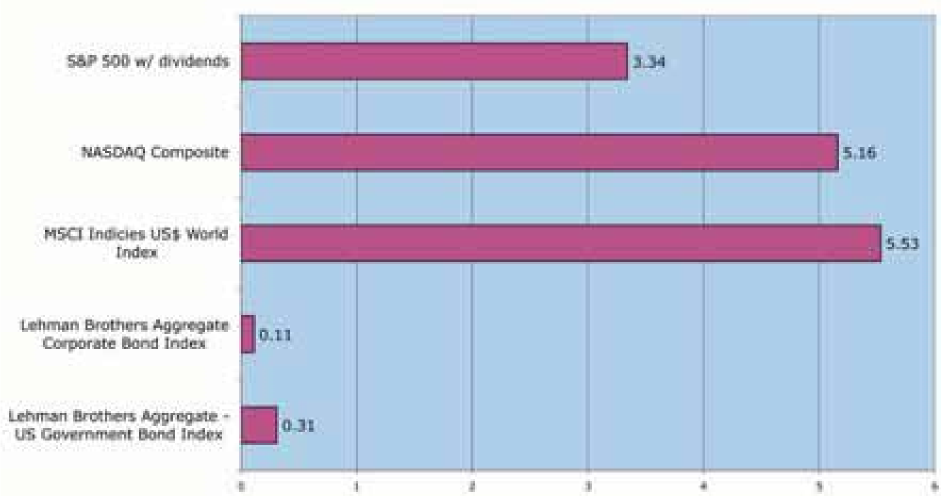
4 **Fund of Hedge Funds Indices Rate of Return Trailing 1 Year**



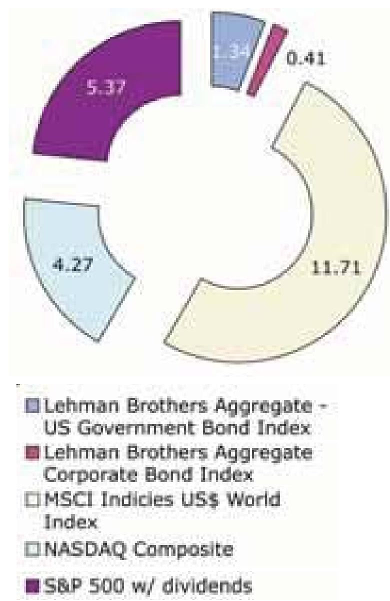
Regarding Market Benchmarks, the MSCI Indices US$ World Index leads the year to date total with a 5.53 total and a trailing one year rate of return reaching 11.71, yet for the July rate of return increase, the MSCI suffered the lowest increase out of the five Indexes with a 0.55 basic point increase.

The NASDAQ Composite Index enjoyed a massive increase for the July rate of return of 3.71, 71.9% of the 5.16 yearly total. See figs. 5 & 6.

5 **Markets Benchmarks Rate of Return - Year to July 2006**



6 **Market Benchmarks Rate of Return Trailing 1 Year**



MiFID - Your EU Passport?

With MiFID looming in the distance, much needs to be done to avoid a integration disaster.

Brian Bollen reports.

With the European Union's Markets in Financial Instruments directive (MiFID) scheduled to come into effect by November 2007, the pressure is on financial institutions around the globe to begin making the final preparations. The reality is, though, that while some financial insitutions in some regions are as advanced as one might expect at this stage (the UK being a good example), others (e.g. France, Italy, Netherlands, Spain, etc) are lagging well behind the curve. Postponed once already, further delays are unlikely, if only to save political face. The floodgates look set to open on papers agonising about the lack of preparation in some quarters, and the enormous cost of preparation in others, for a landmark move that has been likened to the introduction of the euro and the Y2K preparations combined.

"This is another Y2K, with a drop dead date, and those affected need to have their systems implemented."

In a paper entitled 'Getting to grips with MiFID', Penelope (Penny) Biggs, head of Global Business

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Development at Northern Trust, turns the spotlight on to what has been described as the most far-reaching reform of any major financial market ever undertaken. "The Directive goes much further than merely offering protection against dodgy operators," writes Penny (or someone ghost-writing beautifully on her behalf).

"MiFID will fundamentally change the way in which European securities markets operate, most notably by allowing investment firms, banks and exchanges to provide their services across borders on the basis of their home country authorisation (passporting), and by allowing banks and other investment firms to compete more directly with stock exchanges, bringing about the end of the concentration rules that were enshrined in the Investment Services Directive, which MiFID will replace.

"With these additional freedoms come inevitable responsibilities. For example, MiFID will impose more stringent reporting requirements, at both a pre-trade and post-trade level, and will require more formalised processes of client categorisation, as well as regularly updated policies on order execution."

"Without doubt, implementing MiFID is going to cost the securities industry a lot of money as well as taking up valuable technological and business resources," concludes Northern Trust's essay. "But the pay-off could be even more substantial, as cross-border markets are opened up and retail investors take advantage of the new freedoms and protections to broaden their investment horizons. With a well-planned resource allocation and implementation process, asset managers could stand to gain substantially from the opportunities that MiFID offers."

"Time is running out and any market participant who has not yet begun to address MiFID implementation is in danger of being too late."

Whatever the rights and wrongs, there is little doubt about the broad impact that MiFID implementation will have. "It will significantly change the regulatory landscape in the UK and across Continental Europe," says Laurie Stephens, Director of Consulting at professional services firm Huntswood. "The objective is a level playing field, or at least, one 'more level' than it is today. One important point, is that individual countries cannot 'gold plate' their implementation, unless they can somehow justify taking a stronger line than set down in the directive."

And in any event, it is almost too late to be still arguing about them now. "This is another Y2K, with a drop-dead date, and those affected need to have their systems implemented by early next year at the latest," warns Richard Gissing, CTO of

FRANKLY SPEAKING

While France comes in for criticism from John Ahern, the picture painted by Xavier Chaillot, Head of Strategy & Market Infrastructure (SMI) at Société Générale Securities Services is that the country's financial institution are actually behaving as correctly as one would hope

For the past few months, and especially since the adoption by the European Parliament of the MiFID implementation measures, Société Générale, and more generally, all the French banks, are well and truly mobilised, he claims. "We left a lobbying period for a period of implementation," he says.

The Société Générale Group set up what he describes as "transversal" working groups (representing SG Departments and SG subsidiaries, coordinated by the "General Secretariat"- and more precisely by the Legal and Compliance Departments). Société Générale Securities Services, SGSS participates on the different working groups (on best execution, internalisation, client classification, reporting, etc).

SGSS also participated in the AFTI (French Association of French of Securities Professionals) studies, analysing the situation in countries where internalisation already exists (UK, Germany, the USA), together with the MiFID impact on retail custody. SGSS is also a member of the MiFID Forum, recently created by AFEI (French Association of Investment Firms).

"The debates on stock exchange mergers are also partly linked to the MiFID, as this directive will allow greater competition. SGSS has several entities in different countries, and therefore can have a global point of view of the MiFID impact.

If UK and Germany already are familiar with internalisation, they have to adapt their IT systems in order to respect the MiFID provisions. They have to deal new concepts (like the pre-trade transparency), wanted by "Latin" countries." On the contrary, France is more familiar with pre-trade transparency, and if French banks do not yet have the IT systems needed for internalisation, as the concentration rule did not allow it, it can be less costly and more efficient to build a new system than to have to adapt one.

Investment banking (SGCIB) is more advanced than SGSS, as the directive impacts more directly upon SGCIB, especially its brokerage activity. The stock exchanges, and data providers, have already started to adapt their products, Ahern says.

"As the legislation on trading will be harmonised, it will impact upon the clearing and settlement. The recent request by commissioner Charles McCreevy for a code of conduct on post-trade activities can be seen in that context. In this code of conduct, he wants the industry to commit itself to deliver measures to improve "price transparency", "interoperability between Exchanges/CCPs/CSDs", and "separate accounting of the main clearing and settlement activities".

MiFID (concerning trading), and the codes of conduct (concerning the post trade environment), together with the removal of the Giovannini barriers and the European Central Bank project 'Target 2 Securities' should lead to a European securities zone, argues Xavier Chaillot.

The costs to banks will be huge. Inter alia, under Mifid they need to:

- classify clients
- keep transaction details for five years;
- organise reporting;
- set up an IT system for pre-trade and post-trade transparency.

But at the same time, new commercial opportunities will appear with internalisation, especially in countries, like France, where it was not previously possible.

Chaillot predicts that MiFID will have positive consequences on investment banking, as brokers will not need to go to London to practise internalisation. Investors (both retail and professional) will also benefit. As competition grows, the price of trades should go down. The provisions of the directive will improve transparency, and investor protection. Other market players, such as MTF (Multilateral Trading Facilities), which can be created by banks and stock exchanges, will take advantage of the greater competition allowed by MiFID.

Gissing Software, a provider of software and services to the financial industry. “It’s now questionable whether there is enough time for everyone to be fully compliant by Day 1. Some are relatively advanced, others are not, and we expect a surge of activity beginning in the final quarter of this year.”

“We’ve spent more than a year working with industry bodies on an impact analysis and implementation programme, and we’re now at the end of the phoney war,” says Steve Webb, a Partner at Capco. “When people start to come back from their summer holidays, we believe firms will start to look for help, and the market will take off.”

And, as with the England football team’s lacklustre displays in the FIFA World Cup in Germany this summer, there are no excuses. “Everyone’s been advised repeatedly that there will be no further delays,” says John Siena, Director of European Legal Operations at Brown Brothers Harriman. “I don’t think regulators will be bringing enforcement actions on November 1. The FSA in London, for instance, has indicated it will take a pragmatic approach toward implementation.”

But MiFID could generate opportunities as well as obstacles, argues Alain Lesjongard, the head of compliance and MiFID project manager at The Bank of New York. "First of all you have to understand what MiFID means, and what it requires, and then take a view on what you need to change to take advantage of the opportunities that might arise from it," he says. "If clients think the costs of compliance will be too high, that could create new business for us."

John Ahern, a Partner at law firm DLA Piper Rudnick Gray Cary UK., picks up on a number of the same themes. “It has been said that it is deeply unsatisfactory that UK investment services firms face major changes, with the associated costs, for an initiative which has been subject to no comprehensive EU cost-benefit analysis to assess the specific contribution it might make to unlocking the prize of a more integrated European capital market,” he says.

“It’s one small step for some countries, a quantum leap for others.”

He takes as his starting point the UK’s tendency to ‘gold plate’ EU directives while other member states honour them more in the breach than the observance. “The FSA has assured the UK market that when it comes to detailed implementation of MiFID in the UK, it will not impose any super equivalent provisions unless there is a clear market value in so doing.”

“Industry participants have been quite vocal too in their criticism of the costs and structural changes which will need to be brought about by reason of MiFID implementation. Issues such as divergence between current UK client classification requirements and those of MiFID, best execution policies, conflicts policies and customer documentation are all matters which will require considerable internal review and which will involve a substantial degree of expense in communicating changes to customers. However, there is little time for complaint as the tight timetable has dictated that industry participants get on with the business of preparing for implementation.”

The FSA issued its first consultation paper on MiFID in May of this year, notes Ahern. “In view of the overlap between MiFID and the Capital Requirements Directive ('CRD'), the FSA has proposed a common platform for those firms which will be subject to both those directives. This is the first of four consultation papers which will be issued by the FSA between now and the remainder of 2006. Time is running out and any market participant who has not begun to address MiFID implementation is in danger of being too late to undertake the work required on time.”

“As is apparent from the enormous volume of material written about MiFID to date, there is a great deal for the industry and the regulators to do in terms of implementation. In particular, it is very easy to become so focused on one's home jurisdiction that one forgets to contrast and compare the activities being undertaken with a view to implementation in other jurisdictions.”

“The strategy in the UK is to implement the directive with a minimum of overlay or 'gold plating'. This must surely be the right strategy across the EU if the political and economic aims of MiFID are to be achieved. It seems that the regulators in the main financial services economies are of like mind. There may be slippage, however, in terms of transposition and implementation of any directive-led measures among some member states.”

The Netherlands regulator has recently produced a brochure for the market place on MiFID which states that the Ministry of Finance's indicating that the Netherlands will not meet the November 2007 deadline, Ahern observes. “The AFM (Autoriteit Financiele Marketn) proposes to map the MiFID requirements to existing Dutch legislation and work from there.”

Netherlands is certainly not the only member state running late in terms of

OPERATIONS CHANGE

Capco, an operations change specialist, identifies five key actions for immediate consideration by institutions preparing for MiFID:

1. Initiate a MiFID Impact Assessment as soon as possible in order to shape the program; align it within the existing change portfolio and establish a realistic mandatory program budget figure for 2006. Ensuring sufficient budget is set aside for the program will help avoid your MiFID initiative getting off to a rocky start.
2. Evaluate opportunities – the impact of MiFID is not simply cost. Such fundamental change will result in opportunity for some organisations. Identifying this early will result in potential “first mover” advantage.
3. Align MiFID with other programmes i.e. determine how MiFID changes can be aligned to existing strategic programmes. This will allow you to leverage existing or planned and funded initiatives and provide the additional governance overlay necessary. It is important to minimise the need for duplicate “regret spend” and maximise the effective use of scant skilled resource.
4. Identify an internal champion who is able to keep up to date with developments in terms of national rulebooks, timing of new regulations, and who is able to participate in – or even lead – the market consultation and industry-wide debate.
5. Establish the governance structure to provide the forum to which MiFID issues will be brought. This forum must include sufficient representation from the business, operations, technology and compliance. MiFID implications will need to be discussed and decisions taken which impact upon all of these stakeholders. Source: Capco

MiFID implementation, he continues. “The Italians are also likely to be behind the timetable for implementation. Whilst the directive is likely to be transposed [into national law] by 23 August 2007, it looks as though it will not be fully implemented until August 2010. There are three main areas of concern under MiFID which have been the focus of industry participants in Italy: customer documentation changes; investment advice will be a core activity under MiFID and does not currently require authorisation in Italy; and the abolition of the 'concentration rule'.”

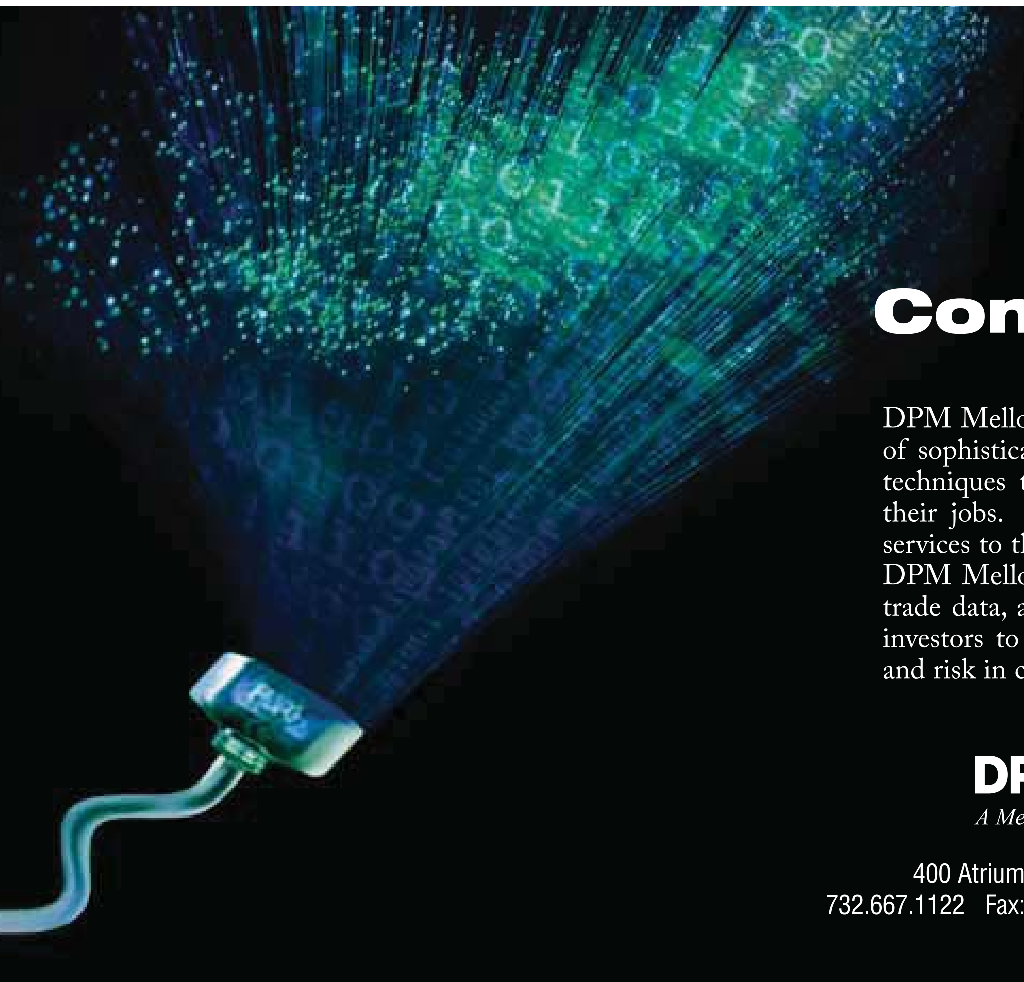
In Spain, meanwhile, he summarises, the regulators have yet to produce papers on what implementation of MiFID will look like. “However, the main concerns mirror, in part some of those we are seeing in Italy. In particular, the advent of investment regulation advice is seen by many as a big change. Also, the abolition of the concentration rule will require important changes to Spanish law. Some believe that the effect of MiFID in Spain will be that the smaller investment firms will disappear or merge with the larger firms who will survive.”

“MiFID will have positive impact on brokers and investors.”

In neighbouring France, the legislative measures to transpose MiFID began with the enactment of the Act of 20 July 2005 concerning compliance with the European Union law on financial markets. Under Article 5 of that Act, the French government has power to legislate by way of executive orders to transpose MiFID. The AMF (Autorité des Marchés Financiers) has already set about working on amendments to its General Regulation in response to MiFID. “There are four working groups involved in this process at the AMF and it is anticipated that the AMF will be consulting with the industry formally later this year.”

In some ways, he argues, EU regulators outside the UK will have more issues to address than the UK regulator. “Notwithstanding its advantage, the UK regulator is nevertheless faced with a mammoth task in terms of analysing and amending its existing regulatory rules and requirements to account for the changes consequent on MiFID implementation. For EU states who are facing the prospect of regulating certain activities for the first time, the task must be all the more daunting. While the aims of the financial services action plan to level the playing field are laudable, the question might be asked whether MiFID is going to give rise to the desired result.”

One final thought comes from Clive Triance, Citigroup’s head of securities and fund services, EMEA, that serves to encapsulate much of what MiFID is about. “It’s one small step for some countries, a quantum leap for others,” he concludes. ISJ



The role of Data Management in a MiFID compliant world.

Martijn Groot of Asset Control talks to ISJ.

Silos, Integration and the 'Golden Process'


Martijn Groot

Paving the road to data standards

Data management solutions enable banks to get more value out of their data and to reduce the operational risk that comes with running data silos per business line. Typically, they streamline the process of loading data from content providers, by standardising and integrating this data into a common format and by disseminating this information throughout the entire institution. Typical tools around this core process are workflow applications to monitor and safeguard data quality, a dashboard to supply KPI information and sets of business rules that determine how data should be matched, cross-referenced, consolidated and validated. The aim of these solutions is to get all users as well as the different downstream applications all on the same page, for consistent and cost-effective data processes in pricing, risk, settlement, portfolio management and reporting.

A data management solution can provide financial institutions the ability to achieve both cost efficiencies and compliance with the increasing array of regulation. Sophisticated solutions will provide a structured approach, which adds value through stages of data collection, standardisation, enrichment, consolidation, validation and finally distribution. In practice this comes down to the expedited implementation of internal and external feeds comprising the required content, consolidated sources for composite "golden copy", automated data enrichment and transformation, and above all integration of data silos. Benefits derived from this approach include reduced operational risk, reduced costs from reconciliation, fails and claims, as well as enterprise wide access to a consistent set of high quality pricing and reference data. It also lowers the regulatory price tag and comes with increased flexibility to meet tomorrow's business challenge. A central data process organised in this fashion can be termed a "golden process."

As the trade lifecycle depends on the accuracy, consistency and completeness of reference data, standard identification on instruments and customers is becoming more important. This is a result both of more stringent client take-on processes and a greatly reduced tolerance of operational risk in settlement, trading and custody environments. Overall, we see a clear trend in the market towards standardisation over a wider set of traditionally separate functional domains including security master, price/risk factor environments, counterparty and SSI master data.

> "MiFID is yet another driver for centralizing data management in all data categories."

Data Management and MiFID

The Markets in Financial Instruments Directive will impact all asset classes other than foreign exchange and as such will drive common identifiers where they have been lacking thus far (e.g., in OTC derivatives). Final adoption of the level 2 text is expected for mid September which should be followed by transposition into national law by 31st of January 2007 and an application date of November 2007. MiFID aims to protect investors, provide more transparency as to liquidity and best execution and provides a single passport for investment firms. It will have dramatic effects on liquidity, trading venues, data standards, and best execution and reporting requirements.

Firms will have to (re)classify their clients and will be restricted in execution-only dealing with retail customers. There will be increased demands on best execution policies and disclosing them (e.g., the set of eligible venues for order execution). There will be more options in trading venues, including electronic trading facilities and Systematic Internalizers, which will have to publicize quotes on average trade sizes with corresponding demands on the internal IT infrastructure to accommodate this. On post-trade transparency, MiFID explicitly lays down timelines within which information has to be disclosed and requires continuous checking on the reliability of quotes.

From a data management perspective, MiFID is yet another driver for centralizing data management in all data categories. Sufficient identification information will have to be maintained. This includes a unique I.D, official place of listing and place of trade for price data and a unique I.D, full legal name and corporate structure for counterparty and fund data. In turn this may boost message format standards.

The number of sources from which an institution retrieves data may balloon (between 50 and 100 new sources are expected and European blue chip equities will be tradable in different Systematic Internalizers) and data vendors will start to publish additional data. There will be a requirement to keep detailed histories of what transpired where, necessitating easily accessible historical records of transactions against different liquidity pools. This could mean recording all prices from all possible execution venues for a prolonged period of time in order to be able to reconstruct the market landscape at the time of the transaction to prove compliance with agreed best execution policies or to report on the deviation from the theoretical optimal price. Dashboarding and workflow capabilities coupled with a robust audit and storage solution will be critical here. As the number of pre- and post-trade sources (including quotes, orders, market information and transactions) increases, there is an increased need for price consolidation tools to get a snapshot overview of the overall market.

These best execution policies have to be stored as part of client data and sets of trading venues as part of instrument data. As institutions have to classify their clients according to a firm's specific regulatory obligations for the business they conduct with a certain client category, many institutions could re-evaluate their current client data infrastructure, which in many cases is scattered over different business lines as well as different technical architectures. MiFID is therefore also a key driver for centralizing counterparty data management.

How a Centralized Data Management approach helps compliance with MiFID

A Centralized Data Management (CDM) solution can store and cross-reference vast amounts of historical time series, including quotes and order books from different venues and provide multiple entry points into the data, (e.g., by venue, by client or by best execution policy). Institutions should be able to tap into a price history matrix encompassing price histories aligned for eligible trading venues for every instrument. This will help institutions to prove compliance with a policy or to report on anomalies.

“Integration options based on widely-used standards will become more important”

CDM solutions with workflow functionality can be used to control the processes of data integration such as trading venue comparison, counterparty cross referencing and client take-on. This would allow users to indicate preferred sources, to set up data validation rules and to route exceptions to the relevant person(s) or department(s).

Since MiFID will increase the need for timely reporting and internal data standardisation, integration options based on widely-used standards will become more important. Typical integration options include asynchronous messaging, real time notification, web-services and on-line query access. Standards-based integration options usually make for faster integration with downstream systems with no duplication of work when expanding the set of applications that make use of the data.

In addition to “traditional” audit requirements as to who changed what and when, complete data lineage covering the entire genealogy of data items with transparency of the standardisation and quality process will be critical. Concretely, this should allow users to not only see the content that each source contributed to the golden copy view, but also its original format. Untreated vendor or internal data, a normalized or client-enriched view and a final approved golden copy version of instrument, corporate action, SSI and counterparty data should be viewable side by side. Validation functions and housekeeping rules should in turn provide “data hygiene” by keeping data accurate and up-to-date.

Finally, MiFID is not just another compliance exercise. It also offers institutions strategic options in the sense of improved passporting with just one regulator to answer to for many compliance obligations. In general, a data infrastructure that scales, offers institutions increased flexibility and agility and therefore “real options” in the sense that institutions can offer new products to new markets.

Conclusion

MiFID presents a challenge to data management vendors, who will have to provide more in terms of data processing tools. MiFID will cover more disparate asset classes and in addition there will be more sources of data and more data items to maintain. This increases the need and builds the business case for Centralized Data Management. Additional reporting requirements necessitate a solid data QA and integration process with full audit information, which includes the cross-referencing and tracking of all sources together with the final result. In short, compliance with MiFID will demand a platform capable of the management of price data, security master data and client data that allows for flexible and agile reporting: a platform that takes the risk out of the data.

Martijn Groot is Head of Product Management of Asset Control where he oversees product direction and product quality. Before Asset Control, Martijn worked at ABN AMRO Amsterdam where he held a variety of positions within technology and risk management. Martijn holds an MBA from Insead, an MSc in Mathematics from the Vrije Universiteit, Amsterdam and is a certified Financial Risk Manager from the Global Association of Risk Professionals.

Processing Priorities

The drive to consolidate disparate platforms and harmonize the fragmented market will need comprehensive European endorsement.

Ignace Combes of Euroclear reports.

Ignace Combes

The clock is ticking for Europe's capital markets to deliver the Giovannini Group agenda. A great deal has been achieved in a very short space of time to meet the stated objectives. Three years on and a new clearing and settlement landscape is unfolding, one that will sustain the European Union's financial system for decades to come.

Why is this so important? Cross-border inefficiencies as a result of market fragmentation, such as differences in market practices, tax and legal regimes, and technology platforms, are estimated to cost investors between EUR3-5 billion per year. These costs are excessive and avoidable. The Lisbon Agenda of 2001, which aims to propel the European Union to become the most competitive financial marketplace in the world by 2010, will not materialise if we do not urgently resolve the problems which make cross-border European clearing and settlement inefficient, too expensive and risky.

It is precisely for these reasons that we at Euroclear are engaged in an ambitious business plan to deliver the equivalent of a domestic post-trade securities market for transactions to, from and within our five national and international markets in the coming three years. Platform consolidation and market-practice harmonization are the two key components of our programme.

We estimate that EUR1 billion of excess costs per year out of the EUR3-5 billion have their roots in inefficiencies that the market and we are currently tackling. Upon completion of our programme, Euroclear will be cutting market inefficiencies and costs by about 300 million per year. Clients will also benefit from reduced back-office costs by using a single interface to access all of the Euroclear group markets. Furthermore, the running costs to operate and maintain one platform will be considerably less than the costs of running five platforms today.

Annual cost savings would rise to 800 million if expanded across other markets in Europe.

A strong political will

Removal of the Giovannini Group barriers and completion of our own work has become all the more pressing given the very short deadline for adoption of European Commissioner McCreevy's recent code of conduct canvassing the service providers of Europe's capital market infrastructure. Commissioner McCreevy's code, which we consider to be a sensible and pragmatic alternative to specific new legislation, includes recommendations for greater price transparency and unbundling, more interoperability between exchanges, central counterparties and central securities depositories (CSDs) and separate accounting for their main business activities, among others.

Failure to reach wholesale agreement in the market to implement this code of conduct is tantamount to the Commission proposing a directive that could put at risk the excellent work already underway to remove the Giovannini Group barriers and substantially reduce fragmentation.

"Cross border inefficiencies are estimated to cost investors between EUR3-5 billion per year."

The Market in Financial Instruments Directive (MiFID), which comes into effect in November 2007, is expected to also impact clearing and settlement in setting a new set of market paradigms.

Article 34 of MiFID ensures the right of access for trading firms to clearing and settlement systems in any EU market.

Because MiFID is setting all sorts of new rules, governing areas such as reporting and best execution, the directive will increase the focus on settlement, not just the cost of trading. Trading firms will be required to demonstrate that they have pursued an optimal post-trade solution as part of the best-execution calculation.

Encouraging progress

Europe's market practitioners are making steady progress on their marathon reform programme. Market-practice harmonization and processing-platform consolidation are transforming the industry as we know it. Actions by the market to dismantle six of the fifteen Giovannini Group barriers, laid at the doorstep of the private sector, indeed has moved from theory to practical execution.

Intensive market consultation involving expert advisory committees, cross-market co-operation and the eclectic selection of best practices has seen each barrier studied and confronted. Barrier 8 has actually been eliminated with the wide-scale acceptance and usage of ISIN codes for the identification of issued securities, which has removed most of the major differences in issuer practices.

The European Central Securities Depositories Association (ECSDA) is tackling three barriers associated with the harmonisation of: (1) CSD operating hours and settlement deadlines; (2) intraday settlement finality; and (3) corporate actions.

Another example is the effort to remove Barrier 1, i.e. to replace the different interfaces to access clearing and settlement providers with a single EU-wide communications protocol. In conjunction with other industry users of the SWIFT network, Euroclear has contributed to SWIFT's proposal for the final common protocol.

From theory to implementation

The Euroclear group of national and international CSDs is adding to this impetus through the implementation of its business model to deliver a 'domestic settlement market for Europe'.

Together with organisations like the ECSDA, the European Securities Forum (ESF), the European Credit Sector Associations (ECSA) and our clients, we have consulted at length on the best way forward. All consultation work will be completed by the end of 2006, enabling us to deliver a fully market-endorsed solution.

We are actively harmonising the different market rules and practices across our five domestic markets (Belgium, France, Ireland, the Netherlands and the UK). To date, we have inventoried and highlighted the principle market-practice differences in each of the main areas of CSD functionality, such as transaction life cycles, payments, corporate actions, securities financing, account management and reference data. Furthermore, we have tendered and agreed on harmonisation action points in tandem with relevant market practitioners, all of which has led to concrete service descriptions which are now in the process of being realised.

"It is vital that Europe's markets put national pride aside and focus on delivering an intergrated capital market."

In terms of platform consolidation, 2006 represents an important waypoint on the path to the end destination of a single processing platform for all of the Euroclear domestic markets and international securities serviced by Euroclear Bank, the international CSD. Our Single Settlement Engine (SSE) is being launched in various stages this year, establishing the base for later-stage platform consolidation within the Euroclear group.

Work is also well underway for phase two, the delivery of a processing and asset-servicing solution covering the three Euronext markets in the group - Belgium, France and the Netherlands - by late 2007/early 2008. We expect that these three markets will become Europe's first group of markets to operate with uniform market rules and practices. Known as ESES, for Euroclear Settlement of Euronext-zone Securities, this solution will complement Euronext's Single Order Book for trading.

The final phase of our platform-consolidation programme is the launch of a single processing platform for the entire Euroclear group. This last phase of platform consolidation consists of two migration segments: the first will deliver harmonised custody-related processing, followed by settlement and collateral management. The single platform is due to be implemented by late 2009 and will replace all existing legacy platforms.

Clients will access the single platform through a Common Communications Interface (CCI). The new CCI will be fully compliant with the ISO 15022 and 20022 standards proposed by SWIFT in its work to remove the first Giovannini Group barrier. The CCI will also be delivered progressively, enabling all Euroclear group clients to use a single communication gateway and harmonised message formats for host-to-host access to all group services. This staggered approach maximises benefits to clients as early as possible, at their own pace, and avoids potential 'big-bang' launch problems.

The advantages derived from our platform-consolidation plans will rise or fall with the levels of market-practice harmonization achieved in the market. Fundamentally, market-practice harmonization and platform consolidation must be viewed in unison. Substantial client savings and synergies would not be attained if the single platform and clients' back offices had to continue accommodating multiple processing standards for different markets because they haven't been harmonised. Thus, it is vital that Europe's markets put national pride aside and focus on delivering an integrated capital market with uniform operational processes. Commissioner McCreevy's code of conduct asserts this agenda with renewed vitality.

The inevitability of change

Aside from the substantial structural changes underway as a result of political pressures, the rise of algorithm-based trading, alternative trading platforms, cross-border mergers between stock exchanges and technological advancements are redrawing the capital market infrastructure at all levels. The most important issue, however, is that clients are able to choose where they want to trade, clear and settle.

The dream of securities transactions flowing seamlessly within a barrier-free Europe is becoming reality. Yes, it has taken time to get this far, but for good reasons. One does not undo decades of national market practices, rules and regulations overnight. The process is being managed pragmatically and with support from both the public and private sectors.

ISJ

The tides are changing and asset managers are adapting to new circumstances. Their outsourcing partners must keep up, says **Tony Johnson**, Head of Sales and Relationship Management at **RBC Dexia Investor Services**.

Keeping Pace

Tony Johnson

What is the true business of fund management? Once you have set your asset allocation strategy and selected your specific investments, everything else could be classified as non-core. Order routing, execution, settlement, cash management, client reporting, investment accounting, IT development and transfer agency: these are amongst the functions that could – and some say should – be outsourced to third-party specialists. If, as managers often say, their core business is all about delivering superior investment performance, then why should they spend any time, money and effort in administrative functions that may divert their attention from that objective?

Unfortunately, the real world is not quite as straightforward as that. Although a small number of pioneering managers have kept in-house resources at the bare minimum, most buyside firms still have a fairly significant operational infrastructure. In addition, most managers have historically wanted to retain control over sales, distribution and client management. But rapid and far-reaching changes in both the retail and wholesale investment markets seem likely to force many of these firms to think again about how they run their businesses and how much they should be doing for themselves. We foresee a tipping point for investment operations outsourcing, brought about not by the traditional cost arguments but by a much more radical re-evaluation of buyside strategies.

The Challenge of Complexity

It is a truism to say that the environment in which we operate is becoming increasingly complex, but it is important to understand just how dramatically the investment business is changing in front of us. The competition for investors and their money has never been fiercer: with alternative products, from private equity to real estate investment funds, now reaching the mainstream investor, long-only managers are under pressure to come up with comparable products that will deliver profitable alpha or cheap beta. At the same time, managers need to structure these products and funds so that they can be portable across boundaries and jurisdictions. Cross-border distribution has become the key battleground for those managers with global ambitions.

As a result, firms are seeking to allocate their resources as effectively as possible by implementing distribution strategies that deliver broad jurisdictional and product coverage without the need for a heavy administrative infrastructure. To do this, they will have a sales and client management team on the ground – and, wherever possible, will outsource much of the local administrative and operational functions to a third party. Using a local partner with specific market knowledge and expertise not only saves money: it also improves time-to-market for new product launches as legal and regulatory issues are addressed more rapidly.

It is not only the local market environment that presents challenges to the buyside. The very nature of managers' relationships with their clients is changing. Underlying investors are significantly better informed about investment opportunities, with more knowledge and buying power. The internet has opened up their horizons and has heightened their expectations, both in terms of product scope and service delivery. Open architecture and the rise of the funds supermarkets have conspired to disintermediate asset managers from their clients: the growth in popularity of these platforms has eroded direct contact with investors, who can now centralise their holdings through intermediaries to enable single consolidated reporting.

This raises an immediate question for outsourcing service providers: what do we do about transfer agency? If platforms continue to take control of retail record-keeping, where does that put the transfer agency industry? It is a question that does not yet have a definitive answer. Clients rightly expect us to provide TA and related services, but at what point might providers say that TA as a standalone product is unsustainable? We are seeing this debate played out in many markets across the world and the answer, ultimately, will come from the distributors themselves.

The Second Wave of Outsourcing

But even a long-term decline in the importance of transfer agency as a key support service will be insignificant compared with some of the other functions we are being asked to assume. One example is regulatory compliance: despite the protestations of regulators, in Europe we can expect to see further regulatory measures, and we are heavily involved with clients to ensure that they fully understand the ramifications and opportunities of existing and new directives, such as UCITS III and MiFID. More broadly, Basel II presents our clients with new capital management challenges. One consequence of growing regulatory complexity is that we anticipate a trend towards selective outsourcing of compliance monitoring and management, much as happened in the US after the mutual fund scandals.

As we are asked to take on more work by clients, we are also very conscious of the need to leverage our own strengths and global technology platforms to deliver an effective and efficient service. Management consultants talk about the concept of 'smartsourcing', which is precisely what we are trying to achieve: by locating various operational functions in centres of excellence – such as reconciliations in Canada, software development in India or pricing in Asia – we can leverage local pools of talent and expertise whilst gaining significant financial advantages. Smartsourcing also enables us to take advantage of time-zone differences, effectively squeezing more hours into our working day. As long as we keep our primary focus on client service, rather than cost reduction, smartsourcing can be an excellent long-term strategy.

"The environment in which we operate is becoming increasingly complex, but it is important to understand just how dramatically the investment business is changing in front of us."

As investment managers adapt to changing circumstances – the globalisation of the industry, tougher regulation, more competition, client disintermediation, buyside consolidation and the rise of alternatives as an asset class – we need to be keeping pace. To do that, we have to understand our clients' objectives, looking at their medium and long term strategies and business plans to ensure we are properly positioned to support them, whichever route they decide to take. With that approach, we believe that outsourcing will move on to the next level and that buyside firms will increasingly look to us to solve some of the tougher challenges of administering cross-border, multi-product franchises.

Tony Johnson is responsible for driving revenue growth and retention and directing sales & relationship management efforts across the globe.
Prior to re-joining in RBC in 2003, Tony worked for two years as Executive Vice President – Europe with BISYS Fund Services with responsibility for their fund administration-outsourcing businesses in the European region. He joined BISYS from RBC Global Services where he spent 5 years as Head of Sales & RM – Europe/Middle East.
Tony previously worked with Citibank as Vice President Sales, responsible for promoting securities services in the UK & Nordic markets, which in turn followed eleven years in sales and sales management roles in business information and market data services for the financial market community.

ON MIFID - At one level, the benefits of MiFID in terms of enhanced consumer protection are likely to be markedly less in the UK than in some continental European countries, for example, those where investment advice has not hitherto been regulated. However, the improvements to passporting should allow cross-border firms to reduce their compliance costs – specifically by reducing the need for duplicate or variant systems and structures for compliance in multiple jurisdictions.

More generally, the greater harmonisation in European regulation may help to attract customers from a wider range of jurisdictions.

It is not wise to exaggerate the likely impacts for UK markets themselves - for example, there is already a relatively open competitive environment for exchanges and MTFs. And, more generally, the impact of MiFID should not be exaggerated relative to other factors which are affecting the trading landscape, such as technological change, the consequences of exchange consolidation, and developments in the clearing and settlement space.

Source: FSA

Keith Ford on the highs and lows of corporate entertaining.

...On the Company?

Shhh, Paul and Adam have just dozed off. I don't know why, but this time of the year does seem to bring out the best in our suppliers. Maybe they have to get rid of their quarter three corporate entertainment budget. We have put the War Room sticker on the door and are all basking in the afterglow of a three hour lunch at the local Italian. Honestly, the carbohydrate in the pasta does make you feel sleepy, or perhaps it's the two bottles of Amaretto that we managed to polish off after the meal.

Many times we have all discussed the merits of corporate entertaining. After all, a quick pasta down the local Italian is fairly moderate compared to some of the other gifts that are showered upon us. The season is in full cry with Wimbledon, The Golf open and even the Rolling Stones are on tour for the oldies.

Sometime we wish our suppliers would actually invite us to sporting events in which we are interested. Anyone that is interested in football usually gets invited to a Golf day out and followers of Tennis have to wait until the Rugby season starts. As a saving grace, rather wonderfully a common thread that seems weave its way through all of these sporting events is food and drink. This means that even if you have no interest in the event that you are attending, you simply need to be able to enjoy yourself sitting down in a large marquee and gorging yourself on Champaign, gourmet food and fine wines.

What, we wonder, does all this cash and effort spent on Corporate Entertaining do for the sponsor? We very much doubt that the results would be quantifiable. So we are talking about a return on a very large investment that cannot be measured by our friends in finance. How do they get away with it every month, can it just be the cost of doing business?

So what sort of intangible return could we expect for our hard won cash? Well, when we ask our hosts they present us with a number of very good reasons as to why they need to spend their companies money on us. These typically include (in no particular order) "It improves our companies business relationship", "It increases the amount of business that we place with them", "It can change our perception of their company", "It lets them spend additional time with us that can help them understand our business better," or they can use the event as an excuse to apologise to us or thank us.

Regardless of their motives what about the ethics of accepting such generous gifts? A typical excerpt from a responsible companies staff handbook might well say; "While the exchange of business courtesies can help build business relationships, accepting or providing business courtesies that are excessive or inappropriate can harm your reputation and the reputation of our company. You must use your judgment to distinguish between appropriate situations that build relationships and inappropriate situations that create or appear to create conflicts of interest or violate applicable law."

> "Is there such a thing as corporate entertaining with malice?"

It may well also differentiate what forms of entertainment are acceptable and what may need approval from you manager (Assuming he or she is not with you).

I have never managed to find a handbook that makes mention of that spearminty dining club with the scantily clad young waitresses. I find it hard to believe that such a club would exist without some form of corporate patronage.

So is there such a thing as corporate entertaining with malice? Does it ever happen that people are entertained in a mercenary manner just to achieve an objective?

Well, before I joined Megabank here, I happened to be working for one of our competitors, lets call them Global Bank to protect everyone's reputation.
One of things that I always admired of Global Bank was the way in which they carried out exhaustive interviews with every new starter. They were mainly interested in the Bank the starter had joined from, whilst it was fresh in the their mind. They wanted to know, for example what particular products were you using in your last position that you felt gave you or your bank a competitive edge.

When a particular product was mentioned in these interviews a few times, that would be communicated to us in the IT department to find out why we did not have the product, could we install a copy for everyone tomorrow and all those good things.

In this particular instance it was a piece of communications software that allowed traders to leave messages as a market closed in one country to their colleagues in the next time zone. So that as the opening market arrived at work they would have an insight as to what might be happening. I have spoken to you about our directors before, so as you know they have a tenuous grasp of the world of IT. When they discovered that we could not dispatch someone to PC World to buy in a copy of this software, panic ensued.

I was ordered to convene a meeting to be attended by all of the development teams, the communication experts, WAN specialists and various lame ducks and lost causes from our IT world. Anyone who has heard the saying that a Camel is a Racehorse designed by a committee will probably guess the outcome. We soon had about fifty keen and eager staff on the project steering committee, requirements workshops scheduled over the next six months with a delivery date well

" More intangible returns, sir ? "

into the next year.

It was about this time that I happened to bump into that new recruit that had started all this off. We had a coffee and he told me very proudly about this all singing all dancing system and how it had become indispensable at his old bank. Who I asked casually had led the project at his old bank to develop this software? "Well that would be Robin and his team" he told me. A small crack team of consultant developers that were now based in Dublin. Another ten minutes fishing and I had Robins office number. I placed a call to his office and found to my alarm that he had been relocated to New York! I needed to wait until the afternoon so I used the time wisely to go and talk to my boss about my cunning wheeze. "If you go and see him and you get found out, I know nothing whatsoever about this, understand? You are completely on your own on this. Also if I find out that you have taken any code from him then you can consider yourself sacked." "Call Kirsten in travel and get the tickets booked!"

Well Robin seemed a very affable character on the telephone. I explained I had heard wonderful stories about his system and wanted to take him out for a beer to discuss how he managed the development. I could imagine him in New York puffing out his chest as he managed to squeeze me into a Friday evening for a six thirty beer. I immediately called my two finest developers and told them the situation. I would be meeting him for a beer at six thirty I would then get him as drunk as possible and suggest we move on to a Manhattan club where we could "bump into" them. A rather wonderful bar was agreed upon and we all flew out to meet Robin.

I suspect I am making this sound too much like a honey trap, but we definitely had planned this with military precision. Robin was punctual so he and I managed to get five or six beers down us before I suggested that we should "move on" to somewhere a bit more exciting. I was picking up the tab so my suggestion of the club was welcomed. As soon as we arrived I thought I should steer the conversation towards his development project before he got too drunk, or distracted. He had already asked could I book dancers to my corporate Amex Card?

With precise timing my developers turned up and joined our table. They were keen to know some of the finer details of the project. What was it written in? What communication protocol was used? Several hours of Techno-Bable followed, allowing me to enjoy my drink and the scenery. After this exchange, my colleagues excused themselves and went back to the hotel to write up their findings.

We flew back to London and managed to design, write and implement the system in under ten weeks. I have no doubt that this was due to the kind and generous help from Robin, who steered us away from all those development dead ends that can trap the unwary for weeks. As ever my boss got all the credit and a huge bonus no doubt for such a fantastically short delivery cycle. At least he signed off my expenses. How much were they? The answer is in the scheme of things not very much, and for those of you that can Google and were curious where I went, they did not total $129,626. ISJ

MANDATES TABLE

2006 Month	Winner	Client	Location	Assignment	Mandate Size
August	AXA Rosenberg	Nykredit	US	Equities	USD 60 bn
August	AXA Rosenberg	Nykredit	US	Equities	USD 50 bn
August	Statestreet	Virgin Money	UK	Custody	GBP 2.6 bn
August	AA Mellon	North YorkshirePF	UK	Custody & Accounting	GBP 1 bn
August	JPMorgan WSS	Freddie Mac	USA	Transaction Processing	USD 700bn
July	AA Mellon	North Yorkshire	UK	Custody & Accounting	GBP 1 bn
June	JPMorgan WSS	Royal Mail	UK	Custody	GBP 2.2bn
June	AA Mellon	Merchant Navy	UK	Custody & Accounting	GBP 3.2bn
June	BNP Paribas	Istituto Nazionale	Italy	Depot bank	EUR 0.6bn
May	HSBC	RLAM	UK	Securities Servcies	USD 40bn
May	AA Mellon	Railpen	UK	Custody	GBP 17bn
May	Northern Trust	SFP	Netherlands	Asset Servicing	EUR 330m
April	Northern Trust	Prince Street	USA	Global Custody	USD 160m
April	HSBC	Karstadt H.	Germany	Depot bank & Custody	EUR 400m
April	BNP Paribas	Avance	Madrid	Outsourcing	EURO
April	AXA Rosenberg	AP7	Sweden	Equities	EURO 320m
April	AA Mellon	DEPFA Bank	Netherlands	Custody & Securities	EURO 115bn

Mid-Summer Mandates

Although the weather can't make up it's mind, some of us have been busy decison-making.

The late summer months tend to be a quiet period in the city with a large percentage of people heading off on holiday. However a growing number of people think holidays are for wimps and there's certainly no recess for the world of mandates!

Freddie Mac has selected JPMorgan Worldwide Securities Services to provide transaction processing and recordkeeping services for its huge $700 billion portfolio of mortgage-backed securities and short-term assets. JPMorgan will provide administrative and settlement services for Freddie Mac's estimated $700 bn retained portfolio of longer-term assets (primarily Freddie Mac-issued mortgage-backed securities) and an estimated $70 bn liquidity and contingency portfolio of short-term assets with a variety of issuers that support mortgage investment and debt-funding activities.

Up north, ABN AMRO Mellon has been selected by The North Yorkshire Pension Fund ('The Fund') to provide custody, investment accounting (SORP) and performance measurement services for assets totaling £1 bn. The Fund had hired consultants Thomas Murray to conduct a formal review to ensure it would continue to adhere to best market practice in respect of its custodian arrangements.

Back in the city, Virgin Money has appointed State Street and IFDS to provide integrated investment solutions for £2.6 bn in assets. The new mandate includes global custody, unit pricing, fund accounting, asset management and transfer agency services. State Street Global Advisors the investment management group of State Street, will manage the assets in a passive equity strategy; transfer agency services will be provided by International Financial Data Services (IFDS), a joint venture between State Street and DST Systems Inc.

Over in sunny California, AXA Rosenberg have been appointmented by Nykredit Portfolio Administration to run two mandates; one in US Equities and one in Pan European Equities worth $60 million and $50 million respectively. The mandates are part of Nykredit's multi-manager portfolios, established in January this year. The new multi-manager concept will be marketed to institutional, high net worth and retail clients. Claus Bilde, head of product development, Nykredit Bank, commented: "The principal motivation for appointing AXA Rosenberg as manager of European Equities and North American Equities was AXA Rosenberg's highly methodical investment approach and research capability; the use of technology in the stock picking process also makes good sense."

Moving & Shaking

A selection of the appointments updated daily at **WWW.ISJFORUM.COM**

BNP Paribas Securities Services (BNP Paribas) has announced that **Scott Dickinson** has been appointed to an extended senior relationship management role. With immediate effect Dickinson heads up the Global Relationship Management team in London, covering both Institutional Investor and Financial Intermediaries client segments. Dickinson reports jointly to Margaret Harwood-Jones, Head of Client Segment Institutional Investors and Steve Chew, Head of Client SegmenT, Financial Intermediaries. Prior to this, Dickinson was a Senior Global Relationship Manager at BNP Paribas since September 2004, covering Institutional Investor clients. Before that, he worked at Rabobank, within the Group Treasury Products business and also spent many years at Deutsche Bank / Bankers Trust, as a Managing Director of Global Institutional Services.

Scott Dickinson

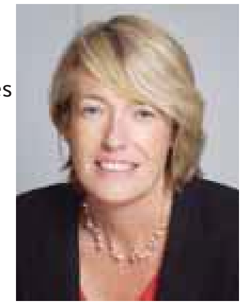
Investit, the fund management consultancy, has appointed **Jonah Sullivan** as Consultant. Sullivan will work across a number of practices and report to Catherine Doherty, Principal. Sullivan has 12 years experience working in investment management technology and operations. Sullivan joins from Pioneer Investments where she was a Project Manager and worked exclusively in the front office in integration, implementation and derivatives projects. Prior to this, Sullivan worked at Henderson Global Investors and Credit Suisse Asset Management in investment management systems, ranging from the front to back office. Sullivan ran systems selection and implementation projects in performance and attribution, trading, fund accounting and client reporting.

Jonah Sullivan

Richard Robinson, who earlier this year was accepted as a Member of the Securities and Investment Institute following his completion of the MSI Diploma, has been appointed to the position of Investment Manager at **Ashburton**.
Robinson graduated from the University of Wales in Cardiff and joined Ashburton six years ago as Assistant Investment Manager. He is part of the team responsible for running Ashburton's successful European Fund, also managed by Calvin Vaudin.

Richard Robinson

Claire Reid has been appointed to a new post of Head of Marketing and Communications for the **Standard Bank Offshore Group**. Reed is responsible for marketing and internal and external communications for the Group's offices in Jersey, Isle of Man and Mauritius and for the international wealth management teams based in Asia, Dubai and London. A Chartered Marketer, Reed has more than 15 years' marketing experience both within agencies and for leading local organisations. She was marketing manager at Jersey Post between 1995 and 1997 before joining Abacus Financial Services Group in 1997. In 2001 she was appointed to head up the Abacus marketing team.



Claire Reid

The **Board of Jersey Finance Limited** has appointed senior banker **Geoff Cook** as its new Chief Executive, with effect from 1st January 2007. Cook, 50, is currently Head of Wealth Management for HSBC Bank Plc, based in London, and is responsible for delivery of Wealth Management and Financial Planning Services to the 10 million HSBC customers in the UK. He was formerly Head of Personal Financial Services and Deputy to the Chief Executive at HSBC Bank International Limited in Jersey. He moved to Jersey with HSBC in 2002 to take responsibility for all aspects of International Personal Banking and Wealth Management Services for HSBC Bank International. He was also Chief Executive, HSBC International Financial Advisers (UK) Ltd. and a Director of several other HSBC entities. His earlier career was spent at a senior level with HSBC Bank plc in the UK including several executive management positions in London and the regions. An Associate of the Chartered Institute of Bankers and a Member Director of the Personal Finance Society Mr Cook began his career in financial services in 1979.

Orc Software (SSE: ORC), the provider of technology for advanced trading, market making and brokerage, has announced the new appointments of **John Cameron** as chief technology officer and **Annie Walsh** as chief marketing officer. Both join from Cameron Systems, the global FIX provider acquired by Orc Software in early 2006, where Cameron was founder and chairman of the board, and Walsh held the position of global marketing manager. Cameron wrote the first version of CameronFIX in 1997 and founded Cameron Systems in 2001. Cameron has 20 years' experience working in the financial services sector, starting as a member of the team that wrote the

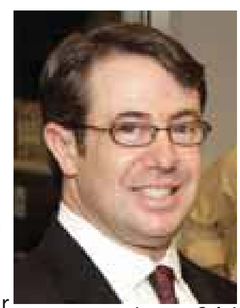
Australian Stock Exchange's fully automated trading system, SEATS. He then worked in the US, Europe, and Australia for some of the world's largest buy side and sell side organizations before dedicating himself to Cameron Systems. Walsh joined Cameron Systems in 2001 and has been a key member of its executive management team as head of global marketing. Walsh has 15 years' experience in marketing communications, including global roles in major organizations. It is this expertise she brings to Orc Software, providing valuable understanding and know-how applied to the financial markets across the Americas, Europe and Asia Pacific.


William McLemore

Penson Worldwide, Inc., a provider of execution, clearing, settlement and custody services for the global securities markets, has appointed **William McLemore** to the position of Senior Vice President and Chief Technology Officer. McLemore will be responsible for the oversight of Penson's global technology initiatives and developing the global technology vision of Penson Worldwide. He will also have responsibilities for the technology operations of Penson Financial Services, Inc., the U.S. clearing arm of Penson Worldwide, Inc. McLemore comes to Penson from SunGard Phase3, where he served as Senior Vice President of Product Development and Professional Services and served on the firm's Operating Committee. He spent 5 years prior to joining SunGard at The Brink's Company, where he was Director of Software Systems for global software initiatives. Prior to that, McLemore spent eight years at Southwest Securities, where he served in various technology roles including the Vice President of Systems Development and Operations.

ING has appointed **Lilla Juranyi** as Director, Securities Services Central and Eastern Europe (CEE), reporting directly to Guido Heyns, Executive Vice President Wholesale Banking Securities Services. Juranyi is replacing Harry J. Devroe who will retire. Juranyi will relocate to the Netherlands in the second half of September 2006 and work closely with Devroe during a handover period. Juranyi joined ING Bank Rt., Budapest, Hungary in 1992 holding several positions until December 1994 when she, with two other colleagues, established Securities Services in Hungary. In 1999 she was promoted to Director of Securities Services in Hungary and in 2001 also became Head of Financial Institutions. As an elected member of the Settlement Committee of the Budapest Stock Exchange, she has also been instrumental in the development of the Hungarian capital markets. In 2004, she assumed additional responsibilities as Head of Personal Banking in Hungary.

Northern Trust has announced that **Steven Schoenfeld** has been named Chief Investment Officer of Global Quantitative Management, a unit of Northern Trust Global Investments (NTGI). As CIO, Schoenfeld will assume responsibility for investment performance across Northern Trust's index, enhanced and quantitative active products, and for the leadership and oversight of the quantitative investment process. Since joining Northern Trust in 2004, Schoenfeld has been chief investment strategist, working closely with the sales and client service teams to lead research, strategy and product development efforts for Global Quantitative Management. He will continue to report to Michael Vardas, head of Global Quantitative Management, and Orie Dudley, Global CIO for NTGI. Schoenfeld serves on the S&P Index Advisory Panel, the Dow Jones Wilshire Indexes Advisory Board, the FTSE Global Equity Indices Committee and the Russell Indexes Client Advisory Board. Prior to joining Northern Trust, Schoenfeld had started two companies in the index/quantitative space and previously was a Managing Director for Barclays Global Investors, where he served six years in a variety of portfolio management and investment strategy roles, including Head of International Equity Management and Head of International Equity Strategy.


Steven Schoenfeld

Fortis has announced the appointment of **Lex Kloosterman** as Chief Strategy Officer and member of the Fortis Executive Committee, reporting to CEO Jean-Paul Votron. In this newly created position he will be responsible primarily for developing the strategic framework and defining the direction of the company. As such he will be in charge of Investor Relations, Public Affairs, Corporate Social Responsibility and Global Branding & Communications. In addition, as a member of the Executive Committee, Kloosterman will cover Fortis Investments. The appointment is subject to the usual regulatory approval procedures and is expected to come into effect on 1 October 2006. Kloosterman joins Fortis from ABN AMRO where he served most recently as CEO of the business unit Europe - Private Clients. He started his career with ABN as a management associate in the US in 1983. He rose through the ranks, holding international senior management positions in a variety of banking activities.


Lex Kloosterman

Christopher Stuart-Sinclair has joined **RBC Dexia Investor Services** as Head of Operations in the company's Luxembourg office. Mr. Sinclair brings a wealth of related industry experience to his new position with RBC Dexia. Prior to his appointment, Mr. Sinclair was Chief Operating Officer of State Street Bank in Luxembourg. Mr. Sinclair has also served in Senior Management positions with ABN AMRO Investment Funds and Robert Fleming and Company in Luxembourg. In his new role with RBC Dexia, Christopher will be responsible for local service delivery covering Transfer Agency, Custody and Fund Administration for the company's corporate and institutional investor services clients in Luxembourg. ISJ

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E: michael_mainelli@zyen.com

C: (Disaster Recovery and Project Management): Keith Ford, Senior Consultant
E: keith_ford@zyen.com

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T: +49 69 718 3738
F: +49 69 718 6050
E: cornelia.keth@bhf-bank.com
C: Moritz Ostwald
T: +49 69 718 6838
E: moritz.ostwald@bhf-bank.com
A: Strahlenbergerstraße 45, 63067 Offenbach a.Main Germany
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C: (France)
Patrick Lemuet
E: france@caceis.com
T: +352 4767 2567
C: (International)
José-Benamin Longrée
E: international@caceis.com
W: www.caceis.com

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E: investorsvs@dbs.com
A: DBS Bank Ltd
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T: +46 8 701 2988 **F:** +46 8 701 2990 **Contact**: Johan Wennerberg **E:** custodyservices@handels-banken.se **Address**: Blasieholmstorg 12, SE-106 70 Stockholm, Sweden www.handelsbanken.com/nordic_ _custody_services	Handelsbanken was the first Nordic bank to provide complete custody services in the entire Nordic region. We conduct in-house processing in each Nordic country, with well-experienced staff with in-depth market knowledge and access to market information. Each client is allocated an account manager fully responsible for the day-to-day activities, as well as a regional relationship manager. Handelsbanken provides specialised and tailor-made custody services including complete corporate action services, securities borrowing and lending for all Nordic countries, as well as settlement and clearing services to clients that are remote members of the Nordic stock exchanges.	Handelsbanken
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Anne-Lise Kristiansen **T**: +47 2248 6238 **E**: annelise.kristiansen@nordea.com Päivi Salonen **T**. +358 9 165 51108 **E**: paivia.salonen@nordea.com Steen Holmfred, Head of Global Custody **T**. +47 2248 6238 **E**: steen.holmfred@nordea.com Bo Thulin, Head of Client Relations, Global Custody **T**. +46 8 614 7721 **E**: bo.thulin@nordea.com	Nordea is the leading financial services group in the Nordic and Baltic Sea region and operates through three business areas: Retail Banking, Corporate and Institutional Banking and Asset Management & Life. **- The leading financial services group** **- A world-leading Internet banking and e-commerce operation** **- The largest customer base of any financial services group in the region** **- A leading asset manager in the Nordic financial market** **- The most comprehensive distribution network in the region** Nordea is the leading custody services provider in the region. Nordea provides high quality, tailor-made custody services for local and foreign investors dealing with Nordic, Baltic or global securities.	Nordea
T: +44 (0) 20 7653 4096 F: +44 (0) 20 7248 3946 Contact: Tony Johnson Head, Sales & Relationship Management E: antony.johnson@rbcdexia-is.com Address: 71 Queen Victoria Street, London, EC4V 4DE, UK	RBC Dexia Investor Services offers a complete range of investor services to institutions worldwide. Established in January 2006, we are equally owned by Royal Bank of Canada (RBC) and Dexia. We rank among the world's top 10 global custodians, with approximately USD 2.0 trillion in client assets under custody, including in-house assets of RBC and Dexia. Our innovative products and services help clients maximise operational efficiency, minimise risk and enhance portfolio returns. And our 3,800 professionals in 15 markets offer proven expertise to enhance clients' business performance.	RBC DEXIA INVESTOR SERVICES
T: +46 8 763 5770 **F:** +46 8 763 6930 **Contact:** Goran Fors **E:** goran.fors@seb.se **W:** www.seb.se	As a leading supplier of custody services in the Nordic region, SEB Securities Services expertise in dealing with securities, complex information flows, transactions and payments efficiently and accurately is crucial to your own business methods - and to your ability to make wise investment decisions. A blend of personal service, advanced communication solutions and IT systems means that SEB can provide you with the assistance you need in order to deal with your securities in the most logical manner. **Assets under Custody: US$ 200 bn**	SEB

Financial Asset Services is the custody and investments-servicing division of **Standard Bank**, providing a unique suite of services to sophisticated investors in South Africa and eight sub-Saharan markets.

Standard Bank views custody, investment administration and securities lending as a core business crucial to many other services the bank offers. The bank has invested significant capital in developing Financial Asset Services and is continuing to invest to maintain and extend its leading position in its chosen markets.

Standard Bank has assets under custody to the value of **ZAR1.5 trillion** and an overall market share of approximately 40%.

A:Standard Bank
Financial Asset Services
3rd Floor
25 Sauer Street
Johannesburg 2107
T: +2711 636 6615
E: adam.bateman@standard-bank.co.za
W: www.standardbank.co.za

Swedbank provides client-focused custody services to domestic and international securities lending (including auto-borrow facilities), derivative clearing services, proxy voting, full corporate actions and income service. Flexibility is an important aspect of Swedbanks products and services. Our dedicated Client Relations Managers and Account Managers are focused on personalized processing and reporting solutions.

Other Features: ISO9001:2000 quality certification. Swedbank Markets Online (SMO) internet information and reporting toolfor Custody and Securities Lending. Nordic Custody alliance with DnB NOR (Norway), OKO Bank (Finland) and Amagerbanken (Denmark) to offer regional custody product.

Institutional Assets under Custody: USD 70 billion
No. of Institutional Clients: 110

T: +46 8 5859 1800
F: +46 8 7237 147
C: Neal Meacham, Head of Custody
E: neal.meacham@swedbank.com
A: Stockholm SE 105 34
Sweden

Data Services

Capco Reference Data Services (CRDS) provides a suite of reference data management solutions that help financial services providers to achieve superior data integrity, solve data integration issues and transform operational performance while lowering data management costs. These services include a comprehensive managed services offering - a proven alternative to in-house management of reference data as well as index and ETF data solutions. CRDS also provides consulting services including advisory, assessment, migration, implementation, integration, project management, development and training. For more information, please visit www.capco.com/crds.

C: Donna Faup Bailey
Director Business Strategy & Marketing, Capco
T: +212 284 8749
E: Donna.FaupBailey@Capco.com
W: www.capco.com/crds

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DTCC's GCA Validation Service gathers and distributes validated global corporate actions announcement information on more than 1.4 million securities from more than 150 countries in more than 16 languages, more than any other provider.

London: Richard Bustard
T: +44 (0)20 7444-0403
E: rbustard@dtcc.com

New York: Susan Spivey
T: + 1 212 855-4144
E: sspivey@dtcc.com

General information
T: +1 212 855-1000

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FT Interactive Data provides global securities pricing, evaluations, dividend, corporate action and reference data designed to support financial institutions' and investment funds' pricing activities, securities operations, research and portfolio management. FT Interactive Data collects, edits, maintains and delivers data on more than 3.5 million securities, including daily evaluations for approximately 2.5 million fixed income and international equity issues. FT Interactive Data specialises in 'hard-to-value' instruments and 'hard-to-get' information from emerging markets.

Interactive Data (Europe) Ltd
A: European Headquarters
Fitzroy House, 13-17 Epworth Street, London EC2A 4DL
T: +44 (0)20 7825 7800
F: +44 (0)20 7608 3514
E: eu-info@interactivedata.com
W: www.interactivedata.com
C: Brendan Beith – European Sales Director

Fund Administration

Butterfield Fund Services (BFS) provides valuation, accounting, corporate secretarial, compliance, directorial and shareholder services to hedge funds, fund-of-funds, and mutual funds. BFS also services international pension & insurance trusts. Clients such as financial institutions, insurance companies, and institutional investors use Butterfield Fund Services to set up and launch investment funds. BFS operates in Bermuda, Bahamas, the Cayman Islands and Guernsey.

Whether a fund is just starting out or is well established, Butterfield Fund Services can provide complete solutions to help clients better service their investors. With over $50 billion in assets under administration, many alternative funds have turned to Butterfield Fund Services for timely and accurate administration services.

Andrew Collins Managing Director
T: 441-299-3954
E: andrewcollins@bntb.bm
Tania Kowalski Marketing Manager
T: 441-278-6300
E: tankakowalski@bntb.bm
A: Rosebank Centre 11 Bermudiana Road, Pembroke, Bermuda HM 08 / P.O. Box HM 195 Hamilton, Bermuda HM AX

T: +33 1 43 23 89 75
C: Patrick Lemuet (France)
E: france@caceis.com
T: +352 4767 2567
C: José-Benamin Longrée (International)
E: international@caceis.com
W: www.caceis.com

The **CACEIS Group** is a partnership between the Investor Services business lines of **Crédit Agricole S.A.** and **Groupe Caisse d'Epargne**. With a total of **EUR823 billion** in assets under administration (31/3/2006), we are Europe's premier third party fund administrator. CACEIS provides a full range of services in France, Luxembourg, Ireland, Belgium and The Netherlands. These services include portfolio valuation with multiple and automated pricing sources, NAV calculation, product structuring, tax relevant data calculation, fees and commissions calculation, on-line client reporting, legal and statutory investment guideline monitoring, performance measurement and globalisation techniques such as Cloning. Our transfer agency services include retail and institutional account management, Europe-wide transaction processing, distribution network management, third party distribution and shareholder services. *The Fastnet Network, operated by CACEIS, undertakes some of the above services and is a partnership venture with the Fortis Group.*

T: +1 732-667-1155
C: Skander Aissa
E: Aissa.s@dpmmellon.com
A: 400 Atrium Drive, Somerset, New Jersey,
NJ08873, USA
W: www.dpmmellon.com

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A Mellon Financial Company.

New York: Christopher Lynch
T: +1 718-242-7555
E: chris.e.lynch@jpmorgan.com

London: Dick Feehan
T: +44 (20) 7742-0102
E: dick.j.feehan@jpmorgan.com

Sydney: Laurence Bailey
T: (61-2) 9250-4833
E:laurence.bailey@jpmorgan.com

W: www.jpmorgan.com/wss

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C: Fred W. Jacobs, III
A: PFPC, 301 Bellevue Pkwy
Wilmington, DE 19809 USA
T: 302-791-2000
F: 302-791-1570
E: Information@pfpc.com

C: Fergus McKeon
A: PFPC Riverside Two
Sir John Rogerson's Quay
Dublin 2, Ireland
T: +353-1-790-3500
E: Information@pfpc.com

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T: +44 (0) 1481 744000
F: +44 (0) 1481 744529
C: Jose Santamaria
E: jose.santamaria@rbc.com
A: PO Box 48 Canada Court
St Peter Port Guernsey
GY1 3BQ Channel Islands
W: www.rbcprivatebanking.com/ci.html

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Atlanta: Peter Cohen
T: 001-404-233-5275

BVI: Barry Goodman
T: 284-494-2434

Cayman Islands: Rick Gorter
T: 345-949-0880

Guernsey: Mark Le Tissier
T: 01481-740-930

UK: Robin Harris
T: 44-(0)207-935-1503
W: www.tridenttrust.com

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Main Services: A full range of back office administration services tailored for hedge, private equity and closed-ended funds. We offer flexibility in structuring administration which allows us to work closely with accounting firms and other service providers. Services include full fund accounting, NAV calculations, registrar and transfer agent, corporate secretarial including company formation, due diligence compliance and internet reporting.
Assets Under Administration: $13 billion * No. of Funds Administration: 185

UBS Fund Services is a leading fund administration business for traditional and alternative funds and other collective investment vehicles. With a comprehensive offering - from product design, through to registration, accounting, net asset value calculation and reporting – we offer a tailored, cost effective service making best use of the latest technology.

With administration centres located in the Cayman Islands, Ireland, Canada, Luxembourg, Switzerland and the UK, at 31 March 2006, UBS Fund Services administered assets of almost 340 billion Euro.

Cayman Islands: Sean Flynn, tel. +1-345-914 1006
Ireland: Guy Martell, tel. +44-20-7901 5770
Canada: Pearse Griffith, tel. +1-416-971 4702
Luxembourg: Jean-Paul Gennari, tel. +352-44-1010 1
Switzerland: Markus Steiner, tel. +41-61-288 4910
UK: Mike Marsh, tel. +44-20-7901 5000

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The AIS team offers a global range of brokerage activities on a wide range of asset classes including equities, bonds, currencies, commodities, and their related listed & OTC derivative products. The team also provides a dedicated account management team, cross-margining tools between securities & derivative instruments, hedge fund start-up services, hedge fund industry quantitative information and capital introductions services.

The AIS team is part of Fimat, which employs over 1,600 people in 26 markets, and is a member of 46 derivatives exchanges, and 17 stock exchanges worldwide.

C: Philippe Teilhard
A: Fimat International Banque SA (UK Branch) - part of the Societe Generale Group
SG House, 41 Tower Hill
London EC3N 4SG, UK
T: + 44 207 676 85 36
F + 44 207 628 44 47
E: philippe.teilhard@fimat.co.uk

Securities Lending

Data Explorers Limited, a specialist and independent company, offers impartial quantitative measurement of securities lending performance services to the global securities financing industry. We help our clients monitor and understand the relative performance of their lending activity and risk, and turn raw lending, borrowing and collateral data into useful, actionable information. We also provide proxies for short selling information.

Working with the industry we ensure information flows are appropriate and peer groups relevant. We are not involved in transactions.
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W: www.dataexplorers.com
T: +44 (20) 7392 4000
F: +44 (20) 7392 4004
A: 155 Commercial Street, London E1 6BJ United Kingdom

London: Julian Pittam
T: +44 (20) 7392 5018
E: jp@dataexplorers.com
Boston: Tim Smith
T: + 1 (617) 973 5099
E: tim.smith@dataexplorers.com

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T: +1 212 901 2200
C: Carrie R. Schwartz
E: carrie.schwartz@equilend.com/info@equilend.com
A: 17 State Street, 9th Floor
New York NY 10004
T: +44 20 7743 9510
A: 54 Lombard Street
London EC3V 9EX
W: www.equilend.com

eSecLending is a global securities lending manager servicing large institutional lenders, including pension funds, mutual funds, insurance companies and investment managers. eSecLending's model is based on the premise that exclusive principal relationships generally offer greater value and significantly higher returns to a lender than traditional custodial or third-party agency lending programs. The firm, which has auctioned over $750 billion since inception, awards principal business through an auction process to ensure greater competition and price transparency. eSecLending is majority-owned by Old Mutual plc and maintains offices in Boston, London and Burlington, Vermont.

T: US- +1 617 204 4500
T: UK- +44 (0)207 002 7600
C: Dan Ahern
E: info@eseclending.com
W: www.eseclending.com
A: 175 Federal Street, 11th FL, Boston, MA 02110, US
A: Old Mutual Place, 2 Lambeth Hill, London EC4V 4GG, UK

IFBS offers the financial industry a wide range of consulting services as well as individual and standard software solutions. The firm supports clients along the entire security value chain - from business modelling to change management processes. IFBS's IT solutions range from FINACE®, a Securities Finance and Collateral Management Platform, to the development of tailor-made IT applications.

T: +41 (0)44 218 14 14
F: +41 (0)44 218 14 18
E: info@ifbs.com
A: IFBS AG, Buckhauserstrasse 11, CH-8048 Zurich, Switzerland
W: www.ifbs.com

New York: Christopher Lynch **T:** +1 718-242-7555 **E:** chris.e.lynch@jpmorgan.com London: Dick Feehan **T:** +44 (20) 7742-0102 **E:** dick.j.feehan@jpmorgan.com Sydney: Laurence Bailey **T:** (61-2) 9250-4833 **E:**laurence.bailey@jpmorgan.com **W:** www.jpmorgan.com/wss	JPMorgan Securities Lending offers institutional investors the opportunity to earn extra income on investment and pension portfolios with minimal risk and involvement by lending their securities to qualified borrowers. With more than 300 lending relationships and lendable assets in excess of $1.2 trillion, JPMorgan is clearly committed to the market and to the value that our clients place in it. Our resources enable you to develop programs that comply with your business requirements and achieve your business objectives. When you select JPMorgan as your securities lending agent, you have chosen a premier provider of securities lending services worldwide.	JPMorgan
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T: +44 (0) 207 551 3000 **E:** info@bsg.adp.com **Address:** The ISIS Building, 193 Marsh Wall, London, E14 9SG, UK **W:** www.bsg.adp.com	ADP Brokerage Services Group is an industry leading outsourcing vendor for global transaction processing systems, desktop productivity applications and investor communication services to banks and brokerages worldwide. -Proxy Edge – comprehensive solution for institutional global proxy voting management. -Gloss – leading international STP system which automates the trade processing lifecycle from trade capture through confirmation, clearing agency reporting and settlement. -Tarot - a UK retail and private client stockbroking, custody and fund management solution. -Securities Data Management – outsourced data services for securities operations.	ADP
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A: EMEA - Progress Apama 68 Lombard Street London EC3v 9LJ **T**: +44 (0) 870 3517212 **E**: fraser.herrick@progress.com **A**: USA - Progress Apama 10th Floor, 230 Park Avenue New York NY **T**: +1 203 606 5006 **E**: jim.feingold@progress.com **W**: www.progress.com/apama	**Progress Apama** provides the next-generation Algorithmic Trading Platform for both the buy and sell-side financial institutions - giving traders full control over composing, deploying and managing algorithmic trading strategies, such as VWAP, spread trading and index arbitrage. Apama has customers using the Algorithmic Trading Platform in equities, futures & options, foreign exchange and bonds and often trading multiple assets classes within the same strategy. Apama's platform plugs straight into any market data feeds, order management systems and databases.	PROGRESS SOFTWARE Apama Algorithmic Trading
T: +44 (0)20 7464 8407 / +1 212 445 1076 **F:** +44 (0)20 7464 8746 / +1 212 265 6402 **Contacts:** Pascal Guignabaudet (EU), Belinda Hamer (US) **Address:** 60 Lombard Street, London, EC3V 9EA, UK **E:** pascalg@asset-control.com bhamer@asset-control.com **W:** www.asset-control.com	**Data Solutions You Can Bank On** Asset Control's Total Data Management offers seamlessly compatible in-house software and out-sourced services. Asset Control solutions manage prices, reference data, risk factors, credit risk data, corporate actions and research data. The solutions support market risk, Basel II, portfolio management, trading and enterprise-wide operational coherency. Asset Control is the only firm in its class offering turnkey solutions with guaranteed delivery dates. These ready-to-work solutions eliminate development time and risk. As a future-proof technology investment, Asset Control has been certified by a unique track record of long-standing customer implementations in leading financial firms around the world.	AssetControl

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P: +46 8 566 30 800
F: +46 8 34 15 44

A: CMA Small Systems AB
P.O. Box 6463, Gävlegatan 22
S-113 82 Stockholm, Sweden
W: www.smallsystems.cma.se

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T: +1 212 922 6590
F: +1 212 922 7677
E: sales@eagleinvsys.com
A: 200 Park Avenue,
East Mezzanine,
New York, NY 10166
T: +44 (0) 20 7163 5700
F: +44 (0) 20 7163 5701
A: Mellon Financial Centre,
160 Queen Victoria Street,
London, EC4V 4LA
W: www.eagleinvsys.com

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T: +44 (0) 207 247 3094
C: Stephen Everard or Saghar Bigwood
A: 10, Earl Street, London, EC2A 2AL, UK
E: severard@goalgroup.com / sbigwood@goalgroup.com / info@goalgroup.com
W: www.goalgroup.com

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T: +1 908 273 1116
C: Mike Donoghue
E: Mike.Donoghue@itadv.com
A: 482 Springfield Avenue,
Summit, New Jersey NJ 07901
USA
W: www.itadv.com

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C: Paul Hewitt, Business Development Manager, Europe
A: Manifest
9 Freebournes Court
Newland Street, Witham
Essex, CM8 2BL, UK
T: +44 (0)1376 503500
D: +44 (0)1376 504502
M: +44 (0)7884 495165
F: +44 (0)1376 503550
E: paul.hewitt@manifest.co.uk
W: www.manifest.co.uk

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C: Harvey Colborne
E: harvey.colborne@mondas.com
A: 17 - 29 Sun Street
London, EC2M 2PT, UK
E: info@mondas.com
T: +44 (0) 207 392 1300
F: +44 (0) 207 392 1301
W: www.mondas.com

T: +44 (0)29 20402200
F: +44 (0)29 20402213
A: New Broad Street House, 35 New Broad Street, London EC2M 1NH
E: info@peterevans.com
W: www.petervans.com

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T: +1 609-987-2400
F: +1 609-514-4794
C: Lorne Whitmore, Vice President, Global Sales & Product Management
E: lwhitmore@pfs.com
A: 600 College Road East, Princeton, NJ 08540, USA
W: www.pfs.com

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T: +1 510 5507334 ext 1
A: 1904 Franklin Street, Suite 203 Oakland, California, CA 94612, USA
C: Seth Johnson, CEO
E: seth.johnson@redi2.com
W: www.redi2.com

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T: +44 (0) 20 7651 8800
F: +44 (0) 20 7651 8811
C: Ian Crompton, sales director, SimCorp Dimension
E: ian.crompton@simcorp.co.uk
London EC4N 8DQ, UK
W: www.simcorp.com

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F: +44 (0)118 931 4741
E: admin@icmacentre.ac.uk
C: Samantha Heslop
(please quote ref:IS001)
A: University of Reading, Whiteknights, PO Box 242, Reading RG6 6BA
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ISJ invites a reader to look back at what they did and look forward to what they want to do.

Paul Mumford, Senior Fund Manager, **Cavendish Asset Management** bears all.....

HINDSIGHT

How have investment management strategies evolved over the past five years, with the benefit of hindsight?

Changes in strategy are largely due to the growing size of investment management organisations, with firms looking to better control both the individual managers and militate against systemic market risk, post-Enron. Quantitative investing, for example, is believed to be growing at double the rate of the overall money management industry. However, I worry that despite the twin-objectives of achieving better quality and control, you can end up with much more constricted management decisions, potentially stifling performance. At Cavendish, our strategic shifts have been market-related. In the bear market, more defensive holdings with good earnings visibility were essential. Asset situations in property and housebuilding were held along with overly depressed opportunities within sectors such as oil and retail – all of which were subsequently re-rated. We now find ourselves focusing on healthcare and technology.

How have lessons learnt impacted on the development of new and innovative strategies?

Arguably, a lot of the "innovation" has been borne out of a desire to recreate some of that freedom and diversification, when genuinely contrarian investment and active management has become much more scarce. The overall objective of achieving greater diversity is imperative, especially as the indexes are themselves heavily concentrated at both a sector and individual stock level – meaning that exposure across funds can also be a problem. Yet I maintain that it is well-informed and subjective judgements, pitted against the market, which ensure proper diversity and give the potential to outperform.

With the benefit of hindsight on market conditions and volatility, what would you do differently?

I guess we would probably have taken profit sooner on some stocks that had had a great run, in light of the flight to safety that has been steadily played out in the last few months. Having said that, this has left a lot of companies looking very attractively valued, so holdings should benefit from a re-rating when sentiment picks up. Considering that the PE ratios for the major UK indices remain well below their historic averages, and that corporate earnings remain sound, it is simply a case of sitting tight.

FORESIGHT

Are hedge funds still alternative?

Put simply, no. This is widely apparent from their more pedestrian performance in recent years, whist their promise to make money even out of a market fall has been seriously contended by the most recent bout of volatility. The biggest difficulty the hedge fund industry faces is size - it is an overcrowded marketplace with too much money chasing too few genuinely original investment decisions. There is a lot of talk about convergence, between long and hedge style strategies, and hedge funds became much more directional during the rally, essentially mimicking long-only investments. Yet, investors will pay the premium for the market glibe of absolute returns. Whether the sector returns to its beta roots and adopts more aggressive and innovative investment methods, or becomes a bolt-on for the sake of diversity, it ultimately now lacks agility.

Over the next few years where will the largest returns come from?

Attractive valuations are a 'must' - it is more important to buy a good company at the right price, than to buy a terrific company which may in fact be approaching overvaluation. The midcap market is now looking fairly expensive and well-trawled, leaving fewer buying opportunities there. Recovery plays are particularly interesting, considering the level of corporate and private money available. Struggling companies face much greater pressure to realise a turnaround, or risk being taken out entirely. Subsequently, and on a more general note, some larger caps are starting to look more attractive on price. We also remain committed to AIM for long-term growth potential, but current sentiment needs to lose a little of its defensiveness.

What's the biggest risk you face?

An unforeseen international market crash. Global downturn has clearly been on the minds of most investors in the last few months, hence the market jitters. And, to an extent, we are in unchartered territory in the wake of globalisation. Whilst more joined-up world economies should provide a high level of security, the interrelationship of those economies is still very green. However, in all likelihood, it would take a major rise in interest rates and inflation to trigger a serious fall-out, whilst more modest inflationary rises would actually benefit corporate earnings. On fundamentals alone, the major UK indices are still looking attractive. ISJ

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