WWW.ISJFORUM.COM

INVESTOR SERVICES JOURNAL

VOLUME 2 No. 9 - Oct/Nov 2005

MATCH POINT

HEDGE FUNDS - REGULATE OR BUST?

ALL IN A YEAR'S WORK - **SECURITIES LENDING**

ROCK OF AGES - **US CUSTODY**

NEW HORIZONS - **ASIA FOCUS**

REPO REALITY - **COLLATERAL MANAGEMENT**

PURE SHORES - **FUND CENTRES**

PLUS:

STP & AUTOMATION - DOING THE MATH

PANEL DEBATE - TRANSFER AGENCY

PENSIONS - FAIR EXCHANGE?

SPECIAL REPORT - SIBOS 2005

THE GLOBAL SECURITIES SERVICES INDUSTRY JOURNAL

INVESTOR SERVICES JOURNAL

VOL 2 No.09 - Oct/Nov 2005

Hedging Bets

Apart from the opportunity to network, people often attend conferences to find out where an industry is at . Whether it be to assess the latest developments or the key challenges, one can take an industry's temperature by sitting in on various presentations or by walking through conference exhibition halls.

At Sibos 2005, it was hard to miss the key challenge of transformation as it resonated through Copenhagen's Bella Conference Centre. As an event initially focussed on the cash and payments industries, SWIFT has transformed its Sibos invite list to include the securities industry and to resemble more of a back office gathering.

But the Utility's most notable transformation has occurred in the last year. In 2004, SWIFT said it wanted to involve more fund managers in Sibos. In 2005, after welcoming the likes of Fidelity and Templeton to its main event, the the Utility said it would like to explore the world of alternative investments and derivatives. Now that's what I call progress, albeit a long time coming.

Alternative investments, notably hedge funds, have grown enormously in size. This has caused alarm among the regulators. The Bank of England, for example, noted that inflows into hedge funds in the first quarter of 2005 was \$24.6 bn, an increase of 50 per cent from the first quarter of 2004.

It is financial stability review, published in June 2005, the Bank said that hedge funds have added to the risk of instability arising through leverage, volatility and opacity, making it ultimately "concerned" about the enthusiasm in these funds. The fact that hedge funds are so big makes closer inspection seem an obvious step for regulators who are still reeling from the collapse of Long Term Capital Management and the technology bubble burst in the 1990s.

As most of these hedge funds are domiciled in offshore centres, which allow managers to pursue 'short' strategies, these centres have acted to enhance their regulatory frameworks and have insisted that they are not conduits for clandestine business activities.

In fact, some of the hedge funds laws in offshore centres are deeply rooted in their mutual fund laws, which were enacted before the Patriot Act in the US. In recent years, offshore centres have received clean bills of health from the Financial Action Task Force and are slowly transforming the opinions of various OECD countries. The presence of the major administrators in the offshore centres has also enhanced the reputation of these jurisdictions. Hedge fund compliance will remain key for as long as it is felt that the ability to ascertain the nature and scale of exposure may impede the risk management of some firms should a credit event occur. This is where the administrator and the prime broker are being summoned to help hedge fund managers comply with regulation and ensure funds' risk management strategies are state of the art. And while offshore centres have come under scrutiny, perhaps the focus should be onshore, in order to address what can done to ensure that hedge funds contribute to the stability of financial markets. The fact that one of London's top hedge fund management companies has a staff compliment of 45 people, should perhaps raise a few questions about the ability of these managers to cope with the operational task of processing and settling orders in funds, which have the potential to double in size within the space of a year. White-labelled and external technology solutions are becoming an increasingly acceptable option for fund managers, who would like to automate their processes. There may not be a bubble burst, but the skill required to manage a hedge fund is limited and further consolidation in this area can be expected.

Janet.DuChenne@ISJforum.com

Editor Janet DuChenne (Janet.DuChenne@ISJforum.com) News Editor Julia Svetlichnaja (Press@ISJforum.com) Contributors: Brian Bollen, Alison Ebbage, James Reed, James Wallace, Christine Senior

Publishing Director Justin Lawson (Justin.Lawson@ISJforum.com) Account Managers: Kenny Thomas (Kenny.Thomas@ISJforum.com) Stephen O'Sullivan (Stephen.OSullivan@ISJforum.com) Directory Sales: Sabz Munawar (Sabz.MunawarISJforum.com) Subscriptions: Heba Hassanatou (Heba@ISJforum.com)

Managing Editor Mark Latham (Mark.Latham@ISJforum.com) Operations Manager Tasha Fryer (Tasha.Fryer@ISJforum.com).

Investor Services Journal, WWW.ISJFORUM.COM
37-38 Margaret Street, London W1G 0JF, UK
T: +44 (0) 20 7493 9966 F: +44 (0) 20 7493 3366

ISSN 1744-151X. Printed in the UK by Pensord Press.

APPROVED MEMBER - PERIODICAL PUBLISHERS ASSOCIATION

TOTAL NET CIRCULATION 10,343
Analysis for the Audit Issue cover dated Volume 2, No 7 and distributed 14th July 2005. Source: AUDIT BUREAU OF CIRCULATIONS, www.abc.org.uk

TO RENEW YOUR SUBSCRIPTION TELEPHONE:
+44 (0)20 7493 9966

WWW.ISJFORUM.COM

INVESTOR SERVICES JOURNAL

VOL 2 No.09 - Oct/Nov 2005

CONTENTS

WORLD NEWS 6 THE LATEST SECURITIES SERVICES NEWS

CUSTODY
UNIVERSALLY SPEAKING 14 JPMORGAN'S MIKE CLARK ON THE IMPORTANCE OF TECHNOLOGY
ROCK OF AGES 52 US SERVICE PROVIDERS ON COMPLIANCE
NEW HORIZONS 57 THE INVESTMENT AND PENSIONS IN THE ASIA PACIFIC REGION

FUNDS
CLEAR SHORES 18 OFFSHORE CENTRES AND COMPLIANCE.
ANALYSE THIS... 24 SERVICE PROVIDERS ON THE MERITS OF DIFFERENT FUND CENTRES
EXPERTLY QUALIFIED 36 ALISON EBBAGE REPORTS ON THE SUCCESS OF THE CHANNEL ISLANDS
HEDGE FUNDS 50 HEDGE FUNDS HAVE 'DELIVERED GOOD RETURNS' - HEDGE FUND RESEARCH INC

SECURITIES LENDING
GOING UP 40 PERFORMANCE RESULTS AND ANALYSIS FROM DATA EXPLORERS
ALL IN A YEAR'S WORK 42 BRIAN BOLLEN WRAPS UP A YEAR IN THE SECURITIES LENDING INDUSTRY
RENT BOOK 48 LATEST PERFORMANCE RESULTS FROM THE RISK MANAGMENT ASSOCIATION

PENSIONS
FAIR EXCHANGE? 64 HOW DOES ONE ACHEIVE BEST EXECUTION IN FX TRANSACTIONS?
FRIENDS IN THE NORTH 52 PENSIONS INTERVIEW - STUART IMESON OF WEST YORKSHIRE PENSION FUND

TECHNOLOGY & STP
DOING THE MATH 59 THE RISE AND RISE OF ALGORITHMIC TRADING
SOLE AGENTS - PANEL 68 TRANSFER AGENCY SERVICE PROVIDERS DEBATE THEIR KEY CHALLENGES
PRESSURE COOKING 76 DEMANDS ON THE TECHNOLOGY FOR FUND ADMINISTRATORS IS INCREASING

MARKET INFRASTRUCTURE
DON'T FEAR THE REPO 80 THE EUROPEAN REPO MARKET HAS REPORTED PHENOMENAL GROWTH

CONFERENCE DIGEST
EVENT HORIZON 88 ISJ PRESENTS THE HIGHLIGHTS FROM SIBOS 2005

REGULARS
FOURTH COLUMN 65 MARK WARMS ON FOREX IN THE SPOTLIGHT
MANDATES 82 PENSIONS FUNDS CONSOLIDATE ASSET SERVICES WITH SINGLE PROVIDERS
MOVERS AND SHAKERS 86 WHO HAS MOVED TO WHERE...
DIRECTORY OF SERVICES 92 CUSTODY, FUND ADMINISTRATION, SECURITIES LENDING, TECHNOLOGY, PRIME BROKERAGE, TRAINING & EDUCATION

WWW.ISJFORUM.COM

LETTERS

Write to
Janet.DuChenne@ISJforum.com

Dilligence Due

I am told in that in the real estate world the "mantra" is "Location…Location…Location". I suggest that in the investment, and particularly the hedge fund world the mantra should be "Due Diligence…Due Diligence…Due Diligence". I suggest, on basis of reports that I have read, that if every investor had carried out just a basic rudimentary due diligence check on Bayou, then the alleged fraud would never have taken place, because there would have been no money in the pot to run away with. Anyone who is investing a large sum of money in a hedge fund, whether for themselves or as a professional investor on behalf of third party clients, owes it to themselves to "check out the story" before they write their cheque and, of course, professional investors, including funds of funds and consultants have a fiduciary responsibility to carry out proper due diligence.

The first step in the due diligence process is to get an "RFP" (request for

> "Anyone who is investing a large sum of money in a hedge fund, owes it to themselves to "check out the story" before they write their cheque"

proposal) or a "Due Diligence Questionnaire" from the manager (such as the AIMA (Alternative Investment Management Association) "DDQ"). But that is only the first step and for the most part such questionnaires are usually a very good elimination, rather than selection, tool. If after reviewing the RFP and DDQ the prospective manager is not eliminated, then more detailed checks should be carried out, including a professional credit, character and credibility investigation which will turn up information, such as false claims such as having worked for a named investment manager as the "Head Trader" for five years!

The Bayou scandal should never have been allowed to happen. We all know that there is no regulation that will stop a determined crook, but even the most dedicated crook cannot abscond with your money if you don't give it to them in the first place.

> "The logic of creating a pooled or unitised arrangement of the investment administration of the collective pension funds across Europe has become very appealing"

I know one prominent fund of fund's manager who took a matter of minutes to realize that they "smelled" wrong – notwithstanding the old cliché that hindsight is 20/20 vision, it seems anyone who invested did not conduct a thorough due diligence process and, therefore, it is tempting to feel that perhaps they got what they deserved.

Dermot Butler, Chairman, Custom House Administration & Corporate Services Ltd

Talking Pensions

Developments around multinational pooling for pensions as part of the general influence of the EU Directive on Pensions continue to be a serious talking point for sponsors. While the debate is not new, there appears to be a fresh impetus amongst sponsors, fund managers and their advisors to explore the various options available to them. One influence on matters may be the trend towards centralised purchasing of investment administration services amongst the large European-owned multinational pension funds where previously the case for making a decision of this nature had been

> "the combined European pool of assets can be available for possible entry into attracitve arrangements around securities lending"

devolved to the local, country level.

To finance directors, human resource managers and ultimately the pension managers themselves the logic of creating a pooled or unitised arrangement of the investment administration of the collective pension funds across Europe has become very appealing.

At the Bank of New York we have found that quite apart from creating centralised purchasing power, there can be enormous service benefits in pooling such key 'guardian' roles as custody, record keeping, compliance monitoring and performance measurement. In addition, on a scaleable basis, the combined European pool of assets can be available for possible entry into attractive arrangements around securities lending.

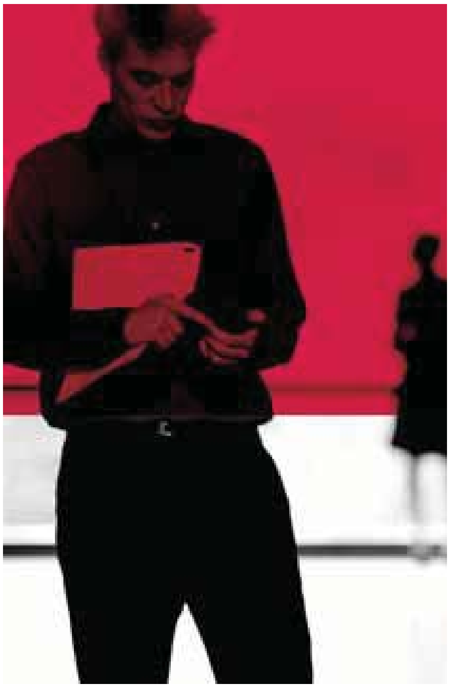
Among many European pension funds, multinational pooling of their custodial and accounting functions remains a long term goal. The renewed focus on pensions generated by the harmonisation debate embedded in the EU Directive may have helped take everyone one step closer to reality.

Benjie Fraser, Managing Director, The Bank of New York

Pooling: Take Heed

The options for managing diverse investments across multiple countries have come a long way with the development of tax-transparent pooling vehicles in Luxembourg and Ireland. Driven by demand from multinational corporations that wish to offer global equity mandates through a pooling vehicle to their pension plans worldwide, the Luxembourg Fonds Commun de Placement (FCP) and Irish Common Contractual Fund (CCF) offer the benefits of improved governance and risk management along with cost efficiency, without imposing a tax penalty on the participants.

(Continued on page 84)



Custody & Outsourcing

Edinburgh - Scottish Widows Investment Partnership (SWIP) has renewed its investment operations outsourcing arrangement with **State Street Corporation** following five years of successful partnership. The original outsourcing mandate, announced in October 2000, was an industry first in Europe. "The SWIP Business Operations team led by Arun Sarwal, our COO, conducted a comprehensive evaluation process over a 12 month period. The rigorous process focused on service levels, functionality, commitment and costs," said Archie Kane, Chief Executive of Scottish Widows and Chairman of SWIP. Chris Phillips, Chief Executive Officer at SWIP continued: "Outsourcing has enabled SWIP to have a robust, cost efficient and scaleable operating platform."

London - Mellon Financial Corporation and **Russell Investment Group today announced that Mellon has** acquired Russell's 50 percent share of the firms' successful joint venture – Russell/Mellon – and that the business' performance-related products and services will now be named **Mellon Analytical Solutions** (MAS). In addition, Russell will bring the management of all aspects of its Index business in-house. Russell/Mellon, established in January 1999, has more than 650 employees in five countries and more than $6 trillion in assets under measurement.

Amsterdam - After the successful transfer of its Belgian assets to Fortis Bank one year ago, HSBC Group recently decided to appoint Fortis Bank as sub-custodian for its Dutch assets. "Fortis Bank have proved their capability and competitiveness handling our Belgian assets and the Dutch custody for one of our subsidiaries, so we are confident that they will prove to be an excellent agent for HSBC. We look forward to a long and mutually beneficial relationship" says Brian Pettitt, Head of Network Management for HSBC.

Paris - **Société Générale Global Securities Services for Investors**, SG GSSI, has been retained as the sole custodian to handle **Reunica's** cash portfolio which amounts to close to 1 billion EURO in assets. SG GSSI was retained at the outcome of a public tender process that included several of the main local providers in the Paris marketplace. SG GSSI currently ranks 4th among securities custodians in Europe and 10th worldwide with 1,275 billion in assets under custody (end June 2005).

London - **Citigroup Global Transaction Services**, a business line of Citigroup Corporate and Investment Banking, Clearstream and Barclays Capital have executed the first ever quad-party securities financing trade, following a collaborative effort to develop a new collateral custody service facility to enable easier financing of international and domestic assets. Quad-party Repo is an extension of the Tripartite Repo Service of Clearstream. The fourth party involved - the local agent bank appointed by the cash taker to hold their domestic assets - becomes an extension of the triparty set up. Instead of forcing the cash taker to move the assets from their domestic agent bank into the international market for financing, quad-party enables the triparty repo to be extended into domestic markets, thereby respecting the cash takers choice of where they want to hold their assets.

London - **International Financial Data Services** (IFDS), the international transfer agency joint venture between **State Street** and **DST**, has signed **Investec** to its eDistributor solution. The eDistributor solution is a centralised service for nominee and institutional dealing, enquiry and the provision of online reporting and downloads.

Securities Lending

London - **4sight Financial Software**, a provider of securities finance software to the financial markets industry, and Performance Explorer Ltd, a subsidiary of **Dataexplorers Ltd**, the independent provider of securities lending performance, risk, market impact and reporting services, have had developed a link between their systems. Joint customers will be allowed to launch Performance Explorer™ from 4sight's position monitor and trade entry windows at the click of a button. The connectivity tool will automatically log-in to the selected stock window in Performance Explorer™ giving an immediate sense of market rates and depth.

STP & Technology

London - **SmartStream Technologies**, the provider of Transaction Lifecycle Management solutions, has launched **TLM® Corona**. This new Corona product has been developed to be central to SmartStream's STP Control Architecture Web platform and is focused on reducing its Total Cost of Ownership (TCO). TLM® Corona is a new offering specifically for clients wanting to access all the deep functionality of Corona, using a web client. TLM® Corona also provides users with access to SmartStream's entire range of TLM® products including tender offers, conversions, stock splits, and nearly 100 other types of events for equities and fixed-income instruments traded in Europe, Asia-Pacific and the Americas.

London - **FT Interactive Data Europe**, a leading supplier of financial information and analytical software to global markets, has announced the general availability of its Fair Value Information Service to European domiciled funds. Three clients are already using the service in Europe. FT Interactive Data's Fair Value Information Service is designed to provide subscribers with information that can be used to estimate a price that would likely prevail in a liquid market for an issue traded on exchanges that have closed prior to the fund's net asset value (NAV) calculation time. The evaluation provided takes into consideration the latest market information available.

Custody & Outsourcing

New York - **Northern Trust**, leading provider of global custody, asset administration and investment management services, announced today that it has established an Investment Manager Liaison Group (IMLG) office in New York City to support the firm's growing number of investment manager relationships in the Northeast. Supplementing Northern Trust IMLG offices in Chicago, London and Singapore, the New York group will assist investment managers in the region with trade settlement, performance analysis, daily valuation and other services offered through the firm's premier master trust and custody services. The New York group will be based at Northern Trust's International Banking Corporation subsidiary, which is a leading provider of U.S. dollar payment and clearing services, located at 40 Broad Street in Manhattan.

Funds & Administration

New York - **Fidelity International** has cut the annual management charge on its UK index tracker fund to just 0.1 per cent to offer savers the cheapest entry to the stock market. Fidelity, the UK's largest mutual fund manager, has calculated that UK tracker investors could save themselves about £55 million in total charges each year if they switched to the MoneyBuilder Index Fund to take advantage of the fee cut. The yearly management fee on a £5,000 investment in the Fidelity MoneyBuilder UK Index Fund is now just £5. The total cost of the fund, as measured by the total expense ratio (TER), drops to just 0.3 per cent, now the lowest in the market.Research by Fidelity reveals that 16 fund groups are still imposing 1 per cent or more in annual charges on UK tracker funds which shadow the movement of indexes such as the FTSE All-Share or the FTSE 100.4 These tracker funds have a combined value of £4.6 billion, making up nearly half of the £12.3 billion in UK tracker funds.

Market Infrastructure

CLS Bank International is to extend the CLS Settlement product. By 2007, CLS Bank will offer a complete end-to-end service post execution to settlement of cash flow positions for non-deliverable forwards (NDFs) and FX option premiums. CLS Bank currently settles payment instructions related to trades executed in four main instruments – FX spot, FX forwards, FX option exercises and FX swaps. Extending CLS Settlement to NDFs and FX option premiums will mean that manual intervention will be eliminated from the process for both instruments. CLS Bank will provide complete all-in-one straight through processing with considerable cost benefits, and an accompanying standard legal framework to govern the process.

New York - Financial services firms around the world can now access **The Depository Trust & Clearing Corporation's** (DTCC) Global Corporate Action (GCA) Validation Service via SWIFTNet, the international, interactive, file-transfer messaging service. DTCC announced the enhancement to its award-winning service today at Sibos 2005, **SWIFT**'s annual industry conference, in Copenhagen. GCA Validation Service provides a centralized source of "scrubbed" information about corporate actions, including tender offers, conversions, stock splits, and nearly 100 other types of events for equities and fixed-income instruments traded in Europe, Asia-Pacific and the Americas. The ISO 15022-compliant GCA service delivers comprehensive, accurate and timely information, helping to optimize front-office trading and reduce operational losses.

STP & Technology

New York - **Fundtech** Ltd., a provider of end-to-end corporate banking software and services, and **BT Radianz**, a global provider of financial services connectivity, have announced that customers of BT Radianz will now have access to SWIFT Services through Fundtech's SWIFT ServiceBureau. BT Radianz customers who use the Fundtech ServiceBureau will extend their existing messaging capability to include access to counterparties on SWIFT and to selected domestic clearing services, in the post-trade settlement process.

Boston - Omgeo, the leading provider of trade management solutions today demonstrated its commitment to driving innovation in trade processing by announcing its newest offering, Omgeo Connect. Omgeo Connect will provide pre-integrated connectivity to Omgeo and other third-party post-trade solutions across various asset classes, enabling trade and settlement management via an ASP environment. Developed in consultation with the industry, Omgeo Connect will provide a single point of access to the multiple market infrastructures, data providers and trade counterparties involved in the post-trade process. It will lower risk, reduce complexity in trade processing and increase efficiency for securities firms.

New York - **Accenture** and **Citadel Investment Group** , LLC have signed a ten-year agreement under which Accenture will manage key aspects of Citadel's financial data management processes to help Citadel enhance the quality of its market information and secure greater returns from its data operations. The agreement involves a crucial type of financial information known as "reference data," which are the permanent codes, identifiers, descriptive information and historical data about stocks, bonds and other financial instruments.

New York - **Investment Technology Group**, Inc., a provider of technology-based equity trading services and transaction research, today announced that it has entered into a definitive agreement to acquire **Plexus Group**, Inc., a Los Angeles based firm dedicated to enhancing investment performance. mately $12 million.

Custody & Outsourcing

Moscow - **Hansabank** inaugurated its new Russian branch on Sadovaya-Spasskaya 24 in Moscow. The branch will offer qualified banking services to Baltic, Scandinavian and existing Russian business customers. “The inauguration of the bank branch in Moscow today is another step in the realization of FöreningsSparbanken’s international strategy. As in the Baltic countries, we see interesting growth opportunities in Russia and we want to follow our customers as they expand their business with Russian companies,” said Jan Lidén, President and CEO of **FöreningsSparbanken**. A wholly owned subsidiary of FöreningsSparbanken since July of this year, Hansabank had already offered leasing services in Moscow, St. Petersburg and Kaliningrad. Later this year it plans to add new bank branches in St. Petersburg and Kaliningrad.

By year-end the number of employees in Russia will rise from 72 today to around 190. Hansabank in Russia is headed by Mr Druvis Murmanis, who is also member of Hansabank’s board of directors.

Tokyo - **Mitsubishi Tokyo Financial Group** and **UFJ Holdings** have merged and began operations as **Mitsubishi UFJ** Financial Group, Inc. (MUFG). Also on October 1 2005, subsidiary companies The Mitsubishi Trust and Banking Corporation and UFJ Trust Bank Limited merged to form Mitsubishi UFJ Trust and Banking Corporation, and subsidiary companies Mitsubishi Securities Co., Ltd. and UFJ Tsubasa Securities Co., Ltd. merged to form Mitsubishi UFJ Securities Co., Ltd.

The merger to form MUFG also marks the establishment, on October 1 2005, of new subsidiaries such as Mitsubishi UFJ Asset Management, UFJ Nicos, Mitsubishi UFJ Capital, Mitsubishi UFJ Factors and Mitsubishi UFJ Real Estate Services, and heralds the creation of a group with a strong presence in each of its business categories. The Bank of Tokyo-Mitsubishi, Ltd. and UFJ Bank Limited are also currently making preparations to merge on January 1, 2006 to form The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Shenzhen - **HSBC Insurance Holdings Limited** acquired a further 9.91 per cent of the issued share capital of Ping An Insurance (Group) Company of China, Ltd. for HK$8,104 million (US$1,039 million).

As permitted under the agreements, HSBC Insurance assigned its rights to acquire the shares to The Hongkong and Shanghai Banking Corporation Limited, another wholly-owned subsidiary of HSBC Holdings plc. The Hongkong and Shanghai Banking Corporation acquired 613,929,279 Ping An shares from The Goldman Sachs Group, Inc. and MSCP/PA Holding Limited, an entity controlled by funds managed by the private equity business of Morgan Stanley, for a cash consideration of HK$13.20 (US$1.69) per share. This acquisition brings HSBC’s aggregate holding in Ping An to 19.90 per cent. HSBC Insurance Holdings Limited continues to hold the 9.99 per cent investment in Ping An it acquired in November 2002.

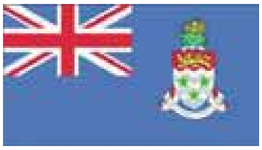
Hong Kong - **State Street Corporation**, one of the first global custodians to implement an International Accounting Standard 39 (IAS 39) offering, hashosted a seminar for customers in Hong Kong on the IAS 39: Financial Instruments – Recognition and Measurement. Held at the Mandarin Oriental Hotel, the seminar was the third in a series arranged by State Street throughout the region, featuring expert speakers from State Street and **PricewaterhouseCoopers** (PwC). "We're very proud that State Street is the first global custodian in the Asia-Pacific region to provide a local accounting solution that is in compliance with IAS 39." said K K Tse, executive vice president for investment services for State Street. "Our customers rely on us to be at the leading edge of regulatory and accounting issues and to develop solutions that make their business easier. We're committed to delivering on this service promise."

IAS 39 is one of the most complex accounting standards ever issued by the International Accounting Standards Board. The standard is expected to require significant changes to companies' existing accounting systems and policies. The State Street seminar provided an opportunity for customers to share information and interpretation on IAS 39, implementation issues and review State Street 's accounting solution.

"We are delighted to be involved in this series of seminars. Both State Street and PricewaterhouseCoopers share a common vision to help our customers navigate an increasingly complex accounting terrain," said **Mr. Chua Kim Chiu**, PwC partner based in Singapore.

Singapore - **DBS Group Holdings** announced that **S. Dhanabalan** will step down as chairman of DBSH and DBS Bank boards on December 31, 2005. Koh Boon Hwee will assume chairmanship of both boards on January 1, 2006. Dhanabalan said : “For the last seven years the Board and the management team dedicated ourselves to transforming DBS from a Singapore-centric bank focussed on traditional banking services to a bank with an increasing part of its revenues from outside Singapore and more diversified revenue streams, renowned for quality, value-added and innovative services. I am pleased with the progress we have made to become a well-managed bank anchored in Asia, combining strong capital, good governance, high credit ratings, run by a seasoned team of specialists in Asian-banking. Our work is far from over and I am very pleased that **Boon Hwee** has agreed to take over from me.”

Cayman, Jersey and Luxembourg are developing their fund regimes to attract more business. Our industry correspondents comment on how these efforts are paying off.



Valia Theodoraki

The Cayman Islands enacted its Mutual Funds Law in 1993 and subsequently, funds have become a key sector with almost 7,000 under license. The Cayman Islands Monetary Authority (CIMA) provides regulatory oversight. One of the advantages of Cayman's fund industry is the depth of expertise in global finance, delivered by world-class law, accounting and fund administration firms. Cayman's legislative framework allows for sophisticated investment techniques, including leveraging portfolios to a substantial extent, making loans of securities on an unlimited basis and investing without restriction in any currency or instrument. Three types of fund structures are offered: 1. Registered funds, which must have either a minimum aggregate equity interest of US$50,000 purchasable by a prospective investor or the equity interests must be listed on a stock exchange approved by CIMA;
2. Administered funds, which must have a licensed mutual fund administrator providing its principal office in the Cayman Islands; and 3. Licensed funds, which must be operated by large, reputable institutions able to provide full services in-house. They are not required to appoint Cayman service providers, but must have either a registered office in the Cayman Islands or, if a unit trust, a trust company licensed under the Banks and Trust Companies Law as its trustee. With the establishment of the Cayman Islands Stock Exchange (CSX) in 1997, the industry was further enhanced by access to a first-class listing facility. A combination of progressive listing rules, professional expertise and quality service has helped the CSX grow significantly since its inception. It currently has close to 1,000 issues approved for listing, a large proportion of which are investment funds. Much of the growth can be attributed to alternative investments – in particular, hedge funds – a product for which the CSX has gained significant global market share. The majority of funds listed on the CSX are institutional and include umbrella funds, funds of funds and master feeder structures.

Valia Theodoraki, Chief Executive, Cayman Islands Stock Exchange

Graeme McArthur

It continues to be an extremely encouraging year for the funds industry in Jersey.

The latest statistics compiled by the Island's financial regulator, the Jersey Financial Services Commission, has shown that assets in the funds sector have increased more than 14 per cent in the year to the end of June and, during the same period, the growth of the specialist sector has risen by 68 per cent.

The total value of Jersey's funds industry currently stands at a record high of £112 bn.

Not surprisingly, given the success of the new Expert Fund and Non Domiciled Fund regime, the increases have been led by hedge, property, private equity and fund of funds, which now represents approximately half the total fund assets administered.

Jersey's figures mirror the significant growth being experienced world-wide for hedge funds.

However, Jersey's growth in both hedge fund and fund of hedge fund business, at such a time of intense competition, has shown that Jersey has the regulatory environment, the sound corporate governance and the high quality service providers, to compete effectively.

The industry in Jersey is now awaiting the arrival of protected cell company legislation, which particularly lends itself to hedge fund type investments, onto the Statute.

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

STOP PRESS Jersey regulators announced intentions to overhaul the legal framework for funds functionaries by bringing them within the scope of the Financial Services Jersey Law. This is seen as part of a continuing programme of enhancement to its fund regulations. *ISJ*

Jean-Jacques Picard

Luxembourg has definitely established itself as a major centre for the domiciliation and administration of hedge funds and funds of hedge funds.

The results of the latest ALFI (Association Luxembourgeoise des Fonds d'Investissement) hedge fund survey, dated 30 June 2005 and presented at this year's ALFI-AIMA (Alternative Investment Management Association) Alternative Investments Conference in Luxembourg in mid-September 2005, shows that there are 43 companies active in the market, between them administering Euro 22 bn in hedge funds and Euro 65 bn in funds of hedge funds, a combined total of Euro 87 bn or US$105 bn.

Over the last twelve months, this represents an astonishing growth rate of 120 per cent for hedge funds and 41 per cent for fund of hedge funds.

The Luxembourg hedge fund sector is growing significantly faster than the sector as a whole and now represents just under 10 per cent of global hedge fund assets, estimated at Eur 900bn (USD 1,100bn). Since 1998, Luxembourg has grown its market share from 3 per cent to 10 per cent in a rapidly expanding market.

Luxembourg has a peculiarity by comparison with other hedge fund centres in that the majority of pure hedge funds are both domiciled and administered in the Grand Duchy.

This percentage has steadily risen since the ALFI tracking study began and now represents 71 per cent of portfolios and 85 per cent of assets, attesting to the fact that hedge fund promoters consider Luxembourg a useful label with which to market their product.

Jean-Jacques Picard, Director Public Relations Association of the Luxembourg Fund Industry - ALFI

Each year, global custodians spend millions of dollars on technology and systems.

JPMorgan WSS's **Mike Clark** considers the importance of this investment.

Universally Speaking

Mike Clark

Engaging with decision makers at the securities industry's biggest event is no easy task, especially when there are 6,000 of them present in one room. Professionals must be alert and extremely well versed in the main challenges facing their clients, two jobs which Mike Clark executes with the greatest of ease. The head of JPMorgan Worldwide Securities Services managed to escape the Sibos routine of back-to-back meetings to tell ISJ about an industry on the verge of transformation. Seated in an on-site meeting room at Sibos 2005, Clark first reflects on his inroads into one of the world's biggest banks. His career began within the custody, clearing and prime brokerage business of Bankers Trust in the mid-1980s. Following his time here, Clark moved to JPMorgan (then Chase) in the mid-1990s to focus on Institutional Trust-related products. His role then moved on to include securities clearing and collateral management in the late 1990s. Earlier this year, following the merger of JPMorgan and Bank One, Clark was given an opportunity to re-enter the now combined custody, clearing, securities lending and trust space. He currently runs JPMorgan's Worldwide Securities Services business, including the management of 40 products. With a wealth of experience in securities-based processing, his remit is centered on securities-related activities of both the buy and the sell side, including corporate trust, traditional investments and alternative investments servicing.

Under Clark's leadership, JPMorgan WSS has evolved into a $3.6 bn franchise. Second quarter revenues have increased by 18 per cent, year on year. "This growth pattern is driven by the fact that we have a set of very good traditional products to deliver to clients," says Clark.

The traditional products include custody, clearing, securities lending and performance benchmarking. "We have long-standing client relationships and our customer service is continually getting better," says Clark. "We are able to win a lot of business involving appointments for transfer and we continue to add to the talent of the team."

JPMorgan WSS assets under custody are about $10.2 trillion dollars. "We feel very good about our ability to grow the business and we're investing significantly in technology."

Another point of View

VIEWS is JPMorgan's latest client facing technology solution, which sets the provider apart from other competitors in the securities services space. The product collects all JPMorgan data, stores it in a data warehouse (comprising 10,000 data elements) and enables clients to construct their own data reports. This self service tool provides clients access to a massive information base, enabling them to synthesise and transfer information. The development of this client facing technology is deeply embedded in JPMorgan's servicing approach. "We are working on other tools like instruction management, which is another important client facing tool," says Clark. "We receive many different forms and formats of data from our clients. On many occasions clients want to provide us with their accounting and securities instructions in the same transaction. We take the instruction, rationalise how it should be dealt with and add certain features for the client. The client does not necessarily conform to our formatting standards, but they can use their own data and route it seamlessly through our own systems."

JPMorgan has begun to roll out its instruction management tool and has also invested in fund accounting systems. "The Exception Management System (EMS) is an overlay to our fund accounting process that analyses all the exceptions up front," says. "For example, one of the features of a general ledger account is that entries should be between $1,000 and $5,000. If the system sees a $500,000 entry, before you get to the NAV stage, the system picks up that entry and recognises that it falls outside of the parameters. This filtering and refinement of data helps when it comes to doing the NAV on an investment."

The EMS is currently being tested with JPMorgan's Boston fund accounting platform and will be rolled out to other fund accounting platforms around the world.

Outsourcing

Apart from the investment in fund accounting technology, JPMorgan WSS is heavily focussed on outsourcing. The most recent client conversion is Morley Fund Managers and the provider is halfway through converting Barclays Global Investors. "We have gone through the first couple of phases and feel very comfortable about our advancement here," says Clark.

As the securities services industry continues to evolve, the term outsourcing assumes different definitions for different providers. "When dealing with clients, the end stage you should aim for should be a component based proposition. This ensures that the service is scaleable. I also appreciate that a lift out may be necessary in certain cases. Clients will often say 'my securities platform doesn't have the capacity for me, and I have to focus on other areas of my business." Quite often, you have to do a lift out and hopefully you can evolve from here to a model that can be commercially leveragable for both parties. We are very sensitive to ensuring the bespoke model is scaleable. We talk to clients about what they really want to accomplish and break these goals into components. Quite often we have clients who want us to take everything. We break these elements down, and then point out the components which clients may get value out of by outsourcing them, and point out which functions should be managed internally by the client. This commercial model is often better for the client and for the provider."

Outsourcing became very trendy in 2000 and 2001 and clients often said 'yes' to commercially non-feasible transactions involving custody and securities lending or both. "The market has become a lot smarter, " says Clark. "We have several current bids for outsourcing transactions and we're excited about every one of them. We carefully analyse each one. We're going to do as much oustourcing as is feasible and as much capacity as we can absorb in a reasonable amount of time."

JPMorgan's integration of Morley's insurance platform has been a successful tale in the UK. "The UK has a lot of potential at present," says Clark. "We have started to hire in a lot of outsourcing-specific expertise. We have good strategic outsourcing centres, including South Africa, Australia and EMEA."

Investments

In addition to outsourcing platforms, securities services providers like JPMorgan have a keen sense of how clients are investing. "A lot of the activities and investment strategies of our clients show us that alternative investments are a key component of where people are headed," says Clark. "These strategies include derivatives and hedge funds. Our interest may involve servicing hedge funds, leveraged loans and private equity. The people who will excel in this business are those with the ability to serve those instruments in conjunction with other securities."

In order to serve the alternative investments arena, JPMorgan has acquired a company called FCS, which specialises in leveraged loans. According to Clark, the company manages about 90 per cent of the world's leveraged loan data. In addition to FCS, JPMorgan bought a hedge fund administrator called Tranaut and is currently looking at additional acquisitions in the hedge fund space. "We have also just created a derivatives hub, and are building a lot of surround features for this technology. We believe we have superior transaction execution services for securities lending. We are bolstering our relationship management offering and our reporting capabilities are being modified so that we can offer clients an exceptional service."

> "We are working on other tools like construction management, which is another important clientfacing tool"

Automation

This exceptional service extends to ridding buyside institutions of their fax-based trade execution strategies. According to Clark, this effort cannot be left to the service providers and industry utilities like SWIFT can play a more active role. Sensing a SWIFT presence in the audience of his recent Sibos presentation, Clark provided the utility with another task for its to-do list. "In the last three days of the second quarter we passed 1.5 million faxes, containing instructions for leveraged and syndicated loans. These loans are an ideal environment for standard formats of information and protocol. These areas should be focused on. The SWIFT securities group has worked well in dealing with securities and cash-based information. Alternative investment has become a new frontier for them to look at. This will lead to further management of process and risk. We have not seen a real challenge to the infrastructure for these hybrid, complex products because the market has not been hit with a volatility shock. The market and yield curve have been ascending and we've not had any trauma other than in the price of oil. I firmly believe that SWIFT can be effective in this emerging arena, and its members need to create a continued sense of urgency by making standardisation a focal point. Introducing hedge fund managers and service providers to SWIFT members would probably enrich some of these firms' perspectives so that standardisation issues can be defined and then dealt with."

Asked if the securities industry is en-route to ending all

"People should be very sensitive to buying the expertise of established franchises when those expertise include some of your current feature functions"

At Sibos 2005

paper-based functions, Clark recalls a challenge he posed to SWIFT at this year's Sibos event. "The utility got rid of the telex and now it has to get rid of the fax," he says. "There will always be extraordinary measures used to deal with data flow in the areas of derivatives, hedge funds and leverage loans. This data does not flow through an industry-shared utility, but through proprietary networks. We appreciate that people have proprietary networks, we have to be sensitive to the business models that are underneath the alternative investment industry. There has to be a way of sharing this data through an industry channel."

Consolidation

In addition to standardisation in securities processing instructions, the securities services community has been vocal on the subject of infrastructure consolidation in Europe. "There are movements in that direction, and you hear the question from regulators who study settlements and movements between various countries and clearing mechanisms," says Clark. "The creation of the European ICSDs and the rules for Eurobonds are good movements as they afford the industry these points of centrality. These points of centrality should not be viewed as a competitor with an unfair advantage. I believe Euroclear is designed appropriately and has done some very good work. I would also suggest that Clearstream, although it has a vertical model, has also been sensitive enough to offer the securities industry a point of centrality where users get the benefits of one computer platform."

Consolidation among securities industry providers has also been a key talking point. But Clark encourages providers to be weary when considering whether to make or buy. "People should be very sensitive to buying the expertise of established franchises when those expertise include some of your current feature functions," he says. "The acquisitions of leverage loan technology company FCS and the hedge fund administrator Tranaut have been highly effective for us. We are expanding our ability to provide additional services and products. Acquisitions will continue for providers who want an end-state model. As time goes on, people who do not have enough scale will have to exit because they cannot get the growth. I am pleased to say we have the scale, the client base and the product offering. If the right deal came along, we would always consider a transaction. Even without those transactions, however, we have a premium franchise that is growing and I feel really comfortable that we are moving towards an end-state model. We are continually re-evaluating our processing models in order to move towards the next spaces and look towards the next areas of securities processing that need to be solved."

Future

JPMorgan is pressing forward with an aggressive technology agenda, a comprehensive client reporting mechanism and a number of potential outsourcing deals on the horizon. "We are building on our fund accounting capability and are differentiating ourselves in securities lending, in reporting and relationship management investments," says Clark. "We have a lot of things going on in all corners of the world. We maintain global business operations in

EMEA and in the US market place where we already have a significant presence. We are managing growth initiatives, technology enhancements and we continue to hire people with specialist expertise in hedge funds and derivatives. We have a very full agenda but it's extremely exciting."

Michael Clark
Executive Vice President and
Global Business Executive
JPMorgan Worldwide Securities Services

Michael Clark is the global business executive in charge of JPMorgan's Worldwide Securities Services business, which is part of the firm's Treasury & Securities Services franchise. Clark is a member of the firm's Executive Committee, the senior group that advises the Office of the Chairman on strategy. Worldwide Securities Services is a global leader in providing innovative products and services to the world's largest institutional investors and debt and equity issuers. With $10.2 trillion in assets under custody, the business also services $6.7 trillion in debt and $250 billion in equities worldwide.

Clark joined JPMorgan in 1994, and was made head of its Institutional Trust Services business in 2000. Additionally, he assumed the leadership of JPMorgan's Investor Services business in January, 2005. The firm combined its investor and issuer capabilities under the name JPMorgan Worldwide Securities Services in April, 2005.

Before joining JPMorgan, Clark held a variety of management and product development positions at Bankers Trust Company, where he developed servicing models and products for the retirement services, global custody and institutional trust business lines. He managed the broker/dealer clearance products; and created a prime brokerage product in support of the hedge fund market.

Clark earned his undergraduate degree from SUNY Maritime and an Executive MBA from New York University. Clark is a U.S. Coast Guard qualified Third Mate, and was a Captain in the United States Marine Corps. He is an NASD registered principle.

STOP PRESS: JPMorgan Worldwide Securities Services has launched VIEWS Portfolio Reporting technology, a system for institutional investors to report custody, accounting and securities lending activities.

The new and enhanced JPMorgan VIEWS Portfolio Reporting technology gives executives, accounting and operations staff at banks, money management firms, mutual funds, insurance companies and pension funds one of the industry's most comprehensive, flexible and powerful sets of reporting, research and analytical tools.

The VIEWS Portfolio Reporting technology enables clients to integrate and access data across multiple disciplines including custody, accounting, securities lending, and compliance. VIEWS also provides a link to performance measurement.

"We are building on our fund accounting capability and are differentiating ourselves in securities lending, in reporting and relationship management investments"

The offshore centres of the Caribbean and Bermuda have received top marks in compliance from the international regulators. **Janet Du Chenne** spoke to service providers in these centre's about their walk to recognition

Clear Shores

IN US and European terms, the subject of regulation has become as popular as the general elections or the price of oil. The focus on regulation may at times prove onerous for fund promoters and fund managers, but the end result is that investors are protected. While offshore regulation may seem easier for fund promoters and manufacturers to deal with, the latest message to these companies is clear: offshore centes are no soft touch.

The regulations governing these fund centres may notably be more flexible than those in the onshore centres, but they were enacted before those in the US and Europe and they are constantly being updated to ensure compliance and investor protection.

This blend of regulatory flexibility and compliance comes as no surprise when considering the number of funds listed in the offshore centres. For example, There are currently close to 6,000 funds registered in the Cayman Islands. According to Ted Bravakis, spokesperson for the Cayman Islands Government, the centre's potential for funds set up and administration is attributable to a number of factors. "One is the global financial expertise that exist here, including legal, accounting, auditing and fund administration," he says. "The other major factor is the flexibility afforded by the broad range of structures available and the clarity of the Mutual Funds Law, which Cayman introduced in 1993."

Established in 1997, the Cayman Islands Stock Exchange contributes to the credibility of the offshore centres. The Exchange has afforded Cayman the brand of a "one-stop shop", including the ability to list investment funds. "The progressive listing role, professional expertise and quality of service have helped the CSX gain a lot of recognition in the global funds arena," says Bravakis.

Ted Bravakis

The merger and acquisition activity currently gripping the global financial community has proved beneficial to the offshore centres. "The basis of consolidation centres on helping companies to capitalise on market opportunities and bring together expertise for growth," says Bravakis. "What is happening here has contributed to the quality of the jurisdiction, which hosts a lot of branch offices of global enterprises. The top four accounting firms are here, the big fund companies are here and the number of legal firms specialising in global finance has grown significantly."

Regulation

Despite efforts to ensure compliance, Cayman's professionals fear there is little awareness of its regulatory approach. "We recognise that an appropriate regulatory and legal environment is not an impediment to business but rather a key driver of commercial success," says Bravakis.

In the fight against global financial crime, offshore centres like Cayman have endured increased scrutiny and have had to combine global regulatory practices with local practices. These practices are monitored by the Cayman Islands

Monetary Authority, which oversees compliance programmes within the insurance, banking and investment sectors. It also has the lead responsibility to uphold Cayman's international commitments and agreements in the areas of anti-money laundering and prevention of financial crime. Cayman has a series of progressive information exchange agreements to combat tax evasion and other financial crimes.

The jurisdiction has made the most out of the European Union Savings Directive, which forces the final paying agent in centres governed by the Directive, to either declare the underlying investors to the regulator or to pay a withholding tax. "Many within the industry said the directive would have a significant negative impact on our business," says Bravakis. "But we have not seen this negative decline and we believe this is due to the fact that we worked closely with our industry to our ensure the EUSD was implemented in the best way possible for all concerned. We also believe that we have been insulated against the EUSD's potential ill-effects because we have a diversified, well-rounded industry that covers both individual and institutional investment across many sectors."

Cayman expects to be impacted by the requirements of the Securities & Exchange Commission in the US. The SEC requests that all hedge fund managers, which sell to US investors, should be SEC-registered by January 2006.

Challenges

Cayman continues to build its fund business in a market where many of the financial services on offer have become "commoditised". Cayman has also worked to shed the outdated image of a centre associated with clandestine secret activities, with little or no regulation. Today, the International Monetary Fund assessment programme has fully endorsed its regulatory regime. "We feel that we need to secure more of those endorsements and progress reports and earn recognition for our accomplishments by objective, third-party audiences," says Bravakis.

Investments

Cayman's mutual fund law of 1993 still remains the framework for establishing hedge funds in Cayman, says Sean Flynn, Managing Director of UBS Hedge Fund Services in the Cayman Islands.

Over the last five years, Cayman has significantly strengthened its overall regulatory framework, resulting in tougher anti money laundering legislation along with stricter know your client procedures.

"The jurisdiction is seen as having equivalent anti-money laundering standards to those in most onshore centres," says Flynn. "Cayman has approximately 60 per cent of the market share, out of 90 per cent of hedge funds that are domiciled offshore. Onshore centres such as Luxembourg, Dublin, Italy, Germany and France have recently introduced regulatory frameworks to allow for the set up of hedge funds with limited success to date, as it is both more expensive and time consuming to establish. However, the trend is for pension funds and other institutional investors to want to invest in onshore products. There is currently more competition between the offshore centres than between offshore and onshore, but this may change. At present, only a small number of funds are being set up onshore, compared to the funds being set up offshore."

> "The regulation here is a by-product of the number of funds that have entered the industry"
> Robert Searle - Campbells

The growth of the global hedge funds industry in recent years has sparked major opportunities within the fund administration industry. "A significant number of players have entered the fund administration business," says Flynn. "Owing to the number of mergers, acquisition and consolidation in the last few years, the major providers who run this business are now part of large global financial institutions. Clients are presently looking at the ability of the administrator to offer add-on services in the areas of KYC and compliance with Patriot Act requirements etc."

The pressure on offshore centres is expected to continue from global institutions such as the OECD.

Despite the recent slow down in hedge fund performance and assets moving into hedge funds, Flynn is confident of further opportunities. "My opinion is that this is a business that will continue to grow," he says. "If you are a fund administrator or you service hedge funds, there is still opportunity for growth. Most of these funds are domiciled offshore, whereas most of the administration takes place in Cayman and Dublin. Many fund administration centres have various staffing challenges. The need to recruit quality staff and make significant IT investments is a challenge. The increasing complexity in some of the liquid securities and highly complex derivative instruments, which hedge funds trade, is another challenge. "Administrators need skilled and experienced staff and state of the art systems for independent evaluation of these instruments and to ensure they are not reliant, in any respect, on pricing from the fund manager."

Recognition

According to Attorney Robert Searle of Campbells, a leading offshore law firm based in the Cayman Islands, the offshore centres have recognised the increased level of investment in hedge funds. "Investors into these funds are looking for protection," he says. "We have to blend our flexibility as a funds centre with a focus on investor protection."

Searle attests to the increased focus on anti-money laundering in Cayman and other offshore centres to the extent that some people find there is actually more regulation offshore than there is onshore.

"The regulation here is a by-product of the number of funds that have entered the industry," he says. "The regulation has often enticed many offshore managers who are seeking a more flexible regulatory approach than what is offered by onshore funds."

Domiciliation

Typically, the main offshore centres for offshore hedge funds domiciliation are the Cayman Islands, the British Virgin Islands, Bermuda and to a lesser extent Bahamas and the Netherlands Antilles. "These are the jurisdictions where our clients typically incorporate their hedge funds," says Ian Pilgrim, General Counsel for Citco Fund Services. "The Cayman Islands probably has a considerable lead over the other jurisdictions in terms of numbers of fund incorporations."

Offshore hedge funds are sold to sophisticated investors who have the ability to assess the risks and make an informed investment decision. This essentially creates two different markets. "I wouldn't say the offshore centres are competing with the onshore centres," says Pilgrim. "It is more a case of offshore centres competing with each other, rather than with the likes of Luxembourg, Ireland and the Channel Islands."

Administration

In contrast to the views held by other offshore service providers, Pilgrim believes the word consolidation, when looking at the hedge fund administration industry, is somewhat of a misperception. "Consolidation seems to imply that existing administrators are buying up other administrators," he says. "What is really happening is that banks, and prime brokers and other financial institutions are getting into the hedge fund administration business by acquiring existing administrators."

In the last three years, several important fund administration acquisitions have occurred. These include the acquisition of Hemisphere in Bermuda by BISYS, Bank of Bermuda by HSBC, IFA by the Bank of New York, IFS by State Street, Forum Financial Services by Citigroup and Tranaut by JPMorgan. A handful of prime brokers have also entered the hedge fund administration arena. Goldman Sachs and UBS have their own hedge fund administration businesses and more recently, Morgan Stanley has set up its own fund administration business. Explaining the attraction in fund administration, Pilgrim says: "The growth of the hedge fund industry has led to an equivalent growth in the hedge fund administration industry. Banks and brokers have realised this is a profitable sector to be in."

As one of the of the last remaining privately held administrators, Citco Fund Services attaches great value to its independent status. "Consolidation within the fund administration business hasn't really had any impact on the

offshore fund centres, it has merely resulted in caused a change in ownership," says Pilgrim. "It does mean that some of the larger banks and brokerages are establishing a presence in these offshore these centres as a result of these acquisitions, which can only enhance the reputation of theose centres."

SEC

The SEC's recent ruling requiring registration of investment advisors, in certain circumstances, does not really have an impact on the offshore financial centres. "If there are US investment advisors wishing to avoid SEC registration, one or two of them have considered setting up their investment management operations in offshore financial centres. The majority of US investment advisers that we deal with them have accepted that increased regulation of investment advisers is imminent and they are currently taking the necessary steps will have to register."

> "Offshore centres have worked very dilligently to ensure they meet international standards and in a lot of instances they exceed international standards"
> Ian Pilgrim - Citco

A handful of the larger investment advisers have considered implementing the two-year lock up in funds they advise to be excluded from the registration requirements. The SEC ruling extends to non-US investment advisors, which have or advise US-feeder funds with more than 14 investors. "Certain non-US investment managers with US feeder funds, which have an offshore structure, are establishing offshore funds for US investors," says Pilgrim. "In this way they are not directly advising a US entity and while they are still required to register with the SEC, they can take advantage of a lighter registration regime of registration called SEC-light. They're subject to certain requirements of the Investment Advisors Act. Some of them are setting up offshore feeder funds for their US taxable investors. The European Union Taxation of Savings Directive has had far more impact on the offshore financial centres, including jurisdictions that are subject to the Directive and have agreed to adopt equivalent measures. These centres include the Netherlands Antilles, the Cayman Islands and the BVI. In certain circumstances the Ddirective can apply to hedge funds."

Prior to the EUSD, reports on offshore centres by KPMG and the IMF assesments have ensured that regulation within the offshore centres meets with international standards, including AML laws. "Offshore centres have worked very dilligently to ensure they meet international standards and in a lot of instances they exceed international standards," says Pilgrim.

Acceptance

Like its offshore counterparts, Bermuda has also embraced a host of international regulatory standards. "This, we hope will continue to maintain Bermuda's position as the premier offshore financial centre, particularly in the funds area," says Greg Wojciechowski, CEO of the Bermuda Stock Exchange. Apart from regulation, Bermuda recognises and has in fact experienced consolidation in the fund administration industry with the entry of several very prominent players to the local market. "These entrants can only be good for the jurisdiction as they take the companies that have been providing a superb level of service to the next level," says Wojciechowski. "These larger players saw the value in local establishment when they entered Bermuda. Consolidation is an acknowledgement and now firmly places Bermuda as the pre-eminent provider of these services to the offshore fund industry." Thanks to the interest in Bermuda's fund services community, the BSX has evolved into a blue chip world class exchange and continues to attract global players. "We face the same challenges as any other mature jurisdiction," says Wojciechowski. "We've been very good at understanding our niche and making sure that our product fits the needs of the client. From the Exchange's prospective, we continue to set the standards offshore in terms of operational and regulatory support for the local and international financial services industry and in stock exchange solutions."

SMART choice

The Bahamas launched its SMART funds regime at the beginning of 2004. SMART funds are a useful structure for investors, who would like a change from the traditional institutional and retail type funds. "The SMART funds create innovation and reflect the needs of the client," says Wendy Warren, chief executive of the Bahamas Financial Services Board. "We have seen interest in this product from the retail investor."

The SMART fund regime was created after Bahamas noted the way people invested in the securities markets globally. "We thought we should be looking at who is looking to access the SMART fund, are they retail investors or family offices? Our aim was to find out what types of structures investors want, as opposed to making them fit into our structure?"

Despite the number of mergers and acquisitions in the offshore centres, the impact on the Bahamas is neutral. "We have seen fund administrators enter the business and administrators who have exited," says Warren. "We would like to attract more of them."

Like other offshore centres, Bahamas is always ready to embrace international regulation. "We are members of IOSCO (International Organization of Securities Commissions) and stipulate that a fund must be licensed. We have a practical way of ensuring funds are approved either by the fund administrator or through the fast track process. Even after the Patriot Act was enacted, the regulations for the Bahamas have always been strong, particularly in the areas of AML and KYC. In 2002, the US treasury found that the level of due dilligence in the Bahamas was very adequate."

Whether it be through mergers and acquisitions or through their acceptance of international regulations, the offshore centres are doing a good job of convincing the global financial marketplace that they mean business and that compliance is key.

ISJ

This issue ISJ invites service providers comment on the merits of various fund centres...

Greg Wojciechowski

Comment on the regulatory requirements for listing funds in Bermuda. Which types of funds can be listed here?

Greg Wojciechowski, CEO, Bermuda Stock Exchange

Established in 1971 the Bermuda Stock Exchange (BSX) has grown to become the world's leading fully electronic offshore securities market. The BSX is a full member of the World Federation of Exchanges (WFE) and an affiliate member of IOSCO. In addition, The BSX is recognised by the U.S. Securities & Exchange Commission (SEC) as a Designated Offshore Securities Market under Regulation S, The Financial Services Authority in the UK as a Designated Investment Exchange, The Bermuda Monetary Authority as a Recognised Investment Exchange and an Approved Stock Exchange under Australia's Foreign Investment Funds (FIF) taxation rules. The BSX lists institutional funds under a "light but effective" regulatory environment that meets international standards. The BSX does not impose minimum capital requirements or investment restrictions and allows flexibility for hedge funds and the use of prime brokers. The BSX provides pages for listed funds on Bloomberg, Reuters and on the Internet. The BSX's BEST electronic trading system and BSD securities depository, together allow trading for closed-end funds, the dematerialization of funds' shares and efficient settlement of trades. To be acceptable for listing, a fund must be domiciled in one of the following jurisdictions. In addition, the BSX may accept funds from other jurisdictions if the fund restricts investment to "Qualified Investors" in a manner acceptable to the Exchange. (A "Qualified Investor" is deemed to be 'an investor who has truthfully completed an investor suitability declaration in the form prescribed by the Exchange from time to time or in such other form as the exchange may approve and either (1) whose investment is not less than \$100,000; or (2) who otherwise meets one of the suitability tests set out in the declaration.') Offshore fund listing applications must be sponsored by either a BSX Trading Member or Listing Sponsor and a list of materials (available at www.bsx.com) must be filed with the BSX: The prospectus must contain information that enables an investor to make an informed assessment of the activities, assets and liabilities, financial position, management, and prospects of the issuer – as well as of its profits and losses and of the rights attaching to such securities. The Exchange has been granted Approved Stock Exchange status under Australia's Foreign Investment Fund (FIF) taxation rules. Recognition by the Australian authorities is seen as a tremendous step forward for the BSX and Bermuda in promoting regulatory cooperation and transparency between the two jurisdictions.

Robin Bedford

Comment on the impacts of regulation on the offshore funds centres. Does this regulation have a positive or negative impact on the fund centres and the service providers?

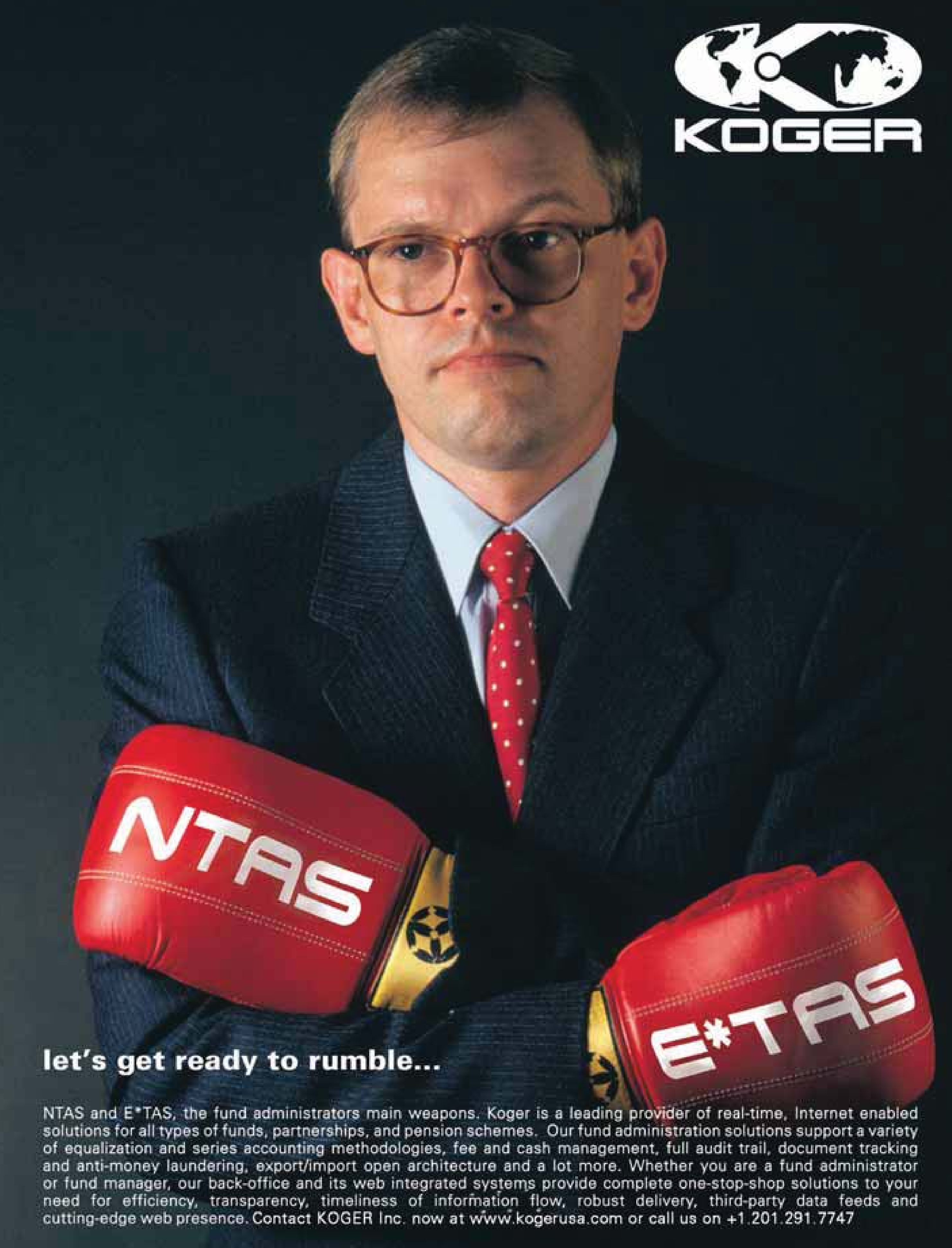
Robin Bedford, President, Dundee Leeds Group of Companies.

Administrators have clearly been seeing the effects of regulatory change for some time, particularly administrators such as Dundee Leeds, which services both onshore and offshore funds. Whilst there will not necessarily be a direct impact of regulation on offshore centres, it will have a significant impact on the way we, as administrators, service our clients. Lawyers and other industry participants will interpret the regulatory changes, but it is the administrator that is responsible for much of the implementation. Historically, managers have delegated many of the operational duties to the administrator, but in the future the manager can, and should be looking to their administrator for operational guidance in these areas. The role of the administrator is changing and having the right administrator in place can actively contribute to the success of a fund.

Administrators have been dealing with, and reacting to, new and changing compliance regulations for years within their own industry, and are well placed to help their clients deal with the impact of the new rules. The hedge fund manager of tomorrow will be required to demonstrate more corporate governance. Administrators can assist their clients with this by establishing and maintaining a compliance programme that includes written compliance policies and procedures as well as conducting regular reviews to ensure the adequacy and effectiveness of those policies and procedures.

All this means that administrators now have a higher level of involvement with the manager and this translates into a more comprehensive level of service that is delivered to the client. In order to meet the requirements of this evolving industry, Dundee Leeds is constantly monitoring and making changes to its operating model and systems to ensure we can meet the demands of increasing regulation and provide clients with accurate and timely services.

On the whole, regulation will have a positive impact on the relationships between service providers and their clients, as there will be a need for much closer working practices. For managers who have historically been providing administration in-house, many are realising that now is the time to outsource those responsibilities, hence regulation will undoubtedly create more work for administrators in the area of reporting and compliance. Regulation will also have the effect of raising the bar, for both managers and service providers. Only those who can be nimble in the face of these changes will be able to differentiate themselves effectively.


KOGER
NTAS
E*TAS
let's get ready to rumble...
NTAS and E*TAS, the fund administrators main weapons. Koger is a leading provider of real-time, Internet enabled solutions for all types of funds, partnerships, and pension schemes. Our fund administration solutions support a variety of equalization and series accounting methodologies, fee and cash management, full audit trail, document tracking and anti-money laundering, export/import open architecture and a lot more. Whether you are a fund administrator or fund manager, our back-office and its web integrated systems provide complete one-stop-shop solutions to your need for efficiency, transparency, timeliness of information flow, robust delivery, third-party data feeds and cutting-edge web presence. Contact KOGER Inc. now at www.kogerusa.com or call us on +1.201.291.7747

Wendy Warren

How the Bahamas has reinvented itself through regulation and attracting more funds, investors and administrators?

Wendy Warren, CEO, Bahamas Financial Services Board

The Bahamas is well positioned to attract new funds and administrators, having a highly functional centre with a diverse core of trained professionals, improving tertiary level training facilities to address specific operational needs of the financial sector, a sophisticated telecommunications infrastructure and high quality office space with more coming on stream. The level of direct foreign investment in recent years reflects the jurisdiction's attractiveness to those seeking a business friendly climate allowing them to pursue opportunities in the global market. Two of the factors driving the increased foreign investment are location – The Bahamas is 30 minutes off the coast of Florida; and access -- Nassau boasts flights to and from the US mainland in excess of 70 per day, as well as daily flights to London and scheduled service to Europe and Canada. A business-responsive philosophy is also reflected in the country's various regulatory bodies. The Securities Commission of The Bahamas (SCB) for example is committed to a two week turnaround time in responding to applications by world class administrators seeking to establish themselves in The Bahamas. Further improvement in the responsiveness of the jurisdiction was introduced at the end of 2004 when the funds fast track guidelines were released by the SCB. Under this process, SCB guarantees a response within 72 hours of receipt of a complete application for investment funds that target accredited or high net worth investors. This approval system complements the existing ability of Unrestricted Fund Administrators licensing and launch funds in the same day. On the legislative front, the relaunched Investment Funds Act in late 2003 has been complemented with the enactment of a Segregated Accounts Company Act, a Purpose Trust Act, a Foundations Act, enhancements to the International Business Companies Act and amendments to the Perpetuities Act. This legislation represents the latest initiatives in the jurisdiction's determination to provide products relevant to international market requirements. SMART© Funds, introduced with the new Investment Fund legislation is the most innovative development in the country's funds industry. SMART funds provide for the development of regulatory oversight tailored to the client structure. As the needs of clients vary and evolve, intermediaries and clients have the ability to develop and submit to the Securities Commission, proposals to establish entities with a specific mandate. After consideration of risk – including the degree of sophistication of investors, the number of participants and the provision of service by a recognised licensed service provider – the Securities Commission may declare the mandate suitable for the alternative regulatory regime.

Mai Liem

Comment on the impacts of regulation on offshore funds centres such as Curaçao.

Mai Liem, Legal Counsel, SS&C Fund Services N.V.

The impact of regulation on Curacao is positive. Service providers and the funds domiciled in Curacao benefit from the changes. Investment managers, advisors and investors are subject to more and more regulation. While shopping around for an offshore jurisdiction, one should ensure that the jurisdiction is well regulated.
The Netherlands Antilles offshore funds can be tax neutral, they are extremely flexible and they are supervised by a regulator that preserves and develops the reputation of the Netherlands Antilles as an international financial centre. Curacao is a part of the Netherlands Antilles. The Netherlands Antilles is a part of the Kingdom of the Netherlands, an associated member of the European Union, a Financial Action Task Force country and is recognised in the Cayman Islands as a schedule 3 country. Curacao has reputable tax regime that is and has always been in compliant with OECD. The Netherlands Antilles has an established infrastructure that is used by leading administrators, all major auditors and first class law firms and banks. New and relevant regulation in the Netherlands Antilles includes:

1. AML/ ATF - Anti Money Laundering legislation was implemented in 1996 and is constantly changing to stay in line with global requirements in order to prevent money laundering and terrorist financing. The administrators and their auditors are obliged to report to the Central Bank. These procedures force the service providers to constantly assess their KYC procedures.
2. Tax laws - the new Fiscal Framework has been a major development in Curacao as it introduces tax-exempt status and mutual fund rulings.
3. Civil Code - our Civil Code is based on the Code of the Netherlands and is ahead of its time. With the recent introduction of the new corporate law, Curacao offers flexible legal vehicles, which accommodate both civil and common law clients.
4. Regulator - the Netherlands Antilles funds and administrators are subject to the supervision of the Central Bank. Since the majority of the funds in Curacao are exempt from supervisions, the impact for the funds is almost neutral.

Conclusion
The regulation has broadened the availability of legal structures, accommodate the funds with useful minimum requirements and lifted the quality of service providers.

SS&C FUND SERVICES SM

WE'VE GOT YOU COVERED!

USA:

Chicago

Denver

Minneapolis

New York

San Francisco

Skillman, NJ

Windsor, CT

International:

Amsterdam

Curacao

Dublin

Kuala Lumpur

London

Montréal

Sydney

Tokyo

Toronto

Fund Administration

Daily, weekly, monthly fund valuations

NAV calculations; P&L

Management, performance, financial and partner reporting

Income allocation and reallocation to partners and shareholders

Auditor support

Fund Manager Services & Legal Support

Fund Structuring

Setup of offshore fund vehicles

Incorporation services

License and regulatory approval management

Document drafting for offshore vehicles

Establishing broker and bank relationships

Transfer Agency & Shareholder Services

Preparation and maintenance of shareholder register

Subscriptions/Redemptions/Transfer processing

Confirmation of shareholder transaction details

Compliance with USA Patriot Act, Know Your Client and Anti-Money Laudering rules

SS&C Fund Services has a comprehensive suite of products and services for the alternative investment industry, including on and offshore hedge funds, funds of funds, separate managed accounts, private equity funds, combined master feeder funds, private wealth groups and family offices. Our solutions can be scaled to meet your existing business needs, your growth strategy, your global reach and the complexity of your investment strategies. In other words – whatever your size, your strategy or your needs – we have a proven solution that is designed to maximize your efficiency and produce meaningful cost savings.

SS&C

Netherlands Antilles
P.O. Box 4671
Pareraweg 45, Curacao

Tel: +599-9-434-3562
Fax: +599-9-434-3560

fundservices@sscinc.com
www.ssctech.com

Jackie Hunkins

Comment on the elements of the offshore centres such as Nevis, which make them an ideal choice for funds domiciliation and for fund administration

Jackie Hunkins, Director, Nevis Financial Services

Nevis has recognised the potential of the funds market and as a result, designed the Nevis International Mutual Funds Ordinance 2004, to provide an innovative investment vehicle which tailors specifically to the needs of discerning clients.
Under the Nevis International Mutual Funds Ordinance, a mutual fund refers to a company incorporated, a partnership formed, a unit trust organised or other similar body formed under the laws of Nevis or any other jurisdiction which collects and pools investor funds for the purpose of collective investment. The fund must issue shares that entitle the holder to receive on demand, or within a specified period after demand, an amount computed by reference to the value of a proportionate interest in the whole or part of the net assets of the company, partnership, unit trust or other similar body.
The definition includes umbrella funds whose shares are split into a number of different classes of funds or sub-funds.
It also includes a fund which has one or more investors which are mutual funds not registered or recognized by the Ordinance.

One of the innovative features of the Ordinance is that it allows for three classes of Mutual Funds:
∑ -Public Fund which offers its shares or units to the general public and are required to be registered;
∑
-Private Fund which offer its shares on a private basis, has no more than 50 investors and is required to be recognised by the Minister of Finance upon proof that it is lawfully constituted; and
∑ - Professional Fund which is available only to professional investors with an initial investment of not less than US$100,000 and is also required to be recognized by the Minister of Finance, but can be fully operational for a period of 14 days without being recognized under the Ordinance.
A Nevis International Mutual Fund must have a licensed and independent fund custodian. There must also be a licensed manager or administrator of the fund. An attractive aspect of the Nevis Mutual Funds is that Managers or Administrators who are not resident or domicile in Nevis and who are authorized to provide services under the laws of a recognized jurisdiction may operate from within Nevis after receiving written permission from the Minister of Finance. Additionally, a licensed or recognized mutual fund of a prescribed jurisdiction can easily be continued or redomiciled in Nevis, if it is in good standing. The same redomiciliation privilege is given to the investment manager and administrator of that existing fund.

Robert Chin

What services can niche providers offer to fund promoters, which opt for an offshore domicile for their funds?

Robert Chin, General Manager, ATC Fund Services

I believe there are some distinct differences between the large (institutional) service providers and the smaller niche players such as ATC Fund Services (ATC).
I cannot comment on other niche providers, but as far as ATC is concerned, we are putting a lot of effort in assisting our clients during the pre-inception stage of the fund. We spend a lot of time with the investment manager initially in order to understand their operational needs.
With that knowledge we work very closely with legal counsel, we review all the draft documents, starting with the first draft of the Offering Memorandum, to ensure that the intentions of our client are properly reflected. Also, based on client requirements we customize the daily/weekly/monthly reports that are generated from our system. The same counts for the investor statements.
At ATC, senior management is actively involved during the pre-inception phase of each fund.
This involvement continues during the first 3-4 months of operations of the fund and only thereafter will the day-to-day administration be delegated to the staff, provided that the fund operates smoothly from an operational perspective. By doing so, senior management knows the details of each and every fund administered by ATC.
Client Relationship Management, however, will continue to be handled by senior management who has a combined 25 years of experience in servicing hedge funds.
This approach is very much appreciated by our clients, as they don't have to speak to 3 or 4 different people within the same organization to discuss various aspects of fund administration.
They can raise any issue with senior management, whether this relates to accounting, valuation, registrar & transfer agency, structuring or anything else and will get immediate response.
We take the same pro-active approach toward the investors in the funds we administer.
Timely responses to investors are critical, even if it is just a confirmation of receipt of a subscription agreement, redemption request or a confirmation of the balances at month-end.
ATC provides its tailor-made services at a very competitive fee. Our fees are tailored to the product we are servicing.
We strongly believe that this strategy contributes to building long-standing relationships with all of our clients.

David Pirouet

Comment on the elements of Jersey, which make the Island an ideal choice for funds domiciliation.

David Pirouet, Partner, PWC, Channel Islands

The key to Jersey's successful strategy is based on relevant and appropriate regulation. After enjoying its status as an internationally recognised domicile for funds up until the 1990s, fortunes changed after the implementation of the UCITS directive, which encouraged retail business to move to Luxembourg or Dublin. Following this move, Jersey began to focus on alternative investments. This strategy has been a great success. A recent survey concluded that Jersey is now regarded by law firms as the top jurisdiction for private equity and property funds, and for hedge funds it is now second only to the Cayman Islands. The focus on funds geared to institutions and sophisticated investors prompted the launch of the Expert Funds Guide in February 2004, following extensive consultations between the industry, local authorities and regulators. The light touch regulatory approach and approval process that can take as little as three days have made Jersey a credible domicile for hedge funds and an alternative to the Caribbean jurisdictions that have dominated the industry in recent years. Guernsey and Dublin have reacted to the launch of the Expert Funds Guide with the introduction of the Qualified Investor Fund and Professional Investor Fund regimes respectively. But Jersey is already seeing rapid growth in business. At the end of June 2005 there were 280 Jersey hedge funds with a net asset value of just under £26.5 bn, while the number of Expert Funds had grown to 79, including 44 funds launched in the first three months of the year. Overall, Jersey had over £112 bn in assets under administration at the end of June 2005. The focus on corporate governance, for funds in general and hedge funds in particular, is one of the factors driving this growth. At the same time, over the past year or so the UK Inland Revenue has made a number of high-profile challenges to offshore funds, notably on the issue of where management control is being exercised. The issue is what substance exists behind the structures put in place in offshore jurisdictions. The fund may be domiciled there but often, the Revenue argues, actual management is being carried out from the UK. Jersey has the experience and expertise of the island's professionals available for the management of fund companies, thanks to the existence of a long-established fund industry and a high-quality base of administrators, accountants and lawyers. Hedge fund managers are being encouraged to relocate to an island that can stand up to scrutiny by outside tax authorities. Jersey is particularly well placed because in addition to the experience and expertise of a top-class financial centre, the island also offers a physical environment and quality of life that rival jurisdictions struggle to match.

Jose Santamaria

Comment on how fund centres like Guernsey and Jersey have reinvented themselves to attract more funds, investors and administrators.

José Santamaria, Head of Institutional Sales and Relationship Management, Channel Islands, RBC Global Private Banking

The Guernsey (GFSC) and Jersey (JFSC) regulators have been very proactive in championing new legislation, guidelines and approvals processes that have been very well embraced by industry participants. To date, the respective 'Qualified Investor Funds' and 'Expert Funds' regimes have proven successful as witnessed by the number of new promoters being attracted and new funds coming to market. The inherent flexibility and 'quick time to market' for new fund concepts under these regimes, set within the world-class GFSC and JFSC regulatory backdrop, provide global fund promoters with expanded jurisdictional options.

Let us not forget that the Channel Islands have strong historical roots servicing private equity, securitization, property, retail, closed-ended, professional investor and alternative investments funds.

Of significance within the Channel Islands in recent years is the domicile and administration of alternative investments funds and fund of hedge funds, which has proven a globally successful medium for investors in search of diversified hedge fund Alpha. The local service provider community is very well versed servicing the above segment mix represented through niche boutiques, stand-alone administrators and global custodians.

Global consolidation has changed the landscape in almost every fund centre around the world, and the Channel Islands are by no means been to this trend. The entry of new local players, and recent string of global custodian entering the market as newly re-branded participants, is a very healthy ingredient for the long-term success of the local Channel Islands custody and fund administration industry. In either case, it ultimately means a wider spectrum choice of custody and fund administration services available to fund promoters. As with most fund segments and sector strategies, promoters and investors look more and more to jurisdictions and service providers who can provide a truly global and integrated custody, administration, banking and client centric service proposition.

Lastly, the Channel Islands Stock Exchange (CISX) is an extremely complementary offering for an ever-expanding universe of investment vehicles. The existence of the CISX nicely rounds out the Channel Islands' ability to offer participants a truly one stop solution.

Regulatory authorities are tightening their grip on the hedge funds industry. **David Walters** presents the potential impacts of regulation on hedge fund managers and how they can be addressed.

Rest Assured

David Walters

The hedge fund industry has exploded in size since 2001, rising from an assets under management figure of US$400 million in 2001 to over US$1 trillion in 2005. Clearly this increase has seen a parallel growth in the influence that hedge funds can assert in the financial world.

When these factors are considered along with the changing profile of Investors, i.e. a far greater degree of investment from institutional investors, it is hardly surprising that regulatory authorities are looking closely at hedge funds and their activities.

It is now widely known that the Financial Services Authority (FSA) has published a discussion paper concerned primarily with market disruption, risk management, quality of data, fraud and market abuse. It is also known that the Securities and Exchange Commission (SEC) is seeking compulsory registration for managers with US$25 million or more under management by February 2006.

There is a vigorous debate ongoing at the moment but it would appear that tighter regulation is inevitable. It is natural then to presume that such tighter regulation will impact on the potential liabilities of hedge fund managers and the directors of such funds. This in turn will impact on the insurance of these liabilities, and here we will look at the relevant areas of coverage and predict some future trends.

Directors' & Officers' liability insurance

The primary function of a directors' & officers' liability (D&O) insurance policy is to safeguard the personal assets of a director when they are alleged to have committed a wrongful act. The impact of such an allegation on an individual can be devastating, as they cannot rely on the fund to indemnify them.

"There is a vigorous debate ongoing at the moment but it would appear that tighter regulation is inevitible"

This fundamental uncertainty means that in certain circumstances, allegations of fraud or wilful wrongdoing in particular, directors may be forced to defend themselves. Rather than take the risk of funding potentially ruinous litigation, most managers and/or funds purchase D&O insurance.

Cover is provided for individuals and one of the strongest benefits is 'day one' defence if an individual is subject of a regulatory investigation.

Professional Indemnity

Increasingly hedge fund managers are buying a combined D&O and professional indemnity policy to insure themselves against claims made by any third parties. It is to these policies that managers will look if they are investigated by the FSA as any potential investigation or claim made by them is very likely to involve matters of governance or professional competence.

"The primary function of a directors' & officers' liability (D&O) insurance policy is to safeguard the personal assets of a director"

The key benefit of a professional indemnity policy is that it will protect an organisation's reputation and assets against claims and potential legal liabilities arising from its professional performance. The legal costs and expenses incurred in an investigation are covered.

How appropriate are these policies given the current concerns of the FSA?

All such policies must provide coverage where an individual is subject to a regulatory investigation but there has been no allegation of specific wrongdoing by an individual - a wrongful act. It is vital that hedge fund managers understand that traditionally their policies are triggered when such an allegation is made.

Most policies do now provide coverage for such an investigation where there has been no 'Wrongful Act' trigger. Insurers quite rightly believe that a proactive stance taken early on in the investigative stage can mitigate later losses.

The degree of cover provided by various insurers for investigations does not materially alter in intent, but can vary tremendously the amount of insurance limit they are prepared to use to mitigate loss. Certain insurers may allow the whole limit of liability to be used like this whereas others may allocate a portion of the overall limit for this use. This figure may be as low as £250,000 or as high as £1m.

Risks identified by the FSA in "Hedge Funds: A Discussion of Risk and Regulatory Engagement"

We now turn to the key risks identified by the FSA in its paper, "Hedge Funds: A Discussion of Risk and Regulatory Engagement" and outline how a well-constructed policy may respond.

∑ **Market disruption** - as a result of the failure or distress of a large hedge fund (dependent on circumstances the policy will respond on behalf of the managers – however the policy will be unlikely to have a limit that equals the loss– as the loss is probably uneconomic to insure!) Most funds buy a limit of liability in the area of US$5 million to US$ 10 million. Clearly this would not cover the value of most funds. The policy should however enable the manager to obtain good legal representation. This is one of the primary benefits of a D&O policy.

∑ **Control issues** - if a claim were to be made alleging the failure to implement and supervise an adequate control infrastructure, either against the managers or the fund directors, this ought to be covered. A close review of policy language is essential to ensure that coverage will apply.

∑ **Market abuse** - many policies contain specific exclusions in relation to market abuse and obviously it is not possible to insure against deliberate wrongdoing. However a proactive stance taken with insurers can often result in the exclusion being removed and thus ensuring coverage for any inadvertent wrongdoing or failure to supervise. Insurers are looking to exclude systematic abuse.

∑ **Fraud** - the FSA has stated, "In certain structures, light regulatory oversight and weaker control environments increase the likelihood that hedge fund managers will commit fraud." As already stated it is not possible to insure against deliberate wrongdoing and equally it is not permissible to insure against fraud. However, what is essential is that your policy will operate to defend those individuals accused of committing fraud. Coverage will only cease when fraud has actually been established by 'final adjudication'. These words are significant as it ensures that coverage is available throughout the appeal process. This is also known as 'in fact' language.

It is also absolutely vital that policy cover is preserved for those innocent of fraud (but still requiring defence) when it has been denied to those proven of committing it.

The FSA has specified that it is not possible to insure against an FSA imposed fine or penalty. It is however important to note that cover will be available for defence, but if found culpable the deterrent effect must be borne personally.

The SEC has highlighted areas of concern such as the overall size of the hedge fund industry, growth in hedge funds fraud and the wider exposure of investors to hedge funds.

Similar policy issues arise when considering SEC regulation as with the FSA. However, specific care must be taken when analysing the impact of the SEC exclusions contained in most wordings.

Thus it is clear that if regulators take a more aggressive position with the hedge fund industry, a well-constructed insurance programme is an absolute necessity for managers and fund directors.

However, rather than wait for regulation to begin, and risk an adverse knee-jerk reaction from insurers such as that following the 'Split Capital' affair, prudent fund managers should begin their buying process now.

Rather than being panicked into reducing cover and increasing premiums, the insurance market will perceive the long-term benefit of such regulation on the risks that they are prepared to underwrite. If managers are proactive they should be able to demonstrate their control systems and process for service provider selection. These factors should all assist the insurance buying process.

In short, a considered approach to insurers now can secure coverage and pricing advantages that will be far easier to maintain once the day of increased regulation actually arrives.

David Walters is Director – Professional Risks at Miller Insurance Services Limited

The outsourcing model employed in Jersey and Guernsey has become increasingly varied owing to regulation and global competition, writes Brett Allen

Changing Channels

Brett Allen

"better management and understanding of the outsource proposition, is making the model more component driven"

The success of the finance industry in the Channel Islands and the attractions of conducting financial business in a tax efficient and well regulated centre, has increasingly persuaded both existing and new businesses to the Islands to look at outsourcing as a cost effective and tactical solution to business constraints.

The outsourcing model has however become increasingly varied as regulation and global competition has dictated a more flexible approach to managing business.

We have also seen a number of the financial service providers that have presence across the Islands (banks, law firms, trust companies, accountancy firms and investment houses), consolidate their back office or central functions into one island as an 'in-house outsource'. On the whole this has been extremely successful, albeit there has been some leakage back to on-island activity where client resolution and query management have demanded more direct client contact. The outsource providers have therefore been doing their own outsourcing!

More significantly, the Channel Islands have been addressing the issues which continue to impact their highly successful collective investment business where outsourcing is a key component in the design and build of a fund by its sponsor or promoter. The factors that are encouraging this trend include regulatory changes and tax reform, increasing competitiveness worldwide, more global products requiring local distribution, the growth in multi manager products and in the hedge fund and alternative investment markets. Enhancements to technology and the use of open architecture on a global basis are also playing a part. This more global outlook is resulting in new legislature and products, as practitioners in the islands establish a physical presence or enhance their jurisdictional networks in Europe and further afield. Whilst outsourcing blocks of activity seems to be the favoured solution, primarily because processes are interdependent, better management and understanding of the outsource proposition, trends towards more open architecture and the need for wider access to new markets, is making the outsource model more component driven. There is a growing realisation that distribution does not always need to be created in-house and that external providers can give you more shelf space to develop and design products.

Variants

With both clients and outsource providers extending their global reach, the Islands are dealing with more variants in the outsourcing model and the need to understand cross-border structuring and those elements such as tax, distribution and legislation are paramount.

While the Channel Islands continue to experience good growth in their fund sectors, there has been a change from equity based funds to those serving the alternative investment or experienced investor market. The most influential factor in this has been the changing face of regulation. The introduction and ongoing development of Undertakings for the Collective Investment of Transferable Securities (UCITS) legislation in Europe, designed to provide common rules on the make up, risk profile, distribution and marketing of a fund to EU member states has resulted in some sponsors or promoters relocating their fund activities, particularly retail business, to EU compliant countries.

Conformity has however led to opportunity as confusion over the implementation of these directives has required clarity and the Channel Islands, of their own accord, have recognised the need to introduce more flexible regulation and initiatives to support global trends. Retail funds still feature but the traditional outsource models are being complemented by more complex requirements. As a result we see a number of leading financial groups, develop a variety of business models designed to address the needs of sponsors to outsource elements of their service.

Market Position

The Islands have introduced expert, experienced or professional fund schemes. With previous emphasis by the regulator on the credibility of the promoter, past track record of previous funds, and the balance sheet strength of the sponsor or its parent, this did not favour an investment or asset manager who was not attached to a household name to launch funds at reasonable cost and within short timescales. Similarly, institutional investors with an experienced investor base wanted a lighter regulatory touch, speedier launch times and less prescription on investment activities, spread of risk, content of prospectus and promotion to potential investors. As a result we have seen the launch of the Jersey Expert Fund and Guernsey Qualified Investor Fund. This is at a time when the UK has launched its own Qualified Investor Scheme and other jurisdictions have introduced schemes or vehicles that pronounce similar attributes. The approach has been to move the focus and degree of regulation down from the level of the vehicle itself to the underlying fund administrator located in each island, with much more emphasis on overseeing the fund, its operators, controls balances and checks. Outsourcing is therefore becoming more technical for those providing the oversight function or doing the work directly. In conjunction with new fund regimes, the Channel Island regulators have introduced ‘Non-Domicile Guidelines’, which allow licensed practitioners in the Channel Islands to administer funds and provide services to funds that are registered in different jurisdictions. In addition, ‘Outsourcing Policy Guidelines’ allow elements of the functionary’s role to be delegated to third parties not located within the island, again providing maximum flexibility. The introduction and combination of all three elements (more flexible schemes, non-domicile guidelines and outsourcing policies) is, as suggested, extending the global reach of the islands to meet the pan-jurisdictional activity of the promoters. The Channel Islands have a growing hedge and alternative investment fund business which poses its own challenges on outsourcing. This sector requires higher degrees of intellectual capability in middle and back office functions and can be manually intensive in calculating prices and net asset values. Additionally, how they record and process a diverse number of assets, which do not readily sit on a straight through process model (e.g. taking automated feeds from a listed exchange), is further developing the outsource solution.

Similarly the Channel Islands continue to see growth in property funds where sponsors are looking for a fuller outsource proposition from calculating net asset values and capital allowances to undertaking the VAT returns. We see funds with increasing diversity in both their sector and geographic spread, so the ability to manage not only the fund but the holding vehicles, which may be located in several countries, is becoming an increasing feature.

We also see new vehicles launched, or statutory amendments made, to attract new business and deal with a broader variety of transactions, whilst traditional areas such as private equity, venture capital and securitisation work all require outsource solutions in their management and administration. This is further complicated by the developments in UK Generally Accepted Accounting Principles (GAAP), US GAAP and International Finance Reporting Standards (IFRS) accounting rules, particularly in areas such as materiality. Those that can support these requirements and understand the risk correlation associated with a broader array of assets will become increasingly important in the outsource proposition. We see two arms of the outsource model developing, providers of back office trade capture and providers of settlement and custody outsourcing. Both are going for scale to support the investment required to advance and maintain the technology platform. They look to establish global operating platforms that track the global reach of the investment community. They sell on brand and their ability to organise and process data and interrogate and corroborate other market feeds and systems. They have low indemnity thresholds, specific target markets based on size and activity, and they only provide deviance from the model where the client forms a sizeable element of the book. As a business they provide outsource solutions for high volumes, systems dependent business invariably aimed at institutional clients in standard markets.

Opportunities

This provides outsource opportunities to those clients that don’t deliver scale and is encouraging technology operators both in and outside the funds business to provide cost effective solutions with high degrees of functionality to either redeliver non-core business back into global players on more palatable terms or establish their own presence as an outsource provider. This is particularly true in the alternative investment market where a number of independent investment and asset managers exist.

The Channel Islands are therefore reacting to international markets, developing their products and looking to ensure they sustain their enviable and well respected position as first class, international finance centres. They appear to have got the balance right between risk and regulation and can offer a diverse range of outsourcing solutions to the market from a fully managed office to a component part within a pan-jurisdictional proposition. They can offer a ‘Rolls-Royce’ engine or a more bespoke service with the ability to satisfy principals of offshore management and control. Outsourcing is an integral element of the services provided in the Channel Islands and the signs are that the jurisdictions are looking to expand this business, to meet new demands from the investment world and other parts of the financial services sector.

Brett Allen, Head of Specialist Sales, Offshore Fund Services, The Royal Bank of Scotland International Ltd

The Channel Islands have introduced various pieces of legislation designed to attract more fund managers, promoters and administrators.

Alison Ebbage reports on the success of these measures to date.

Expertly Qualified

The introduction of the Expert Funds Regime and the Qualified Investor Scheme is the central lynchpin around which the other major attractions of each jurisdiction can circle.

The Channel Islands are going out on a limb to attract both domiciled and non-domiciled business to administer. Both have introduced legislation to ease initial registration and place the onus of compliance on the administrator. Further initiatives are also in the pipeline but will the Channel Islands ever succeed in attracting business away from other centres or is the focus instead on capturing new business?

Indeed the Channel Islands are not going after retail funds that are historically based in Luxembourg or other European centres. They are instead eyeing high worth alternative investments and aiming to offer a one-stop shop of expertise and excellence to experienced investors. The plan is to carve a niche is high value business and anticipating the extension of alternative investments to a wider investment base.

Richard Thomas, partner at Ogier & Le Masurier in Jersey comments: "The lifeblood of an offshore centre is to react quickly to the needs of the time and to also have the necessary and appropriate levels of regulatory development. The latest modern phase of regulatory development began in 1988 and the latest incarnation is in the Expert Funds Regime."

The introduction of the Expert Funds Regime in Jersey and the of the Qualified Investor Scheme in Guernsey is the central lynchpin around which the other major attractions of each jurisdiction; expertise, experience, European time zone, accessibility from London etc, can circle.

Richard Thomas

The two regimes are broadly similar in that they aim to facilitate the registration of funds meeting the criteria by placing the emphasis on the administrator to do all the fact checking and compliance. Funds that meet the criteria should theoretically be able to set up in as little as a week.

Guernsey attracted six funds from the inception of the regime in February this year to the end of May. But in June it attracted a further 6 funds bringing the total to 12. And Jersey increased the number of expert funds from 60 to 79 in the second quarter of this year, an increase of 31 per cent.

Peter Niven, chief executive at Guernsey Finance explains: "One of our key points is that the funds can be fastracked. A number of administrators are regulated by us for this purpose and those able to use the Qualified Investor Fund System (QUIF), can normally put together a fund within 7 to 10 days."

Both regimes have been well received by the investment community and now both islands are seeking to extend their reach and tweak the regulations so as to attract as broad a range of funds as possible. Jersey, for example is mooting the possibility of a 'super experts funds regime', in response to demand from the London legal community.

Domicile

But even if both Channel Islands have a brilliant all round offering the fact remains that 80 per cent of alternative investments are domiciled in the Caribbean. Should the aim be therefore to try and lure some of this business away or to compete for the remaining 20 per cent?

Thomas comments: "We look to provide our expertise in a European time zone but also we must recognise that the business we are chasing traditionally belongs to Cayman. On our side we have a first class infrastructure and the banks, accountants, lawyers etc to be able to offer the whole spectrum of services."

Niven adds: "Guernsey is looking to gain business from other centres such as Edinburgh and also hoping to attract some US funds that have historically gone to Cayman."

And in addition to luring funds to domicile in the Channel Islands, a parallel strategy is to offer a regulatory regime to non-domiciled funds that is similar to that enjoyed by domiciled funds.

And Thomas comments: "Allowing a non-domiciled Jersey fund to come under the jurisdiction of the expert funds regime if it is 'broadly equivalent' and based in an OECD member state is an important step forward. It attracts structures based in Cayman, Bermuda and BVI that need a European base."

The Bank of Butterfield is an example of how using The Channel Islands as an administrator can work. The firm has offices in Bermuda, Cayman and the Bahamas. Patrick Firth, managing director of Butterfield Fund Services in Guernsey explains: "A significant part of our business is the administration of non-domiciled funds that are based in our other centres. An increasing number of promoters and investors are based in Europe so the time zone and the geographical proximity makes sense. We can offer everything from registration and transfer agency services to full administration."

Infrastructure

The Channel Islands Stock Exchange also has an important role to play. As pensions funds and other institutions dip their toes in the waters of alternative investments they need reassurance that any alternative investment complies with their criteria, which often limits the percentage of investments in non-listed funds. In addition UK SIPPS, currently a huge growth area, can admit funds listed in the Channel Islands Stock Exchange

And of course all investors are interested in good corporate governance, something that both islands seem to have in abundance. Guernsey for example has a joint initiative between the government and industry to increase its pool of non-executive directors.

Niven explains: "We recognised that having the experienced people on the 'circuit' was not enough and have been encouraging our industry practitioners to qualify as chartered directors through the institute of directors. It takes a few years to get the qualification but we believe it does add value and promoters signal to us that it adds considerable peace of mind."

> "We recognised that having the experienced people on the 'circuit' was not enough and have been encouraging our industry practititioners to qualify as chartered directors through the institute of directors."
> Peter Niven - Guernsey Finance

One-Stop-Shop

Added bonuses such as this do help to attract business. And selling the Channel Islands globally as a one stop shop able to provide for a fund's immediate needs as well having the expertise and capacity to tackle surrounding issues is proving to be a winning solution.

RBSI for example, uses its total reach as a firm to help its clients achieve their aims.

Richard le Breton, regional director of structured lending at the firm explains: "Promoters have a menu of requirements and in the past may have needed to shop around. But by tapping into other areas we can often provide a solution. For example we have a large corporate finance team and can offer debt provision and debt bridging facilities for property funds and private equity. We can also provide equity loan for institutions like US pensions funds that have a good credit rating, thus allowing them to choose when to crystalise their investment."

Northern Trust is another firm that has an interesting proposition. Instead of offering general administration from its Channel Islands base, it has instead decided to distinguish between the various types of alternatives investments and has split into distinct departments dealing with hedge funds, hedge funds of funds, private equity and property funds. Most of the hedge funds are supported from Dublin and the Channel Islands office deals with private equity and property business from the entire Northern Trust Group. Mark Huntley, head of business development and communication at Northern Trust explains: "Our approach is cross border in that we look to use all of Northern Trust's capabilities to service the needs of our clients. Fund promoters want specialist knowledge and to deal with someone dedicated to their area. Dividing into sub categories allows us to deliver a scaleable response and a package that is based on knowledge and supported by process rather than the other way round."

But industry players are all agreed that along with regulation and having the critical mass of expertise, that it is the softer issues that can make the difference between attracting initial interest and sealing the deal.

Gary Clark, chairman of the Jersey Funds Association comments: "We are looking to win a bigger share of domicile and admin and to do that we need to be scoring highly on the soft issues such as having good schools, being a good place to live, having brilliant links with London, lots of things to do on the island etc."

But no matter how successful the Channel Islands are, there's no getting away from the fact that too much of a good thing could eventually present capacity issues.

Niven comments: "In the Channel Islands we do have a capacity issue and for that reason we outsource some of the back office work to other places such as Dublin. Clearly as we are small we have restrictions on the number of people that can work on the island and we're not able to fulfil all back office functions, especially with larger funds. We do maintain the board structure on the island though and the board are charged with keeping a close eye on how the outsourced functions are being carried out elsewhere." *ISJ*

Going Up

A summary of the securities financing industry, including top performing securities, at 7 September 2005.

The securities lending analysis focuses primarily on the state of the securities lending industry at 7 September 2005.

The total balance of assets on loan at this date was $1,54 trillion (in Table 1). Out of the total amount of securities available for lending ($6,58 trillion), about 17.38 per cent of those securities were utilised in a securities lending program. Government bonds were clearly the most active participants. Out of the total $1,36 trillion
available for lending, 42.23 per cent of that amount was utilised in a securities lending programme.

At 7 September 2005, the most lendable equity by fee was Taser International (in Table 2), for equities that are greater than USD $ 100 million.

Jean Coutu Group (in Table 3) was the top performing corporate stock at 7 September 2005 for corporate stocks that are greater than USD $ 100 million

Martha Stewart (in Table 4) was the top
performing equity at 7 September 2005 for equities that are greater than USD $ 10 million but smaller than USD $100 million.

Calpine Corporation (in Table 5) was the top
performing corporate stock at 7 September 2005 for corporates that are greater than USD $ 10 million but smaller than USD $ 100 million.

Securities lending return to lendable assets (in Table 6) peaked at 10 August 2005, with a total of 14.80 basis points delivered for all securities. Reinvestment return, on the other hand, peaked at 29 June 2005. At 7 September 2005 securities lending return was 10.57 basis points. At the same time, the reinvestment return for all securities was 42.99 basis points.

(Performance data is provided by Data Explorers)

Securities lending group summary at 7 September 2005 (values presented in USD million)

Security Type	Lendable Assets (M)	Total Balance (M)	Utilisation (%)	SL Fee (Bp)	SL Return to Lendable Assets (Bp)	SL Tenure (days)
All Securities	6,578,013	1,544,926	17.38	25.34	3.08	114
All Bonds	2,850,039	841,225	26.07	10.57	2.42	122
Corp. Bonds	1,489,486	209,561	11.36	15.45	1.23	136
Govt. Bonds	1,358,615	631,622	42.23	8.95	3.73	118
All Equities	3,727,973	703,701	10.73	42.99	3.59	104
Americas Equities	1,951,981	303,791	8.82	44.98	3.10	92
Asian Equities	343,837	83,134	12.96	63.98	6.77	97
European Equities	1,308,957	262,211	12.80	29.31	3.20	126
Depos. Receipts	50,708	19,354	17.82	68.64	9.00	95
ETFs	14,627	33,252	40.51	61.77	19.24	60

Source: Data Explorers

Top 10 Lendable Equities
7 September 2005
Equity by Fee > 100 mn

Rank	Stock description
1	TASER INTERNATIONAL
2	HIBERNIA CORP
3	OVERSTOCK.COM
4	FAIRFAX FINANCIAL
5	NOVASTAR FINANCIAL
6	ARCHIPELAGO HLDGS
7	PREPAID LEGAL
8	CALPINE CORP
9	CHARTER COMMS
10	LEVEL 3 COMMS

Source: Data Explorers

Top 10 Lendable Corporates
7 September 2005
Corporates by Fee >100 mn

Rank	Stock description
1	JEAN COUTU GROUP PJC
2	REPUBLIC OF TURKEY
3	FED REP. OF BRAZIL
4	FED REP. OF BRAZIL
5	REP. OF ARGENTINA
6	GENERAL MOTORS
7	FED REP. OF BRAZIL
8	FED REP. OF BRAZIL
9	UTD MEXICAN STATES
10	BNP PARIBAS

Source: Data Explorers

Top 10 Lendable Equities
7 September 2005
Equities by Fee > 10 <100 mn

Rank	Stock description
1	MARTHA STEWART
2	MEDIS TECHNOLOGIES
3	LA SENZA CORPORATION
4	EUROTUNNEL SA ESA
5	ANTIGENICS
6	ENDWAVE CORP.
7	IONATRON
8	DELTA AIR LINES
9	GLOBAL CROSSING
10	NVE CORP

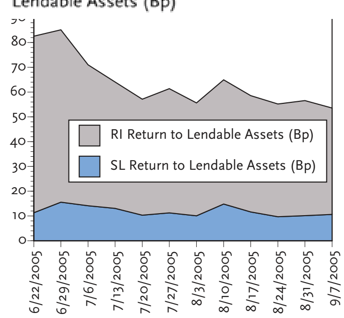
Source: Data Explorers

Top 10 Lendable Corporates
7 September 2005
Corporates by Fee > 10 <100m

Rank	Stock description
1	CALPINE CORP
2	CALPINE CANADA
3	GENERAL MOTORS
4	CALPINE CORP
5	HANGER ORTHOPEDIC
6	RITE AID CORP
7	PLIANT CORP
8	RADNOR HOLDINGS
9	CALPINE CORP
10	FRIENDLY ICE CREAM

Source: Data Explorers

Securities Lending & Reinvestment Return to Lendable Assets (Bp)



Source: Data Explorers

All in a Year's Work

From integration to reinvention, the securities financing industry has had little time to reflect.

Brian Bollen reports on the key developments and future challenges for an industry poised for growth.


Physical prescience?

A review of the year 2005 in securities lending throws up several key words and phrases, amongst them being integration, consolidation, continuation, reinvention and growth. Integration of fixed income and equity in various lending platforms and systems, consolidation of the industry, particularly on the supply side, continuation of outsourcing as a major underpinning theme, and healthy growth of the overall securities lending market, both in terms of total lendable assets, and lending balances.

The reasons are many and varied, but broad consensus appears to exist on many of the areas under consideration amongst the best known industry participants. The mention of one name in particular, though, has a similar effect to that of throwing a lighted match into a box full of fireworks.

In its several years of existence so far, eSecLending has always provoked comment and excited debate, but never quite in the way that manifested itself in the researching of this look back at 2005 and ahead to 2006 and beyond.

The more traditional agent lenders have tended to dismiss its pretensions, the way one might languidly swat an annoying fly, while eSecLending itself has at least given the impression of quiet confidence in its own ability to carve out a meaningfully large market presence. Its auction-based model, it argues, has driven up pricing, to the benefit of beneficial owners, but its own official line now is that it only ever wanted to target a certain, very limited niche.

The lenders, meanwhile, argue that while pricing has indeed been driven, that has happened as a result of the fashion for exclusivity in certain quarters rather than by the auction as a channel of distribution. And exclusivity is a double-edged sword, as Ed O'Brien, head of global securities lending at State Street, reminds us. "There is a dichotomy in the prime brokerage community on how to view exclusivity. A number of prime brokers have had their fingers burned badly in auctions, paying a lot of money only to find out the portfolio was not as attractive as first thought. Others will continue to try to source all assets exclusively to fix costs on one side of their business equation."

While there is something that comes across as a defensive shrillness on the eSecLending side of the fence, there is a new coldness and hardness on the agent lending side. There is also a more determined readiness to talk up their own auction capabilities, especially on the part of the founders and owners of Equilend, which continues to grow in scope under new chief executive Brian Lamb, formerly of Barclays Global Investors. In May 2005, Credit Suisse First Boston joined EquiLend's 10 founding firms, Barclays Global Investors, Bear Stearns, Goldman Sachs, JPMorgan Chase, Lehman Brothers, Merrill Lynch, Morgan Stanley, Northern Trust, State Street and UBS.

Observations

It must, of course, be said that these observations are selective, entirely subjective, and very possibly 100 per cent wrong. But how boring the world would be without opinion, and differences beween them.

The year had many highlights, recalls Chris Jaynes, Managing Director of eSecLending. "We have seen the continued acceptance and growth of our business, and the development of the auction model, across lenders, including some traditional custodian lenders," he says. "They had been publicly sceptical, but we've seen a sea change, maybe not in their public endorsement of the model but in the way they quietly offer it to select clients."

eSecLending has grown by any measure you care to use, according to Chris Jaynes. It has taken on a significant number of clients, he says, the number rising to around 20, and existing clients continue to broaden the mandates already awarded to it. "Our business has been up over 100 per cent year-on-year since we launched, and is already up over 100 per cent this year," he said, speaking in mid-September 2005.

So why the sea change? "I can't speak for why other providers are changing their views, but lenders who have used our services are making more money," he says. "They also enjoy increased transparency, and the more they use it, the more they like it. The better they like the process, the more our mandate broadens." Another important point to which he draws attention is that after five years in operation eSecLending has built up a track record which helps confidence in it to grow. eSecLending is, in short, locked into a classic virtuous circle. "The most common trend is that those institutions that have been clients longer have a larger percentage of their book placed through us. Without fail or exception, that percentage has increased over time, and never decreased. To put it another way, we have never had a client reduce its mandate; this is just one indication that the model works."

"we have never had a client reduce its mandate; this is just one indication that the model works"
Chris Jaynes - eSecLending

Model

The model is, though, he stresses, not for every lender. "The model, by design, is not meant to be all things to all clients. It is specifically designed for the clients who have the most attractive supply. On an individual basis it may make sense for them to lend their specials based portfolios through our process and leave their general collateral in a traditional programme. The bundling of general collateral and specials together makes it difficult to see which assets are driving returns. Through eSecLending, clients gain a clearer picture of what their assets are worth on a standalone basis."

Target clients, he says, are those who have portfolios with a high lending demand, such as small and mid- cap interests in US equity, European equity, high-yield bonds and emerging markets. "In many lending programmes, around 20 per cent of the assets generate 80 per cent of returns. Our programme is designed to focus on that 20 per cent of assets, and help the revenue derived from that to grow. We have been able to increase returns by anything from 30 per cent to over 100 per cent compared to traditional providers. The levels of participation have increased, and the levels that we see borrowers pay continues to go up, and we have not seen evidence that this is not sustainable. If it is a concern in the market that people using our model are making too much money from their own assets, and not giving enough to borrowers, that's a compelling statement in favour of what we do for our clients."

eSecLending comes in for some criticism from the traditional custodian lenders on several points, one of which is operational transparency from a client's perspective. "Clients generally want securities lending activities to be carried out without affecting their investment activities," says Paul Wilson, Senior Vice President and Head of Securities Lending and Market Products for JPMorgan Worldwide Securities Services in Europe, the Middle East and Africa. "For example income collection and corporate actions should occur as if stock were not out on loan.

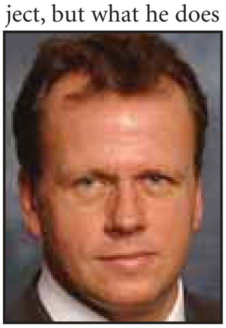
JPMorgan is able to achieve this as we leverage the scale and depth of our custody product as part of our securities lending service . Take the simple case of income collection. For securities out on loan, JPMorgan clients receive our AutoCredit product which credits income of the due date even if it has not been paid by the borrower. Alternative providers such as third party lenders more often than not try to get the custodian to advance the money to the client and then only pay the custodian back once they have collected it from the brokers. This is because some are not banks and are unable to advance the funds themselves. The same is true for settlement and corporate actions. Custodian lenders have an inherent competitive advantage. The value proposition goes beyond simply the revenue opportunity. We spend a great deal of time and effort also on the non-revenue aspects of the business."

EquiLend has recently launched a new innovation – Portfolio Auction Port – which provides EquiLend users with an auction capability as an integral part of its overall securities lending platform. The prospects for EquiLend, as an industry platform, are very bright given the scale and breadth of services offered and the number of participants operating on the platform, he argues.

He readily concedes, though, that the arrival of choice in the market is in itself a good thing. "Whether it's through agent lending, principal lending, third party lenders, exclusives or auction systems, there's more choice than ever for beneficial owners. There are many choices and it is no longer a one size fits all business and we work with our customers to help them understand the relative merits of each."

Alternative

John Arnesen, Head of Securities Lending at The Bank of New York in London, has much less to say on the subject, but what he does say speaks volumes. "We don't use auction platforms, and I don't believe they're as popular as the coverage they receive suggests," he comments. "We have never felt pressure from an investor to enter the market in this way, and have never felt the need to pursue an auction outside of our own exclusive bidding process which we occasionally conduct. It remains to be seen whether such platforms become a main route to market, as I suspect some of the mitigating factors agents provide are potentially lost in the process." Which is one way of saying that auctions through the likes of eSecLending are riskier than sticking with the traditional agent lenders.


John Arnesen

In any event, custodians (or at least some of them) have been conducting auctions for some time now, notes Rob Coxon, Head of International Securities Lending at ABN AMRO Mellon. This calls into question just exactly what eSecLending brings to the market, especially with Equilend adding an auction platform. "Using eSecLending introduces an extra operational layer. We as a custodian give you contractual settlement on securities lending and custody, which becomes an issue if you have a third-party lender. They've had good traction, but have woken up the big boys. The exclusive business is definitely on the increase, but does it need to be done by a third-party lender?"

> "Borrowers have always had an appetite for exclusivity and auction platforms are distribution channels that enable exclusivity"
> Brian Staunton - Citigroup GTS EMEA

Exclusivity

"Borrowers have always had an appetite for exclusivity, and auction platforms are distribution channels that enable exclusivity, but the revenue is clearly coming from the exclusivity rather than from the distribution," adds Brian Staunton, Director, Citigroup Global Transaction Services EMEA. "Some of the market thinks if you auction that will by definition earn you more money, but that is not necessarily the case. But if you auction to a single borrower, you should get paid the right rate for that, including for the acceptance of single counterparty risk."

Alastair Chisholm, Managing Director of 4sightsoftware, also homes in on Equilend and related matters. "From our perspective, the main point to take from 2005 has been the increased interest in Equilend and this shows no sign of abating. In actual fact we see it only a matter of time before those that were reluctant to use the system having to join as they will either lose trading opportunities as a result or be at a disadvantage from their lack of automation and the resulting operational efficencies that a link to Equilend will offer.

"As a technology vendor we have developed a close relationship with Equilend, and many of our clients are benefiting from the interface we have developed between our system (4Sight Securities Finance) and them. The automation offered by Equilend however needs to be similarly reflected in the system receiving the results and we have made strides to greatly improve the workflow and business process of our own system, thereby offering our clients true operational efficiencies. We see further development of our system in 2006 in line with the advances plannned by Equilend. In addition to Equilend, Swaps have become more mainstream as a requirement of Securities Finance system, and we see this as an area of opportunity in 2006."

Future

Looking ahead, there is a good deal of support for the notion that agent lenders will need to reinvent themselves continually to stay commercially viable. "The traditional agent lender model will not stand on its own two feet in five years' time," says Brian Staunton. "The traditional areas of revenue will erode, and tax harmonisation in Europe will gather momentum. The more it does, the fewer arbitrage opportunities will exist. You need to take a look at the securities lending product, and

identify what you can do differently, where you can add value. Broker-dealers want a one-stop shop where they can get help with all of their financing needs which go beyond just borrowing securities."

The market is evolving constantly, leading Rob Coxon to liken it to a growing teenager. "It has grown up, but only to a certain extent. Sometimes it shows adult-like behaviour, sometimes it betrays its residual immaturity. But it's getting there with the likes of Equilend and SecFinex, while Data Explorers has made serious inroads and greatly increased transparency. What we would most like to see is further consolidation in global custody. There are still too many players. I'd like to see the numbers fall to just four or five. There are very large players on the borrower side, so there should be smaller numbers on the supply side. It's a bit like the global car industry at the moment, with everyone cutting each other's throats." If the volume of business continues to grow, he adds, further automation is essential.

"It's a bit like the global car industry at the moment, with everyone cutting each other's throats"
Rob Coxon - ABN AMRO Mellon

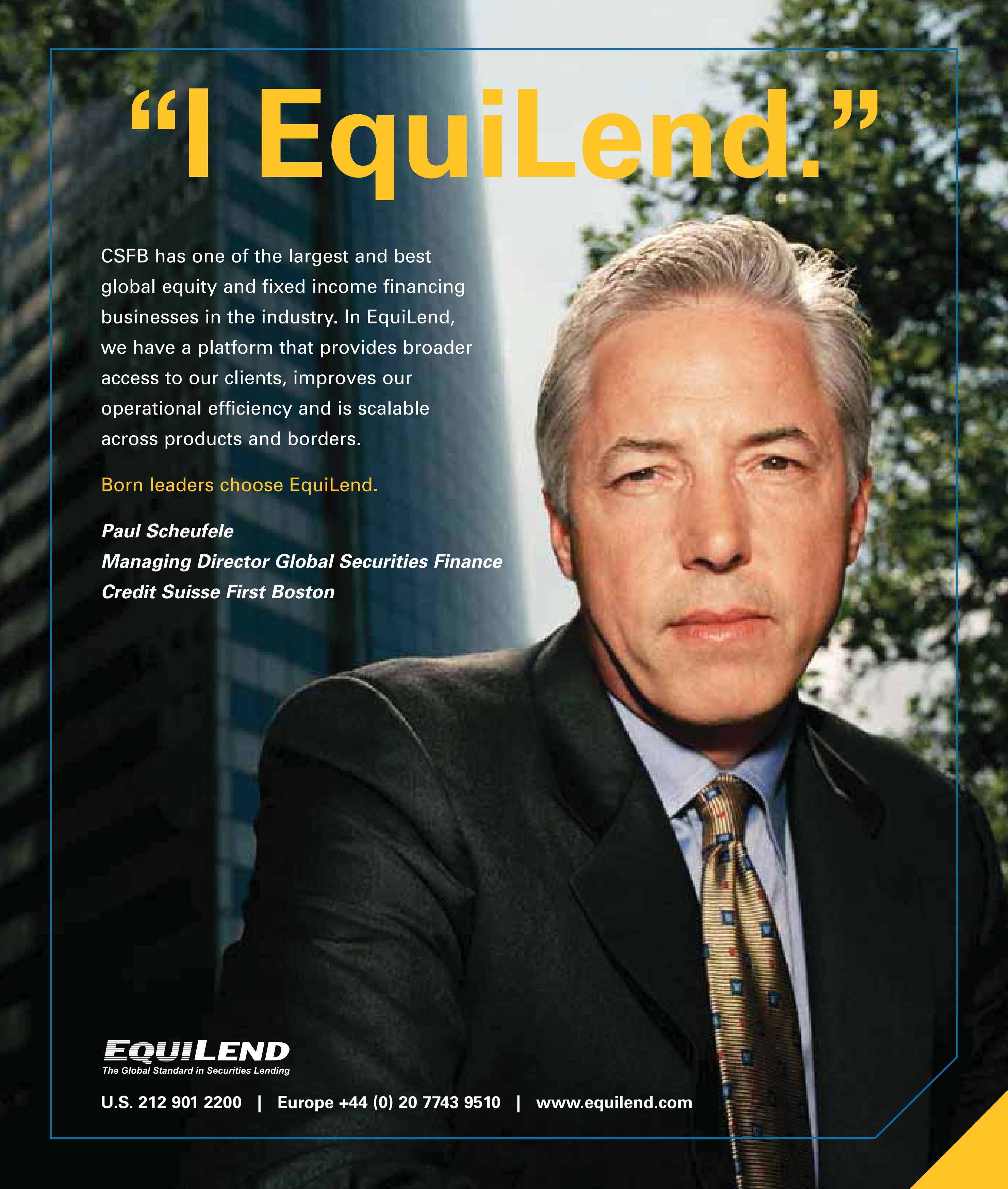
Mark Faulkner, co-founder of Data Explorers which has been particularly singled out for praise in the way it is contributing to the development of securities lending, is optimistic about the prospects for 2006. "An old boss of mine used to recommend that you only worry about things you can control," he says. "The business of securities lending has a number of elements under the control of the provider or practitioner: efficiency, cost control, technology, staff, and capital. But the ones that aren't, can be very powerful: interest rates, the level of markets, mergers and acquisitions activity, regulations, the level of assets under management, dividend yields, and foreign exchange, to name but a few."

"The thing is, most people will probably say the past year has gone pretty well. For many organisations, the wind has been at their back, and not in their face, and almost everything has been going in the right direction. We could be in for a good time next year, which will make it harder for people to differentiate themselves from one another.

The shakeout that the market has been expecting has been postponed for some time now, and it looks unlikely it will happen next year."

New markets are another hot topic as we look into 2006 and beyond, with more expected to emerge from Asia, and central and eastern Europe. Some lenders place great emphasis on the advantages that can arise from being a 'first mover 'advantage, with greater revenue opportunities available in the early days. But there are dangers too, and money can be lost if regulatory and tax issues are not fully and properly addressed. "You are often working in an environment where things are interpretative rather than definitive," cautions Ed O'Brien. "If you're relying on opinion rather than on statute law, do you want to be first in? No lenders have been harmed but some agents have had to pay fines and other costs for procedural transgression."

The early bird catches the worm, yes, but the trailblazer bears the brunt of any fights that might ensue. Look before you leap is one obvious proverb that springs immediately to mind. *ISJ*


"I EquiLend."
CSFB has one of the largest and best global equity and fixed income financing businesses in the industry. In EquiLend, we have a platform that provides broader access to our clients, improves our operational efficiency and is scalable across products and borders.
Born leaders choose EquiLend.
Paul Scheufele
Managing Director Global Securities Finance
Credit Suisse First Boston
EQUILEND
The Global Standard in Securities Lending
U.S. 212 901 2200 | Europe +44 (0) 20 7743 9510 | www.equilend.com

Rent Book

Analysis of the latest securities lending industry results from the Risk Management Association.

A comparison of securities on loan in the second quarter of 2005 against the second quarter of 2004

COMPARING THE first and second quarter of 2005, **US treasuries** were more active in securities lending during the second quarter of the year.

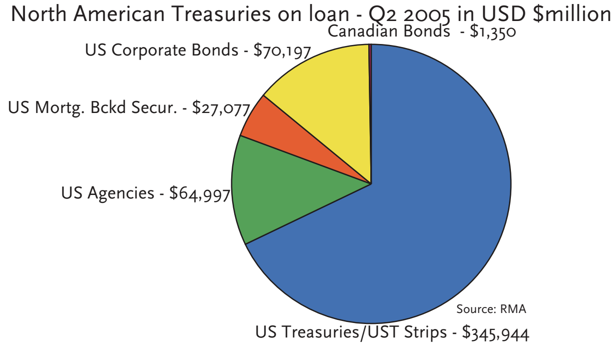
About USD $ 345,94 bn worth of US treasury securities were on loan during the second quarter of 2005, compared to USD$ 259,41 bn for the second quarter of 2004. **US Corporate bonds** also enjoyed a good second quarter, with the value of securities on loan worth USD$ 70,197 bn, compared to USD$ 68,434 bn for the second quarter of 2004.

French equities outweighed their European neighbours, with a total on loan worth USD$ 43,152 bn for the second quarter of 2005, compared to USD$ $31,982 bn for the second quarter of 2004.

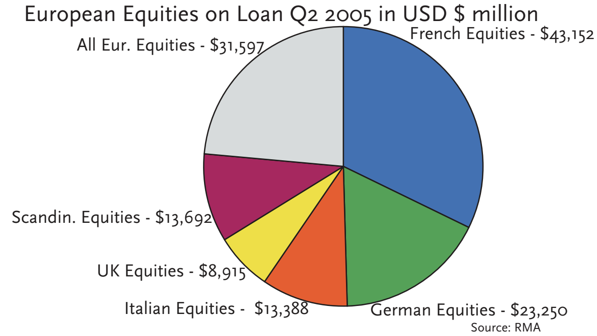
German equities were also very active, increasing their involvement in securities lending from USD$ 16,804 bn in the second quarter of 2004 to USD$ 23,25 bn in the second quarter of 2005. **UK equities** decreased their involvement this year, from USD $10,657 bn in the second quarter of 2004 to just USD $ 8,915 bn in the second quarter of 2005. Within the Asia Pacific region, **Japanese equities** were by far the most active asset class. These equities increased their involvement in securities lending from USD $22,589 bn in the second quarter of 2004 to USD $ 22,756 bn in the second quarter of 2005. **Australian equities** were also fairly active in securities lending programs, increasing their involvement from USD $4,022 bn in the second quarter of 2004 to USD $6,438 bn in the second quarter of 2005. **Hong Kong equities** were the least active. During the second quarter of 2005, the total amount of Hong Kong equities on loan was US $ 2,755 bn for the second quarter of 2005, compared to USD $ 2,433 bn for the second quarter of 2005.

German denominated sovereign bonds are the most active EURO bonds asset class, with assets on loan increasing from USD $ 2,449 bn in the second quarter of 2004 to USD $ 5,364 bn in the second quarter of 2005. These results bode well for the rest of 2005.

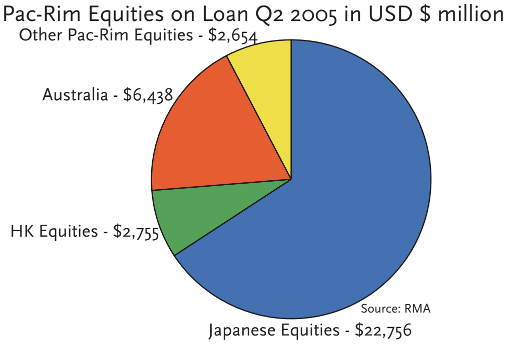
North American Treasuries on loan - Q2 2005 in USD $million



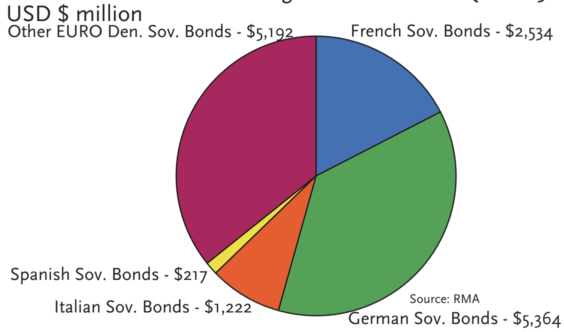
European Equities on Loan Q2 2005 in USD $ million



Pac-Rim Equities on Loan Q2 2005 in USD $ million



EURO Denominated Sovereign Bonds on Loan Q2 2005 USD $ million



Positive Territory

August 2005 revealed positive results for the hedge fund industry, according to findings from **Hedge Fund Research Incorporated**. ISJ presents the latest data.

Hedge Funds were in positive territory during August 2005. The Hedge Fund Research Incorporated Fund Weighted Composite Index managed to deliver a return of 0.95. Total performance for the year to August 2005 was 5.17.

The HFRI Regulation D Index recorded the best performance, with a return of 4.96 for August 2005. Year to date performance for this index was also favourable: 15.17 for the year to August 2005.

The HFRI Short Selling index delivered a return of 3.09 for August 2005. Year to date performance for this asset class was 7.28.

The HFRI Emerging Markets Index had an extremely good year, with a year to date performance rate of 10.72. This index delivered a return of 1.90 for August 2005.

The worst performer in the HFRI Hedge Funds Index was the HFRI Equity Market Neutral: Statistical Arbitrage Index, with a return of 0.16 for August 2005.

The HFRI Equity Non-Hedge index delivered a return of 0.31 during August 2005. On a more positive note, the same index delivered a return of 5.90 for the year to August 2005.

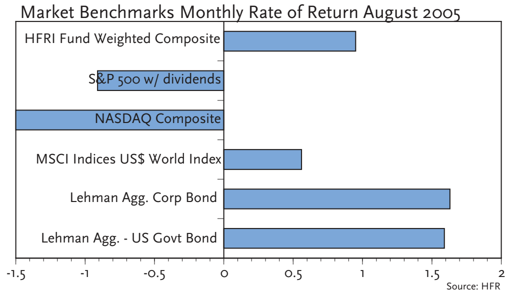
The HFRI Fund of Funds: Strategic index performed well, with a return of 1.03 for August 2005. Year to date performance for this index was 4.95.

The HFRI Fund of Funds: Diversified index also performed well, with a return of 0.86 for August 2005. Year to date performance was 3.62.

At the bottom of the table, the HFRI Fund of Funds: Conservative Index delivered a return of 0.45. Year to date performance was 2.46.

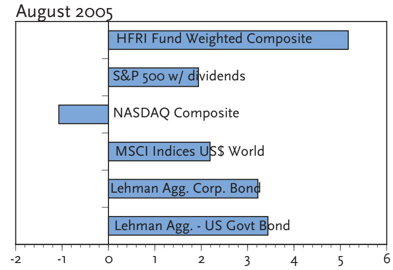
The HFRI Fund Weighted Composite index performed well against the main market benchmarks. The top performer was the Lehman Aggregate Corporate Bond Index, with a return of 1.63 for August 2005. Year to Date performance for this index was 3.22.

Market Benchmarks Monthly Rate of Return August 2005



Source: HFR

Market Benchmarks Rate of Return - Year to August 2005



Source: HFR

HFR Hedge Funds Index Rate of Return August 2005

	AUG 2005	YTD 2005
HFRI Fund Weighted Composite	0.95	5.17
HFRI Convertible Arbitrage	0.60	-3.82
HFRI Distressed Securities	1.18	5.55
HFRI Emerging Markets (Total)	1.90	10.72
HFRI Equity Hedge Index	0.79	5.36
HFRI Equity Market Neutral	0.65	4.38
HFRI Equity Market Neutral: Stat. Arb.	0.16	2.85
HFRI Equity Non-Hedge	0.31	5.90
HFRI Event-Driven	0.95	5.16
HFRI Fixed Income (Total)	0.85	4.25
HFRI Macro	0.38	1.93
HFRI Market Timing	1.92	7.88
HFRI Merger Arbitrage Index	0.40	3.72
HFRI Regulation D	4.96	15.17
HFRI Relative Value Arb.	0.62	2.63
HFRI Sector (Total)	1.29	5.98
HFRI Short Selling	3.09	7.28

Source: HFR

The worst performer was the NASDAQ Composite index, with a negative return of -1.50 for August 2005.

Over the year to August 2005, the HFRI Fund Weighted Composite managed to beat all other indices, with a return of 5.17.

HFR Fund of Hedge Funds Indices Rate of Return August 2005

	Aug 2005	YTD 2005
HFRI Fund of Funds Composite	0.78	3.51
HFRI Fund of Funds: Conservative	0.45	2.46
HFRI Fund of Funds: Diversified	0.86	3.62
HFRI Fund of Funds: Market Defensive	0.56	1.17
HFRI Fund of Funds: Strategic	1.03	4.95
HFRI Fund Weighted Composite	0.95	5.17

Source: HFR

Rock of Ages

Securities services providers in the US are well versed in the regulatory drivers governing their business.

Janet Du Chenne speaks to some of them about the costs and opportunities associated with being compliant

To the relief of investors in the US, the long arm of the Securities and Exchange Commission has weighed heavy on financial services in recent years. From director remuneration to hedge fund compliance, the SEC has kept the securities industry on its toes and has resolved to ensure all companies are compliant with measures aimed to protect the end investor. But the costs of compliance has forced many of these companies to exit the business and, in certain circumstances, to delist from the New York Stock Exchange. Those bold enough to remain in the business of hedge funds and financial services have taken refuge among the securities service providers, which have fought to shield their clients from the burden of compliance. "One of the major issues affecting providers in the US securities processing business is the increase in regulatory oversight and compliance as a result of some of the trading scandals and related events," says Rob Mancuso, Senior Vice President at Investors Bank and & Trust. "A lot of our clients are looking for more compliance support in that area and more assistance in mitigating operational risk. The other major development is the interest among more and more investment managers to outsource their internal processes so that they can focus on being compliant with regulations and improving investment performance."

IBTCo. Managing Director Brian Coughlin observes a continued expansion by investors into alternative investment funds, including hedge funds and private equity. "We are seeing not only a lot of expansion by many of our investment advisor clients into these areas, but also a growing convergence between these two worlds as hedge funds increasingly target private equity-type investments in their portfolios," he says. "Within the derivatives processing arena, there has been a great big jump in the complexity of the instruments and in the pure volume of the transactions. The massive volume of the complex instruments places tremendous strain on the back offices of many broker dealers and prime brokers."

Outsourcing

In addition to the broker dealers, investment managers face added strain caused by the increasing diversity of investment instruments.

"We are seeing both the full outsourcing as well as the component based services outsourcing take place," says Mancuso. "As opposed to a couple of years ago, investment managers are realising that perhaps they don't need to outsource their entire middle office. There is more interest and discussion about certain pieces of the middle office. In terms of the actual deals closed, we are seeing an even mix of the component as well as the full outsourcing deals."

In the context of US securities services, the issue of outsourcing is often directly linked to scale. "The benefits of scale, including efficiency, are largely achieved through technology", says Mancuso. "A company with $500 bn in assets, who has invested in technology to become more 'straight-through', can be as efficient as a firm with a trillion or six or seven trillion. Technology is key. We have about $1.56 trillion of assets under custody in the US as of June 30 2005. We are probably realising 99 per cent of the benefits of scale, which some of the big players might be achieving. It is incumbent on us and other providers to build the right technology and linkages for straight through processing."

Scale should be leveraged in order to deliver customised client service solutions, says Coughlin. "STP is essential for service providers as it gives them greater flexibility to add value back to the ultimate client. Many people think of scale as the ability to handle a tremendous amount of transactional volume. But it's more than that. The combination of the volume of derivatives, and the reconciliation with third party entities, scale and the ability to leverage your people, enables providers to customise service solutions that take advantage of scale and efficiency. A key component to scale is the ability to create one platform for all of our different product lines. The idea is to create an integrated solution that crosses our client's entire universe of investment objectives."


Mary Baker Balady

Expansion

In addition to their home market, US securities services providers have made significant inroads into Europe, an exercise which is by no means complete. "I definitely see further growth potential," says Mancuso. "Companies like Investors Bank have already built the technology to customise services for clients and its just natural that we would want to use a natural extension for us to employ the same platform in other places around the world. Europe has a number of good securities processing firms but we don't feel there are enough who provide tailored services. We are looking to grow in various different markets in Europe. In terms of joint ventures we have a hard time seeing how those work financially. It may sound like a good idea but we have always questioned the financial impact and the ability to achieve value for shareholders through joint ventures."

To further its expansion into Europe, Investors Bank & Trust has cast a keen eye on France, Germany, Spain, Luxembourg and the Scandinavian countries. “We’ve had a lot of success in the Scandinavian countries,” says Mancuso.

STP

Back on American soil, the pressure on buy side institutions to automate their trading and settlement processes continues apace. “These companies have a lot of other priorities that are taking up their time right now,” says Mancuso. “This is a growing area in terms of decisions being made, although I would have expected more movement. But again we’re dealing with issues like investment performance and regulatory issues that take priority.”

Coughlin adds that many of the broker dealers and prime brokers are facing pressure on volumes and a lot of their instruments are not truly STP. “The volume and pressure of the transaction flow is putting strain on their back offices,” he says. “This affects investment managers as well as other service providers. There are some moves to address this with products such as DTCC DerivSERV. Third party broker dealers have not really advanced to the forefront of automation yet but this raises questions about whether or not investment managers need to rely on them when there might be an opportunity to use a custody provider that has already achieved some of that STP.”

Outsourcing

Full back office and component based outsourcing will continue to provide opportunities for Investors Bank & Trust. “Investment managers will become 100 per cent focused on investment management and client service and a lot of the operational infrastructure they have built could be handled very well by someone like us as we have complete middle and back office capabilities in production today,” says Mancuso. “We also see opportunities resulting from the growing interest in alternative investments and derivative instruments. In addition to enhancing our systems to easily handle different derivatives, we also support both hedge funds and private equity partnerships with a single integrated technology platform. The increasing use of more complex products for investment managers has the effect of decommoditising what we do. The handling of equities and some fixed-income products is becoming more of a commodity. But the added complexity of some investment instruments decommoditises what a securities processing firm like ours does. And that creates even more demand for the specialised capabilities that we provide.” Commenting on the challenges, Coughlin highlights the importance of industry standardisation. "Particularly in the case of derivatives, the lack of industry standardisation around naming, identification and pricing methodologies presents a challenge for us to pull those elements together. We spend a lot of time and effort trying to push the industry towards standardisation and have devised complex and standardised pricing models to support these types of instruments. The other challenge is continuing to support our clients from the regulatory standpoint. As these investment instruments come under more scrutiny, we will be able to support our clients in meeting the regulatory requirements."

Demand

Alan Green, Executive Vice President, Investment Services at State Street, also highlights the continued demand for outsourcing in the US, created by the sensitivity towards compliance. "We are seeing demand in the middle office start to increase," he says. "The demand for accounting and fund administration services has always been pretty strong and is increasing too. Companies who look to outsource are focussing on proven track records among the providers."

> "The US securities industry is also under increasing pressure to move towards STP"
> Alan Green - State Street

State Street is fully appreciative of the issue of scale where outsourcing transactions are concerned. "Our business is becoming more technology intensive and more capital intensive," says Green. "Scale gives us a strategic advantage. As the business becomes more complex, the securities services product becomes more complex and more highly regulated. Some of the players who have multiple lines of business are going to find it increasingly difficult to fund this business at the levels required. Those firms could be candidates for acquisition or consolidation."

As the securities business becomes more global for the managers, service providers are recording opportunities in multiple locations. "The customers are increasingly looking for greater flexibility," says Green. "The US securities industry is also under increasing pressure to move towards STP, whether it be from auditors, compliance officers, and regulators. STP makes the trading process more transparent and it lowers the occurrence of settlement errors."

State Street's latest US mandate was awarded by the State of Oregon Treasury and included custody, accounting, securities lending and performance analytics. "We are seeing an increased demand for value added services beyond the traditional custody," says Green. "The mutual fund industry currently has $8.4 trillion worth of assets, an increase of 13 per cent from a year ago. For us, this is an opportunity."

Changes

According to Mary Baker Balady, Head of Global Custody at JPMorgan Worldwide Securities Services, developments within the US securities services market have accelerated over the last two years. "The markets are quite different today," she says. "It is a tough market for institutional investors and custodians. People talk about this business as being high tech. We know it as a high-tech and a high-touch business."

Baker Balady attests to a greater appetite among institutional investors in Europe to outsource entire operations than there has been in the US. "This is partly driven by the size of the firms," she says. "The fund managers in the US are larger and prefer to outsource specific, distinct functions, while European firms often outsource entire operations."

JPMorgan employs a consultative approach when speaking to clients and prospects about outsourcing. "We don't encourage them to just hand over their entire book of business to us," says Baker Balady. "Instead, we look at each function and see how we can add value. I feel very good about the added value approach. Not only is it good for the client, it is the right economic model for providers in the future."

With $10.2 trillion in assets under management, scale has enabled JPMorgan to provide competitive pricing in the marketplace and continue to enjoy some economic benefit. "It is clear how much money is required to invest in people and technology in this business. Without the scale, you will have no money to reinvest and continue to forge into the future."

Automation

While delivering the keynote speech at last year's Sibos event, WSS CEO Heidi Miller expressed her dismay at the lack of automation in the securities industry. Have we come any further in the last year, ISJ asks Baker Balady. "I don't think the buyside firms themselves have done as much as they would like to in terms of focussing on automation," she says. "We've adopted a proactive approach to working with individual clients. We keep them updated on the latest SWIFT messages and ensure we receive all instructions in an automated fashion. We are focussing on automation because we realise the criticality of being efficient ourselves, as well as helping our clients to be more efficient. Obviously, automation also reduces risk."

The focus on scale and efficiency is the bare minimum securities service providers need in order to survive in the US market. Helping the client to become successful is also key. These elements, according to Baker Balady, are down to "technology and product innovation."

JPMorgan has launched several technology solutions including VIEWS Portfolio Reporting, the new client data management tool, JPMorgan E-Tax, Performance Measurement, electronic distribution of corporate action materials and compliance Web sites.

The company is also providing automation tools for the alternative investment industry. "Derivatives, real estate and other alternative instruments are creating new challenges for institutional investors, who are looking to develop new sources of returns in a fairly flat market. We are leveraging the WSS expertise and the JPMorgan expertise

to create new solutions for alternative investments. Your focus really has to be on how to make your clients more successful in a very difficult market. That comes down to providing technology, being more efficient, getting at information and managing risks in a pro-active way."

Changing Constituencies

The development of the securities services industry in the US is partly driven by the evolution of changing constituencies. "Three years ago our client was someone who worked at a fund sponsor and oversaw the custody relationship," says Tim Connelly of BBH. "It was not often we had the opportunity to speak directly with an independent board member of that client. We are now seeing the direct involvement of other constituencies that matter in the global custody relationship, the independent board member and trustee and the CCO. That development is changing plan sponsors' attitudes and behaviours towards service providers. We are seeing an evolution from a single constituency to a multi-constituency world."

> "the evidence suggests that lift outs are something that happened years ago because that was the only way to do a big outsourcing deal"
> Tim Connelly - BBH

In addition to multiple constituencies, the evolution of open architecture is also gaining momentum. "It is vitally important that firms offer best-of-breed products to their clients," says Connelly. "The ability to handle connectivity between multiple parties, between the plan sponsors and the underlying money managers, for example, is a skill that is highly valued. Whether it's in the area of open architecture products, closed-end funds, commodities, alternative investments or ETFs, after three years of market decline, true product development is happening among a number of our customers and that is a good thing."

The US securities industry is currently developing a variety of different structures. The growth of LLPs and LLCs is a case in point. In addition, the increased compliance costs related to delivering investment operations functions in house, and the technology required to meet the needs of complex investment structures, make outsourcing a popular talking point. But Connelly warns against confusing outsourcing with a lift-out. "Lift-outs are more akin to an M&A event and frankly, the evidence suggests that lift outs are something that happened years ago because that was the only way to do a big outsourcing deal," he says. "Back then the proper model for outsourcing was not developed enough and connectivity tools weren't robust enough. With these lift-out deals, clients lost control of what is fundamental. We think outsourcing through a modular approach is a theme that is gaining momentum. The lift out, even from an M&A perspective, is often structurally flawed and there aren't a lot of case studies which suggest great success in these endeavours."

Scale

In contrast to some of the other securities service providers, Connelly believes scale for scale sake alone is not necessarily a good thing. "I cannot think of an experience in any industry where my experience as a customer is enhanced by the sheer size of the entity I deal with," he says. "Scale is important, but excessive scale makes little intuitive sense. You have to look at the focus of the scale. For example, while we are one of the largest investor services providers in the market place, we do not act as a 401 (k) recordkeeper or service large US pensions. Our scale is quite good in the markets we choose to be in, servicing mutual funds and global financial institutions. It's good to be big and sophisticated, but you don't want to be so excessive that you lose the customer driven qualities most customers are looking for."

As open architecture becomes increasingly prevalent to the securities industry, the need for fund companies to connect with multiple parties as they grow their business is paramount. "It strikes us that STP rates in the industry are low because custodians don't have a great interest in increasing them since their fees go down," says Connelly. "Clients are often charged for non-STP transactions. We have worked with clients and have tried to automate, whether through SWIFT or proprietary links, as much as possible. That has the effect of lowering our costs but also gives the client a better deal."

BBH's Infomediary product currently has 70 clients. This connectivity tool brings together a variety of messaging points and serves as a router, enabling users to increase their STP levels. "SWIFT's efforts are important to us and our clients, particularly as we enter multiple constituency relationships with multiple custodians or multiple advisors on an open architecture basis."

Future Challenges

One of the key challenges for services providers, Connelly suggests, is price degradation in the securities industry. "There are significant price pressures for our clients as a result of increased compliance costs," he says. "Price pressures relating to products such as ETFs and index funds are also very significant. Custodians feel the brunt of that especially if customers think custodial related services are commodity-like, even if we would argue they're not. That is a challenge. Efforts like STP initiatives and the ability to help clients with new product introductions in an efficient and customised manner are of great value. Index funds, ETFs and compliance scandals are the root cause of price degradation."

Costs and liabilities associated with being in the mutual funds business have increased. Connelly explains: "In the past mid-to-small fund companies would mostly deal with the mid-to-small service providers because they received attention. Now with the issues surrounding our industry, clients of all size want to work with service providers who have perspective. BBH is uniquely suited to offer this perspective, yet also attention, in this environment."

Going forward, the securities service provider's role will be to shield clients from the burden of compliance and to look after those functions which detract from the central role of managing money. *ISJ*

New Horizons

Investment and pension funds bring home the bread and butter for most asset servicing providers in the Asia Pacific region.

Major providers reveal the roots of their future fortunes.

The population in the Asia Pacific region is one of the most diligent in the world about savings and investments and provides a worthwhile experience for custodians and fund administrators. The economies in the region have grown exponentially and the foreign exports are a key feature of the global market place.

One of the most promising markets, from an asset servicing perspective, is Hong Kong. Home to banking giant HSBC, Hong Kong has proved to be a lucrative base for custody and other fund servicing activities carried out in the Asia Pacific region. “As far as the custody business is concerned, the main centre for HSBC has always been Hong Kong,” says Colin Brooks, Deputy Head of Custody at HSBC Securities Services. “Within the region the markets evolve at different paces. One year may differ from the next in terms of activity. But in the last five years, the main drivers of growth within the region, in terms of investment trading activity and asset growth, have been Korea and Taiwan, with India also rapidly increasing in importance. Japan is by far the largest market in the region. It has shown some signs of life and there have been increases in terms of activity and turnover.”

In light of its size, Japan almost has to be set aside from other countries in the Asia Pacific region. HSBC has a standalone servicing centre in Japan alone, and another centre for the rest of the Asia Pacific region.

“When analysing Japan, what happens elsewhere in the Asia Pacific region is dwarfed by comparison,” says Brooks. “In actual fact, when analysing how many of the fund managers, investment banks and broker dealers are structured, they will often have a management team in Japan and a separate team for Asia Pacific.”

This separation between Japan and the rest of the region has little to do with the range of investment products. “It is more to do with the scale of the market,” says Brooks. “If you're serious about the region you have to have a presence here in Japan. In fact, regulations often determine that a physical presence is a pre-requisite to doing business. It is difficult, if not impossible, to maintain a presence due to some of the regulations. The operating costs in Japan, however, particularly of labour and premises, are so high that there are very few companies who place their regional centre in the country. Japan is often run as a standalone market and the rest of the region is run out of Hong Kong or Singapore.”

Pensions

While the citizens of the Asia Pacific region become increasingly more diligent about savings and investments, the State still has a significant role in securing retirement pensions. Some of the world’s largest State-mandated funded schemes include the Mandatory Provident Fund in Hong Kong and the Central Provident Fund in Singapore. These funds continue to provide opportunities for asset servicing providers in the region. “Governments are increasingly looking to the financial services industry to provide personal and private pensions and there are initiatives in several countries in the region to enable these personal retirement pensions to be set up,” says Brooks. “There have also been a number of changes in the

Can services match growth?

regulatory environment to ensure greater clarification of responsibility of the fund managers, third party administrators and the pension fund trustees. Fund managers in an increasing number of jurisdictions are required to have appoint an independent administrator in order to ensure proper independence in the personal pensions market."

According to HSBC, investment into alternative investment funds in Asia has not been a big success among the traditional retail investors to date because there are very few funds authorised for sale to the retail market, the minimum subscription levels are relatively high and managers have little interest in capturing this market. For now the alternative investment fund market is still the domain of sophisticated investors such as family offices and private banks.

Changes

The DBS Bank Ltd is very excited about the Asia Pacific region. Growth in the region, according to the custody provider, is likely to continue as opportunities occur simultaneously. "For example, there has been a general and significant trend towards (financial) liberalisation in countries like China, India and Malaysia," says Elizabeth Chia, Managing Director of Global Transaction Services-Securities Services at DBS.

"We are also seeing greater interest in the Reits (Real Estate Investment Trust) market across Asia, which has increased the complexities of the administration and tax issues with regards to the services that custodians provide," says Chia. "The increase in the growth of hedge funds will also lead to increased opportunities for sub-custodians like DBS. The custody pie is certainly growing larger."

"In the last 24 months, we have seen a change in the ageing population of the region and an increase in the disposable income of that population"
Paul Hedges - Standard Chartered

The changing attitudes towards service provision is clearly evident among sub-custodians in the Asia-Pacific region. Chia explains: "What banks need to take note of is that custody is no longer just a commodity. The challenge is solution-based. Sub-custodians, like ourselves, need to be able to anticipate client needs, and provide global custodian clients with tailor-made solutions that cover the whole value chain so that they can in turn support their offerings to their clients." The attitudinal changes among service providers extends to investment in staff and technology. "DBS' commitment to the business, for instance, is supported by an investment of S$13.5 million in our back-end systems to build up a robust custody system with regional capabilities and we are also increasing staff resources across the region," says Chia.

Commitment

The commitment of sub-custodians to the Asia Pacific region is further highlighted by the presence of Standard Chartered, which provides sub-custody services to support international investment into Asia. Commenting on internal changes within the region, Paul Hedges, Global Head of Securities Services, says: "In the last 24 months, we have seen a change in the ageing population of the region and an increase in the disposal income of that population. There has also been a shift from a retail to institutional investment strategies." The retail-to-institutional paradigm shift was one of the topics for discussion at Sibos 2005. "As far as Asia is concerned, we need a transformation from a retail to an institutional mentality," says Hedges. "This is due to the relaxation of the regulation and the effects of an ageing population."

To support the transformation of the securities industry, Standard Chartered is quickly expanding from a sub-custody provider to a full service provider for the complete Asia Pacific region. "The bank has grown considerably and has already expanded its custodial services to include as core products, local and international custody, fund accounting, transfer agency and other asset services," says Hedges.

Opportunities

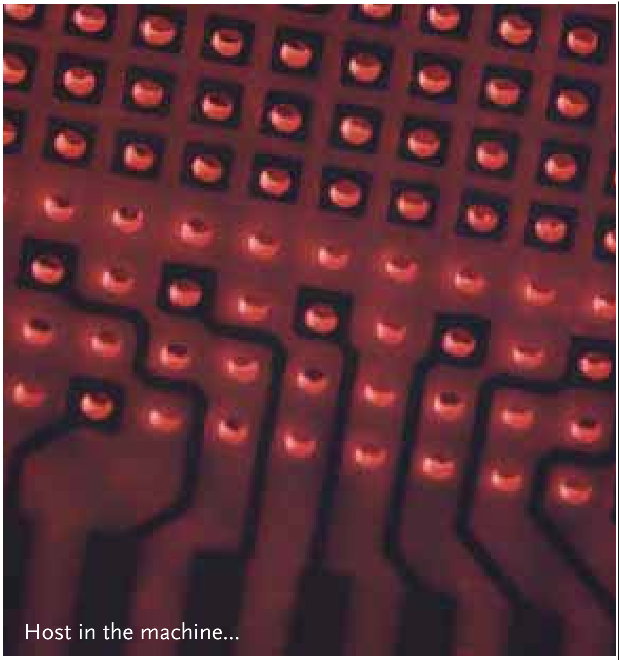
The growth of Standard Chartered has prepared the provider for opportunities occurring in the Asia Pacific pensions industry. In addition to the Mandatory Provident Fund in Hong Kong and the Central Provident Fund in Singapore, Korea is soon to launch its own provident fund.

There have also been moves by institutional investors into alternative investment, primarily through their prime broker client. "Hedge funds are very much behind the activity of these clients," says Hedges. "Asia has had an uncomfortable experience with hedge funds in the past. Its therefore important that the custodian ensures that pre-matching and other asset services are done correctly."

The creation of private equity instruments for high net worth individuals is creating further opportunities in Asia. "These investors have also employed the services of boutique alternative investment managers for fund of funds investment," says Hedges. Despite the presence of defined benefit pension arrangements, moves are in place to promote individual responsibility for secure retirements. "Taiwan, in particular, is very state-oriented when it comes to pensions but there has been some relaxation of the laws governing this," says Hedges. "We are seeing moves from the state into workplace schemes and into more additional voluntary contribution-type schemes. China is doing a lot of work to shift the responsibility from the State to an employer-based scheme."

Challenges

Going forward, one of the biggest challenges for sub-custodians in the Asia Pacific region is the quest for a regional presence. "The difference between Asia and Europe, for example, is that in Europe there are two mechanisms for trading and settlement. In Asia we are seeing the beginning of vertical integration of the stock exchanges and securities depositories. It is therefore important to provide regional linkages between these exchanges." *ISJ*



Host in the machine...

Doing the Math

Algorithmic trading is the latest craze to capture the hedge fund industry.

ISJ reports on the value of superior technology systems, which are being used predict the outcome of hedge fund trades

In an ideal world, people often rely on the old adage of X and Y equals Z or action vs reaction when drawing conclusions. In certain financial circles, market makers have applied these adages t trading. By keying certain variables into their computers, traders can predict the outcome of a trade. Algorithmic trading, according to Chris Poulin of Poulin Hugin (providers of a pattern and prediction tool for alternative trades), includes the setting of computer trading solutions, whereby the computer is given a threshold to make a trade. In this instance, the computer makes the trade and not the human. "The computer is given a threshold and a priority on a particular security and the security is traded automatically," says Poulin. "Algorithmic trading is a way of automating the trading process." The functional ways that algorithmic trading is currently used are to divide and or aggregate trades. This is used in connection with trading economic (conserving commission or leverage), as well as to preserve anonimity.

While algorithmic trading has therefore existed for many years, its sophistication has increased dramatically. "Nowadays, you can set the trade for concentrated frozen orange juice at a particular price," says Poulin. "If it hits the price when we make the trade, you have a very automatic and non-complicated process. But if the crop report is xyz and the price is abc, you have at least two new factors going into a system, resulting in the setting of more and more complex trade thresholds."

Algorithmic trading is capable of highly complex functions. Poulin explains: "Algorithmic trading can do some things, which humans cannot do. If earnings per share on an equity hits xyz, humans can predict this. Why is the future of algorithmic trading model so fantastic? While today it automates your life and humans do not have to sit through batch trade. It can increasingly decide which batch trades to make."

Regulation

To date, there are still regulatory concerns about algorithmic trading, which can potentially get out of control. Poulin explains: "Because the process is automated, one does not immediately know what has actually happened during the trade. There is a slight barrier to transparency with this type of approach. But algorithmic trading is capable of high frequency trades. A human does not have the patience to make 6 cents on a batch item, especially when the return attracts commissions and taxes that might make a net of 6 cents might seem mundane to a person and some may not even do the trade for such a small amount of money. But the computer, whose function it is to reconcile, does not have to worry about the size of the trade. At the end of the day, if I aggregate a hundred high frequency trades and gain $600 or $6000, it has been a successful outcome. Algorithmic trading is a superior invention in that its high frequency capability is able to support a succession of micro trades over time."

Artificial intelligence

In addition to its core ability to process a succession of micro trades, algorithmic is based on an artificial intelligence to trading.

"There are investor terms such as earnings per share, arbitrage and price disparities, exchange volumes and other things people currently use in investment circles," says Poulin. "However, the computer or machine intelligence in an algorithm can potentially determine a probabilistic outcome, which might make little to no sense to a human as it is not a scientifically known concept. The artificial intelligence computer system trade therefore combines a high frequency approach with a traditional investment approach. The machine aggregates all of those trades and adds a non-linear intelligence or machine intelligence to the system. This does not lead to transparency as you do not know what the system did. But you have discreet control over a properly devised system."

Resistance

For all its glory, algorithmic trading is not short of pitfalls. "There have been potential problems," says Poulin.

"Because the process is automated, one does not know what has actually happened during the trade"

"Some managers may be resistant to algorithmic trading because of the accountability issue and the fact that securities oversight is becoming more strict. Hedge fund traders think that if they are going to be held accountable for something they don't understand they would rather stay away. But if the bottom line is profit, people will be interested."

The best way around this dilemma, Poulin says, is through education. "It is important to know what these computer algorithmic systems are doing. There is a language problem, where finance experts want to talk their language and quant people want to talk their language. Some quant people, who prefer their own approach, have been resistant to our marketing. That is why education is important, as it leads to transparency. This will come to fruition and there will be an understanding of what actually transpired during algorithmic trading."

The other problem arising in the hedge fund industry occurs when hedge fund managers and vendors provide a customised solution, which cannot be easily outsourced. "Various trade secrets apply to the hedge funds industry," says Poulin. "But our multi-factor analysis provides the client with the actual knowledge of his particular variables, for example, a forex guy knows that a particular variable or economic indicator is going to affect the currency market. He will therefore set the trade against those variables, which are quantified. But he may not see what goes into the system. Therefore, any curiosity or hunch he may have remains in the dark. We are trying to solve this problem."

Instead of acting on a hunch about certain variables in a trade, Hugin Poulin asks, what is the probability of adding these objects together? "They may not seem relevant individually but together they are connected," says Poulin. "We try to establish how a trader's algorithm makes decisions. Hugin Poulin is the decision-making system or software package. The system is able to aggregate as many variables as possible in a short timeframe. The system is set to analyse large data sets and build them automatically. Our product provides a data mining design, which traders can use to form both an algorithmic determined system and an human interaction system."

Future

Scores of technology vendors believe algorithmic trading is the future of the hedge fund industry. "If the bottom line is profit, then you have to make the buck," says Poulin. "The algorithmic trading system makes less mistakes and has more accuracy than the human. Routine tasks that do not require oversight are being increasingly automated. We are not yet taking the world by storm because there is resistance to systems that are difficult to understand. But systems like these can predict prices more than half the time. We have begun discussions with hedge fund managers. In our case, detailed case studies and our 15 year experience in decision systems will allay some of the fears that currently prevail for algorithmic trading solutions."

Rules

Gavin Little-Gill at TowerGroup refers to algorithmic trading as rules-based trading. "A set of rules is defined and the trades kick off when certain criteria are met," he says. "In a pairs trading scenario where Cisco stock is up by 1 per cent and Juniper is down by 1 per cent, the idea is to buy Juniper and sell Cisco in equal dollar weighted blocks until you reach $100,000 or the price disparity narrows to a few basis points. A lot of hedge fund activity employs rules-based trading. These traders have proprietary mathematical models and schemes, which is how trades evolve."

The use of proprietary mathematical models has increased. "These models require a real-time, fast market," says Little-Gill. "Within the equities and the long short space, managers are looking at volatility, spread management and spreads between the long and short end of the yield curve."

Algorithmic trading is also referred to as trading relative to a benchmark. "The most prevalent algorithm out there is a v-wap or trading to the volume-weighted average price of securities," says Little-Gill. "During a v-wap trade, clients want their traders to execute the trades between 9am and 12pm and achieve close to the volume weighted average price of the security during that particular time frame. This requires a tremendous amount of historical data and mathematical algorithms. In this case, the algorithmically traded security is traded as close to a particular benchmark as possible, as opposed to a rules-based trade. Institutional brokers in the algorithmic trading space include Credit Suisse First Boston, Morgan Stanley and Goldman Sachs."

Proprietary solutions

The vast majority of third party algorithmic trading solutions in the marketplace are proprietary. Little-Gill explains: "Trades are pushed towards a broker and are executed algorithmically. In essence the hedge fund manager sends a FIX message from their management system, providing the broker dealer with all the necessary detail on a particular trade. Rather than sending a market order, they are sending a v-wap trade to be executed between 9am and 12 pm for x-number of shares of a particular security."

Other algorithmic trading applications are provided by vendors such as FLEX-trade or Portware, which support rules-based trading. "The bulk of algorithmic trading is dominated by the broker's proprietary applications. Broker dealers offer platforms such as Crichton and Reuters / Newport. APALM is a frequently used application for fixed income or FX trading.

Transparency

According to Little-Gill the transparency in algorithmic trading relates to what happens after the trade is executed. "The key regulatory issues are largely concerned with the fragmentation of liquidity," he says. "Multiple trading destinations, particularly in the US, serve to fragment liquidity. Nowadays, we not only have liquidity from the available shares for sale or purchase on multiple destinations, we now have fewer shares available in the market. This has led to the fragmentation of liquidity, which is taking hold in multiple marketplaces, including fixed income and foreign exchange."

In addition to liquidity, the delivery of best execution has impacted heavily on algorithmic trading. "If traders' best execution is determined by performance relative to the volume weighted average price of a security, why don't they push the trade into a volume weighted average price algorithm? Then nobody can argue that they didn't try to achieve best execution," says Little-Gill. "Similarly for hedge funds, the trick is to get liquidity. Traders are looking at small markets and are trying to manage arbitrage across those markets. This means that their system should be fast and should have a tremendous amount of historical data to ensure it achieves its objectives."

Multiple Models

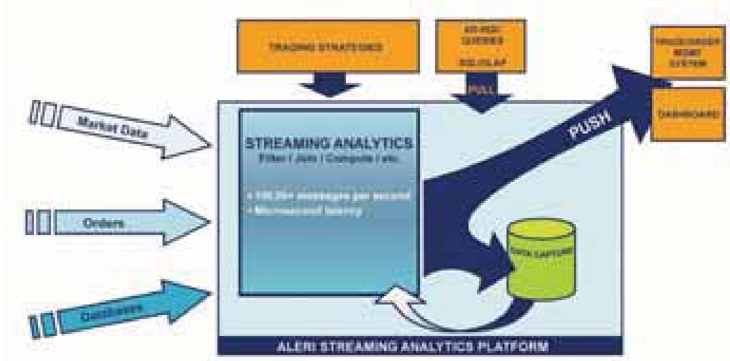
According to Eric Goldberg, CEO of Portware, an execution management software vendor, algorithmic trading is defined as any situation where the computer is making the decisions on what to trade, when to trade and how to trade. "These situations consist of four models, namely statistical arbitrage models and pairs trading models (when two assets trade against each other), cross asset strategies (auto-hedging foreign currency risk on a global equities portfolio, for example). The third model is smart order routing where decisions are made on the best place to trade. The fourth and most common definition of algorithmic trading is the execution of a target quantity with the goal of achieving a benchmark."

Eric Goldberg

Until recently, algorithmic trading has been the domain of very sophisticated trading houses, which could perform

"Algorithmic trading is a superior invention in that its high frequency capability is able to support a succession of micro trades over time"

The following diagram is an example of a data analytics streaming model



these trades in-house. "With the advent of FIX, we have a standardised protocol, making it less expensive to facilitate algorithmic trading. Some of the sell-side firms, who have faced lowering commissions and other cost pressures, took their models used on proprietary trading desks for execution and made those available to clients. Clients with a trading platform could route an order to a broker's algorithm within the broker's hosted parameters and begin to execute."

The availability of sell-side algorithmic trading solutions has increased over the last two years and further growth is expected. Goldberg highlights two potential hindrances to that growth: "The first is education. People need to understand what happens to their order when placing it into an algorithm. The second is accessibility - an institutional asset manager's trading platform needs to be able to access the broker's algorithms. The sending of orders from the fund manager to a broker strategy server has picked up phenomenally. Almost all sell side firms need to be able to offer some algorithm."

"The machine aggregates all of those trades and adds a non-linear intelligence or machine intelligence to the system"

Goldberg has observed the release of next generation algorithms, which have the ability to handle multiple orders simultaneously and in relationship to each other. "Transaction cost analysis and performance analytics constitute the electronic advice on how to use algorithmic trading," he says. "Pre-trade transaction cost analysis tells you how to use the algorithm while post trade analytics tells you how well the algorithms perform. The main goal of these algorithms is to achieve their benchmark within the constraints the client provides."

Certain regulatory developments in the US and Europe have supported the development of algorithmic trading by requiring that a trade is as automated as possible. "Algorithmic trading is second generation electronic trading," says Goldberg. "Once you are capable of electronic trading on an open platform you have the opportunity for algorithmic trading. The world has to embrace electronic trading as soon as possible. Traders have to document what they did and when they did it. This is not possible over the phone. Regulation will be a good driver of algorithmic trading considering that trades have to be time-stamped, documented, snapshotted and benchmarked. Algorithmic trading is the last step before real straight through processing takes place. I have been on Wall Street since the early 1980s and I have never seen a change like this. It is very exciting."

Algorithmic trading and liquidity management

Algorithmic trading solutions are similar to analytical and information aggregation tools provided by vendors. These tools are being seized upon by prime brokers. Barclays Capital, for example, recognised the need to automate its cash and liquidity management processes for more effective monitoring and forecasting of intraday positions across multiple payment and settlement systems using real-time data. Previous processes were dependent on a sub-optimal mix of nightly batch updates and manual intraday data extractions, potentially increasing exposure to operational risk and requiring the bank to maintain higher intraday liquidity with the Central Bank.

Aleri Liquidity Management provided Barclays with the ability to aggregate detailed transactional information in a single access point to monitor and precisely forecast intraday liquidity positions in real time, while providing an analytic framework to continuously optimise global liquidity management strategies.

Aleri was established six years ago as a data engine for analysing transaction data in a real time environment. Shortly after this establishment, technology solutions providers were challenged to provide scale and speed when serving the front end of a trader's system with a back end solution. As the amount of trade data increases, says CEO Don DeLoach, vendors can provide the technology for streaming analytics (whereby large amounts of trade information is analysed in a real-time environment). "Our system is based on 3 Rs: rapid, robust and recursive. Streamlined applications rely on robust systems. As financial markets begin to adopt standards, the focus on enterprise position management, including risk reporting, has increased." Compliance reporting is also key. "A fund manager does not want to stop a trade unnecessarily, but they do want to know they are being compliant. People have made money from algorithmic trading by being ahead of the curve. The ferocious pit traders have disappeared now that trades are done electronically. The earlier click traders make up the next wave of people to look at electronic spreads."

Aleri Labs, the extension of the Aleri brand with a mandate to further develop and innovate the core streaming analytic platform technology for use in Aleri's new applications, provides the underlying technology for these spreads.

Chief technology officer Jerry Baulier adds: "We spent three to four years building large data warehouses to store vector and transaction information. We can then put this information in a realtime view. The industry is moving towards realtime analytics. Our fast underlying data engine caters for the fast amount of data streams coming in."

DeLoach predicts strong interest from hedge funds in the Aleri Labs product. "Hedge fund managers need technology that can handle complexity fast because they have increasing volumes," he says. "I compare these requirements to drilling for oil. Most of the world's oil wells have already been tapped and exploration is underway to find more complex ways to extract the oil."

Enterprise risk management and algorithmic trading go hand in hand, says DeLoach: "Our underlying tools, including enterprise risk management, are an important factor in algorithmic trading. Analysing vast amounts of data quickly is a problem we are targeting. Speed and scaleability are key, especially as people look to make money from new markets. Money may be derived from 10 different sources but the ability to take multiple feeds and analyse them realtime is critical." *ISJ*

Algo & Alpha

The explosion of the hedge fund industry has changed the trading landscape argues Dr John Bates

The buzz surrounding algorithmic trading is showing no sign of waning. Over the past year, the adoption of algorithms has grown faster than the adoption of any other trading tool. Recent research from TowerGroup estimates that soon algorithmic trading will account for more than one quarter of all US equity orders. On the buy-side, the pick-up has been marked – it is estimated that approximately 60 per cent of US buy-side firms use algorithmic trading, while in Europe, the take-up by the buy-side is believed to be about 30 per cent. This disparity is expected to narrow rapidly as the interest in algorithms continues to intensify. In today's market, the need for technology that supports the unique trading techniques of each institution continues to grow. The explosion of the hedge fund and alternative investment market has changed the competitive landscape, heightening the need among sell-side institutions to optimise their client services. In parallel, the buy-side is demanding increased anonymity and control over their trading strategies. To date, the state-of-the-art in algorithmic trading has evolved beyond the use of third party 'black box' algorithms, that don't, for users, provide an explanation of how they work, to a 'white box' approach, whereby traders can build and customise algorithmic strategy models to capture their own intellectual property. This technology is catering to the needs of an increasingly complex market that is taking algorithmic trading beyond its traditional domain of equities, and across asset classes, including futures, bonds and foreign exchange. And as the market continues to evolve, understanding of e-trading practices is becoming greater. 'Algorithmic trading' has become an umbrella term for trading systems driven by algorithms. However, a closer exploration reveals a variety of algorithmic approaches are being developed and deployed.

Moving Beyond the Equities Desks

The 'white box' approach to algorithmic trading lets traders work from an 'electronic whiteboard', allowing them to instantly and continuously monitor, analyse, and respond to market events across asset classes, using their own algorithmic strategies. Literally thousands of strategies can be applied to multiple real-time data streams, with sub-second responses resulting in buy or sell orders.

Made possible by these types of advances in technology, interest in algorithmic trading is growing rapidly in asset classes beyond equities. The thirst for competitive advantage, combined with the adoption of FIX, third-party broker-neutral trading networks and cross-asset order management front-ends have all contributed to this trend. As well as the requirement for specific single asset class trading algorithms, some buy-side firms are now asking how they can combine their multi-asset electronic access with their algorithmic trading models, as well as creating their own electronic structured products. Today's 'white box' technology means financial institutions can not only use the same platform to analyse and trade equities, futures, bonds, foreign exchange or fixed income, but combine those instruments in multi-leg trades. For example, a trader might require a strategy that buys an equity, hedges it with a future, and takes out a FX position to purchase the stock. Or, a trader might look for arbitrage opportunities across correlated markets. This is a key driver because as the market becomes more efficient, opportunities are thinner on the ground, so institutions must look for arbitrage opportunities across asset classes to remain competitive.

From Algo to Auto

The term 'algorithmic trading' is the 'banner' term used in the market – many vendors have leveraged the term because it has been adopted as today's buzz word. However, the purist definition of algorithmic trading is more specific than generally discussed. It can be defined as a trader configuring and managing algorithms to automate a process he or she had previously carried out manually. An example is when a trader that wants to place a large order through an algorithm that is going to chop that order up – through functions like VWAP (Volume Weighted Average Price) – and drip those smaller orders into the market. There are also functions like index arbitrage, where one might trade a basket of stocks against an index, or a stock against its industry sector index. In addition, there are spread trading algorithms that allow the trader to monitor the relative value of one security over another, and trade that spread. In all of those functions, today's innovative algorithmic trading solutions allow a trader to scale their capabilities. Rather than managing a handful of trades manually, the trader becomes the coordinator of potentially hundreds or thousands of strategies and can see the state of any strategy instance, intervening manually if he or she sees fit. Also commonplace are systems where a trader is not involved at all – this is known as auto trading. For example, in foreign exchange it makes sense for spot traders, an expensive resource, to focus on high-value, low-volume deals. Some forward-thinking institutions are passing high-volume, lower-value deals through to an auto-trading engine, that receives all the relevant data feeds, monitoring its own positions to check whether at any stage, value-at-risk (VaR) or other key thresholds go beyond predefined levels, and then trading accordingly based on incoming flows. The principles behind this example apply across asset classes.

To Infinity – and Beyond

Today, we find ourselves on the cusp of the exciting new phase in the lifecycle of algorithmic trading development, characterised by explosive growth, strategies in multiple asset classes and strategies that can combine asset classes to create customised structured products. Algorithmic trading has always promised competitive advantage in trading. But now, new technology is taking forward-thinking financial institutions into specialist areas with unprecedented opportunities. Only by harnessing the powers of algorithms, will trading groups truly be empowered to realise their ambition, and their potential.

Dr John Bates is Vice President at Progress Real Time Division

Fair Exchange?

The pensions industry is still undecided on what should constitute best execution in foreign exchange transactions.

Christine Senior speaks to the service providers for some ideas.

Sparks are flying in a row over costs to pension funds of forex transactions. From one corner come consultant accusations that custodians are ripping off pension fund clients on currency deals. In the opposite corner custodians claim pension funds are setting benchmarks to monitor their currency transactions and using audits to ensure best prices.

At the heart of the controversy is failure to agree what constitutes 'best execution' in this context.

"There is no such thing as one best foreign exchange price," said Marek Unger, Managing Director, head of trading for Europe and Asia, at Bank of New York. "It depends on many, many factors, such as the currency pair, the liquidity of the market and – some clients tend to forget - the size of the transaction. Also, there is more than just the price in FX execution."

Increasingly pension funds are benchmarking prices around the rate at a particular time to improve the efficiency of their forex deals. They may choose one, or maybe two or three times of day - the 4pm fixing is popular - and a spread is agreed around the rate at that time. This provides a fairly simple method of monitoring actual rates achieved against easily accessible WM/Reuters rates. But one factor that works against in-depth monitoring of rates is the demands it makes on staff resources: checking of multiple trades, multiple currencies over a period of time is time consuming. Choosing the 4pm fixing alone is not advocated by Paul Wilson, Senior Vice President at JPMorgan Worldwide Securities Services. "There is significant market and pricing risk of allowing a transaction to remain unexecuted, say from 4.05pm one day to 4pm the following day. Clearly you get transparency of fixing but the market cost of fixing at one point may far outweigh that."

Depth

For pension funds which want a more in-depth audit Record Currency Management and Mercer Investment Consulting both offer audit services. The audit involves using information provided by the custodian to compare actual rates achieved against Record's database of the rates achievable in multiple currencies. If the data includes time stamps, it is possible to pinpoint rates achieved down to a 15 minute period of trading on a particular day.

The results show a huge amount of variance. "They range from no extra costs being suffered, or more or less perfect, to really quite extraordinary costs of the order of half a percent of the amount being traded, which in the foreign exchange market is huge," said Peter Wakefield, Director of Record Currency Management. Stacy Scapino, a principal at Mercer Investment Consulting, says as yet pension funds have not shown great interest in using currency audits because of the cost, though savings can be significant: "We find when most pension funds put in some sort of monitoring their costs drop to around 5 to 10 basis points of turnover." What the audits tend to show is that by and large fund managers, who have a fiduciary duty to their pension fund clients, achieve better execution on currency transactions than custodians. However, Peter Gloyne, European treasurer for foreign exchange at Northern Trust, says this bias could be down to the fact that custodian trades tend to be smaller and would attract a wider spread.


Stacy Scapino

"Often the asset manager has a requirement that maintenance type transactions are executed under standing instructions - they just don't want the bother," he said. "If you have two trades of identical size, one executed by an investment manager and the other by a custodian I would expect the investment manager would be monitoring execution at a higher level so I would expect the investment manager to get a better deal."

Critic

Scapino at Mercer is an outspoken critic of what she regards as blatant malpractice among certain custodians with regard to foreign exchange trades.

"Because the foreign exchange organisation sits in the banking organisation not with custodian they get an order from custodian coded with the custodian's account code, the trading desk knows that nine times out of 10 when that comes through no one is paying attention to it. They can do one of three things: execute at the prevailing market rate when it comes through and time stamp the trade appropriately, or hold it back to the end of day and execute at 4pm close, or they can do what I consider to be completely inappropriate and hold it to the end of the day and execute at a rate which is most advantageous to the custodian, which is quite frequently what happens. Because it's executed within the day's trading range you can't tell if there's been an abusive practice because it is technically within the day's trading range."

Gloyne at Northern Trust concedes that in the past all banks, not just the custodians, had a tendency to apply rates that favoured themselves on client trades. But he says, times have changed. "Nowadays, if you are a serious player in the foreign exchange market and intend to continue to be so, you have to take a long-term view like Northern Trust and provide a highly competitive service which compares favourably to the rest of the market."

Accusations of uncompetitive rates are most likely to be levelled against the 'repatriation' trades, or transactions applied to dividend or income payments, which tend to be smaller deals and therefore might escape more detailed scrutiny. But Wilson at JPMorgan denies this. "Repatriation trades, from our experience, are monitored fairly closely. The rates that get applied to these transactions are usually reflective of the size, cost and nature of these transactions."

Gloyne at Northern Trust reckons these kind of transactions do stand up to scrutiny: "We would regard repatriation trades as standing instruction type of transactions. We would have the time of day we execute, therefore rates are available for comparison."

Time stamping trades, which facilitates rate comparison, is another bone of contention with Scapino. She claims custodians are loath to do it. "One bank say they won't do it because they don't consider it to be market practice – which I think is ridiculous."

Northern Trust does time stamp every trade. JPMorgan provides time stamping if requested. Wilson says in reality very few clients ask for it, because the burden of checking through every transaction every month is too time-consuming. "My sense is there is random checking that goes on. Some pension funds may take a random sample of trades and validate them," he said.

This custodian-consultant spat looks set to continue for a few rounds more.

ISJ

Spotlight on best execution in FX

Currency management is under scrutiny writes Mark Warms.

The emergence of forex as an asset class in its own right, combined with an increased focus on cost-efficiency, has brought currency management into the spotlight. Investors are increasing the pressure on asset managers and custodians to achieve and prove best execution for foreign exchange trades – something that has been made much easier by the greater transparency and new reporting tools introduced by electronic trading. This can be a make-or-break factor in a fund's relationship with its custodian. At least one large European pension fund has switched custodians because they were unhappy with the foreign exchange rates their custodian was providing.

So what can custodians and asset managers do to keep investors happy? The first step is working closely with clients, both to understand their best execution requirements and to work out the best way of achieving them. Transparency, or demonstrating that you are doing everything you can to achieve best execution, is essential. Post-trade reporting tools available on platforms, such as FXall, benchmark the price achieved against other prices available at the time of execution, making it possible to prove best execution even when all trades are executed with a single custodian.

Another option is equipping asset managers with multi-bank execution tools that enable them to source the best price from a range of liquidity providers. Historically, the need to send complex notification messages has made it difficult and time-consuming for asset managers to trade foreign exchange away from their clients' custodians. The SWIFT MT304 message type used for these notifications is used differently by every custodian, meaning that the asset manager's back office has to deal with a variety of different messaging formats if clients want to trade third-party. This problem been solved by FXall's industry-standard custodial messaging solution, which allows asset managers to automate notifications to all custodians through a single connection. Furthermore, the process the asset manager went through in executing the trade, including time stamps for each event and all the quotes received from third parties, is recorded in the audit trail for compliance.

As pension funds pay more attention to the rates they get on foreign exchange transactions, they become actively involved in managing the currency trading process – working closely with asset managers and custodians to ensure that they are benefiting from the best trading and reporting tools the market has to offer. The resulting advances in transparency and efficiency will be to everyone's benefit.

Mark Warms, General Manager for Europe, FXall

Friends in the North

SCHEME: WEST YORKSHIRE PENSION FUND
CUSTODIAN: HSBC GLOBAL INVESTORS SERVICES
SIZE OF FUND: £5.4BN

Stuart Imeson

Stuart Imeson, Head of Pensions & Investments at the **West Yorkshire Pension Fund** talks to James Wallace.

What is the Fund's asset mix?
The allocations are as follows: UK equities is 46 per cent with £2.5 bn, overseas equities is 26 per cent with £1.4 bn, fixed income is 12 per cent with £650 million, property is 6 per cent with £300 million, alternatives is 3 per cent with £150 million and cash is 7 per cent with £400 million.

Does the fund participate in a securities lending program?
Yes. The annual revenue stream net of expenses is just over £1 million. The programme has been in place for 15 years and it is a very successful part of our overall portfolio. It generates income from what otherwise would be a dormant part of the portfolio so we are making use of the shareholdings to generate income.

How much of the fund's assets are allocated towards alternative investment instruments?
Our current alternative asset allocation of £150 million, excluding property, is split approximately 50 per cent in private equity and 50 per cent in fund of hedge funds. The medium to long-term plan is to move each of these asset classes up to 5 per cent of the total value of the investment portfolio.

What is the investment strategy?
Fundamentally our objectives are the same as for all pension funds and that is to maximise returns within acceptable risk parameters and that requires us to have a well diversified portfolio of investments. We recognise the need to mitigate the risk of any particular asset class or individual holding underperforming.

Our Statement of Investment Principles has been prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999.

What is the pension funds' attitude to risk?
We diversify extensively within the portfolio to ensure risk is spread. In terms of the potential variation between the anticipated return on the Fund, we are looking at a risk variation of 13 per cent per annum. So if for example the Fund's target return is 8 per cent per annum we accept that there is I in 6 chance that the return will be 13 per cent above or below that target return figure. So 13 per cent is our risk parameter.

How do you make decisions about where to invest?
The Fund's Investment Advisory Panel determines the investment policy of the Fund and has ultimate responsibility for investment strategy and asset allocation.

The Panel undertakes its responsibilities through taking appropriate advice from the Fund's external investment advisers, supported by the in-house investment management team. Once investment strategy has been set at the quarterly meetings of the Panel, the in-house investment management team undertakes sector and stock selection on a discretionary basis to implement the strategy. We have quarterly strategy meetings with the Investment Advisory Panel (who act as quasi-trustees), and it is agreed at those meetings what the current strategy and asset allocation mix of the portfolio is, and any changes would be dealt with at those meetings.

We have very strong positive cash flow coming into the Fund, so every quarter we have new monies to invest, and decisions are taken as to where that new money will be invested. Also we look at the existing structure of the portfolio to see where any adjustments may need to be made.

How important is corporate governance and socially responsible investment?
We do take corporate governance and corporate social responsibility seriously, but all investment decisions are taken based primarily on financial and commercial considerations. We normally use the engagement route and our voting policy as means of making our views known to a company if they were not adopting good practice on corporate governance or corporate social responsibility issues. West Yorkshire Pension Fund's Investment Advisory Panel has established a voting policy for the Fund's shareholdings in UK, European and US companies.

The voting policy is based on the latest Shareholder Guidelines issued by the Pensions and Investment Research Consultants Limited (PIRC). WYPF votes for resolutions where the proposal meets best practice guidelines and is in shareholders' long-term interests. It abstains where the proposal i) raises issues which do not meet best practice guidelines, but either the concern is not regarded as sufficiently material to warrant opposition or an oppose vote could have a detrimental impact on corporate structures; or ii) the issue is being raised formally with the company for the first time. Finally it will oppose resolutions where the proposal does not meet best practice guidelines and is not in shareholders' interests over the long-term.

The voting policy is applied to UK FTSE 350 companies, European Eurotop 300 companies, and US S&P 500 companies, in which the WYPF has a shareholding. *ISJ*

Sole Agents

Transfer agents are often referred to as the backbone of all fund distribution strategies. ISJ speaks to some of the providers about future predictions for the funds industry

Etienne Carmon is Senior Product Manager of the transfer agency business at Credit Agricole Caisse d'Epargne Investor Services After five years at Banque International à Luxembourg, now known as Dexia Bil Luxembourg, in the Transfer Agency department, Carmon joined First European Transfer Agent at the very beginning of the Company in 1994 with responsibility for the US fund promoters, including Merrill Lynch, American Express, Morgan Stanley and Goldman Sachs. In 1996, he became EDP relationship manager in charge of all IT developments in the company until 1998, when he joined Chase Manhattan Bank as client relationship manager for several clients.

Gavin Davies - Director, Business Solutions. Davies joined Mellon European Fund Services in 1999 and is primarily responsible for working with existing and prospective clients in helping to launch new products and services. Davies has worked within the retail financial services industry for 18 years. Prior to joining Mellon Davies worked for 12 years in operational and operations management roles within an asset management company, during which time he was responsible for the investment trust savings scheme and PEP administration areas.

Bill Hookings is the Head of Retail Funds Product Development for The Bank of New York. He joined the Bank in 1989. He was responsible for RUFUS development from its inception in 1991 until 1996. He then established the Product Development Group, which is responsible for defining the future direction of the RUFUS system and BNY's Transfer Agency services. During this time Hookings has played a significant role in establishing The Bank of New York as one of the leading Transfer Agency service providers across Europe.

Eilish Mc Cumiskey is Communication Manager at European Fund Administration (EFA), a leading provider of administration and transferagency services for 1500 funds worth over EUR 95 bn. Mc Cumiskey joined EFA in 2001 and is currently responsible for the external marketing and communication activity. This remit includes an in-depth focus on certain service areas such as Transfer Agency.

Marc Schammo is Head of Sales for Dexia Fund Services. He joined Dexia Bil in 1985. He holds an MBA in Financial Services. He has spent a part of his career in the financial markets fields, mainly in the fixed income space. He joined Dexia Fund Services in 2002 and took over the responsibility of the Head of Sales in July 2004.

David White is Director of Marketing and Customer Relations at Mutual Fund Technologies. MFT is a specialist software, systems and consulting group. White joined MFT in 2002 and is responsible for managing the relationships with MFT's global customer base. In addition he is responsible for all aspects of the company's marketing strategy. Prior to joining MFT, he worked at Aberdeen Asset Management PLC as Head of Marketing for Europe and Schroders PLC in the UK.

Etienne Carmon

Gavin Davies

Bill Hookings

Eilish McCumiskey

Marc Schammo

David White

Comment on the latest developments to affect the transfer agency industry in the last year.

Carmon: Carmon: Last year has reinforced a series of market trends that were emerging two years ago: the development of cross-border distribution that affects not only the proprietary funds but also third party funds distribution; the enlargement of the product range: hedge funds, funds of funds, pension funds, etc.; the emergence of new distribution vehicles such as employee pension schemes, the asset allocation plans, etc.; the increasing number and variety of the "financial players" from various business areas: Independent Financial Advisors, fund supermarkets, Insurance companies, etc.; the increasing importance of the distribution networks; the increased use of the internet and / or remote access inquiry and trading facilities; the new legislation and regulatory directives at European or local levels; the growing demand for customised reporting; the importance of the cash-management at all steps of the transaction flow including: cash-management forecasts, tighter settlement cycle (same day settlement), payment by means such as SWIFT, wire transfers, cheque, direct debits, etc. and cash reconciliation.

Davies: We have seen a continued trend towards aggregation via the various fund platforms, which is increasing year on year. Specific to Mellon, we have seen a marked increase in the number of structured products we administer, and our clients are increasingly requesting that we provide services to these products in addition to standard collective investment schemes. Another key development for us was the introduction of Child Trust Funds (CTFs). Mellon designed a service offering specifically to support CTFs and we have set up over 180,000 accounts on behalf of our clients since the beginning of 2005 when this product launched.

Hookings: The last year has been extremely busy with a high number of simultaneous projects being implemented. These include the implementation of a significant number of new client wins, SWIFT and EMX automation, migration of our Dublin business onto the RUFUS GTA platform and the implementation of a significant number of regulatory changes such as the European Union Savings directive.

Mc Cumiskey: At EFA, we have seen a greater volume of transactions leading to more pressure on TA systems. We feel that only those TAs who have made considerable efforts to increase STP rates will be able to cope with this increase in the long term.

Schammo: Standardisation and harmonisation of the TA activity have become increasingly important. This trend will prevail and thus impact the TA landscape in the forthcoming years.

White: From a technology standpoint, there are three key areas that spring to mind: Supermarket platforms – the appeal and popularity of fund supermarket platforms has grown significantly. This has meant a huge shift in the way that retail customers are purchasing new mutual funds. Leading platforms such as FundsNetwork have been dominant in their attraction of new retail business and increasingly in the area of re-registration; Straight Through Processing – SWIFT, Vestima, Fundsettle and EMX have all been very active in the field of new development and increased automation. This has resulted in technology providers such as MFT ensuring that their own systems and infrastructure keep pace with any changes; the new EU Savings Directive, Anti Money Laundering, the Financial Services Authority (FSA) Reporting, and VAT changes in Germany are just some of the new initiatives that have impacted the European mutual fund marketplace. The need for technologies and software to keep pace with these legislative and compliance developments is essential.

What challenges does an increased number of funds present to transfer agency systems?

Carmon: The increasing number of funds directly affects the number of transactions to be processed and confirmed, the management of complex commission processing and payments, the customisation of time-to-market reporting to various actors of the distribution network. Furthermore, the number and the diversity of new promoters and distributors forces the TA to adapt his system and transaction processes to various flows whilst attempting to standardise the internal processes to guarantee a competitive cost-base transaction. Finally, the enlarged panel of products and their complexity represent a real challenge for TA systems that struggle with various legal and operational constraints.

Davies: The absolute number of funds is less of an issue than the varied nature of the funds being launched. Supporting additional funds of the same type obviously impacts operations to some degree, but more significant is the variation in the properties of funds ranging from UCITS funds, to non-UCITS retail funds and then QIS funds. The dealing, reporting and investor servicing processes that support these different fund types can be quite varied and this arguably presents the biggest challenge to transfer agency systems.

> "Standardisation and harmonisation of the TA activity have become in-creasingly important" Marc Schammo - Dexia

Hookings: BNY does not believe that an increasing number of funds present any significant challenges to transfer agency systems beyond the obvious requirement that the systems do not have physical maximums. Ensuring the correct fund has been selected for data entry can be helped through advanced search and filtering capabilities. MIS is another area where the increasing number of funds is encouraging providers to require reports which are looking at groups of funds rather than individual funds and the systems need the ability to define these groups of funds.

McCumiskey: With a greater number of traditional funds available, promoters seek to differentiate their offerings, leading to more complex patterns of distribution and commission to be supported by the TA.

Schammo: A key challenge is to reach an adequate level of standardisation so as to be able to automate transactions. As volumes rise, the same times deadlines conceded to the TA for providing output become increasingly more narrow.

White: I believe there are three key challenges facing transfer agency systems and technology providers: breadth and depth of system functionality – systems need to be more comprehensive and all-encompassing in order to meet the needs of promoters and distributors. Our transfer agency product, GFAS, supports over 60 fund groups in 15 countries globally. The challenge is therefore to keep pace with all regulatory, tax and other industry initiatives that are constantly evolving around the world; availability – managing a 24 x 7 x 365 system is a must for any modern day transfer agency system; system performance – with growing industry consolidation of platforms and infrastructure, performance is key. Systems must be able to handle significant growth when dealing with large mutual fund promoters and distributors. GFAS alone administers over $250 bn worth of assets and has seen growth of over 40 per cent during the past 12 months. These three factors mean that only the largest technology providers will survive and will be able to invest the money that is required to maintain a successful transfer agency platform.

Comment on the impact of open architecture arrangements on transfer agency systems.

Carmon: Open architecture means that a large number of transactions are sent by numerous distributors with their own complex distribution agreements. This impacts the Transfer Agency systems in several ways: the numerous and various transaction flows that forces the TA system to support different transportation media: faxes, SWIFT messages, proprietary file interfaces, etc.; the management of various documentation, from the non-structured incoming fax or mail to the customised outgoing reporting; the treatment of payment proceeds through various payment paths and settlement cycles; the follow up on the investors stocks. In addition to this, the increasing demand for internet or remote access facility to TA systems has highlighted the importance of a true and reliable segregation of investor data within a shared database. At CACEIS, we have extended the role of our Transfer Agency in order to respond to this complexity. Fund promoters and distributors are challenged by the need to interact with an increasing number of Transfer Agents. Through its PRIME TA solution, CACEIS acts as a single access point between distributors and transfer agents for both order processing and settlement. This central platform helps the distributors by channeling all their orders through a single gateway which standardises the whole transaction process.

Davies: The challenges of supporting open architecture arrangements differ depending on whether the transfer agent is acting as the fund platform itself, or is providing traditional Transfer Agency services to a fund that is held in a platform elsewhere. We play both of these roles on behalf of our clients. When playing the role of the platform, the challenges tend to be around dealing with multiple valuation points, varying commission and discount calculations, and handling issues such as dilution adjustments and unit groupings. When providing traditional Transfer Agency services to funds held on external platforms, the challenges tend to be centred around providing the various reporting and reconciliation support services required by those platforms.

Hookings: BNY anticipated the growth of open architecture platforms. Importantly, we realised that open architecture platforms need to be based on solid and comprehensive transfer agency systems, with the additional functionality to handle the external funds. BNY enhanced our proprietary TA system, RUFUS GTA, to provide the key additional functionality such as deal aggregation, re-registration / in-specie transfers and management fee rebate calculations.

Mc Cumiskey: Open or guided architecture is increasingly used by distributors for credibility reasons and to enable the offering of more complex wrapper products.

Schammo: The aim will be to deploy the same systems architecture to all locations by adapting the TA systems to specific local needs. Once again, the ultimate goal is standardisation, leading to increased automation of processes.

"Managing a 24 x 7 x 365 system is a mustfor any modern day transfer agency system" David White - MFT

White: The impact has been significant with a vital shift in who chooses the transfer agent. Historically, fund managers have chosen the transfer agent. However, with the advent of open architecture, and particularly fund supermarket platforms, the choice now rests with the investor or advisor who chooses the fund supermarket they wish to deal with (and therefore the transfer agent).
Additionally, many legacy systems and single market based systems have been unable to cope with the move to open architecture. Any successful transfer agency platform must be able to manage multiple fund types, in multiple jurisdictions and multiple currencies. Changes have been required to both the front end (web enabling the transfer agent) and at the back-end (where new, sophisticated reporting is now required to meet the varying needs of promoters and distributors alike).

STP - Are distributors and promoters realising the full benefits of outsourcing their TA to a provider with scale and sophisticated technology to support their requirements?

Carmon: Cost-effective distribution is linked to cost-effective Transfer Agency. In order to guarantee low costs, an STP solution is necessary between all actors of the distribution chain. It is only with a higher degree of automation in the transaction processing phase that cross-border distribution of third party funds can be supported at reasonable cost. The range of services offered by the TA and moreover the high level of quality required for such services drive progressively the promoters and the distributors to go for an outsourced solution, preferably to a Transfer Agency who is capable of processing high volume of transactions within an STP environment to avoid any breach in the transaction flow. On the other hand, promoters and distributors would like their TA to provide a highly customised service through ad-hoc and tailor-made reporting. If these firms were not comfortable with the proposed solution, they would not outsource the TA part of their business.
One of the Transfer Agent's challenges is to ensure the highest level of quality and customisation within the most straightforward transaction process flow.

Davies: Distributors and promoters are starting to realise the benefits, but it is still early days. The proportion of business that arrives to us in an STP-able manner is on the increase but is still relatively low. It's not particularly helpful that there are several competing forms of STP, including EMX, which is the dominant means for STP in the UK. SWIFT are also entering this space, as are the likes of Fundsettle and Vestima. It would be good if there were just one form of STP, but I'm afraid I can't see this happening any time soon.

Hookings: The best TAs have made the current model of paper / fax applications more or less as efficient as its going to get and have passed a lot of the benefits of this back to the fund promoter. If there is to be any further step change in the cost of providing TA services this must involve a change in the model. It is essential we get to a position where increased volumes do not result in a directly proportional increase in staff to process them.

Mc Cumiskey: Distributors and promoters cannot realise the full benefits if they do not communicate with highest STP level possible. The full benefits of outsourcing for the promoter and distributor include the ability to easily retrieve data from their TA for data mining purposes via an XML interface or a direct feed to the promoters or distributor's online systems.

Schammo: STP is key as it reduces risk, error rates and cost. It enables quicker deadlines and at the end it will benefit to all parties involved, including the investors. However, STP means heavy IT investments. As a consequence, we believe smaller TAs will disappear, consolidation will also impact this part of the funds industry.

White: STP is absolutely key to the whole industry that surrounds transfer agents. The distributors and fund promoters crave it in the form of automated trading links based on communication standards such as SWIFT and EMX. The promoters require it because their clients need web portals to place their trades and monitor their portfolios at any time. Transfer agents need STP in many forms, with workflow having shown itself to be a proven tool in reducing paperwork and with it the added benefits for improved headcount and error reduction. STP is now clearly a base necessity and no longer an added value element to any transfer agency system.

The sum is greater than the parts…

Which regulatory developments are impacting / are likely to impact on the transfer agency arena?

Carmon: UCITS III, the Late trading and Market-timing and the Anti-money laundering directives have impacted the TA arena over the last few months. The European Union Savings Directive is a good example of new regulation that has directly affected the Transfer Agent at least in 2 ways: In his role as Paying Agent where he is responsible for the tax calculation, payment and reporting to the tax authorities along with the ad-hoc reporting to the beneficial owner and in his role as intermediary in the distribution chain where he should be able to provide all necessary information to the Paying Agent. Ongoing talks about the reform of the European pensions system have already encouraged the fund promoters to create attractive products, which could substitute the state pension. The ability to administer such products in an open and competitive market will be a bonus for the Transfer Agent who can provide added value services.

"talks about the reform of the European pensions system have encouraged fund promoters to create attractive products" Etienne Carmon - CACEIS

Davies: One of the most notable new developments on the horizon is MiFID, which comes into effect in 2007. Mellon acknowledges the significance of this directive and we are actively assessing its implications for our business – including some substantial system developments and procedural changes. As Mellon is also a provider of DC pension administration services , pension simplification (known as A-Day) which happens in April 2006, will have an enormous impact on our service offering.

Hookings: Clearly the most significant regulatory change which has impacted the TA arena in the last year has been the EU Savings Directive. As a major TA provider in the UK, Dublin, Luxembourg and the Channel Islands, where we utilise a single Pan-European system, we have had to make significant investments to support the reporting and withholding variants of these regulations. This is further complicated by in-country specific legislation that has an impact on cross boarder processing.

Mc Cumiskey: The xpansion of AML regulations will mean more administration at the account opening level. Preventative legal measures against market timing and late trading mean administrators will need to put in place a series of controls to prevent late trades and closely monitor any trades suspected of being linked to marketing timing.

Schammo: Regulation has always had a severe impact on systems and one can sometimes raise the question about the added value of regulation as such. In the TA business in particular, it is often obvious that regulation is driven by people that have limited knowledge of the TA industry as a whole, and thus tend to over-regulate in fields where regulation has no positive impact.

White: The list of regulatory and other industry changes is extensive. To name but a few, the list would have to include the EU Savings Directive, Basel II, Anti Money Laundering, Sarbanes Oxley, FSA Electronic Reporting, VAT on German Intermediaries and Luxembourg Domestic Tax. At MFT we have a team who are responsible for monitoring all regulatory changes that may impact our clients and prospects. They report monthly to our internal Operating Committee who then review and sanction work accordingly.

Comment on the progress made by fund settlement platforms in the automation of investment funds processing and settlement.

Carmon: Standardised inbound and outbound messages are necessary for a Transfer Agent who wishes to reduce the transaction base cost. Over the last few years, Clearstream and Euroclear have become major players in the panorama of European clearing houses. Although they operate on different business models, they have understood the market trends and they have adapted their order-routing platforms, Vestima for Clearstream and Fundsettle for Euroclear, in order to support: - Cross-border distribution of proprietary and 3rd party funds, standardisation of messages (SWIFT), web based access, host to host connection. Other initiatives like the "Fund Processing Standardisation Group" set up by EFAMA is also working on the standardisation of Funds processing in Europe. The key recommendation of the FPSG is to push the use of the new ISO 20022 messages as the European standard for electronic communications. This initiative is facilitated by the launch of the SWIFTnet Funds which is the Swift messaging solution for domestic and cross-border fund distribution flows in Europe and Asia. At CACEIS, we support all initiatives that target the standardisation of time-consuming and human intensive processes. In that respect, we have been more than happy to join the "early adopter" group of the FPSG.

Davies: There is still relatively little automation of the settlement process, with most effort being concentrated on the automation of the deals themselves. Settlement still tends to happen after the event by traditional means, though EMX has made some progress in facilitating electronic settlement and CREST also offers that capability. In general, for a transfer agent it is easier to facilitate settlement in a retail environment. For example, white-labelled web site offering allows investors to fund their deals using a debit card over a secure internet connection.

Mc Cumiskey: A considerable amount of progress has been made. But for Europe's competing platforms, success in this area is dependant on the take up by distributors and TAs. Larger TAs maintain some sort of link to all major platforms, the exact type of link generally being justified by the volume of transactions.

Schammo: In our opinion, no such settlement platform is really available for the industry. Luxembourg is an ideal location for creating such a platform, as surveys claim that 60 per cent of subscription volumes are routed through Luxembourg.

White: Both Euroclear and Clearstream have made good strides in building on the initial successes of their fund platforms, FundSettle and Vestima, with further improvements planned for 2006. When Clearstream, unveiled its Vestima+ service in January 2005, it opened up the service to the wider needs of Europe's main distributors, providing a more comprehensive solution for fund markets. Through Vestima+, and for the first time in the fund market, customers could select wherever they wish to settle and whether to use, or not, Clearstream's integrated settlement and custody services. By August 2005, Vestima+ had processed over 200,000 investment fund related instructions, its highest number, and a rise of over 60 per cent from the same month last year. Euroclear responded to the relaunch of the Vestima mutual fund order-routing platform by unveiling an order-routing service for French mutual fund transactions based around its FundSettle platform. With an estimated 5,000 orders transmitted per day, third-party fund distribution in France grew by 20 per cent in 2004. Over the next three years, annual growth rates are expected to be in excess of 10 per cent. Euroclear believes that these rising volumes have made automation of the order-routing process a priority for French mutual fund managers and distributors.

How are consolidation and the importance of scale likely to affect the transfer agency community?

Carmon: Cross-border distribution of funds of various complexity forces the TA to invest in powerful and flexible TA Platforms that are capable of supporting: huge transaction volumes through various distribution vehicles such as the employee pension schemes, the Asset Allocation plans, etc., complex commission and fee calculation and payments, tailor-made reporting to vari-

ous counterparts: end-investor, distribution network, promoter, regulatory authorities, etc., multi-channel inbound and outbound files such as SWIFT, proprietary file transfer, B2B trading platforms and web access. Significant investments are needed for such platform. The TA must be able to treat volumes of transactions through the most efficient STP solution. Consolidation of data and processes through different distributionchannels is one way of reducing the transaction-processing cost to the benefit of the end-investor.

Davies: Scale is very important as it enables TPAs to invest in technology and to deliver a service at a reasonable fee by leveraging the economies of scale. However, there is also a place for niche providers, though they tend to administer the more esoteric products or deliver very bespoke services. Scale will also be more difficult to build in the future, with an increasing number of investors disappearing off the registers of traditional TPAs and moving to fund supermarkets and eventually wrap accounts. For this reason, we are continuing to develop our open architecture and platform capabilities so that we can also capitalise on this trend.

Hookings: Consolidation brings two challenges. One is the occasional but significant disappointment when a client with whom we have built a partnership and to whom we provided an excellent service are acquired by a company who has a similar partnership with one of our competitors. Second is the need to have the systems and expertise which support the ability to merge the two books of business into one, along with processing the corporate action and re-branding activity that typically follows these consolidations. The requirement to invest in technology increases year on year and inevitably unless the TA is a scale business this investment is difficult to cost justify. It is inevitable that some of the smaller TAs will decide to pull out of the market due to the lack of scale of their business and the low margins associated with the activity. We have already seen some movement in this area.

Mc Cumiskey: In Luxembourg the number of administrators has fallen from 91 to 67 over the past five years. There is still a large number of very small players. At EFA, we anticipate consolidation will continue over the coming years.

Schammo: Small TAs will disappear in the long run. The necessity of huge IT investments will force them out of business, leaving the market to a few big players.

White: The marketplace continues to consolidate, although at a slower rate than many pundits predicted. However, most agree that this trend is set to continue and with the emergence of open architecture, many believe that we will see acceleration in consolidation. Investment in technology continues to increase year on year as new products, distribution and operational methods are introduced, however, as consolidation continues apace the number of system vendors has shrunk. The investment power is now held by a few large technology providers who dominate the European marketplace.

What are the key opportunities and challenges for the TA providers in the years ahead?

Carmon: The cross-border distribution of complex funds within an open market is an opportunity but also a challenge for Transfer Agencies.

> “we are continuing to develop our open architecture and platform capabilities” Gavin Davies - Mellon

The TA business is driven by an evolving multi-market and multi-cultural world that pushes the TA platform and staff to provide the highest quality and time-to-market response in the following domains: management of new products and distribution vehicles; maintenance of investor data and distribution networks in an environment where local legal requirements co-exist with Pan-European legislation; processing of high volume of transactions through various data flows and processes; calculation, payment and reporting of complex commissions and fees; management of in-coming and out-going cash through different payment paths and settlement cycles; the capacity to provide customised reporting to diverse financial intermediaries from the fund promoter to the end-investor; the capacity to support local legal and pan-European regulatory constraints including the calculation, payment and reporting of taxes to the authorities; the capacity to support open-architecture with on-line access to TA platforms and automated interfaces within clearing houses and various fund supermarket platforms.

Service providers who can offer these added value services and can solve the “customisation versus cost” equation become an effective partner for the fund promoters. For them, Transfer Agency can is regarded as a sustainable competitive advantage in their search for high quality and cost effective TA.

Davies: There are a number of new product opportunities that have been enabled by COLL, and we are starting to see a number of new fund structures and innovative product designs as a result. There are also Government-backed products, such as Child Trust Funds and Stakeholder Pensions, which are aimed at closing the savings gap in the UK. If these products are to achieve that objective then we will need to see substantial growth in both assets and accounts flowing through to TA providers in the years ahead. A particular challenge is the increasing burden of regulation. MiFID will result in substantial conduct of business rules being directly imposed at EU level, rather than individual member states interpreting and implementing requirements. Anti money laundering requirements have also become more onerous, and all this increased regulation is increasing operating costs and adding to the complexity of the process.

Hookings: Consolidation brings two challenges. One is the occasional but significant disappointment when a client with whom we have built a partnership and to whom we provided an excellent service are acquired by a company who has a similar partnership with one of our competitors.

Second is the need to have the systems and expertise which support the ability to merge the two books of business into one, along with processing the corporate action and re-branding activity that typically follows these consolidations.

Mc Cumiskey: Hedge funds are becoming more retail orientated and their reporting requirements are becoming heavier. An EFA co-sponsored study conducted in 2005, “Understanding Transfer Agency Needs”, indicated that 87 per cent of TAs anticipate the need for performance fee calculations for hedge funds. TA platforms also need to be able to support a variety of products, partnerships, hedge, long only etc. There is a growing interest in more sophisticated product wrappers. TA’s must therefore be able to support product innovation and ensure they are not limited by the constraints of an out of date platform.

Schammo: The creation of a fund settlement platform and standardisation leads towards higher automation. These are the key drivers for TA providers in the years to come.

White: I see three key opportunities for transfer agency providers in the years ahead: fund supermarket platforms – I believe that fund supermarket platforms, such as FundsNetwork will increasingly dominate the retail mutual fund space. Within five years, virtually all new sales will be via the platforms and a significant proportion of historic mutual fund business would have transferred onto the platforms; the alternative investment market – hedge funds and structured products. As the alternative investment market grows and becomes more successful there will be an increasing need for consolidation with standard mutual fund transfer agency platforms; the expansion of the EU through new entrants. The expansion of the EU will present new opportunities and challenges for transfer agents as new needs and requirements are requested by distributors and fund promoters in these new jurisdictions. *ISJ*

Pressure Cooking

As hedge funds increase their assets under management, the demands on the technology solutions of fund administrators is increasing.

James Reed reports.

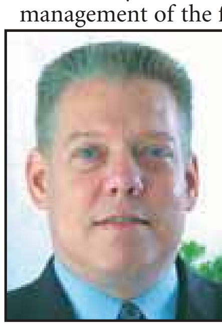
We all know that hedge funds are big business these days. What, just a decade ago, was an industry with (let's be honest) a reputation for shady offshore deals is rapidly shifting into the mainstream.

Hedge fund assets have grown from less than $25 bn in 1990 to more than $1 trillion today. The huge boom is showing little sign of slowing down. According to Celent Communications, assets will grow around 16.5% a year until the end of the decade.

Administrating a hedge fund was once a niche business; a sideline to the real job of dealing with long-only funds. Just five years ago, the job of the administrator was to calculate positions and net asset value (NAV) at the end of every month.

Future

These days, administration can mean the day-to-day management of the fund in virtually all aspects, except the actual selection of securities and trading strategy. Reporting back on positions and calculating NAV is still an important part of the job. But today a monthly service is simply not cutting it.



Robert Miller

"Five years ago, most hedge funds were happy with monthly reporting," says Bob Donahoe, Managing Director of fund administrator Bisys. "But now many clients are moving to weekly reporting and in some cases daily. It's a definite trend now."

As the hedge fund industry grows, so managers have to look harder to generate spectacular, or even above average, returns. Funds need to put in place more innovative trading strategies, and that increases the pressure on the administrator.

"It was one thing when we were dealing with long/short, listed equities", says Donahoe. "Now life is much more complex with everything from credit default swaps to distressed debt. Making sure you have the technological capabilities to deal with new instruments is the key."

Bisys is typical of most administrators, using a combination of proprietary technology and third party systems to process information and report back to clients. Its core

Absolute Control

for Absolute Returns

Take control of your business with Advent® for Global Hedge Funds

Advent's fully integrated software suite for trading, partnership, and fund accounting lets you focus on delivering absolute returns and outstanding client service. With Advent's complete solution, featuring the revolutionary Geneva® accounting engine, you can streamline your back office, manage the most complex investment strategies, minimize operational risk, and drive down your costs.

Take control. Absolute control.

Learn More:
www.advent.com/absolute
+44 (0)20 7631 9240

ADVENT®

platform is based on a product suite developed by Eagle Investment Systems combined with in-house integration, reconciliation, and share register modules.

Another big technology player, Advent, says its Geneva system is used by seven out of the top ten hedge funds administrators in the world. A full, on-site platform, it acts as the 'operational heart' of the client's back office, performing everything from valuation through to reporting and partnership accounting. "Administrators now have to deal with all the complex investment strategies that hedge funds employ," agrees Robert O'Boyle, Director of Global Accounts Product Marketing at Advent. "Historically it used to be largest hedge funds that were most complex, now any size of fund is typically investing in a huge variety of instruments. Without the right technology, it is very expensive for administrators to meet their clients' needs."

A third well-known vendor, Correctnet, outsources reporting functions, taking data from an administrator's core accounting system and processing it so clients can report to managers on a daily basis or use the information downstream to report to end investors.

"Hedge fund administrators are under tremendous pressure to modernise their core accounting back office systems and their information systems in general," says Correctnet CEO Robert Miller. "They are in a cost competitive environment, with downward pressure on prices. At the same time, clients are demanding more, in particular the automation of traditionally manual processes. The notion of paper reports simply isn't cutting it anymore. Clients want solutions that allow them to offer higher quality services at a lower cost."

In the 1990s, almost all money flowing into hedge funds, especially in Europe, came from very rich, or high net worth, individuals. Over the last couple of years, traditional institutions like pension funds and private banks have been looking very closely at hedge fund returns. In 2000 they accounted for just 32 per cent of assets under management, now the figure is rapidly approaching 50 per cent and expected to increase even further over the next couple of years. A recent survey by Prospera Research shows 61 per cent of European institutions plan to hire at least one hedge fund manager by 2006. The rise of more traditional, institutional capital has a significant impact, not just on hedge funds, but on the whole industry.

"Really we have two clients: the investment manager and the end investor," says Bob Donahoe at Bisys. "Pension funds and private banks are doing their due diligence and, as part of that, they want to meet the administrators. They want to see how independent we are, what technology we use and what procedures we go through."

> "Its not just about managing today, but about building the platform to grow your business for the next five or ten years."
>
> Robert O'Boyle - Advent

Change

Simply put, a hedge fund can win or lose lucrative institutional business because a client doesn't rate its administrator. That puts tremendous pressure on the likes of Bisys to develop a competitive technology platform.

"It's the key change in the industry over the last decade and the most significant driver of technological change in hedge fund administration," agrees Robert Miller at Correctnet. "The shear power of these investors is incredible. If you have $40 mn to invest in a hedge fund, then that fund is going to do exactly what you want."

Hedge funds administrators are now much more than glorified number crunchers. Today, top firms are expected to provide a full outsourcing solution. "A hedge fund manager just wants to buy and sell securities and he or she dreads the increasing burden on time and resources," adds Miller. "A manager would rather write a cheque to someone who can do everything else; he just wants turnkey outsourcing. That's the future of the business."

It's a future, though, that is no longer the preserve of the small, independent, boutique shops. The focus now is on marketing and branding. And that trend is only likely to continue as bulge bracket investment banks get in on the act.

"Hedge fund clients are demanding a lot more from their administrators these days," says O'Boyle at Advent. "A rising tide floats all boats and a bit of land grab is now going on. Administrators are looking for ways to expand their service offering; that is what creates a competitive environment. At the same time, competition puts pressure on price, and administrators will only win business if they can reduce their cost base."

Eight months ago, Morgan Stanley started its own hedge fund administration unit. JP Morgan is waiting for clearance to buy Tranaut, the Dublin-based specialist. The key here is client retention. As administrators act more like full-service outsourcing firms, so they are more valuable to hedge fund clients. By moving into this area, the bulge bracket investment banks can tie customers down, making them less 'portable' (or easily poached). As Robert Miller says, "Prime brokerage is where the money is… but maintaining the relationship is just as important."

So what we are seeing is a 'maturisation' of the industry, according to O'Boyle at Advent. At this stage of the game, different administrators are providing a full spectrum of services ranging from monthly or quarterly NAVs to complete back-office outsourcing. "We are continuing to see rapid technological improvement and rapid growth," adds O'Boyle. "It's not just about managing today, but about building the platform to grow your business for the next five or ten years. The market is maturing and administrators need to respond." *ISJ*

The Realities of Repo

The European repo market has recorded phenomenal growth over the last five years.

ISJ speaks to one of the foremost providers of this service about the benefits for lenders and borrowers

As the reupholstering of Europe's financial regulatory landscape gathers momentum, so too does the market for repo transactions. The concept first gained acceptance among the broker dealer and investment banking community. The European repo market was started in the late 1980s by a handful of investment banks in London. It has now grown into Europe's premier financing tool for both banks and broker dealers. The repo market has grown 38 percent since 2001 to reach EUR 4.561 billion in 2004 and the latest figures from the International Capital Markets Association (ICMA) put the European market size at well over the EUR 5 trillion threshold. But what does it mean and who does it affect? According to Saheed Awan of Clearstream, banks and broker dealers use repo transactions for a number of different reasons. "When broker dealers and investment banks buy securities, such as bonds or equities, they need to finance these securities," he explains.

Saheed Awan

Before the birth of the repo market, securities inventories were financed from bank loans. "When repo was born, it provided broker-dealers with a low cost financing option because they pledged their inventories or bonds to the cash lender for a limited period, with a view to repurchasing them from the cash lender when they were needed," explains Awan.

Financing

Repo effectively became known as an inventory financing tool, which offers low cost financing. An historic separation has existed in the way investment banks and broker dealers were able to access finance. Awan explains: "Banks have their retail deposit base in the form of their customers, and assets would be collected from different customer accounts. Banks would invest these assets into different markets or would give them to their wholesale bank to invest. Broker dealers do not have that type of access to cash like the banks do. They are forced to leverage whatever assets they have, including their bonds or inventories in order to get access to cash as cheaply as possible."

So what can repo do for the banks? "Well, it is the ultimate secure money market investment," says Awan. "When cash is left in bank accounts overnight, the bank provides its own credit quality for this cash. But for large corporations, institutional investors, and of course banks themselves, the sum they invest in those banks is too large for them to feel comfortable with only the credit quality of the depository bank."

Large money market investors face substantial risk in just having their bank provide credit as risk. In a repo transaction, not only does the money market investor receive the bank's credit rating, they also receive collateral, mostly in the form of bonds. "If I were the treasurer of a local authority or insurance company and I wanted to be assured of the safety of my firm's cash or liquidity, by using repo, I know that my cash deposit or loan is backed by the UK or German government," says Awan. "My cash is collateralised with UK gilts or German bunds, for example. I receive double indemnity or protection by using repo."

Risk

The ability to minimise the cost of risk capital is driving banks towards repo transactions. "When investing in any kind of instrument, regulated financing institutions must set aside an amount of risk capital," says Awan.

When a bank places its money with another bank on deposit over night, depending on where the bank is located and the rating of the bank, the bank depositing the money should set aside a certain amount of risk capital against counterparty default. The rules governing capital adequacy are codified in international agreements, mainly the Basel accord of 1988. The new Basel 2 accord will come into effect in 2007. "European banks found that by using repo, they were exempt from putting any added risk capital aside," says Awan. "Hence, it became a balance sheet management tool. For example, if a bank's liquidity or cash were invested in a secure money market (with another bank or broker dealer) and this liquidity was backed up with government securities as collateral, the risk capital attached to this investment would be zero per cent."

Links

Repo and securities lending are similar in that they are both financing tools. Awan explains: "The trading houses such as broker dealers and banks, which buy and sell securities on a daily basis, need to make deliveries whenever they sell a security. Given the complex trading and settlement infrastructure in Europe, these banks and brokers are sometimes unable to receive or deliver the securities because of some problem in the chain."

Despite efforts by the securities industry and its utilities, fails are still part of daily life. "If banks do not have securities in their account (but they need to make a delivery), their depository Clearstream will automatically open up a securities loan in order to facilitate that delivery and receive the collateral against the loan. When the securities in the failed delivery are received by us, the loan is automatically closed."

Awan describes securities lending as a key mechanism for oiling the wheels of clearing and settlement. "It facilitates settlement through lending," he says. "In cross-border transactions, securities lending is the only way of ensuring a smooth settlement of transactions. When securities are used in a securities loan, the owner of the securities makes money by charging a fee. Insurance companies and banks who hold bonds would normally receive income only through interest payments, either annually or semi-annually, or they would expect a capital appreciation on the security. Securities lending offers a mechanism by which idle assets can earn extra income, very much in the same way as the repo market. For example, a hedge fund, which has bought a bond on the futures market may have sold short on the cash market on the underlying bond. The fund needs to make a delivery on the cash market but may not have the bonds. We can lend these bonds to the fund's prime broker in exchange for collateral. This is typically a repo transaction."

Apart from inventory financing, repo can also be used as a balance sheet management tool for banks. Broker dealers can also use repo to finance their fails. "They provide the collateral, we provide the bond," says Awan. "Once they have utilised the bond after the trade, the broker returns the bond and we return the collateral. Banks can use repo to make money on a secured money market investment and to reduce their capital adequacy costs or charges on investment. They can also lend out their bonds and inventories and make money from receiving cash as collateral and then reinvesting that cash."

> "The costs of doing unsecured loans will become prohibitively expensive for most banks"
>
> Saheed Awan - Clearstream

Regulation

Regulations such as Basel 2 will continue to have important implications on the repo market. "The days of unsecured lending, where banks and institutions lend cash in an unsecured environment, in return for the credit quality of the receiving institution, are numbered," says Awan. "The costs of doing unsecured loans will become prohibitively expensive for most banks as they will have to allow for more risk capital whenever they do unsecured lending. One of the ways of reducing capital costs is through repo."

Definitions of what is accepted as collateral in Europe are being widened by Basel 2. "Diversifying the collateral you receive against your investment is a way of spreading risks and reducing capital costs under Basel 2," says Awan.

Basel 2 will contain an operational risk category, which equals 12 per cent of the total risk weighting for banks. "Operational risk measurement will involve the ability to price securities, the valuation of collateral and the settlement of margin calls," says Awan. "Banks can build this themselves and reduce their operational risk charges under Basel 2 or they can outsource this entire operational element to a third party agent like Clearstream. The settlement and administration of repo transactions and collateral management charges can be outsourced to Clearstream's tri-party repo service. This ensures banks are compliant with Basel 2. Depending on their local requlators interpretation and implementation of the Basle2 framework, outsoucing operations to an approved collateral agent like Clearstream will definitely reduce operational risk charges."

ISJ

Stay Tuned

Find the facts,follow the trends and connect the networking. Securities services events, forums and seminars.

October 10 2005, 2 days
IRC
Hedge 2005
London, UK
Tel: +44(0) 870 777 4144
Web: www.irc-conferences.com

October 10-11 2005, 2 days
IMN Conferences
Beneficial Owners' Securities Lending & Repo Summit (Europe)
Stockholm, Sweden
Tel: +1-212-768-2800
Web: www.imn.org

October 18-21 2005, 3 days
RMA Conference on Securities Lending
Boca Raton, Florida
Tel: +1 215 446 4035
Web: www.rmahq.org

October 18-20, 2005
Hedge Funds World LatAm 2005
Wyndham Beach Resort, Miami - United States of America
Terrapinn Ltd
Tel: +44 (0) 20 7827 4165
Fax: +44 (0) 20 7242 1508
Email: karen.hewett@terrapinn.com
Web: www.hedgefundsworld.com/2005/latam/

October 24-26 2005, 3 days
IMN Conferences
Plan Sponsor & Pension Consultants Circle
California, USA
Tel: +1-212-768-2800
Web: www.imn.org

October 24-26 2005, 3 days
IMN Conferences
Alternative Investment Management Summit
California, USA
Tel: +1-212-768-2800
Web: www.imn.org

October 24-25 2005, 2 days
World Research Group
Algo Trading 2005
Best Practices in Algorithmic Trading
Ritz-Carlton, New York
Tel: +1 (866) 742-9763
Fax: +1 (646) 742-9610
Web: webmaster@worldrg.com

October 26-28 2005, 3 days
Opal Group
European Alternative & Institutional Investing Summit
Monte Carlo, Monaco
Tel: +1 212 532 9898
Web: www.opalgroup.net

October 26-28 2005, 3 days
Opal Group
European CDO Summit
Monte Carlo - Monaco
Tel: +1 212 532 9898
Web: www.opalgroup.net

Novebmer 7 2005, 4 days
FIMA 2005 Reference Data In Action
Thistle Tower Hotel, London
WBR
Tel: +44 (0)20 7368 9400
Fax: + 44 20 7368 9401
Web: https://www.wbresearch.com/secure/fimaeurope/

November 8 2005, 2 days
IIR Finance
PARM13 - Performance Attribution Risk Management Forum
Venue to be confirmed
Tel: +44 (0) 207 915 5055
Web: www.iir-conference.com

November 14 2005, days
4th Annual Gaim Invest & Fund of Funds 2005
ICBI
Tel: +44 (0) 207 915 5103
Fax: +44 (0) 207 915 5101
E: info@icbi.co.uk
Web: www.icbi-gaiminvest.com

November 21 2005, 3 days
Terrapinn Ltd
Hedge Funds World Zurich 2005
Park Hyatt Hotel, Zurich - Switzerland
Tel: +44 (0) 20 7827 4165
Fax: +44 (0) 20 7242 1508
E: karen.hewett@terrapinn.com
web: www.hedgefundsworld.com/2005/zurich

December 4 2005, 3 days
Alternative Investing Summit
Ritz Carlton, Laguna Niguel-California - United States of America
Opal Group
Tel: +1 212 532 9898
Fax: +1 212 532 7151
Web: www.opalgroup.net

February 27 2006, 3 days
Hedge Funds World Middle East 2006
Jumeirah Beach Hotel, Dubai - U.A.E
Terrapinn Ltd
Tel: +44 (0) 20 7827 4165
Fax: +44 (0) 20 7242 1508
Web: http://www.hedgefundsworld.com/2006/hfw%5FAE/

Sign Off

Global custodians have locked horns in the battle for local authority mandates

The battle field of global custody has intensified in recent months as the big names fight for billion dollar mandates.

The overall winner appeared to be State Street, which has been retained by the State of Connecticut to provide a wide range of investment services including custody, performance and analytics, securities lending, foreign exchange and transfer agency for approximately $21 bn in assets.

State Street has been providing servicing solutions to the State of Connecticut for eight years.

"Throughout our relationship, we've experienced excellence in customer relations and consistency in execution from State Street's team of professionals," said Denise L. Nappier, Connecticut State Treasurer. "State Street's broad capabilities and efforts to adapt to our constantly evolving needs are the foundation of our longstanding relationship."

The mandate adds to State Street's four other local authority mandates, namely the £850 million Rhondda Cynon Taf Borough Council Superannuation Fund, the £115 million London Borough of Lambeth Superannuation Fund, the London Borough of Barking & Dagenham Superannuation Fund and the London Borough of Waltham Forest Pension Fund.

"The UK pensions sector is a vital component of our European strategy, and specifically, we have a proven track record of meeting the financial servicing needs of UK local authorities," said Alasdair Reid, head of State Street's Asset Owner Group in Northern Europe. "We are delighted to continue making new inroads into the market, but it is just as important for us to see local authorities cite our impressive service history as they extend their relationships with us."

The UK pensions sector is a vital component of our European strategy, and specifically, we have a proven track record of meeting the financial servicing needs of UK local authorities.

"We are delighted to continue making new inroads into the market, but it is just as important for us to see local authorities cite our impressive service history as they extend their relationships with us."

JPMorgan Worldwide Securities Services has also won significant mandates in Europe. The bank clinched a $2.25 bn mandate for the Norwegian Banks' Guarantee Fund. JPMorgan WSS will provide custody, fund accounting, compliance, performance measurement and securities lending services. The NBGF was created in July 2004 as a result of the merger of the Commercial Banks' Guarantee Fund and the Savings Banks' Guarantee Fund. JPMorgan has also completed an asset restructuring for the North Yorkshire Pension Fund. Following a review of investments, the £880 million North Yorkshire Pension Fund has moved from balanced to specialised equity and fixed income benchmarks.

Month	Winner	Client	Location	Assignment	Mandate Size
September	State Street	Connecticut	US	Investor Services	$21bn
September	FIMAT	Priam Fund	France	Prime Broker	New Fund
September	JPMorgan	NYPF	UK	Transition Manager	£880 million
September	JPMorgan	NBGF	Norway	Custody / SecLending	$2.25 bn
September	Mellon	LASERS	US	Master Custody	$7bn
September	N. Trust	Commerce Bank	US	Custody & Accounting	$825 million
September	State Street	Rhondda Cynon	UK	Global Custody	£850 million
August	JPMorgan	ICI	UK	Global Custody	£6.5bn
July	State StreetGA	StaffordshireC.	UK	Passive Equity Investment	£340m
July	Northern Trust	HOOPP	US	Global Custody	CAD22 bn
July	Northern Trust	Weingart F.	US	Custody	$700m
July	BNY	ICI Spec Chem	UK	Global Custody	£230 million
July	BNP Paribas	Money Portal	UK	Distribution Platform	-
June	State Street	PPF	UK	Custody	New Fund
May	State Street	West Sussex	UK	Custody	£740 m
May	Bank of NY	Suncorp-Met.	US	Clearing Services	-
May	State Street	AMEC	UK	Investor Services	£950 m
May	State Street	Oregon	US	Investor Services	$60bn
May	PFPC	Superfund CM	US	Investor Services	
May	RBC GS	Mavrix	US	Fund Valuation	25 funds
May	JPMorgan	Aviva Funds	Luxembourg	Fund Accounting	EUR3bn
May	IFDS	F&C AM	UK	Transfer Agency	UK Funds
April	BNP Paribas	F&C AM	UK	Custody & Inv. Services	-
April	JPMorgan	Old Mutual	New York	Global Custody	$14bn
April	SimCorp	Kas Bank	UK	Technology/Software	EUR300bn
April	ABN / Mellon	Institutions	Asia Pac	Global Custody	EUR16bn
April	BNP Paribas	AberdeenAM	London	Fund Admin	-
March	ADP Wilco	Lupus alpha	Germany	Technology/Software	-
March	ABN / Mellon	Derbyshire	England	Global Custody	£1.45bn
March	Kas Bank	TNOPension	Netherlands	Asset Admin.	EUR1.5bn
March	Mellon	Golden Leaf	US	Custody & Inv. Services	$400m
March	State Street	BofAmerica	US	Investor Services	$224bn
February	Bisys	JO Hambro	London	Administration Services	$4bn
January	BNP Paribas	B. Sabadell	Spain	Global Custody	EUR5.8bn
January	N. Trust	Insight IM	UK	Outsourcing	-
January	N. Trust	KBL	UK	Fund Accounting	£325m
January	State Street	ChevronTex.	UK	Investor Services	$2 bn
January	BNY	ING IM	UK	Outsourcing	EUR 67bn
January	BNY	NBP	France	Global Custody	EUR 80bn
January	BNY	Abbey	UK	Global Custody	£30bn
December	Fidelity	TextronInc.	US	Investor Services	-
December	CIBC Mellon	Manulife	Toronto	Custody	$60 bn
December	BNY	New Smith	London	Custody	New Fund
November	JPMorgan	Sun Micro.	US	Record Keeper	$2,300
November	State Street	BA	London	Investor Services	£10bn
November	Butterfield	Liontrust	Guernsey	Fund administration	£32m
November	IFDS	Investec	London	Transfer Agency	New Facility
November	State Street	OAC	Singapore	Fund acc./Reporting	$2bn
November	RBC	Hermes	Channel Is.	Custody/Fund admin	£500m
November	RBC	ARC	Canada	Custody	$1bn

Now, as corporate pension schemes begin to make use of the FCP and CCF, investment managers are also finding creative ways to use the new tax-transparent vehicles. Initially, investment managers saw the Luxembourg and Irish funds as a way to avoid the "tax drag" imposed on pooled vehicles. For example, UK, Dutch, Swiss, and Canadian pension plans that invest through pooled vehicles are subject to withholding tax on US dividends. These plans pay no tax if they invest directly. The difference can amount to as much as 30 basis points for a US mandate, so that tax transparency holds the promise of enhanced performance. On the drawing board now is yet another solution multi-manager offerings through one of the two new pooling vehicles, which would provide a cross-border pooling solution to smaller multinational corporations that lack the scale to establish their own tax-transparent pooling solution while at the same time accommodating local pension schemes from across Europe.

> "On the drawing board now is yet another solution multi-manager offerings through one of the two new pooling vehicles."

As a pioneer in the development of multinational pension pooling and the creation of tax-transparent pooling vehicles, Northern Trust is now implementing both FCPs and CCFs on behalf of both corporations and investment managers. The groundwork has been laid for exciting new developments in pooling, and investment managers will drive much of the product innovation.

Kathleen Dugan, Senior Vice President, Multinational Product Manager, Northern Trust

Regulation = Benefits

The Markets in Financial Instruments Directive (MiFID) is one part of a series of 40 new directives that will hit the European securities markets before 2008. This is an agenda set by Politicians to achieve political objectives of a single European Capital Market.

On the face of it, it has very little to do with business related objectives or profit. However although the costs of compliance has no real measurable benefit there is another way of looking at it.

In recent years a mammoth amount of new regulation that ranges from Basel 2, Operational Risk, Sarbanes Oxley and now MiFID has battered financial services firms to a point of submission.

With no let up and a relentless march towards political aims it is about time that the financial services industry looked at regulatory demands in a more business strategic way!

In any service industry the customer should always be King although that has hardly been demonstrated historically in the financial services industry where protectionism reigns supreme.

> "All the mountainous new regulations that are forcing the financial firms to comply are simply asking them to do what they should always have been doing in any case!"

The total lack of strategic thinking by all types and size financial services firms of the years has led to this widening gap where the client is demanding more at a cheaper price than the markets are able to deliver and now regulatory, legal and political elements are involved. All the mountainous new regulations that are forcing the financial firms to comply are simply asking them to do what they should always have been doing in any case! Look after and protect the client, improve efficiency, reduce costs and improve margins. Funny! Is this not Basel, SarbanesOxley and MiFID objectives as well! To manage the new regulatory demands requires a great deal of market knowledge and leadership. Has the industry cut to the bone to far to be able to deliver? Is it not possible for financial services firms to take a top down strategic view at last and link all the new regulations and realise they are all risk based and highly business related with a clear business benefit.

Gary Wright MSI, Managing Director CityCompass Research

The Right Stuff

This year's SIBOS in Copenhagen was as remarkable for those that didn't attend as for those that did. Primarily still a bank driven event, strong buy-side representation was still lacking. This has led some to the conclusion that by and large investment managers are still not taking interest in discussions around operational efficiency. However, in reality this isn't necessarily the case. As buy-side firms continue their focus on core competency and operational efficiency, more and more are recognising straight through processing as a fundamental component to their business' performance. However, finding the right STP solution is critical. Today's global investment management industry is evolving rapidly and STP solutions have to keep pace, in order to be attractive propositions. They must help firms address demands for increased transparency and decreased risk resulting from the litany of buy-side focussed regulation, from MiFID to Reg. NMS. Solutions also need to support the diversification of trading strategies, reflected by the continued growth in derivatives and new exotic instruments. Much progress has been done to automate trading in the front office, and now attention is being turned to the back office. So what do investment managers want from a post-trade solution? They are expressing a strong desire to outsource their non-core operations to a single solutions provider. Simplicity is key: they are asking for a single view into the post-trade world, across multiple post-trade destinations and across multiple asset classes. Whilst the buy-side doesn't want to take on the burden of maintaining complex technological infrastructures themselves, most firms are taking steps to improve their operational efficiency via solutions providers. This surely has to be an encouraging sign in the ongoing push for decreased cost and risk for the securities industry.

> "This year's SIBOS in Copenhagen was as remarkable for those that didn't attend as for those that did."

Steven Matthews, managing director, Omgeo

Letters to
Janet.duChenne@isjforum.com

hedge.funds WORLD
Zürich 2005

8th annual event

21 - 23 November 2005
Park Hyatt Hotel
Zürich, Switzerland

The Swiss event for hedge fund managers and investors

The dedicated annual Swiss hedge fund forum returns for its 8th year! Attracting over 280 attendees in 2004, 31% of which were investors, this year's event promises to be even better, with a cutting-edge agenda that addresses highly topical issues and features top-level speakers including:

- **Patrick Fenal**, CEO, **Unigestion**
- **Michael Browne**, Director, **Sofaer Global Research**
- **François-Serge Lhabitant, Ph.D.,** Professor of Finance, **University of Lausanne and EDHEC**
- **Dr Manfred Janson,** Partner, **Lunerhausen & Janson AG**

What's in it for you?

Managers:

- What new strategies are available and how are they being used to generate alpha?
- Should you use funds of hedge funds or single hedge funds for stable returns?
- What are the innovative risk management techniques currently being employed in the industry?

Investors:

- Can funds of hedge funds reach the expectations of investors?
- How have single hedge funds performed in relation to funds of hedge funds?
- Are hedge funds willing to structure more flexible frameworks in order for institutional investors to further diversify?

Gold sponsors:

CITCO

swiss capital group alternative investments

Bank Leu since 1755

Julius Bär

RYZ & CO

PIONEER Investments

SARASIN

Silver sponsors:

LYXOR

UNIGESTION

Threadneedle investments

Bronze sponsor:

GAIM Advisors

Organised by:

terrapinn B2B media

RESPONSE FORM

Hedge Funds World Zürich
Fax to: +44 (0)20 7242 1508

☐ Yes! I am interested in attending the conference. Please send me the conference agenda.

☐ Yes! I am interested in sponsorship and exhibition opportunities, please contact me.

Name: ....

Job title: ....

Company: ....

Address: ....

....

....

Tel: ....

Fax: ....

Email: ....

Event code 1067 / ISJ

www.hedgefundsworld.com/2005/Zurich

Moving & Shaking

Paul Beedle has joined **HSBC** to take up the post of Head of Client Services, IFS Europe. Paul will focus on developing a market-leading, international client servicing capability and the integration and standardisation of client servicing and account management for the custody and banking product in Europe. Beedle has an established track record in the securities services business, most recently as Vice President, Head of Client Services, London, with **ABN AMRO Mellon GSS**, which he joined in 1999. There he was responsible for establishing the client service group for ABN AMRO Mellon, CIBC Mellon and Mellon GSS clients and fund managers in Europe and the Far East. Prior to that he spent three years at State Street where he was Assistant Vice President, Investment Fund Services. **Dale Grieve** has been hired as Head of Relationship Management, Insurance Companies. This is a new position reporting directly to Paul Stillabower, Head of Business Development, **HSBC Securities Services**, Europe, and is one of a number of new hires planned in the business development team in order to meet changing client demands. Grieve joins HSBC from State Street Bank & Trust, London where he worked for 16 years, most recently as Head of the World-wide Investment Manager and Consultant Services looking after third party fund managers.

HSBC has made three key appointments in its Custody and Clearing operation in Latin America. **John Brophy** has been appointed Network Manager, Latin America, **Roberto Cortese** has been appointed Custody and Clearing Product and Relationship Manager, Brazil, and **Nelson Pereira** has been appointed Head of Custody and Clearing Operations, Brazil. As a proven market leader in sub-custody services in Asia-Pacific and the Middle East, HSBC has decided to expand its sub-custody and clearing presence in the Latin America region to service local and cross border clients. These three senior appointments will be instrumental in establishing a market leading cross border sub-custody product in Brazil and the region. Based in New York, Brophy will draw upon this extensive experience to manage the network operation and product development in Latin America. HSBC's Custody and Clearing business has also made three key appointments in Australia. **Peter Snodgrass** has been appointed Head of Custody and Clearing Australia, **John Butler** has been appointed Head of Client Services, Australia and **Greg Wilkin** has been appointed Manager, Corporate Actions. As a leading sub-custody provider in Australia, HSBC has been providing services to clients for over 14 years. These three senior appointments will drive HSBC's strategy to continue the growth of its Australian business and deliver world-class service to clients. Peter Snodgrass has been appointed Head of Custody and Clearing Australia. Previously Head of Custody at BNP Paribas Securities Services, Snodgrass has over 20 years' experience in the finance industry, the majority of it spent in key roles in large custody providers. He has extensive experience in the management of custody and back office operations and domestic and international clearing and communication service systems. Snodgrass is responsible for our ongoing service standards as well as representing HSBC and its clients on relevant industry bodies in Australia.

Peter Snodgrass

Interactive Data has announced a series of executive appointments as part of a new corporate organisational structure designed to better support and facilitate its long-term growth. **John L. King** has been appointed Chief Operating Officer of Interactive Data Corporation. Effective immediately, Interactive Data's Board of Directors has appointed King as chief operating officer of the Company. In this position, King, who will also continue in his role as chief operating officer of FT Interactive Data, will assume responsibility for leading operations, content gathering/creation and development activities across Interactive Data's businesses. King will report directly to Stuart Clark.

Raymond D'Arcy

Raymond L. D'Arcy has been named President of Sales, Marketing and Institutional Business Development, Interactive Data Corporation, with immediate effect. In this role, D'Arcy will provide leadership and coordination of the Company's sales, marketing, key account management, business development and other service oriented functions focused on institutional clients. **Steven Crane**, executive vice president, chief financial officer and treasurer of Interactive Data, was appointed president of FT Interactive Data. To help ensure a smooth transition, Crane will continue in his current role as chief financial officer until the search for his successor is completed, after which time he will assume his new position. As president of FT Interactive Data, which is the Company's largest business, Crane will work closely with King and D'Arcy to continue FT Interactive Data's growth through new product initiatives, partnerships, acquisitions, and related sales and marketing efforts.

Steven Crane

Mark Hepsworth, managing director of **ComStock Europe**, has been named president of ComStock, Inc., a subsidiary of Interactive Data, effective October 1, 2005. As president, Hepsworth will direct ComStock's global operations. He succeeds Dan Connell, who plans to leave ComStock to pursue other opportunities. Hepsworth, who will report directly to Stuart Clark, is relocating to the US to fulfill this role based in ComStock's headquarters office in Harrison, New York.

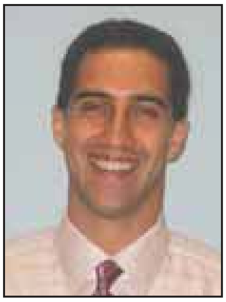
Northern Trust has expanded its asset servicing sales team for Europe, Middle East and Africa ("EMEA") with the appointments of **Ben Williams-Thomas, Marc Russell-Jones, and Michael L. Slater**.

Williams-Thomas has joined as Vice President, responsible for custody sales to European pension funds. Russell-Jones becomes Vice President responsible for sales to investment managers, focusing on alternative asset administration business development. Slater joins as Vice President, responsible for custody and asset administration sales to Middle East and North African markets.

Williams-Thomas joins from JP Morgan Investor Services where he spent four years as Vice President, Sales and Marketing, EMEA for the e-Business Solutions team. Russell-Jones joins from Bank of New York where he had worked for over three years, latterly as Vice President, Alternative Investment Services Sales. Slater comes to Northern Trust from HSBC Institutional Fund Services where he was a Sales and Relationship Manager for the Middle East and North Africa.

TowerGroup has hired respected wireless and IT industry thought leader, **Bob Egan**, has joined the firm as director of the Emerging Technologies research service. A veteran of the wireless and IT spaces, Egan brings to TowerGroup a wealth of research experience and thought leadership on the opportunities and implications surrounding mobile technologies for the financial services sector, including enterprise mobility, security risks and solutions, wireless broadband, the regulatory landscape, and much more. Egan joins TowerGroup from Mobile Competency – a firm he founded in 2002 to help businesses leverage mobile technology to become more productive.

ABN AMRO Mellon Global Securities Services B.V. has launched services in Luxembourg and has appointed **Ravi Thakur** as General Manager.


Ravi Thakur

The branch was established in recognition of the company's core commercial aspirations in the fund management sector, and Luxembourg's status as the world's largest centre for investment funds after the US. It is a vital element in ABN AMRO Mellon's strategy to service key European markets for investment managers and multinationals. The company's license as a bank in Luxembourg allows for the provision of services required by sophisticated asset managers for funds in this market, such as custody, administration (NAV calculation, compliance, financial reporting, domiciliary and corporate secretarial) as well as securities lending, foreign exchange, and cash management.

ABN AMRO Mellon GSS has appointed **Søren Eberhard** to the post of Business Development Manager for the Nordic market. Søren is based in Copenhagen and is responsible for developing ABN AMRO Mellon's business strategy for growth in the Nordic region. He also supports the region's sales and relationship management activities. Prior to ABN AMRO Mellon, Søren was Head of Securities Services with global responsibilities for Danske Bank for six years, and has over 20 years' experience in securities services in the Nordic market. Søren holds a Graduate Diploma in Business Administration from Copenhagen Business School, and has been a member of a number of professional bodies, including the board of SWIFT Denmark, and the Danish Central Depositary's Owners' Committee.


Soren Eberhard

BNP Paribas Securities Services has appointed **Malcolm Pobjoy** as Head of Institutional Investor Sales in the UK. Pobjoy is based in London and reports directly to Margaret Harwood-Jones, Head of Global Sales and Relationship Management for Institutional Investors. He joins BNP Paribas from Omgeo Limited, where he was Director of Strategic Business Development since 2002. Prior to Omgeo, Pobjoy spent seven years at Citigroup, where he acquired securities services (custody, fund administration), as well as sales management, business strategy and product management expertise. BP2S has also hired **Stephen Turner** as Head of Global Fund Services Product in the UK, with effect from Monday 26th September 2005. Stephen is based in London and reports locally to Tony Solway, Head of BNP Paribas Securities Services UK and globally to Frederic Perard, Head of Global Fund Services Product. Turner joins BNP Paribas from Citibank, where he spent twelve years in a number of international roles in London, Japan and Switzerland. Most recently, he was Securities Strategic Solutions Director, responsible for engineering large outsourcing contracts. Between 2001 and 2004, Turner was CEO of the NikkoCiti Trust and Banking Corporation in Japan.

CheckFree Software, a division of CheckFree Corporation, has strengthened its worldwide securities software team with the appointment of three senior-level executives, who together are responsible for global securities market solutions and client relationships. Company veteran **Preston Hoffman** heads up the global team as senior vice president and managing director for the securities channel, reporting to CheckFree Software Executive Vice President and General Manager, **Randy McCoy**. **Paul Thomas** joins CheckFree as vice president and sales director for the software business, overseeing sales for CheckFree's securities solutions in Europe and Asia-Pacific. **Dan Belluche** is appointed vice president of securities sales, responsible for sales and professional services for North America. Hoffman and Thomas are both based in London, with Belluche managing North American client relationships from Jersey City, New Jersey.

Brian Lamb, formerly of **Barclays Global Investors** (BGI) has joined EquiLend as its new Chief Executive Officer, succeeding former President and CEO Dirk Pruis. Pruis, who announced his resignation in April of this year to join Calvin College as its Vice President of Advancement, will continue as President on a part-time basis to facilitate the transition.


Brian Lamb

Lamb brings to EquiLend nearly 20 years of securities finance experience, particularly in the area of Fixed Income, a market which EquiLend aims to expand even further into. In addition, Mr. Lamb served as BGI's lead Program Manager as well as one of BGI's representatives on EquiLend's Board of Directors during its conception, development and launch from 2000 - 2004.

"I am joining EquiLend at an incredible time," states Lamb. "Continued client growth, functional enhancements and major inroads into the global Fixed Income market indicates how the industry is evolving. It is clear that EquiLend has been at the forefront of this evolution, and I am excited to be in the position of continuing to lead this trend."

PFPC Inc., a member of The PNC Financial Services Group, Inc., has named **James S. Gandolfo** as a senior director and vice president within global business development, responsible for expanding PFPC's Health Savings Accounts (HSA) service offering within the marketplace, as well as other strategic initiatives. Gandolfo reports to Bill Salus, executive vice president and head of global business development. Gandolfo joins PFPC from Wilmington Brokerage Services Company (WBSC), a registered broker-dealer and wholly-owned subsidiary of Wilmington Trust Company, where he was most recently president and chief executive officer. His previous work experience includes serving as a vice president and program manager for a Delaware/Maryland banking institution. Gandolfo is a graduate of Radford University, Radford, Virginia, where he earned a bachelor of science double major degree in political science and history. He holds a variety of NASD licenses, including Series 6, 7, 24 and 65, as well as the Certified Trust Financial Adviser designation (CTFA).

RBC Global Services has appointed **Neale Martin** as Head, Risk Management and Compliance Group for RBC Global Services Australia, effective immediately. In this integral role, Martin will be responsible for managing all compliance and risk management policy matters, including business continuity planning and internal control management for RBC Global Services Australia. "Neale brings with him a very strong background and extensive experience in risk management and compliance," said Alex Muto, managing director, RBC Global Services Australia. "He will be a key member of our team here in Australia - we are extremely pleased to welcome him to our organisation."

Prior to joining RBC Global Services, Martin was the Compliance Manager to Tower Australia Limited, with responsibility for the development, implementation and maintenance of the compliance infrastructure of that company and its subsidiaries.

JPMorgan Worldwide Securities Services announced today the addition of **Mark Tidy** to its Securities Lending sales team for the Europe, Middle East and Africa (EMEA) region. Tidy joins as vice president, based in London. Previously Tidy held senior positions in Securities Lending at Nomura and, most recently, Deutsche Bank. Tidy is the third addition to JPMorgan's Securities Lending sales and client management team in the last three months.

A selection of the appointments updated daily at **www.ISJForum.com**

Event Horizon

Over 6,500 people attended the Sibos conference in Copenhagen, Denmark this year. ISJ reports from the land of the Little Mermaid.

NEVER BEFORE in securities history has a conference been so well attended by so many professionals. About 7,000 people gathered at this year's Sibos to engage in discussions and to attend informative plenaries. One of the most notable features of this year's Sibos was the impressive show by fund managers and corporates.

When Sibos first began in the late 1970s, the event was wholly focussed on the cash and payments arena. It was only in the last 10 years that SWIFT opened its arms to the securities industry. At this year's event, both the Chairman and CEO of SWIFT spoke openly of their plans to extend their reach to the alternative investment community.

Eager to impress, SWIFT announced a series of key initiatives and challenges at Sibos 2005. The first of these initiatives involved getting 13 major trade banks, including ABN AMRO, BNP Paribas, Calyon, Citigroup, Deutsche Bank, First Rand Bank and HSBC Group, to sign an agreement to pilot the SWIFTNet Trade Services Utility (TSU) solution. The pilot phase will begin on schedule in December 2005.

The new SWIFTSolution is designed to enhance Banks' supply chain management services. SWIFT also announced that SWIFTNet Exceptions and Investigations will be piloted as scheduled from October 2005 until May 2006, allowing financial institutions to automate up to 60 per cent of their payments-related enquiries.

Challenges

Opening the the Sibos plenary, Jacob Wallenberg, Chairman of the Board of Investors at SEB, complimented the SWIFT community of its latest achievements: "Last year you have successfully coached the industry's change over to SWIFTNet, the internet based technology, and many of you are now thinking about the next challenge."

Wallenberg highlighted the deregulation of the banking sector over the last twenty years and the introduction of the euro in 1999 as fine examples of Transformation, the theme for this year's Sibos. Commenting on the challenges, Wallenberg said: "It will take many years yet until we will have achieved full integration of the European financial markets. In short, there is still quite some distance to go in Europe before the financial industry truly matures, and can be viewed as being on par with the US market. I firmly believe that banks can succeed by focusing on what they are best at, and this is true for the geographic footprint as well. There are opportunities in many markets. China is a promising example."

Echoing some of Wallenberg's thoughts, Jaap Kamp, Chairman of SWIFT identified the five steps to transformation:
1. Let's assess the environment in which SWIFT operates; 2. Let's set the ambition levels of the Board, Executive and "Community"; 3. Let's decide on various strategies options; 4. Let's adjust the structure and governance of the company if necessary; 5. Let's select the people we need and hold them accountable for execution

Changes

As part of SWIFT's own transformation, James Donovan has been appointed as head of Swift's Securities Industry Division. Eager to create an STP environment for SWIFT users, Donovan said: "There is an opportunity to deal with complex financial instruments, including hedge funds and derivatives. There are currently about EUR 1.6 bn contracts for derivatives. We would like to process more of these derivatives on the SWIFT platform."

Extending a membership invitation to the investment community, SWIFT CEO Leonard Schrank said that the CIO reach system is designed to engage buyside organisations and to inform them about SWIFTNet. "We've intensified our co-operation with Omgeo," he said. "We would like to see more senior CIOs here at Sibos as they are the people with the signing power and they can make the decisions about SWIFTNet. We have to convince them it is worth their while."

Soundbytes

In a series of exclusive interviews with ISJ, Sibos attendees highlighted what they perceived to be the key challenges for their industry. TowerGroup Director Chris Skinner highlighted the Markets in Financial Instruments Directive (MiFID) as a key concern. "Everyone agrees that the intention of MiFID is to treat investors fairly," he said. "Banks will be asked to prove they got the best deal for their clients." Sharing his thoughts on the theme transformation, Skinner said the securities industry needs to transform itself for faster processing and should move away from legacy systems. "Apart from faster processing, the link between buy and sell side systems will be another key topic for the industry."

Willem de Geer, CEO of Panopticon, a provider of visual front end technology for data management, echoed Skinner's thoughts: "The efficient management of data and getting a high return on investment in data instruments are key. The infrastructure for efficient data management is there. Banks are investing and they will get the benefits. Its time to take advantage of some of the investments they have made."

Extending the relevance of standardistion to the corporate sector, technology solutions provider Trema has integrated SWIFTNet messaging technology into its suite of financial management tools. Trema's Transaction and Risk Management Module (TRM) and Cash Management Module (CMM) is now fully integrated with the SWIFTNet financial services messaging platform, to take advantage of the secure SWIFTNet messaging network between banks and corporates. Trema CEO Michèle Fitzpatrick said the alliance with SWIFT comes at a vital point in the development of the banks' relationships with their corporate customers. Speaking to ISJ, Fitzpatrick said: "There is currently a lack of standardisation, which is why central banks are joining the TARGET 2 initiative." The Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system is a payment system composed of one real-time gross settlement in each of the EU Member States plus the ECB payment mechanism).

Securities Traffic

Dushyant Shahrawat, Senior Analyst of Securities & Investments at TowerGroup marvelled at the transformation achieved by SWIFT in recent years: "Securities traffic has grown by 33 per cent in the last three years. The industry was dominated by the banks and payments professionals. Nowadays, more of the vendors are getting involved. An increasing number of securities professionals are looking for opportunities in the derivatives and the hedge fund space. This presents SWIFT with the challenge of accommodating these funds. Many of today's challenges centre on the question, what do we do about the retirement needs of our population? This is why SWIFT should continue to reach out to the CIOs."

JPMorgan's Business Executive Ramy Bourgi agreed that more asset managers are attending Sibos. "It is important that SWIFT looks at all types of investment instruments, including OTC derivatives. Sibos is a very important forum for change but there is currently a concentration of banks at the event - we need topics that are of interest to the asset managers. Membership costs should be lower or they will not pay to join. We need to make it cheaper for them to join our world."

Ann Doherty, Regional Client Management Executive at JPMorgan, said the location for this year's Sibos event provided an ideal platform to network with Nordic clients. "We have been having a lot of discussions about automation, improving STP and derivatives processing. The asset managers are moving into the alternatives arena and we have to support them. When looking at the risk profile of our business, corporate actions is very high on the agenda. The level of complexity in investment instruments is making the challenge of automating that much more difficult."

Centralised approach

CLS Bank used Sibos to announce an extension of the CLS Settlement product. By 2007, CLS Bank will offer a complete end-to-end service post execution to settlement of cash flow positions for non-deliverable forwards (NDFs) and FX option premiums. CLS Bank currently settles payment instructions related to trades executed in four main instruments – FX spot, FX forwards, FX option exercises and FX swaps. Extending CLS Settlement to NDFs and FX option premiums will mean that manual intervention will be eliminated from the process for both instruments.

Geographically, the CLS Group is expanding in Asia and is adopting a set of currencies that require a more intimate level of engagement, especially the Korean Won. "We plan to have an extra two or three currencies on board by 2007," says Joseph de Feo, CEO of CLS. "We are currently articulating our value proposition to corporates such as Nike and Volvo and to fund managers."

As a settlement engine, CLS settles on average 35,000 fund trades per quarter. "Our aim is to get fund managers such as Barclays Global Investors, Newton and Morgan Stanley to join," said Jonathan Butterfield, EVP. "The fund managers have been very keen to get the best performance on their FX trades. Fund managers love operational certainty and zero fails. Hedge funds also appreciate settlement risk accreditation as it affords them more credit."

Omgeo, another leading provider of trade management solutions, demonstrated its commitment to driving innovation in trade processing by announcing its newest offering, Omgeo Connect. Omgeo Connect will provide pre-integrated connectivity to Omgeo and other third-party post-trade solutions across various asset classes, enabling trade and settlement management via an ASP environment. Ultimately, Omgeo Connect will provide a single technology window for investment managers and investment manager outsourcers to access Omgeo's core offerings (e.g. Omgeo Central Trade Manager), non-STP interactions (fax/email) and third party services. Omgeo partnered with FundTech Corporation, a leading global provider of electronic payments, cash management and settlement solutions, to develop its hub capability. Omgeo Connect is aimed at investment managers with large, multiple asset class trading volumes and complex environments. Future releases will serve additional audiences such as investment manager outsourcers. Commenting on the launch of Omgeo Connect, Managing Director, Strategic Business Development at Omgeo Steven Matthews said that the large global investment managers are committed to expanding their asset class coverage. "Also, this best of breed solution provides them with an opportunity to outsource their settlement management," he said.

SWX, the Swiss exchange,, is aiming to extend its expertise in the area of warrants. "Warrants are often used to hedge risk," said Juerg Spillman, CEO. "ETFs are also doing quite well."

Patricia Lynch, newly appointed head of relationship management at virt-x, the London-based subsidiary of SWX group, hailed Sibos for its ability to address standards and efficiencies in order to bring costs down. "We are currently working with securities industry participants in order to understand the implications of MiFID," she said.

Regulation

Recognising the importance of MiFID, Bharath Rangarajan, Director of Product Marketing with Gemstone Systems, said risk management and compliance require an enterprise data fabric. "Data infrastructures need to support multiple protocols and ensure fast and reliable access to information sources like market data and reference data" he said. "MiFID will throw up a lot of data management issues, both from a latency and volume standpoint. While Sibos is heavily focussed on payments, the focus on securities and capital markets is also increasing."

Accenture highlighted its data management deal with Citadel Investment Group , LLC, one of the largest hedge fund groups. Under the ten-year agreement Accenture will manage key aspects of Citadel's financial data management processes to help Citadel enhance the quality of its market information and secure greater returns from its data operations. The agreement involves a crucial type of financial information known as "reference data," which are the permanent codes, identifiers, descriptive information and historical data about stocks, bonds and other financial instruments. Commenting on the impact of regulation on reference data, William Cline, North America & Asia Pacific Leader for Accenture,s Capital Markets practice, said: "Regulation and compliance are the biggest drivers of data management. Accenture's Managed Reference Data Service (MDRS) enables consistency in data."

In the wake of increased regulation, the importance of clean data is taking centre stage, says associate partner Anthony Kirby. "MiFID will enable banks to differentiate among themselves in terms of the quality of their data. There is currently an estimated £1.2bn spend across the EU-25 member states on reference data. We need more of a debate on MiFID across the EU to ensure that we ensure appropriate identification of data to avoid classification arbitrage .

The securities industry should also be concerned with what would happen if there were suddenly a flood of derivatives traffic as one of the unintended consequences of MiFID, particularly for OTC-traded and structured products. There is surely an opportunity for market legislation to ensure that we have the right data structures in place to cope. Firms have to rely on the timely and accurate retrieval of data in order to evidence best execution and to timestamp their orders and quotes accurately." Kirby concluded that some fund administrators are already finding the area of valuing data for OTC derivatives quite problematic.

Shortly after Sibos, GoldenSource Corporation, a global software provider of Enterprise Data Management (EDM) solutions to the securities and financial services industry, announced that the Corporate, Investment Banking and Markets (CIBM) division of HSBC has licensed the GoldenSource Enterprise Data Management suite as its data management platform. HSBC has selected the GoldenSource Enterprise Data Management suite as the platform to manage and consolidate reference data for securities, customers, and counterparties together with transaction data. Commenting on the announcement, GoldenSource CEO Mike Meriton said: "The EDM movement is really gaining momentum."

GoldenSource is a founding member of the EDM Council, comprised of vendors and financial institutions, which was established in June this year to raise awareness on how to tackle enterprise data management issues in the Financial Services industry. The EDM council's membership already includes CSFB, Franklin Templeton and Banc of America. "We are engaging senior executives on the issues surrounding reference and transactions data and how to implement EDM platforms that address data consolidation across the enterprise," said Meriton. "Increased consistency in data management is of benefit to the whole industry. Among the top initiatives of these senior executives is the development of an EDM business case template that can be applied according to the needs and operations of their own institutions. EDM Council membership has now also extended to include a number of key European firms."

Standard & Poors is also involved in helping institutions ensure their data is compliant with forthcoming regulation. Data chief Darren Purcell said: "Data vendors do not rely on data formats as a source of customer retention but rely on the quality of information. The standardisation of messaging formats is a positive development. Data vendors are trying to extend this beyond corporate actions."

Network Management

ISJ also caught up with Northern Trust's Network Management chief Andrew Osborne. Osborne commented on the opportunities presented following its asset servicing alliance with Handelsbanken. "The shift in pension provisions from defined benefit to defined contribution in the Nordic region has created many opportunities," he says. "China also has long term potential and we plan to benefit with the recent opening of our rep office in Beijing in order to provide consultancy services to the Chinese investment community. We are noticing a renewed client interest in emerging markets. We recently opened in Bosnia and are about to open in Serbia."

The value of Sibos for network relationship managers is shared by Germany's BHF-Bank. Global sales and relationship manager Moritz Ostwald highlighted ISO20022 and the changing pattern of outsourcing arrangements as one of the key trends for the securities industry. "The other key developments include increasing automation and the impacts of the Giovannini report on cross border settlement."

Fund Management

As a proponent of more fund manager participation in the SWIFT community, Financial Tradeware has connected Bahamas-based hedge fund European Investments Management (EIM) and Swedish investment firm MFEX to SWIFT via the Member Administered Closed User Group (MA-CUG) scheme. MFEX is also looking to use Financial Tradeware's MA-CUG to extend straight-through processing to its financial counterparties. Commenting on the connection, managing director Alberto Fontana said: "SWIFT is becoming more interested in hedge funds and corporates. The utility is also important for their communications."

Speaking the mind of the fund management community, Rudolf Siebel,chairman of the Europpean Fund And Asset Management Association efam Fund processing Standardisation Group is heavily focused on fund processing and the implementation of ISO20022 fund messages, supported by SWIFTNet Funds. "In the medium term we hope to cover more than 80 per cent of European cross border funds either directly between funds and distributors or through the use of plattforms using these message types," he says. Despite the progress of SWIFT among the buyside community at Sibos, Siebel urges for more direct contact with the investment managers outside fund processing. "Investment managers are moving more towards automation in the front end," he says. "More SWIFT connectivity with custodians and an increased focus on Giovannini and reference data are essential."

All Aboard

By Justin Lawson, Publishing Director, ISJ

The BHF Bank event was something akin to a mystery tour. Invited guests gathered around a coach where they received a water proof jacket and were asked to select a name out of a bag. These were the names of boats on which we were to travel. We boarded the coach and were given an itinerary for the evening ahead. The lovely Cornelia Keth and the amusing Andreas Geissler, our hosts, provided "in-flight" safety instructions, which made everyone laugh. We arrived at a quay and boarded the boats. Whilst on board, we were treated to beer, wine and some interesting, "fishy" nibbles! After the boat journey we climbed onto horse drawn carts and enjoyed a sedate journey through a deer park. Our carts took us to a restaurant, where we were treated to champagne on the terrace and a talk about a "very old" spring. The evening meal was fantastic, the wine extremely good and the whole evening lovely. My only disappointment, although a relief to others, was that I did not make it to the Nordea Kareoke party! *JJL*

Sibos Copenhagen 2005: (*from top left):* Bente Hoem (DnBNor), Stephen O'Sullivan (ISJ); Justin Lawson (ISJ); Claude Michaux (CACEIS); Jaap Kamp (SWIFT); Terah Booker (Standard & Poor's); **Row 2** Glen Good (ADP); ISJ magazine display; Ingrid Kremer (ING); Karen Shrubb (ADP); Marco Strimer (SIS); **Row 3** Sue Mitchell (Interactive Data); Beatrice Lourties (Vermeg); Clare Mackinney (JPMorgan); Kim Rimmington (Citigroup); Stephen O'Sullivan (ISJ), Malin Flood (Handelsbanken); **Row 4** Nat Sey (Interactive Data); a Leningrad Cowboy; Janet Du Chenne (ISJ) a Sibos party casualty; another Leningrad Cowboy; **Row 5** the Vodka contest begins, guess whose in the lead?; Deirdre O'Grady (Invest Northern Ireland), Mark Davies (HSBC); Jonathan Butterfield (CLS)

ANZ

Australia and New Zealand Banking Group Limited (ANZ) is one of the leading financial institutions in the Australian and New Zealand markets. We provide an extensive range of Retail, Corporate, Institutional and Private Banking services in addition to a range of specialised functions including Custody Services through ANZ Custodian Services. ANZ Custodian Services is committed to our home markets and continuously seeks to provide our clients with highly competitive service through our customer-focused and experienced teams, extended business hours and ongoing investment in technology. Our capabilities incorporate core Custody and Clearing of securities, Investment Administration Services, Cash, Foreign Exchange and Securities Lending.

Assets under Custody: AUD$90 billion

T: +61 03 92733563
F: +61 03 92732650
Contact: Philip Dowman
E: dowmanp@anz.com
Address: Level 25, 530 Collins Street Melbourne Victoria VIC 3000 Australia
W: www.anz.com

BHF BANK

BHF-BANK is one of the leading German commercial banks which operates as an advisory, service and commercial bank on the areas of Asset Management & Financial Services, Financial Markets & Corporates and Private Banking. Financial Services comprises the bank's custody services, investment company (depotbank) services and its securities and derivatives clearing business.
Through the combination of its local market know-how with an in-depth product expertise it aims to serve its clients in an individual and flexible way. The bank's longstanding experience in the German securities services market goes hand in hand with a corporate culture that values prompt acknowledgements and short decision-making channels.

Assets under Custody: EUR 180 bn

No of funds: 244

Contact: Cornelia Keth
T: +49 69 718 3738
F: +49 69 718 6050
E: cornelia.keth@bhf-bank.com
Contact: Moritz Ostwald
T: +49 69 718 6838
E: moritz.ostwald@bhf-bank.com
Address: Strahlenbergerstraße 45, 63067 Offenbach a.Main Germany
W: www.bhf-bank.com

Crédit Agricole Investor Services

Crédit Agricole Investor Services is the Securities and Financial Services arm of the Crédit Agricole Group, providing a whole range of products and services to institutional clients including Depositary/Custody/Trustee, Fund Administration, and Corporate Trust. Innovation, technology, local expertise and strong commitment to clients enable our European network to be a leading player in the European industry and to excel in servicing Institutional Investors, Banks and Corporate clients. Our position in the market place is reinforced by a strong local presence, particularly demonstrated by the specialised subsidiaries, set up in Paris, Luxembourg and Dublin. The Group also operates a European network of fund administration centres, the Fastnet network, with local operations in Luxembourg, France, Ireland, the Netherlands and Belgium. The Fastnet network is a joint venture with the Fortis Group.

Assets under Custody: EUR 616 bn

T: + 33 1 43 23 84 68
Contact: Patrick Lemuet (Paris)
T: + 352 47 67 24 13
Contact: José-Benjamin Longrée (Luxembourg)

DBS

DBS offers a full range of custodial services including securities safekeeping, settlement of trades, corporate actions and market information updates. These services are available in Singapore, Hong Kong and other selected markets. DBS offers short-term, highly liquid overnight facilities for its clients' accounts to earn daily interest on any excess funds. DBS also provides the value added service of tax reclamation without holding tax reductions (where local regulations permit) on income arising from securities safekept with it. Proxy voting services for clients' holdings at Annual General Meetings and Extraordinary General Meetings are also available on request.
Securities services is an integral part of Global Transaction Services within DBS bank. With more than 20 years of experience in the custody business, DBS' strengths lie in its ability to provide quality services, in depth knowledge and expertise of the Asian markets. Its clientele compromise the major global custodians, investment banks, private banks, insurance companies and investment manages etc.

T: 65 6878-1830
F: 65 6878-4166
Contact: Ms Low Swee Fun
E: investorsvs@dbs.com
Address: DBS Bank Ltd Global Transaction Services Securities Services, 6 Shenton Way, 36-02, DBS Building Tower 1, Singapore 068809
W: www.dbs.com

DnB NOR

DnB NOR is the largest and leading provider of Custody, Clearing and Remote Member Service in Norway In addition, DnB NOR provides a wide range of value added services to both Foreign and Domestic clients.
Through an Alliance solution with banks in Sweden, Finland and Denmark, DnB NOR can offer seamless regional products, which can be customized to our indiviual client's needs.

T: +47 22 94 92 95
F: +47 22 48 28 46
Contact: Bente I. Hoem
E: bente.hoem@dnbnor.no
W: www.dnbnor.com

Handelsbanken

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.

T: +46 8 701 2988
F: +46 8 701 2990
Contact: Johan Wennerberg
E: custodyservices@handelsbanken.se
Address: Blasieholmstorg 12, SE-106 70 Stockholm, Sweden
www.handelsbanken.com/nordic__custody_services

T:44 207 7420102 **Contact:** Dick Feehan **E**: dick.j.feehan@jpmorgan.com **T**: +1 718-242-7555 **Contact:** Chris E. Lynch **E**: chris.e.lynch@jpmorgan.com **T**: (61-2) 9250-4833 **C**: Laurence A. Bailey **E**:laurence.bailey@jpmorgan.com www.jpmorgan.com/wss	JPMorgan Worldwide Securities Services, a division of JPMorgan Chase Bank, N.A., is a global leader in providing innovative products and services to the world's largest institutional investors and debt and equity issuers. JPMorgan Worldwide Securities Services leverages its scale and capabilities in more than 80 markets to help clients optimize efficiency, mitigate risk and enhance revenue through custody and investor services as well as securities clearance and trust services.	JPMorgan
T: +358 9 165 51414 **F**: +358 9 165 51358 **Contact**: Patrik Laaksonen **E**: Patrik.Laaksonen@nordea.com **Address**: Aleksis Kiven katu 3-5, FI-00020 Finland **W**: www.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 Global Head, Sales & Relationship Management **E:** antony.johnson@rbc.com **Address:** 71 Queen Victoria Street, London, EC4V 4DE, UK	RBC Global Services is the corporate and institutional custody arm of RBC Financial Group. We are the largest custodian in Canada and rank among the world's leading providers. We have been serving institutional investors for more than 100 years, including 23 years in the global custody business. RBC Global Services, along with RBC Global Private Banking, provides a broad range of value-added services and tailored solutions to institutional investors internationally. RBC provides the full range of fund administration and global custody services. Assets under Administration: **US$1.4 trillion** Number of sub-custodians: **78**	RBC Financial Group
T: +33 1 53 05 45 09 **C**: Etienne Deniau, Mathieu Maurier, Marion Hovhannessian, Eude Nitoumbi, Marilyne Stiegler, Pierre Pointet, Jean-François Marchand, Gwennael Leblanc **A**: 50, boulevard Haussmann 75431 Paris Cedex 09, France **W:** www.sg-gssi.com	SG GSSI offers a complete range of value added securities services for all institutional investors: clearing, custody and trustee, fund administration, transfer agent and registrar services. Societe Generale ranks 4th securities custodian in Europe and 10th worldwide with **USD 1,500 billion** in assets held. SG GSSI provides custody & trustee services to **2,175 funds** and its subsidiary Euro-VL provides valuations for over 3,460 funds representing assets of **USD 346 bn**. The quality of these services is acclaimed by the world's leading agencies: - Trustee and custody – Paris: Aa2 (MQ) (Moody's); CU2 rating by Fitch Ratings: Global Custody Paris and TR2+ rating by Fitch Ratings: Trustee Paris. SG GSSI also provides collateral management and securities lending services.	SG GLOBAL SECURITIES SERVICES FOR INVESTORS

Fund Administration

T: + 33 1 43 23 84 68 **Contact**: Patrick Lemuet (Paris) **T:** + 352 47 67 24 13 **Contact:** José-Benjamin Longrée (Luxembourg)	Crédit Agricole Investor Services is the Securities Services arm of the Crédit Agricole Group, servicing Institutional Investors and Corporate Clients. CAIS provides a full range of services including Product Structuring, Accounting, Portfolio Valuation, NAV Calculation, Third Party Distribution Platform and Shareholders Services, Corporate Trust and Employee Saving Schemes, Capital Markets Services, Private Equity, as well as Communication and On-Line Transaction Tools. Specialising in the provision of the above services, CAIS is well known for its expertise in asset and liability allocation and globalisation techniques such as multi-manager and multi-class structures, Funds of Funds, Pooling, Master Feeder and Cloning. Some of the above services are outsourced to the Fastnet network, a partnership with the Fortis group. The Fastnet network, operated by Crédit Agricole Investor Services, is present in France, Luxembourg, Ireland, Belgium and The Netherlands. **Assets under Administration: EUR 446 bn**	CRÉDIT AGRICOLE INVESTOR SERVICES
T: +1 732.563.0030 **F:** +1 732.563.1193 **Contact:** Lisa Cohen **Address:** Two Worlds Fair Drive, Somerset, New Jersey, NJ08873, USA **W:** www.dpmllc.com	Derivatives Portfolio Management provides onshore and offshore alternative asset fund administration, back and middle office outsourcing, portfolio valuation, daily NAVs, risk administration and portfolio transparency solutions for fund managers, asset allocators, institutional investors and proprietary traders. **DPM Mellon's services are designed to solve complex administrative needs and improve operational efficiency.** DPM Mellon has the systems, infrastructure and experience to handle your toughest administrative challenges. DPM Mellonhas a world-wide staff of 200 employees. DPM's HQ is in Somerset, New Jersey with offices in London, the Bahamas, and the Cayman Islands. A Mellon Financial Company.	

Phoenix	Phoenix Administration Services is a leading third party administration group of companies targeted at the investment industry. Within the Phoenix group of companies, there are two sperate organisations: Phoenix Administration Services Limited Phoenix Financial Services Limited The Phoenix offering is comprehensive. If you are looking to: Outsource your back and middle office administration Purchase or lease a systems solution Get advice and guidance on fund administration	**T:** +44 (0) 127720 1222 **F:** +44 (0) 127720 0975 **A:** 77a High Street, Brentwood, Essex, CM14 4RR, UK **C:** Adam Hodgkins **E:** adam@phoenixadmin.co.uk **W:** www.phoenixadmin.co.uk
SG GLOBAL SECURITIES SERVICES FOR INVESTORS	SG GSSI offers a complete range of value added securities services for all institutional investors: clearing, custody and trustee, fund administration, transfer agent and registrar services. Societe Generale ranks 4th securities custodian in Europe and 10th worldwide with USD 1,500 billion in assets held. SG GSSI provides custody & trustee services to 2,175 funds and its subsidiary Euro-VL provides valuations for over 3,460 funds representing assets of **USD 346 bn**. The quality of these services is acclaimed by the world's leading agencies: - Trustee and custody – Paris: Aa2 (MQ) (Moody's); CU2 rating by Fitch Ratings: Global Custody Paris and TR2+ rating by Fitch Ratings: Trustee Paris. SG GSSI also provides collateral management and securities lending services.	**T:** +33 1 53 05 45 09 **C**: Etienne Deniau, Mathieu Maurier, Marion Hovhannessian, Eude Nitoumbi, Marilyne Stiegler, Pierre Pointet, Jean-François Marchand, Gwennael Leblanc **A**: 50, boulevard Haussmann 75431 Paris Cedex 09, France **W:** www.sg-gssi.com
UBS	UBS Fund Services offers comprehensive fund administration services including fund set-up, registration and support around the world (currently 28 countries), fund accounting, NAV calculation, compliance management, risk control and reporting. We provide a flexible offering from the full range of services, including Private Labelling, to selected functions. Services are based on leading fund administration architecture, multi-source pricing and powerful compliance tools. Capabilities also extend to services for hedge funds through our teams in Cayman and Ireland. In times when management attention is increasingly focused on value creation, it may be rewarding to re-evaluate whether asset administration remains a strategic core business to you.	Jean-Paul Gennari,Luxembourg **T:** +352-44-1010 1 Markus Steiner, Switzerland **T:** +41-61-288 4910 Mike Marsh, UK **T:** +44-20-7901 5000 **W:** www.ubs.com/fundservices

Securities Lending

eSecLending	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 $450 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 **Contact:** Dan Ahern **E:** info@eseclending.com **W:** www.eseclending.com **Addresses:** 175 Federal Street, 11th FL, Boston, MA 02110, US Old Mutual Place, 2 Lambeth Hill, London EC4V 4GG, UK
FINACE® futureproof solution	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 **Address:** IFBS AG, Buckhauserstrasse 11, CH-8048 Zurich, Switzerland **W:** www.ifbs.com

Technology

ADP	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.	**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

T: +44 (0)20 7631 9240 **F**: +44 (0)20 7631 9256 **E**: emea@advent.com **Address**: One Bedford Avenue, London WC1B 3AU, UK **W**: www.advent.com	Advent Software EMEA, established in 1998, provides trusted solutions for the front through to back office operations, based on a true real-time fund/portfolio accounting platform, to the investment management community throughout Europe, Middle East and Africa. Advent has an established network of offices across the region serving a growing client base of asset managers, hedge fund managers, prime brokers, fund administrators, wealth managers, private banks and family offices who continue to improve their businesses using Advent's suite of integrated investment management solutions. Advent Software EMEA is part of Advent Software Inc. (Nasdaq: ADVS), a global organisation that has been providing solutions to the world's leading financial professionals since 1983. Firms in more than 50 countries using Advent technology manage investments totaling more than US $8 trillion.	
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.	
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	CMA's mission is to help its clients from the financial services industry increase their competitiveness through the supply and integration of value-creating IT-solutions and infrastructure. Each solution and implementation is individually tailored to a customer's specific requirement in order to ensure maximum system effectiveness for financial institutions such as national banks, depositories, clearing and settlement centers, retail banks, stock exchanges and brokerage houses. CMA Small Systems is represented with offices in Sweden, Russia and France. Market activities focus on Europe (Nordic, Baltic, Central/Eastern Europe and CIS countries), Middle East and Africa.	
T: +44 (0) 20 7614 9696 **F:** +44 (0) 20 7614 9697 **Contact:** Sue Hillwood **Address:** 6th Floor Mercury House, Triton Court, 14 Finsbury Square, London EC2A 1BR UK **E:** shillwood@fmco.com **W:** www.fmco.com	Financial Models Corporation (FMC) is a leading provider of high quality software and services to the investment management community. With 28 years experience, six offices worldwide and supporting over 500 clients, FMC can justly claim to be one of the true, global providers to the industry. FMC prides itself on its comprehensive range of front to back office products, its high quality client service and its commitment to innovation through advanced technology solutions. FMC provides solutions on both an integrated (front-to-back) as well as "best-of-breed" (standalone) basis.	
For more information visit www.fundsoft.co.uk or call **T:** 0870 2000443 **F:** 020 7959 3030 **Contact:** Mark Culham **E:** mark@fundsoft.co.uk **Mobile:** 07980 912649 **Address:** 288 Bishopsgate, London, EC2M 4QP, UK **W:** www.fundsoft.co.uk	FUNDsoft: With offices in London, Glasgow, Jersey and Luxembourg; FUNDsoft provides one of the most technically advanced Fund Administration platforms available. The COBAS range of solutions are designed exclusively for Fund and Investment Managers, BPO providers and TPA's. Various acquisition models are offered covering the following areas; European Unit Trusts; Offshore Funds; PEP, ISA, OEIC & SIPP's; Pooled Pensions; Property Funds; Fund of Funds; Multi Manager Funds; Wrappers; Fiduciary portal; Funds Automation; Funds Supermarkets; Reporting ; Hedge Funds; Investment Trusts.	
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	GOAL is the widely-acknowledged industry leader in providing creative products, services and solutions to automate and optimise the reclamation of withholding tax on cross-border securities dividend income and royalties. Our research has shown that in excess of US$6 billion of withholding tax remains unclaimed each year by the rightful owners and beneficiaries. To establish your potential ability to reclaim over-withheld taxes GOAL provides a free analysis of income entitlements. We simply require details of the income entitlement(s) together with the type and domicile of the underlying beneficiaries. We do not need the name(s) of the beneficiaries. Our Products include GTRS, GQI, e-Reclaim, GOAL TaxBack, DMS and Bespoke Software Development.	

Interactive Technologies is a leader in developing and delivering software solutions that support current and emerging Financial Industry needs for enterprise-level billing and revenue management. Founded in 1993, Interactive Technologies was acquired by Fiserv, Inc (Nasdaq: FISV) in June 2005 and is based in Summit, N.J., with additional offices in Los Angeles, London and Toronto. The company's sole product - Advantage Fee System - provides banking and financial service institutions with a comprehensive solution for streamlining, automating and managing fee-based billing operations. Over 60 organizations benefit from the Advantage Fee System, ranging in assets managed from 5 billion to well above 1 trillion US$.

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

peterevans is a leading independent provider of front to back office systems to the financial services sector, providing both global solutions to major institutions and highly-focused technology to smaller organizations.
The Company's creative, high-end solutions integrate seamlessly with existing infrastructures to ensure business performance is optimised.
peterevans' flagship products TRACS and Axim support end-to-end straight through processing for the full range of back office automation and transaction requirements, including SWIFT messaging. Tira, the company's front to middle office system, links effortlessly with the back office, providing fund and investment managers with one of the most comprehensive tools on the market.

T: +44 (0)29 20402200
F: +44 (0)29 20402213
A: No 1 Poultry, London, EC2R 8JR, UK
E: info@peterevans.com
W: www.petervans.com

Princeton Financial“ Systems, a wholly owned subsidiary of State Street Corporation, is a leading provider of investment management and accounting systems and ASP services for global institutional investors. Its flagship PAM® investment management systems provide comprehensive STP-ready functionality that can be licensed for in-house use or accessed via the Internet. PAM systems are currently used worldwide by over 350 leading investment managers, insurance companies, mutual funds and unit trusts, pension funds, hedge funds, endowments, banks, and corporations, which manage combined total assets over US $3 trillion. Princeton Financial has offices located in the United States, United Kingdom, Belgium, Australia, Singapore, and Canada. For more information, visit Princeton Financial's website at www.pfs.com.

T: +1 609-987-2400
F: +1 609-514-4794
Contact: Kelly O'Neill
E: info@pfs.com
Address: 600 College Road East, Princeton, New Jersey, 08540 USA
W: www.pfs.com

Redi2 Technologies is an investment management software products and services company headquartered in Oakland, Calif., Redi2 Technologies, Inc. is a premier provider of fee billing and revenue management solutions to institutional investment, private wealth, custody and general asset management firms.
Asset management firms implement Redi2 Revenue Manager to improve cash flow, reduce global operating costs, improve client service and advance compliance initiatives.
Redi2 Revenue Manager 4.0 can be deployed on Oracle, Sybase, MS-SQL Server, and IBM DB2 relational database platforms, and Sun Solaris, IBM AIX, HP-UX, MS Windows Server, and Linux operating systems.
News and other information about Redi2 is available at www.redi2.com

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

SimCorp Dimension is a powerful, comprehensive and truly seamless investment management system. It can handle NAV and other calculations, with complete related accounting, for a huge variety of fund structures and product types, including regional specialities. Support for broader functions, such as performance attribution and risk management, are particular strengths of the system.

SimCorp Dimension has been designed from scratch as a total straight through processing system, handling all aspects of the investment management process, consistently. Data is recorded into a single database so that reporting is made easy, there is no reconciliation of data and no duplication of procedures.

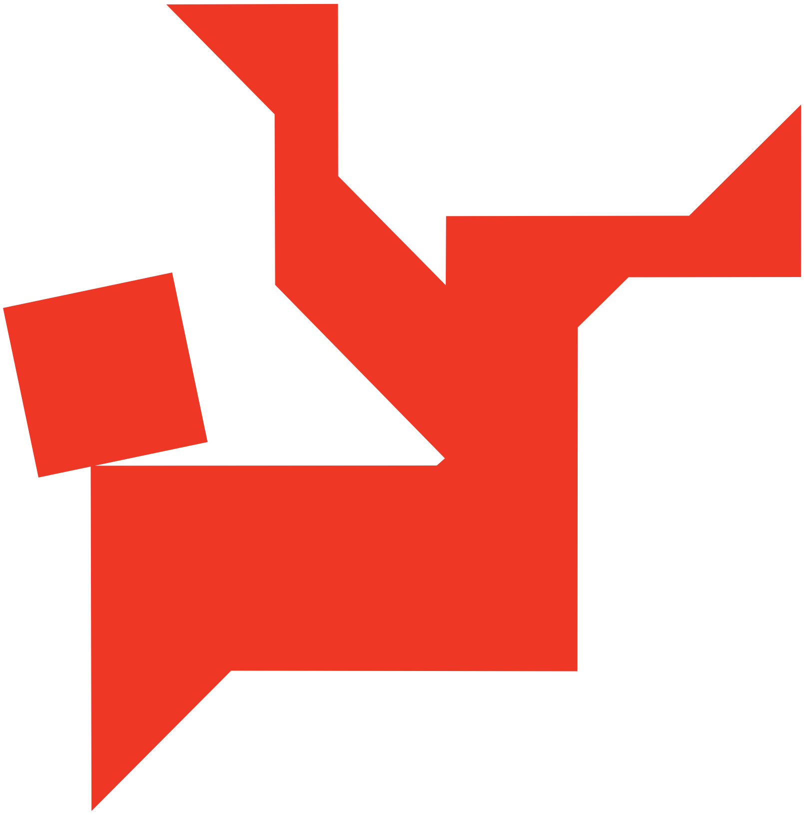
T: +44 (0) 20 7651 8800
F: +44 (0) 20 7651 8811
Contact: Ian Crompton, sales director, SimCorp Dimension
E: ian.crompton@simcorp.co.uk
London EC4N 8DQ, UK
W: www.simcorp.com

Training & Educational Services

Founded in 1909, Hanken is one of the oldest business schools in the Nordic countries. It is now a leading, internationally accredited university with degrees and research operations of internationally high standard. Hanken has 2400 students, and offers programmes in both English and Swedish leading to a Bachelor's, Master's or Doctoral degree.

T: +358 (0)9 431 33 213
F: +358 (0)9 431 33 404
Contact: Henrika Franck-Möller
E: henrika.franck-moller@hanken.fi
Address: PB 479 (Arkadiagatan 22) FIN - 00101 Helsinki, Finland
W: www.hanken.fi

Learn more about this and other tangram solutions at HSBCnet.com



THE PLAYER TO WATCH IN BRAZIL.

What do you see in the tangram above? We see a world-class player in sub-custody and clearing services committed to winning in Brazil. We see an international investment bank with the largest branch network in the field. And we see a newly strengthened team of talented senior players bringing the best practices of the HSBC sub-custody network to the Brazilian market. And the latest technology to ensure the highest quality of service to our clients. Your cross-border challenges and our global expertise and local knowledge — it's a match! **We see the future of business everywhere we look.**

HSBC

The world's local bank

CORPORATE, INVESTMENT BANKING AND MARKETS