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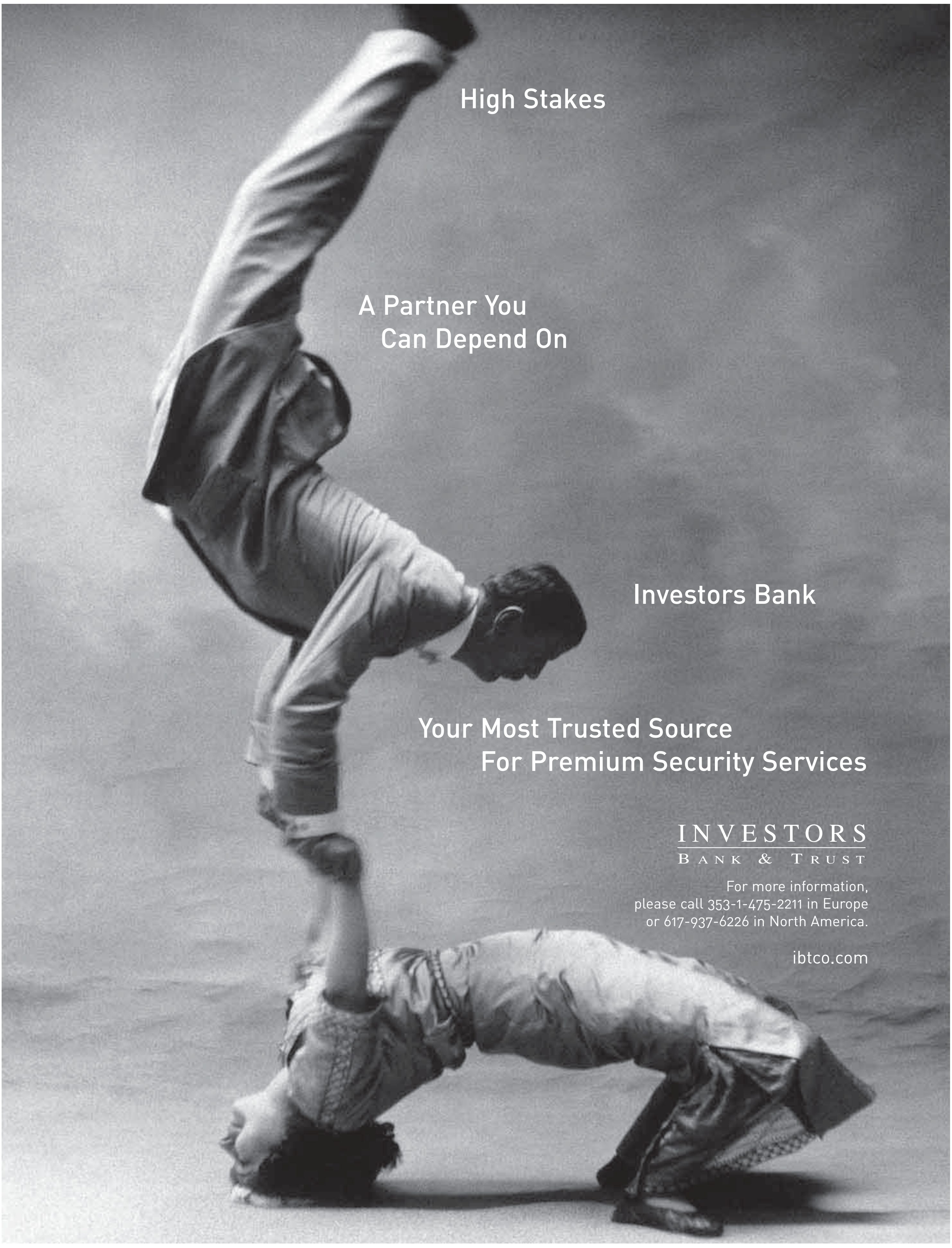
EXCLUSIVE ISJ SURVEYS
- ISJ/R&M GLOBAL CUSTODY SURVEY

ALL CHANGE

METAMORPHOSIS: SERVICE PROVIDERS EVOLVE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INVESTOR SERVICES JOURNAL

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Living and Learning

Amidst heightened publicity of the UK's pension deficit crisis, I was fortunate enough to meet two well-informed senior investment consultants to find out how desperate the situation is.

After explaining the problem, caused by an expanding elderly population with fewer less workers to secure their financially sound retirement, these consultants then touched on how various groups of people are doing their bit to help the embattled pensions industry.

How good it was to hear about this industry's increasing awareness of the securities services group as part of their survival strategy. Subtract 10 years from the equation and the average trustee would have only but a vague appreciation for what goes on in the back office, as looked after by Ye Olde custodian.

Nowadays, as confirmed by the consultants, the trustee is interested in every service by the custodians, from incremental revenue earners such as securities lending to fund management barometer readers such as performance measurement.

Increasingly, the trustee has become more selective about who is chosen to deliver these functions and instructs the consultant to help in the decision making process.

While the importance of the custodian is more appreciated, consultants are faced with the recurring question, 'does the custodian know how the pension fund works?'

Evidence suggests that no two pension funds are the same and each has their own way of deciding what is best for the final investor.

As a result, the one size fits all approach to pension fund servicing is flowing downstream at an alarming pace.

Custodians are responding by permeating the thought process and getting into the mindset of the pension fund or institutional investor.

For example, this group of investor services providers has been quick off the mark in supporting pension funds' increasing foray into alternative investments by offering timely analytical and performance based services.

As one custodian says, 'as a back office provider, we are very much in the front office for understanding our client's needs."

The ISJ / R&M Global Custody Survey, featured in this edition, reveals the extent to which custodians meet their pension fund and institutional investor client's needs and suggest that its getting better all the time.

As pension funds are granted permission to follow a more global remit, the significance of the global custodian has increased.

Providers in the Nordic region have been quick to recognise this trend and have expanded throughout the region, either single-handedly or through alliances with global and local custodians.

The securities services industry is poised for further co-operation between and pension funds can only stand to benefit.

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INVESTOR SERVICES JOURNAL

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Letters to the Editor

Write to

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PENSIONS! PENSIONS! CAN YOU HEAR THE CALL?

Pensions are finally coming of age in Europe – not only on the domestic agenda of EC member states but also in the corridors of Brussels and the financial nerve centres of Multi Nationals Corporations (MNCs).

Never in the history of pensions has there been such demonstrable evidence that there is recognition of the issues facing the industry, and of the efforts being exerted to address those issues.

The United Kingdom has led the way in a strategic 'root-and-branches' review of the pension system. Ireland has undertaken a similar review and no doubt other countries will follow.

The Institutions for Occupational Retirement Provision (IORP) is finally in the statute books of European States.

Never in the history of pensions has there been such demonstrable evidence that there is recognition of the issues facing the industry, and of the efforts being exerted to address those issues.

This gives statutory recognition of the possibility of pan-European pension funds.

Asset pooling for pension pooling is finally getting some traction. This provides for improvements in asset management, investment performance, risk management, reporting and cost for the pensions of an MNC.

Through these latter initiatives, individual countries are beginning to recognise a new competitive landscape in Europe.

Pensions are no longer the preserve of individual countries. The opportunity for one or more countries to assert a leadership position in the provision of European pensions is tangible.

Citigroup is working with State Bodies, MNCs and fund managers to pioneer fund and reporting solutions for these emerging trends. Can you also hear the call?

Bernard Hanratty, Director, Citigroup Global Transaction Services, EMEA

TALKING TECHNOLOGY

Technology has become a hot topic in the hedge fund industry, and in particular for hedge fund administrators who have to deal with ever more complex strategies in an increasingly competitive arena.

Whilst it generally holds true that the bigger the service provider the more sophisticated the technology, this can also mean spiraling costs that are prohibitive for many funds.

Whilst it generally holds true that the bigger the service provider the more sophisticated the technology, this can also mean spiraling costs that are prohibitive for many funds.

As the administration industry becomes increasingly polarized, a hosted technology platform provides funds with a genuine alternative to current offerings.

A hosted system has the potential to dramatically alter the administration landscape by providing an option to those funds that don't fit into the asset and strategy constraints of the larger administrators, but who still want the best technology their money can buy.

The Paladyne Suite is a modular, yet integrated front-to-back office technology suite of products which gives us a state-of-the-art platform with which to run our administration business, and gives our clients access to the front, middle, and back office modules that are vital to their operation, albeit at a fraction of the cost.

A hosted solution that provides funds with choice and value? – That's service.

Robin Bedford, President, Dundee Leeds

NEW RESOLUTIONS

The last few years have demonstrated that the biggest factors affecting the appetite of investment management firms to invest in improvement of their business processes would appear to be the markets their direction, level and the pervading degree of optimism about them.

As ever, opinion is divided as to what the near to medium term future will bring. What with interest rates, oil prices, political instability and more, there are so many potential variables that can affect the way the market will go.

One thing that can be guaranteed, however, is that the market will change. Up-sizing and down-sizing to support such changes can bear substantial cost, but it need not.

Managing the investment management business process with a seamless processing system will provide the essential flexibility and agility needed.

This is because a seamless processing system has one database, which supports all the elements of the investment management operation that must be performed front, middle and back office, whatever is retained in house or, in the case of providers of outsourced services, whatever is under contract to be managed.

Managing the investment management business process with a seamless processing system will provide the essential flexibility and agility needed.

It, therefore, removes manual processes like internal reconciliation of data and the keying of data into multiple systems, which means that greater volumes can be handled without corresponding increases in headcount.

With changing markets, of course, it's not just volumes that must be taken into account. It will often demand different types of instruments to be used.

This change too can be easily handled because of the consistency throughout the system.

As a result staff can be moved onto different functions within a firm without knowledge of different systems being required.

And if that system has suitable architecture, new functions can be added or removed from within the system simply by switching a new module on or off.

Looking to the year ahead – it is not possible, accurately, to predict the market. It is possible, economically, to manage participation in it though – whatever the future may bring.

John Mayr is head of marketing and business development at SimCorp

(Letters continue on page 84)

Custody & Outsourcing

London - The **British Airline Pilots' Association** (BALPA) has launched a campaign to safeguard pensions in British Airways. BA says that there is a £1.2 billion deficit in its final salary pension scheme, which is now closed to new entrants and new employees have to join a lesser "defined contributions" scheme. "BA says its employees should pay off the deficit," said Jim McAuslan General Secretary of BALPA. "Pilots reject that totally. If British Airways has debts to its bank or to its creditors, it pays those debts. If it has a debt to its workforce and pensioners, which it has in the pension fund deficit - it has to meet that responsibility too."

London - **HSBC Securities Services** has been awarded the mandate to manage custody for £21bn in Eurobonds held by Legal & General (L&G). Keith Bewsey, Director of Operations for L&G Investment Management Ltd, said: "We had been looking at consolidating this activity to a professional custodian for some time. HSBC Securities Services was a natural choice, as not only has it demonstrated expertise in holding L&G's gilts and UK equities for many years, but is also able to offer scale and complex infrastructure support for Eurobonds that really makes a difference to our bottom line."

London - **The Bank of New York** (BNY) has been selected by **Leeds Building Society** as global custodian for $4 billion of assets and as its issuing and paying agent. Tim Keaney, Executive Vice President and Head of Europe at The Bank of New York, said: "Winning this significant piece of business underlines our capabilities and proven track record in the building societies sector. We are proud to be able to deliver global custody and treasury services to Leeds Building Society and look forward to working with them."

Fund Structure & Adminstration

London - **Hermes Pensions Management** (Hermes) has announced the finalisation of a £1 bn investment into commodities on behalf of its owner and major client, **BT Pension Scheme** (BTPS). The investment, an open-ended Guernsey registered and listed fund called The Hermes Commodity Index Fund (HCIF), is the largest single allocation to commodities of any institutional investor in the UK. The investment represents 3% of BTPS's total funds of £34 billion and follows the decision by BTPS in the 3rd quarter of 2005, on the advice of Hermes.

Technology & STP

Stockholm - **OMX** and the **Cairo & Alexandria Stock Exchanges** (CASE), **the Egyptian Exchange and Exchange Technology** group, have signed a Joint Venture to offer IT services to the financial markets in Egypt as well as the Middle East and Africa. The partnership will establish a jointly owned company that will sell, develop and support IT solutions for the financial markets in these regions.

London - **State Street Corporation** has developed a collection of online risk management, decision-making and investment monitoring tools with **Algorithmics**. The tools will be available to State Street's customers via a single entry point, my.statestreet.com, which is the company's secure Web-based platform for customer data and applications. "In a market characterized by increasing regulatory pressures and fiduciary oversight, our customers need unique tools to continually monitor their investment programs," said Joseph Antonellis, Chief Information Officer for State Street.

London - **Financial Tradeware** have announced the availability of a new SWIFT automated Reconciliation Module. The reconciliation tool has been developed for Investment Managers and Hedge Funds, enabling them to complete automatic reconciliations with their custodians, including CREST, via SWIFT. Using the automated, S-Messenger application, users can interconnect systems and transport and transform messages, interface to internal ledgers and external systems.

Market Infrastructure

Paris - It has been announced that **Société Générale Securities Services** (SGSS) will acquire the Securities Services business of **UniCredit Group**, subject to regulatory approval. SGSS will retain UniCredit's current organisation and teams in order to ensure continuity in the existing partnerships between UniCredit and its clients. Alain Closier, Global Head of SGSS, said: "Today by acquiring UniCredit's Securities Services business, SGSS is becoming a leading Global Custodian worldwide. We will serve both UniCredit and Pioneer, its asset management arm, in four key European locations, with a strong growth potential."

Harare - The **Reserve Bank of Zimbabwe** (RBZ), has announced that in the next two months it plans to introduce a **Central Securities Depository** (CSD) for Government securities. The CSD marks a new era in the securities system in Zimbabwe and will allow Government securities transactions to be processed by electronic book entry and participant banks will be able to process their own transactions. Dr Gideon Gono, Governor of Reserve Bank of Zimbabwe said: "The implementation of the system is expected to be completed during the first quarter of 2006.

News Flash: The **Dublin Funds Industry Association** and the **National Investment Company Service Association** are hosting the **ANNUAL GLOBAL FUNDS CONFERENCE, 29th - 31st MAY 2006** at The K Club, Co. Kildare, Ireland.

As host of the Ryder Cup 2006, the K Club will be the venue where industry delegates will hear presentations on a variety of topics, including changes in the global marketplace and opportunities for the investment fund industry, the future of the European framework for investment funds and the future of alternative investment strategies. Delegates will also have an opportunity to discuss industry issues and developments.

Investor Services Journal has been selected as the official media partner of the event and will produce a special supplement to the conference for both delegates and the international funds industry.

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News - Americas

Custody & Outsourcing

New York - **ADP Clearing & Outsourcing Services, Inc.** (ADP Clearing) has been selected by **Multi-Bank Securities**, Inc. to support their institutional fixed-income trading and CD underwriting for credit unions. ADP Clearing will provide a full range of clearing and settlement services and Multi-Bank Securities will leverage its relationship with ADP Clearing to offer some of ADP Employer Services' products to their credit union clientele. "We were very impressed with ADP Clearing's ability to meet our needs with such agility and flexibility," said Mike Drews, President of Multi-Bank Securities, Inc.

Pittsburgh - **Mellon Financial Corporation** has announced that its **Investment Manager Solutions** (IMS) group will administer the back office for Evercore Asset Management (EAM). Among the services that Mellon will provide are transaction processing, custodian reconciliation, performance measurement and analytics, and investor reporting. Jack Klinck, Mellon Vice Chairman and President of its IMS group, said: "We believe that EAM will benefit from our extensive experience in helping firms launch asset management operations."

Market Infrastructure

London - **HSBC** has signed an agreement with **Banca Nazionale del Lavoro** (BNL) to acquire their banking operations in Argentina for a consideration of $155 million. This acquisition will allow HSBC to increase its distribution network and market presence in Argentina.

Fund Structure & Administration

Boston - **State Street Corporation** has completed a securities lending auction for approximately $9 bn in international assets for investment funds managed by **State Street Global Advisors** (SSgA) in France. The funds include four French-domiciled Sociétés d'Investissement à Capital Variable (SICAVs) and two French-domiciled Fonds Communs de Placement (FCPs). "We are pleased to have worked with the international borrowing community, SSgA in France, and EquiLend on this successful auction," said Edward O'Brien, Executive Vice President and Head of Securities Finance at State Street. "We will continue to work with our customers worldwide to explore routes to market that best meet their program parameters and risk-return objectives."

Technology & STP

Wakefield - **Taxware**, have announced the integration between its Taxware Enterprise software and Oracle's PeopleSoft Enterprise version 8.9, making it the first tax provider to achieve validated integration between Oracle's PeopleSoft product and its own. "With Taxware Enterprise, businesses can more quickly implement a single tax solution that is automatically updated for thousands of jurisdictions in more than 150 countries," said Tony Chavez, Vice President of Enterprise Solutions at Taxware.

Boston - **State Street Global Markets**, the investment research and trading arm of State Street Corporation has launched of a new industry standard for online settlement instructions developed with **SSISearch**. State Street clients can now access an application that will enable them to retrieve **CLS** and other settlement information from SSISearch databases and the application will be available via State Street's Global Link network and its post-trade confirmation matching and settlement product, GTSS.

Boston - **Omgeo**, the trade management solutions provider have announced that Goldman, Sachs & Co, Merrill Lynch Investment Managers (MLIM) and Northern Trust Company has been appointed to lead Omgeo's Americas Advisory Board. The Global Advisory Board Program provides a forum for clients to help Omgeo address market issues effectively and to guide future product development direction for Omgeo's solutions. Paul Vigilante, Managing Director of Goldman Sachs, Sanjay Vatsa, First Vice President of Merrill Lynch Investment Managers and Jeff Potter, Vice President of Northern Trust have all been elected to the governance committee of the company's Americas Advisory Board.

Toronto - **ADP Brokerage Services Group** has been hailed Innovator of the Year for its Smart Prospectus Solution at the International Global Document Conference and Exhibit in Miami Beach, Florida. The award is given for development of a new technology that significantly enhances the capabilities of electronic document systems. "Until Smart Prospectus, no one in the industry had been able to electronically collect all relevant inputs to the prospectus process, understand their interrelation and use technology to create a more timely, relevant and compliant output," says Stephen Main of M.R.S. Securities Services Inc.

Massachusetts - **Interactive Data Corporation** has announced a definitive agreement to acquire **Quote.com** and related assets from Lycos Inc. for $30 million in cash. Stuart Clark, President and Chief Executive Officer of Interactive Data Corporation, said: "With the addition of the Quote.com assets, eSignal will deliver a broader suite of services to an even wider range of active trader customers and possess an increasingly valuable family of financial portals." The acquisition is expected to close during the first quarter, subject to customary closing conditions including governmental approvals.

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Custody & Outsourcing

Kuala Lumper - **The Bank of New York** (BNY) has been appointed by the **Employees Provident Fund of Malaysia** (EPF), Malaysia's national savings scheme, to provide master custody services. Kenneth Lopian, Executive Vice President and Head of The Bank of New York's Asia-Pacific Division, said: "Through our new office in Kuala Lumpur, our strong team of custody professionals will support EPF's complex securities servicing needs and help them maximize performance and manage risk."

Technology & STP

Massachusetts - **RSA Security Inc.** has announced that **Japan Net Bank** and **Sumitomo Mitsui Banking Corporation** (SMBC) have selected RSA SecurID to protect online banking customers in Japan. RSA Security's two-factor technology helps to protect consumers against account fraud, phishing and other online security threats. A spokesperson at Japan Net Bank commented: "In order to meet the high security expectations of Japan Net Bank customers, we have worked to consistently provide tools and services that deliver stronger protection for online transactions. RSA SecurID technology is the optimal solution because it is easy-to-use, portable and operates in a variety of environments, including PCs, mobile 'phones and telephone banking."

Singapore - **Charles River Development** has announced that **Daiwa SB Investments Ltd.**, the Japanese asset management company, has selected the Charles River Investment Management System (Charles River IMS) to monitor more than $31 bn in assets under management. Daiwa's decision to replace various existing local vendors and upgrade to Charles River IMS was largely due to the firm's need to consolidate and streamline its fund management operations onto one integrated platform. "We found Charles River IMS is the most compatible fit and ideal system to automate our global and Japanese investment operations," said Mr. Suichi Komori, President and CEO of Daiwa. "We were particularly impressed with Charles River Compliance which enables us to apply compliance rules precisely for each fund."

New York - **ADP Investor Communication Services (ADP ICS)** has announced that the electronic proxy voting platform, implemented as part of a joint venture with the **Tokyo Stock Exchange** (TSE) and the **Japan Securities Dealers Association**, (JSDA) is now fully operational. This marks a major shift in efficiency and corporate governance for the Japanese investment community, which previously depended on a paper-based system, limiting investors to a narrow window in which to analyze materials and cast their votes. The new platform is based on ADP's ProxyEdge service and will provide a Japanese language voting platform with Japanese content for local Japanese investors, as well as enhanced timeliness for release of English meeting agendas. "By building electronic links with all the key financial intermediaries in Japan, we have been able to eliminate all manual processing for participating companies," said Bruce Babcock, President, ADP ICS Europe and Asia, and a Director on the board of Investor Communications Japan (ICJ).

Sydney - **Clear2Pay** has announced its appointment by the **National Australia Bank** to develop an internet-based payments solution for its electronic banking service for businesses. Mark Hartley, Vice President of Strategy at Clear2Pay believes the system provides a secure, easy to use browser-based front end for both customers and bank staff, as well as a payments hub for the execution of payments. "The Bank Payment Hub solution is designed to reduce operational silos, increase STP whilst reducing manual processing," said Hartley.

Ohio - **ABN AMRO** has selected **Teradata** data warehouse as its platform for business decision support in the development of ABN AMRO consumer businesses in Asia.

The regional data warehouse (RDW) in ABN AMRO will be primarily used for customer relationship management (CRM), and customer revenue analysis as well as monitoring credit risk metrics by the credit management team.

"For the past few years, we have enjoyed continuous growth in Asian markets, which have become a focus of our business. To better serve our customers and fulfill the needs of the company's marketing management and risk control, we need a robust decision support platform." said Jim Brown, head of the Asia Consumer Client Segment of ABN AMRO.

The project will eventually rollout to all ABN AMRO's branches in Asia. The bank's branches in Taiwan will be the first to implement RDW followed by those in Hong Kong, Southeast Asia and China.

Market Infrastructure

Tokyo - The **Tokyo Stock Exchange** (TSE) was forced to close trading early for the first time in its history after its trading system was unable to process a huge surge in the number of orders and executions yesterday. On January 18th the TSE released a statement asking investors to consolidate orders, including program orders, to prevent a system overload. It warned that the exchange had handled 2.32 million transactions at the end of morning trading and that if the number of executions reached 4 million, the system limit, then trading of all equity issues, convertible bonds and exchangeable bonds would be temporarily suspended. The number of executions reached the 4 million mark at 2.25pm and trading was suspended at 2.40pm until the next day. Closure of The Exchange is yet another in a string of problems to do with the TSE's trading system which has come under scrutiny after The Exchange was forced to close for almost an entire day in October because of a technical glitch.

Dublin, Bermuda and Luxembourg

comment on how their domiciles are responding to 2006


Deirdre Norris

In late January the Irish industry hosted a very well received industry briefing seminar in London. The event attracted huge interest, so much so, that some of the industry representatives travelling from Ireland were politely encouraged to give up their seats! Over 400 registered to attend what has now become an annual event for the Irish industry.

This year's agenda focussed on developments in the legal and regulatory environment for Irish funds, including the Investment Funds, Companies and Miscellaneous Provisions Act 2005, which was signed into law at the end of June 2005 and introduced three very important provisions: the non-UCITS Common Contractual Fund (CCF); segregated liability at sub fund level for investment companies and cross investment between sub-funds of investment companies.

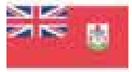
The programme also covered UCITS III including new UCITS product opportunities and the convergence of alternative investments, structured products and UCITS, Financial Reporting Standards and developments in UK distributor status, alternative investment funds including property funds and the proposed new rules from the Irish Stock Exchange (ISE) regarding custody and derivatives and the ISE's definition of a prime broker, credit funds and a panel discussion on developments and experiences in asset pooling fund structures, including virtual pooling.

Other news in brief, also in January the DFIA hosted its first industry forum, a forum whereby senior industry executives came together and discussed industry business issues and determined and agreed appropriate actions for going forward.

The key issues raised included industry resources/competitiveness and the regulatory environment.

It was decided, among other things, that the industry would continue to raise its profile both domestically and in suitable international locations in an effort to continue the flow of suitably skilled resources and that the success of frequent engagement with the financial regulator must be maintained and built upon to further enhance the development of the Irish industry.

Deirdre Norris,
Marketing and Communications, DFIA

Greg Wojciechowski

In January, the Bermuda International Business Association recently hosted an event in London to inform financial leaders why they should opt for Bermuda and to showcase the latest business initiatives and the Island's expertise in hedge funds. The event also served to highlight the mind and management in Bermuda and to present a regulatory infrastructure, which accounts for business needs. During the event, the organisers highlighted Switzerland's recent clarification that funds exempted from Bermuda's collective investment scheme regulation of 1998 are out of scope with home rules under the newly implemented EU Savings Directive. Bermuda welcomes this news as it puts the Island on the map as a first choice jurisdiction for funds and trusts. Apart from this news, the London event featured a panel debate on hedge funds. The panel, chaired by myself, comprised two London based lawyers who are senior people at Bermuda firms, the Chairman and CEO of the Bermuda Monetary Authority, a spokesperson from a large fund administrator located in Dublin and a representative from a medium sized fund administrator and bank, located in Bermuda. The subject matter was focussed on developments in Bermuda, with an emphasis on how the centre has negotiated with the Swiss authorities so that any funds that qualify for exemption or classify as an unregulated fund in Bermuda are outside of the home rules in Switzerland for the EU Savings Directive. The BMA chairman also advised the audience that the Finance Minister's sign off on the incorporation of fund structures is no longer needed. This development will expedite the funds incorporation process by some time. Other developments in the funds industry include the consolidation among providers. A lot of the big players have come in and have acquired some of the small Bermudan players. London lawyers then commented on Bermuda's success and I described how the Exchange rounds out the infrastructure that is in place on the Island. We have received recognised status from the Australian tax authority and the FSA has recognised us as a designated investment exchange. This bodes well for the future.

Greg Wojciechowski, CEO, Bermuda Stock Exchange


Jean-Jacques Picard

The investment fund business is growing rapidly, both in terms of the number of funds and assets under management and in complexity. Does this call for more, or new regulation?

Having analysed the European Commission's Green Paper on the European framework for investment funds, the Association of the Luxembourg Fund Industry (ALFI) strongly agrees with the Commission's statement that "there is no compelling case for fundamental legislative overhaul at this stage". The Association stresses the need to focus on a coherent implementation of the existing rules. We believe that the single European financial market can best be achieved by tackling fund distribution issues as the most important priority and focusing on adequate disclosure to the investor and best advice. Further to this, the cost of new regulation must in any event be considered. Any regulatory proposals should take into account the need for consistency with other regulations and one should also recognise that asset management is not the only core element of the fund industry's value chain.

ALFI supports the proposals made by the Commission with regard to:

- eliminating the uncertainty surrounding the recognition of funds launched during the transition from UCITS I to UCITS III
- simplifying the notification procedure for passporting funds and streamlining procedures
- focusing on transparency, disclosure and advice
- facilitating cross-border fund mergers
- increasing efficiency and reducing costs to the end investor, and
- committing to today's high levels of corporate governance.

Before issues such as the review of the scope of the management company passport, the recognition of pooling structures and techniques and greater freedom of choice of depositaries and fund administrators can be usefully considered, the regulatory structure and the efficiency of the home/host relationship between supervisors requires substantial improvement.

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

With a unique blend of alternative asset servicing capabilities and value-driven securities services, RBC Dexia Investor Services is set to challenge.

Janet Du Chenne speaks to the company's most senior figures about their plans for the future

Two's Company

Jose Placido

Famous for bringing together the best in investor services, Luxembourg is currently abuzz with the unfolding of this year's most significant partnership. On these cool, crisp days in Europe's investment funds capital, José Placido, from RBC Global Services in Toronto, and Michel Malpas, from Dexia Fund Services in Luxembourg, meet regularly to discuss the evolution of RBC Dexia Investor Services.

With an official launch now passed, Placido, CEO, is ensuring that he and Malpas, the CEO, present RBC Dexia Investor Services as a united entity to the world wide financial market.

Speaking to ISJ in Luxembourg, Placido says: "The focus of the new partnership will be to ensure that we approach the market with one face and maintain a unique value proposition for clients who need to concentrate on what they do best, in this case managing money and attracting and retaining clients."

As a result of the alliance, RBC Dexia Investor Services is present across 15 countries worldwide and ranks among the world's top 10 global custodians. This scale enables the global investor services provider to compete on a worldwide stage. The other fundamental reason for the partnership is to allow RBC Dexia Investor Services to anticipate changes within investors' mindsets.

"We are focussed on ensuring that our product development and client management teams work together in anticipating the needs of our clients as they move increasingly into the area of alternative assets," says Placido, CEO of the new entity. "The types of alternative funds we are seeing include funds of funds, hedge funds, property and private equity. Another core focus is to ensure that we maintain a company-wide service proposition for the client and that we utilise all of the combined group's skills and expertise."

As a medium-sized provider of investor services, DFS brought 10 exclusive EU and Asian markets as well as transfer agency capabilities to the partnership with Canada's largest bank. "Thanks to the partnership, we can be more visible in the market," says Malpas, deputy CEO and chief marketing officer, based in Luxembourg. Clients may need us in the US, Luxembourg, Dublin and other parts of Europe. The larger our reach the better."

Both RBC Global Services and DFS will leverage cross-selling opportunities made available through their partnership. For example, DFS saw significant leverage in RBC Global Services' securities lending products and RBC saw immense potential in DFS's fund administration capabilities, covering multiple European and Asian markets. "Other areas of leverage include cash management and forex," says Malpas. "These products will work better now that we can provide them on a larger scale." Additionally, with the largest European shareholder services network, RBC Dexia Investor Services is in a unique position to add value on the distribution-side, compared to other global custody peers.

Outsourcing

While back office developments are driven to a large extent by the behavioural patterns of the investor, the tendency to outsource component functions is being increasingly observed among providers. "I believe that component outsourcing has been around forever," says Placido. "These components include services such as custody and fund accounting. Any service that is "commoditised" for the benefit of the asset manager is something that we provide. Lift outs are certainly happening but people tend to look at how they can run an (outsourcing) arrangement on the same platform. I think both "componentised" and full back office lift out outsourcing will occur in the future."

According to Malpas, 'bundled' services such as global custody, fund administration and shareholder services are most helpful to the end user. "An integrated solution is better than slicing and dicing," he says. "There is a market for outsourcing and regulation is driving the depolarisation of functions performed by the asset manager."

The belief that asset managers will become obliged to outsource their back office is widely held by many in the investor services industry. "In Europe, a large number of asset managers do all of their own custody and fund administration," explains Malpas. "But this does not benefit the end client. Regulation will drive change in this area. Lift outs are also very complex and there are opportunities for us here."

As investors' attitudes evolve, third-party product distribution is also expected to increase. "This is a very complicated procedure but it creates many opportunities for us," says Malpas.

Despite the current oversupply in the market for investor services outsourcing, a large number of asset managers still perform their own middle and back office functions. "We see great opportunities to help managers with some of these functions," says Placido. "The UK, US and Canada are more mature markets in outsourcing terms, but over the next few years a new wave of outsourcing will begin. As an investor services provider, we have to understand the front office mindset so that we can anticipate needs and help these companies focus on what they do best. The tendency is for companies to outsource capability but not responsibility. But for us, taking responsibility for a relationship is something that is respected and welcomed."

While asset managers present significant outsourcing opportunities for RBC Dexia Investor Services, this gold mine will expand to include banks, thanks to pending regulation. "As the area of third party distribution becomes increasingly more complex, we are developing a distribution solution to link products to their distributor," says Malpas. "Regulation currently tends towards the protection of the end investor, which is good. The SEC in the US and the authorities in Europe will drive the deconcentration of the industry where asset managers will be forced to outsource middle and back office functions to a specialist provider."

Added Value

As the market for investor services continues to grow, the notion of value added services appears to be slipping away. "Investor services providers should instead consider the investment cycle of the client and the investment activities of the asset manager in order to provide value," says Placido. "We define investor services broadly as securities services, asset gathering services and informational services. The provision of data analysis tools such as portfolio analytics and performance measurement have become very sought after by our clients. Clients also attach great value to performance enhancing tools such as securities lending and other services that aid the asset gathering function."

"Investor service providers should consider the investment cycle of the client and the investment activities of the asset manager in order to provide value"

Now that RBC Dexia Investor Services is fully operational, the provider treats alternative investment and fund administration services for the traditional asset manager as core.

As a provider of back office functions, the company sees itself as being very much in the 'front office' for understanding clients' needs. "We have to understand what asset managers do and the increasing sophistication of what

Michel Malpas

they do," says Malpas. "Outside of core services, any services that are linked to compliance, performance attribution and risk oriented services provide the highest value add. But we also consider our core services to be providing added value."

"you do need scale in order to become more important. Scale will become an indicator of status in the securities services industry"

Automation

As investor service providers focus on relieving the investor community of paper-based functions, RBC Dexia Investor Services plans to make automation one of its priorities in the years ahead. Commenting on the current level of STP within the securities industry, Placido says: "There is a lot of STP around at the moment and improvements have been made. SWIFT has been adopted as the norm for a large part of the financial community and is regarded as a secure protocol. But there are still a lot of paper-based instructions that service providers receive from their clients. We provide the facility to allow for improved connectivity between clients and ourselves. Some investor services providers prefer certain protocols depending on the country they are operating in."

Dexia's shareholder services unit was one of the first providers to develop SWIFT-messaging standards for funds, via the adoption of SWIFTNet funds. "We have significantly reduced the paper flow in this area," says Malpas. "There are still cases, particularly in the retail industry, where distributors do not even have computers. Although we receive faxes from them, the amount of paper is reducing. As the industry becomes more concentrated, the number of distributors will decrease. The industry is becoming more efficient and the amount of paper is declining on a daily basis. The distributors are customers of our customers so we cannot force STP on to them, but we can show them the efficiencies to be achieved by having greater levels of STP, including a faster delivery of trailer fees."

CANADIAN PENSIONS POST THIRD SUCCESSIVE DOUBLE-DIGIT YEAR

RBC Dexia Investor Services releases 4th quarter investment results of Canadian balanced fund managers TORONTO, January 26, 2006 — Canadian equities remained the top-performing asset class in 2005 and helped lift Canadian pension plans to another strong showing for the year, according to a quarterly survey just released by BENCHMARK®, the investment analytics arm of RBC Dexia Investor Services, which maintains the industry's most comprehensive universe of Canadian pension plan and money managers.

Within the $340 billion BENCHMARK universe, balanced pension funds earned 2.1 per cent in the quarter ending December 2005, bringing year-end performance to a solid 11.7 per cent gain. "That's three consecutive years, since the tech bubble in 2002, that longer-term assets have performed extremely well," observed Don McDougall, Director, BENCHMARK, RBC Dexia Investor Services. Canadian equities led the way for a third consecutive year, on the strength of a whopping 63.4 per cent return in energy stocks, which accounted for nearly half of the market's 24.1 per cent gain in 2005. Surprisingly, active managers kept pace with the market despite remaining under-exposed to the high-flying energy sector over the course of the year. Global stock markets also continued to do well, pushing the annual MSCI World index to 15.8 per cent in local currency.

For Canadian-based investors, however, continued appreciation of the loonie slashed foreign equity returns to a meagre 6.0 per cent for the year, once currency was taken into account. "The loonie has been a major factor over the past three years, first against the US dollar in 2003 and 2004 and this year against the Yen and Euro," McDougall said. In Canadian fixed income, managers averaged 6.5 per cent over the year, matching the Scotia Capital Universe Bond Index, despite significant opportunities in real return bonds and longer duration bonds to add value, according to McDougall.

Unity

As concentrators within the investor services industry RBC Dexia Investor Services has set a precedent for further alliances. "I believe consolidation in the securities services industry will continue in various forms," says Placido. "We are seeing and will continue to see a lot of domestic consolidation, particularly in the UK, Canada, the US and in parts of Europe. Service providers (including ourselves) will look for more servicing capabilities. This search is driven by the move of our clients into the alternative asset space. Providers with an alternative asset servicing capability are also extremely important as more investors move into this space. In terms of scale, assets under custody and assets under administration will be important indicators to the marketplace of the success of the provider. Yes, you do need scale in order to become more important. Scale will become an indicator of status in the securities services industry."

In addition to consolidation among investor service providers, the clearing and settlement infrastructure in Europe has also seen its fair share of concentration. "Consolidation will continue because the clearing and settlement infrastructure industry is not efficient enough," says Malpas. "The NSCC solution in the US is an ideal one to have but Europe has different cultures and infrastructures. In comparison to the US, these differences are particularly noticeable. Keep in mind that the US is one country and the infrastructure provides scale and efficiency. Further infrastructure consolidation in Europe is merely an evolution of the scale and efficiency process. I believe consolidation of the clearing and settlement infrastructure in Europe will happen in a way that is beneficial to all concerned. Anything that can make our lives and the lives of our clients easier is ultimately a step in the right direction."

Regulation

Apart from infrastructure challenges, RBC Dexia Investor Services has to accommodate the prospect of further regulation. But judging by the views of Placido and Malpas, this is a challenge providers should be accustomed to.

"Compliance and risk management are words we need to coexist," says Placido. "There is increasingly less tolerance for players who are offside of financial services regulation. We ensure that clients and ourselves are onside." Amidst the unfolding of the partnership, the RBC Dexia Investor Services team is engaged in complying with Basel II.

"Regulation is always a challenge for us," adds Malpas. "We try to stay ahead of developments such as UCITS 3 and MiFID. The investments required to comply with these developments are huge. But as long as regulation moves towards the protection of investors it can only be a good thing. We are reluctant when it comes to fiscal changes because it is expensive for us to invest and to meet these changes. But any compliance-type regulations are good for us and for the industry."

> "It has also become very important to offer a multi-jurisdictional service to our clients and to look at markets where there are new possibilities"

Looking Ahead

Now that RBC Dexia Investor Services is open for business and ready to present a united front to the global community, the opportunities appear to be without boundaries. "It is important that our sales and relationship management areas have a geographical reach," says Placido. "It has also become very important to offer a multi-jurisdictional service to our clients and to look at markets where there are new possibilities."

"The challenge for us is to successfully integrate our companies," says Malpas. "This is important for the market-facing side of the business. It is also important to develop a single brand and a single product suite. In the medium-term our challenge is about further development. As the industry moves, we have to move with it. We want to concentrate on new business and on new markets such as Germany, the US and Asia. With this partnership we saw no overlap of responsibilities and therefore no personnel losses. We continue to make new hires as we are keen to develop our business." ISJ

RBC Dexia Investor Services at a glance

- A joint venture equally owned by Royal Bank of Canada and Dexia—the first of its kind in the institutional investor services market
- One of the Top 10 global custodians
- Approximately US$2.0 trillion (°Ë1.65 trillion) in client assets*
- Global custody network covering more than 80 markets; RBC Dexia Investor Services uses 36 Top-Rated or Commended banks in our global custody network
- The widest transfer agency network in the market
- Top-ranked international securities lending service: covering 27 world markets with C$59 billion** of securities available for loan
- A strong issuer rating of Aa3 (Moody's)
- 3,800 experienced and enthusiastic employees
- 15 offices on four continents
- More than 100 years of combined experience in financial services

José Placido

Chief Executive Officer,
RBC Dexia Investor Services

José Placido is Chief Executive Officer of RBC Dexia Investor Services. He also serves as Chief Executive Officer of RBC Dexia Investor Services Trust, an operating company based in Canada. Prior to this appointment, Mr. Placido was Executive Vice President of RBC Global Services, Institutional Investor Services. In this role, he led a global team of professionals who provided specialized investment administration solutions for institutional clients. Before partnering with Dexia, RBC Global Services was Canada's largest custodian and ranked among the world's leading providers.

Mr. Placido serves as a Vice Chairman for the Canadian Capital Markets Association (CCMA) and sits on the board of the Continuous Linked Settlement (CLS) Group Holdings. He is a graduate of Montreal's McGill University.

Michel Malpas

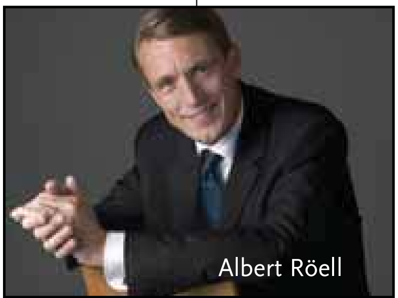
Deputy Chief Executive Officer and
Chief Marketing Officer

Michel Malpas is Deputy CEO and Chief Marketing Officer of RBC Dexia Investor Services. He also serves as Chief Executive Officer of RBC Dexia Investor Services Bank, an operating company based in Luxembourg. Mr. Malpas was President of the Executive Committee, Dexia Fund Services prior to this current appointment.

Mr. Malpas joined Dexia Banque Internationale à Luxembourg (BIL) as Senior Vice President, Dexia BIL Fund Services, later becoming Deputy CEO of Bancoval (a subsidiary of Dexia) in Spain. He was Head of Fund Administration & Custody for Cregem International SA prior to joining Dexia. Mr. Malpas holds an MBA from the University of Chicago's Graduate School of Business.

Going Dutch

As KAS BANK celebrates its 200th year in business, the events, which helped the Dutch institution acquire Europe-wide status list like a how-to manual on conquering the Continent's trading and pensions landscape.


Albert Röell

Kas' journey to stardom began in Amsterdam in 1806 when Banks were financing foreign loans for trade financing purposes. "These banks needed cash deposits in Amsterdam to be paid out when goods were delivered," says Albert Röell, Chairman. "Thus, KAS BANK began as a cash custody bank and the securities element was introduced in the late 19th century. The role of banks as depository receipt handlers was important in those days and small cashiers were aplenty. By the beginning of the 20th century all of these cashiers were merged into KAS BANK."

During the 1830's the Dutch Central Bank was institutionalised in the Hague by the King of Holland. This led to a war of words between the cashiers of Amsterdam, led by KAS BANK, and the Central Bank, over which institution could legally issue depository receipts. Amsterdam did not accept the Hague's monopoly. But a stalemate was reached ten years later and the Central Bank assumed its position as the true central bank. As the Dutch banking industry became more involved in securities, KAS BANK took two steps: firstly it began to pay out interest from separate companies. Whereas the company traditionally paid deposits, for which it received a fee, and kept the cash in vaults, it began to pay interest on these deposits and accept securities for custody. "Our focus, from the 1850s until present date evolved from cash to securities," says Röell. "The Bank became a traditional custodian, providing clearing, settlement and custody for securities."

A quantum leap to 1988 saw KAS BANK open shop in London. "We were focussed on the local market in Amsterdam, but at the end of the 1980's we felt the need to become involved in the internationalisation of capital and capital markets," says Röell. During the 1990s, KAS BANK concentrated on building a virtual network across Europe, combining infrastructural parties such as central banks, clearing houses, CSDs and Exchanges. "We are still connecting markets to our European network in order to create a virtual capital market for Europe."

From Cash to Securities

In 1974, KAS BANK was taken over by the Dutch Stock Exchange, which needed a cash and securities services institution to clear and settle trades. "During the 1980s there was an enormous increase in trading volumes on the stock exchanges," says John van Scheijndel, member of the Managing Board. "At first we were a service provider for Dutch institutions. Then, owing to the internationalisation of the stock exchange trades, we moved into the UK and the US by offering a clearing and settlement service for Dutch securities. This was an enormous growth area for us at the time. We also noted that institutional investors such as pension schemes in the Netherlands increased in volume. This gave us an opportunity to expand on our traditional offering of custody, clearing and settlement."

The next step was the introduction of the EURO at the end of the 1990s and the evolution of the European capital market. "As a result of these developments, we wanted to provide European clearing and settlement services," say van Scheijndel.

From the 1990s onwards, KAS BANK built a European platform with direct links to all countries. In response to the growing pensions industry, the bank also developed its servicing capabilities in order to provide investment administration, performance measurement, supervisory reporting and currency overlay products. As KAS BANK moved further into the European services landscape it received a stock exchange listing and became fully independent.

Pensions

Going forward KAS BANK stays committed to the European pension fund community. "This is a very professional and demanding market," says Röell. "Looking at Europe's demographics, the Continent is heavily under financed for the old age sector of the population. Pension funds and other institutional investors are addressing this problem. We are sitting behind them with a full set of value added products to help with the problem. We provide them with risk management, benchmarking, performance measurement and treasury products. By helping the pensions and trading markets in Europe, we see this as a good balance and see no need to move into the US or the Far East."

As the pensions industry becomes a growing concern for Europe, KAS BANK stays alert to possibilities in Germany and other countries. On the trading side, the bank has a truly European reach, with links to Europe's three main trading infrastructures. "The European challenge is centred on value and not volume," says Röell. "Value is defined by deeply routed know-how and knowledge of local systems. It is about liabilities and the pension fund thinking in different countries across Europe. There are opportunities here to add value. We follow the Turner Report in the UK and compare it with the Dutch life course savings product, which is being developed by the Government and has been introduced this year. In comparing the pension solutions of each country, we form suggestions for the different jurisdictions. This is what makes Europe more interesting than the US. There are differing cultures and different pensions approaches, which enables us to link these parties and bring continuity to the table."

Going forward, KAS BANK is intent on increasing market share, particularly in home markets such as the UK and the Netherlands. "One of the other key challenges is pricing pressure," says van Scheijndel. "We are confident we can meet this challenge as we operate on a single platform in Amsterdam which keeps our costs low. With increasing volumes we can compensate for the pricing pressure in our market. We want to move more aggressively into the German market, particularly on the trading side."

Remembering the traditional days of custody clearing and settlement, van Scheijndel notes that a more integrated value chain is appearing. "More of the broker dealers' needs are outsourced to KAS BANK, including order execution, order routing and back office outsourcing. We do well at this and believe it distinguishes us from our competitors. We are moving towards offering our clients a more integrated value chain."

Over the centuries KAS BANK has been able to reinvent itself by listening to core client groups. "From our beginnings as a cash depository, we have moved into the European pensions industry, which has completely different demands," says Röell. "We are focussed on this European pensions challenge, which helps us to reinvent ourselves. The role we are adopting is that of enterprise risk manager, where we consider the total risk of clients, not only the risks in asset management but administration and asset liability. We are trying to provide a complete set of products and services which could be described as enterprise risk management." ISJ

KAS BANK - Timeline

1806 - Establishment of the first large banking business "Associatie Cassa"
1813 - Establishment of the Ontvang- en Betaalkas.
1864 - N.V. Rente-Cassa as a sister company of the Associatie Cassa.
1865 - Establishment of the Kas-Vereeniging, established at the Herengracht.
1915 - Kas-Vereeniging moves into the present office premises at the Spuistraat.
1929 - Takeover of the Ontvang- en Betaalkas by Kas-Vereeniging.
1932 - The office premises at the Spuistraat expanded to its present size.
1952 - Takeover of Associatie Cassa/Rente Cassa by the Kas-Vereeniging.
1974 - The Amsterdam Stock Exchange obtains all Kas-Associatie shares.
1985 - Purchase of the office premises Nieuwezijds Voorburgwal.
1986 - Initial Public Offering of Kas-Associatie. 60% of the shares remains in the possession of the Amsterdam Stock Exchange Association.
1990 - UK Branch in London - first branch outside Amsterdam.
1998 - The Amsterdam Stock Exchange Association distributes its 60% participating interest in Kas-Associatie to its members.
2002 - Change of name from "Kas-Associatie" into "KAS BANK" and implementation of the current logo.
2002 - New office premises the Nieuwezijds Voorburgwal completed.
2006 - KAS BANK sells part of its shareholdings in European exchanges and celebrates 200 years

The Nordic region is well known for being different.

In a wide-ranging focus on the region, ISJ speaks to the providers about some of these contrasts and whether the current infrastructure will continue to work for clients

A Different Beat

the mist is clearing on Nordic infrastructure

For several years, financial spectators have marvelled at the strength and resilience of the Nordic financial sector. Companies here have captured the attention of global investors and the local currencies have strengthened over time.

One of the region's most remarkable features is the volume of stock exchange trades recorded over the last year. "In terms of volume, business is greater than we could ever have hoped for," says Peder Krag, Executive Vice President of Amagerbanken in Denmark.

While these volumes paint a hopeful picture for 2006, they place new demands on securities service providers to further develop their systems and straight through processing capabilities.

Like its neighbours in other regions of Europe, the Nordic region has adopted a host of regulations. The most recent of these includes the green light for the creation of on shore hedge funds. Securities lending has also featured on the regulatory agenda and most of the demand for this activity has originated from outside of the Nordic region. "Foreign investors are attracted by the ability to shorten their positions in the Danish market," says Krag. "Securities lending activity is definitely picking up."

With global investors' increasing perception of the Nordic countries as one region, securities service providers have ensured they are present across all markets, through alliances or a physical presence. A notable alliance is that of Amagerbanken, Swedbank in Sweden, DnBNOR in Norway and OKO Bank in Finland. "We are getting more customers as a result of this alliance," says Krag. "The alliance is a result of the increased focus on the Nordic region from an investor's point of view."

Throughout 2005, the Nordic stock exchanges recorded impressive volumes thanks to the increased interest in these markets from foreign investors. In Denmark, for example, the telephone company TDC received an offer from a set of non-Danish funds and an Australian investor purchased the majority of Copenhagen airport.

"The Danish stock index has advanced considerably throughout last year," says Krag.

Infrastructure

The Nordic trading infrastructure has come a long way in the last five years. More recently, the exchanges of Oslo, Helsinki, Stockholm and Copenhagen have announced their decision to co-operate and to form a common Nordic trading platform.

Consolidation among the Nordic trading entities is yet to be followed by post-trading infrastructure consolidation. The Danish CSD VP and the Norwegian CSD VPS have not joined the alliance between the Swedish VPC and the Finnish APK, called the Nordic Central Securities Depository. "I'm sure that in the future, we will see further links between these CSDs so that settlement can be handled in a more efficient manner than it is today," says Krag.

"In the future, our value will come from our ability to combine trading and settlement in the same system."

Global investors in the Nordic region currently deal directly with one stock exchange platform and settle with a variety of CSDs. "If you can deal and settle within the same framework, then you save communication costs," says Krag. "Although SWIFT is very efficient, one SWIFT message costs half a Pound. "By eliminating the number of messages that are sent around today, and by performing trading and settlement within the same organisation, costs can be eliminated."

"By eliminating the number of messages that are sent around today, and by performing trading and settlement within the same organisation, costs too can be eliminated"

Pensions

Another distinguishing feature of the Nordic region is that of pensions. By existing independently of company balance sheets, these funds are spared the burden of overwhelming deficits. "In this respect there is no under-funding and there is no doubt where the money is," says Krag. The challenge for pension funds is to generate the profit they have promised. Most pension pots, which workers receive on retirement will consist of the worker's contribution and their employer's contribution.

Core custodians can help pension funds meet their promises by providing value added services such as securities lending and performance measurement.

Full Capability

In addition to alliances, the demand for service providers to cover the main Nordic countries has prompted Denmark's Danske Bank to develop and launch a full Nordic capability for all four markets. "Our market has been working in this direction for several years now," says Christel Leonhard, Securities Services, Sales, Danske Bank. "The changes in the Nordic CSD area in 2005 are also very significant."

The merger of APK and VPC in the last year is regarded as the first step towards post trade consolidation in the Nordic region. "Looking at the Nordic region from outside, there are a lot of differences in CSD terms," says Leonhard. "Transactions are not handled in the same way in each country and the existing CSDs have built their own clearing and settlement systems. There is an opportunity to integrate these systems. The NCSD (Nordic CSD) is working with the Danish and the Norwegian CSDs, but there is no indication that these CSDs will join the co-operation within the near future."

Despite the lack of firm commitment from the VPS and VP, the NCSD intends to create a common settlement solution, called the Nordic Single. "There have been discussions and a lot of ideas being addressed, but nothing has really happened so far, not even between Finland and Sweden. These two CSDs have no preferred system of support and they are still working on individual system platforms."

The NCSD's proposed deadline for platform and infrastructure consolidation is 2008. "Whether Norway and Denmark will be part of this infrastructure is doubtful," says Tom Jensen, Head of Securities Services at Danske Bank. "The outside world perceives the Nordic region as one common market. But although we may look similar we are still very different in that we have four different currencies, four different legislators and four different systems to support our clearing and settlement activities. A

Branching Out - "securities lending is picking up"

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Making it possible

lot of harmonisation has to be achieved before we can move to a Nordic single solution."

Despite existing fragmentation, Danske Bank believes there is great potential to offer value added services to pension funds and other institutional investors. "These funds tend to look for individual service offerings, depending on their size and their internal set up," says Leonhard.

Danske Bank is set up to conduct all processing on one IT platform for all Nordic countries. "We have centralised all processing in Denmark," says Leonhard. "But a single CSD would lessen the need for development costs."

Centralised processing among Nordic securities services providers enables them to quote competitive prices to customers. "This is an advantage for us," says Jensen. "Our clients don't need to wait for a Nordic CSD as we can provide a central processing platform. But a single CSD would save us development costs as we would not have to develop our systems for four CSDs."

"The standardisation of funds is not at the same level as that of equities or bonds"

Further Expansion

The existing perception of the Nordic countries as one region has extended to include the Baltic States. "Many of the clients perceive the Nordic / Baltic area as one area of investment," says Ulf Noren, Head of Client Relations at SEB. "From an SEB perspective, this perception has contributed to 34 new business wins for us in 2005, an increase from 20 in 2004."

As a result of increasing consolidation, the Nordic securities services industry is characterised by razor sharp competition on the fee area. "Our position across all Nordic and Baltic markets has enabled us to keep our gross revenues up," says Noren.

While infrastructure consolidation had a positive impact on providers, post trade consolidation will be kick-started by the integration of Swedish and Finnish CSDs. "We have a very clear regional focus in this regard," says Noren. The NCSD currently uses two settlement systems, namely Newclear and Hexclear. "We hope further integration will occur among these CSDs," says Noren. "To accommodate this integration, we have an investment plan for a future system. The challenge here is to create enough money so that you have something to invest with. This is a volume driven business, which requires that you dramatically increase your assets under custody, the number of transactions and additional business from all geographical regions."

In addition to clearing and settlement, regulations such as Basel 2 will have a significant impact on providers such as SEB. "It is important to ensure we have sophisticated reporting and governance system as this would require less capital to be allocated for the securities services business," says Noren.

To ensure further refinement of local regulation, Sweden and Finland have introduced new corporate acts and new codes of conduct have just been granted for the Baltic States. "These developments have a positive impact on the perception of this region as a whole," says Noren.

Finland also introduced a new tax law in January 2006.

The law is an assimilation of the existing legal structure and current market practice. "It is perceived as a more rigid tax legislation, which will require extra work for custodians," says Noren. "The number of tax reclaims in Finland will increase as a result of the legislation, creating extra work for the tax authorities. Any international participant in the Finnish market will also have an increased workload as a result of resetting systems and account structures and by possibly requiring extra documentation from clients. A more rigid tax regime could be a positive development from a compliance perspective. But getting there is a bit troublesome."

Noting the positive aspects of regulation, service providers have recorded an increased growth rate in national and international investment in emerging markets such as the Baltics. "We have just set up in the Ukraine, which will present an opportunity following changes in the local legislation," says Noren. "In the meantime, our overall challenges include revenue pressure and increasing efficiency. The ability to become more efficient and to attract additional volume is challenging. The other challenge is to ensure you are correctly positioned so that you don't become a victim of disintermediation."

"The Nordic region is expected to become even more liquid, volumes are expected to rise and prices may even decrease"

SEB's strategy is to provide global custody for entities and individuals in the markets where it is present. "We believe there is room for a local/regional global custody provider for the Nordic and Baltic region," says Noren. "We continue to invest offensively into this product and recognise that the competition has become more interesting by the entry of large global custodians in the market. There are areas where it makes sense to co-operate with global custodians but the alliance solution is currently not on our agenda. If we entered an alliance with a global provider, our clients would think that we are giving up global custody, which we have no intention of doing."

Truly Nordic

In order to offer a pan-Nordic solution, DnB NOR, headquartered in Norway, is part of an alliance with Swedbank, OKO Bank and Amagerbanken. The provider has enjoyed impressive rises in volumes of business last year partly due to increased volume at the Oslo Stock

Exchange, which decided to remain independent of existing trading alliances within the Nordic region.

"The decision to remain independent has been very positive for us as we have enjoyed a record year at the Exchange," says Bente Hoem, Head of Global Relations and Business Development at DnB NOR.

Jorgen Krager, Head of Securities Services at DnB NOR, adds: "We have also enjoyed phenomenal index activity and value. Our business has also had a very good year. So far we feel it is good to to stay independent."

The pan-Nordic custody alliance provides foreign investors with a regional product. "So far the medium and smaller clients show more interest in a regional approach than the larger companies," admits Hoem.

"The larger companies believe the region consists of different markets with different regulations and infrastructures. These factors lead them towards the best provider in each market."

"There are areas where it makes sense to co-operate with global custodians but the alliance solution is currently not on our agenda"

The securities lending desk at DnB NOR is currently enjoying success in a rapidly maturing market. Norway is also evaluating the hedge funds industry and whether to allow for the set up of local funds. "The authorities have established a group to analyse hedge funds and they should provide their conclusions within the next six months," says Krager.

While regulations have resulted in major changes in the securities industry, the challenge for providers is to gain economies of scale. "We have to become the preferred provider of custody services in the Nordic region for the foreseeable future," says Krager. "We have made some internal changes in order to prepare for this. Competition among Nordic custody providers is very fierce, which has prompted us to re-organise our securities services division."

DnB Nor has established a new unit, called the Section for Strategy Infrastructure and Business Development, reporting directly to the Securities Services division. The company has recruited and has reinforced its respective operating units for Norwegian and foreign securities processing. "Furthermore, we have recruited new sales and marketing people and are making considerable investments in new systems," says Krager.

DnB Nor is currently enjoying a host of opportunities in the Norwegian pensions industry, particularly the multi-billion pound Norwegian oil fund, which reports a daily increase in investment yield. "In this respect, the challenge is to win more business in order to provide custody and asset management services to this oil fund," says Krager.

The Norwegian authorities have decided on an obligatory pension fund mechanism for all Norwegian companies. Within the next year, these companies will be obliged to have pension fund structures for their employees. These assets have to be invested in the securities industry, creating new possibilities for custody providers.

Alliances

In addition to the local providers, global custodians such as Northern Trust have also recognised the potential in the Nordic pensions and insurance industries. In 2004, the

Johan Wennerberg

provider entered into a custody co-operation with Handelsbanken to provide asset services to all of Folksam Asset Management's $17 billion in insurance assets and mutual funds.

Northern Trust and Handelsbanken worked closely with the regulator, Finansinspektionen, in order to propose and obtain approval of a solution that allows Swedish mutual fund businesses to opt for a global custodian who can also offer trustee services through a local provider.

Apart from the creation of NCSD, Handelsbanken regards the consolidation of the Nordic stock exchanges as one of the most important development in the last year.

"This is a region with many players and we face increasing competition from the global custodians"

Commenting on this development, Johan Wennerberg, Head of Relationship Management at Handelsbanken, says: "The OMX group has been instrumental in this alliance. The group owns the stock exchanges in Denmark, Finland, Sweden and the Baltic region. Their intention is to create a large Nordic market. They want to harmonise listings and trading systems across the Nordic region."

Despite advancements on the trading level, the clearing and settlement infrastructures have a long way to go. "NCSD, which is mainly owned by OMX, Swedbank, Nordea Bank, SEB and Handelsbanken, has instructed an industry group to look at the consolidation of the Finnish and Swedish CSDs. The working groups presented their findings on the APK/VPC consolidation to NCSD in December 2005. We anticipate the release of a White Paper

ALL CHANGE IN FINLAND

The amended Finnish Act on the Taxation of Non-Residents ' Income and Capital became valid became valid on 1 January 2006. The amended law requires the following actions:

i. An appendix to the Custody Agreement to be put in place;
ii. The client's registration into the Foreign Custodian Register in Finland;
iii. The client's confirmation of the tax treaties and their applicability on all existing securities accounts that hold securities belonging to their clients ("Custodial Nominee Accounts").

In order to comply with the amended law, certain Nordic banks have changed their tax rates to non-treaty (28 per cent) on all Custodial Nominee Accounts of our clients as of 1 January 2006. This means that the non-treaty rate will be withheld on all dividends paid by Finnish companies.

The non-treaty rates will stay on the accounts until the full documentation has been completed and the Finnish Tax Authority has approved the Registration Application signed by the client. The registration process may take two weeks.

in March 2006 and we are currently working to set up a solution for the Swedish and Finnish depositories. It will be a few years before we see the final set up but it will drive down costs and will hopefully attract the CSDs in Oslo and Copenhagen to the Group."

To increase the rate of consolidation in the Nordic post trade environment, Wennerberg suggests that the regulators should understand what the securities industry is trying to achieve. In order to satisfy EU regulators, Handelsbanken is heavily focused on the capital adequacy requirements of the Basel 2 directive: "Our bank has focused strongly on Basel 2 in 2005 and this has been one of the biggest projects within our bank in 2005."

Funds

Local Swedish provider Swedbank has reported an acceleration of funds activity in the Nordic region. "Funds continue to grow in number, particularly in the fund of funds and hedge funds area," says Neal Meacham, Head of Custody. "There is a greater awareness of the funds industry."

The growth in the funds industry enables providers such as Swedbank to offer administrative services. "This is an interesting and a challenging area," says Meacham. "The standardisation of

Gross savings in funds, sales, SEK millionby type of fund, sector and period

		Q3 2005
Mutual funds, total	all sectors	62,430
Bond and money market	all sectors	14,296
Money market funds	all sectors	8,551
Bond funds	all sectors	5,745
Equity funds	all sectors	32,564
Mixed funds	all sectors	2,490
Fund-of-funds	all sectors	4,644
Other funds	all sectors	8,435

Source: Statistiska Centralbyran

Payments for sold fundshares. Reinvested dividends included

"Funds continue to grow in number, particularly in the fund of funds and hedge funds area."

funds is not at the same level as that of equities or bonds. We are lagging behind in terms of setting a clear process for all funds." More hedge funds have entered the Swedish market than any other in the Nordic region. "We see new companies coming in to start new funds and among those funds are always a couple of hedge funds," says Meacham. "I do see growth and it continues to move forward."

Meacham believes that the funds industry will demand better standardisation and may move towards providers, which can settle a variety of funds. "But there are still inefficiencies due to the fact that different funds work in different ways. The activities in the post and pre-trade cycle of these funds are very diversified. There is a lot to be done here, but this area presents opportunities for providers who serve this part of the industry."

> "Certain investors prefer to maintain several sub custodians in the Nordics, but we see a drive for consolidation in the Nordic network. Most of the Nordic countries have different market practices and different tax practices."

Funds industry standardisation is currently at the same level as the infrastructure standardisation. "The Norwegians are happy with their situation and they don't see the need to join the Nordic Single, or one depository for the Nordic region. The same is probably true for the Danes. It will be interesting to see how the Nordic Single, which claims to be an infrastructure, will manage to cover all Nordic markets. While the Single comprises two intricate members, there are two entities, which have yet to join."

In addition to the infrastructure challenges, systems development is always a challenge for all providers. But it is important to develop the Nordic Single and to keep abreast of these discussions. We have to get an infrastructure that works. This is a key challenge for us during 2006 and 2007."

Differences

Commenting on the differences in securities law and market practice in the Nordic region, Anne-Lise Kristiansen, Head of Sub-Custody at Nordea says: "Certain investors prefer to maintain several sub custodians in the Nordics, but we see a drive for consolidation in the Nordic network. Most of the Nordic countries have different market practices and different tax practices."

Nordea is a member of the regional group, which is currently making suggestions on the standardisation of Nordic market practices. "The group has commenced work in Sweden and Finland," says Kristiansen. "This is a huge project, which will take a lot of time and resources. The Nordic region will evolve into a single market but in order to arrive at a true Nordic solution or CSD it is important to secure the participation of Denmark and Norway."

Although the Nordic countries have different currencies and different regulations, the pan-Nordic SAXESS trading platform has proved that market harmonisation is possible. "The trading infrastructure is already harmonised and SAXESS is used in all Nordic markets with the same trading rules," says Kristiansen. "This is beneficial for clients who wish to use one system for the whole region. This situation brings down costs for remote members in this region. But we need to put more pressure on post trade harmonisation."

Amidst the infrastructure consolidation, competition and price pressures have become even fiercer. "Clients have been the drivers of revised and clarified strategies for Nordea's sub and global custody business. This is a region with many players and we face increasing competition from the global custodians."

The harmonisation of the Nordic securities market is an opportunity for providers such as Nordea. "We will work towards further harmonisation of the Nordic securities market on the CSD level," says Kristiansen. "The Nordic region is expected to become even more liquid, volumes are expected to rise and prices may even decrease. Clients also want to see value for money but I think we've reached a good level here. These points will make the Nordic region very attractive for foreign investors when the market becomes more liquid, volumes grow and more harmonisation occurs between markets. This presents a great opportunity for a Nordic bank like Nordea. It's also important to be a bank with the local expertise in each market because for now these markets are quite different."

ISJ

"in order to arrive at a true Nordic solution or CSD it is important to secure the participation of Denmark and Norway"

With the inevitibility of further consolidation in the Nordic trading arena, investors may wish to combine routing and custody services in the Nordic market.

Christel Leonhard explains why

Combine and Conquer

One stop for order routing and custody services in the Nordic market

Traditional wisdom says divide and conquer, but with trends in trading over the past few years tending towards characterisation of the Nordic region as one market, combine and conquer may be more appropriate.

The exchanges in Stockholm, Helsinki and Copenhagen are all part of the OMX Exchanges, and all, including Oslo Børs, operate on the SAXESS trading system.
Trading activities across these markets grew significantly in 2005 as 66 new companies were listed on the exchanges.

In October 2006, the OMX Exchanges will launch a Pan-Nordic stock list, which is expected to intensify the focus on the Nordic market. This is why combining order routing and custody services in the Nordic market make such good sense.

One market – one service

Order Routing to the Nordic market enables banks to facilitate and automate the execution of equity trades with straight through processing. Combined with settle-ment, clearing and the other custody services, an end-to-end automation of time-consuming processes is achieved, thereby eliminating the risk of costly errors. The fully automated processes are especially advantageous for servicing retail clients using an online trading platform.

In effect, clients of Danske Bank obtain access to trade on all four Nordic markets via our order routing trading system. This means that our clients (banks, brokers, investment companies and portfolio managers) have direct access to trade on the Stock Exchanges (DMA) in the name of Danske Bank. This solution enables clients to place market and limit orders directly on the market.

Christel Leonhard

Danske Bank enjoys a dominant trading position in the Nordic markets. Our top rated Nordic research organisation utilises local insight in a global context to help wholesale clients provide their retail segment with top-notch services.

How does it work?

BANK XYZ clients' submit trade orders in the Nordic markets either by phone or online. These orders, sent via a secure network provider, are passed onto Danske Bank's Order Management System, which routes them onto the Nordic Stock Ex-changes. Execution reports and order status messages are sent via the same net-work back to BANK XYZ. The subsequent clearing and settlement of executed trades are handled through the Nordic CSDs, NCSD, VPS and VP, to which Danske Bank is directly linked.

One platform – one entry point

Providing Nordic custody services based on one IT platform with direct links to central securities depositories and central banks in the Nordic markets is a unique strategy. And Danske Bank is the only Nordic bank able to provide its customers with direct access to services in the Nordic countries through a single, shared IT platform including a single point of entry for settlement and direct service.

Danske Bank’s custody functions and services include:

- Custody & Settlement
- Income Collection
- Corporate Actions
- Proxy Voting
- Tax Reclaims
- MIS Reporting
- Fact Sheets on products and markets
- News Service

All core services are based on ISO 15022 SWIFT messages and formats are stan-dardised across all markets.

> The fully automated processes are especially advantageous for servicing retail clients using an online trading platform

The one-stop advantage

The technology and services that link trading and custody can eliminate costly er-rors and dramatically reduce time-consuming processes. With Danske Bank’s combined order routing and custody services, executing retail equity trades, settlement and clearing are now fully automated, fast and reliable.

Christel Leonhard
- Head of Sales, Securities Services, Danske Bank.
Christel Leonhard is head of Sales in Securities Services since November 2005. She has been with Danske Bank since 1984, and before joining the Securities Services area she held various positions in Danske Markets including Sales of FX/Derivatives and Marketing of Danske e-Markets. She holds a MBA in E-Management (2001).

OMX’s Nordic List to be launched on October 2, 2006

Following the harmonization of trading rules and systems created by the new pan-Nordic list, the Nordic List, large investment banks and brokerage firms are expected to benefit greatly. The Nordic List creates more opportunities for investors too.

By creating a common list and presentation model the visibility and liquidity of Nordic shares will be improved and the competitiveness of the Nordic region enhanced.

“OMX's aim with the Nordic List is to facilitate for market participants to operate in the Nordic market and for investors to benchmark Nordic investment opportunities. The Nordic List will attract even more investors and more capital to the region. This will benefit our listed companies, regardless of whether they are large or small”, says Jukka Ruuska, President of the Nordic Marketplaces at OMX.

Finnish Kim Lindström, an active investor, believes that a pan-Nordic marketplace would be a suc-cess.

“For foreign investors, liquidity is the key and a pan-Nordic stock exchange would have a better liquidity than, for example, the Helsinki Stock Exchange. That would, in turn, attract more capital into the stock market, pushing the price level up.”

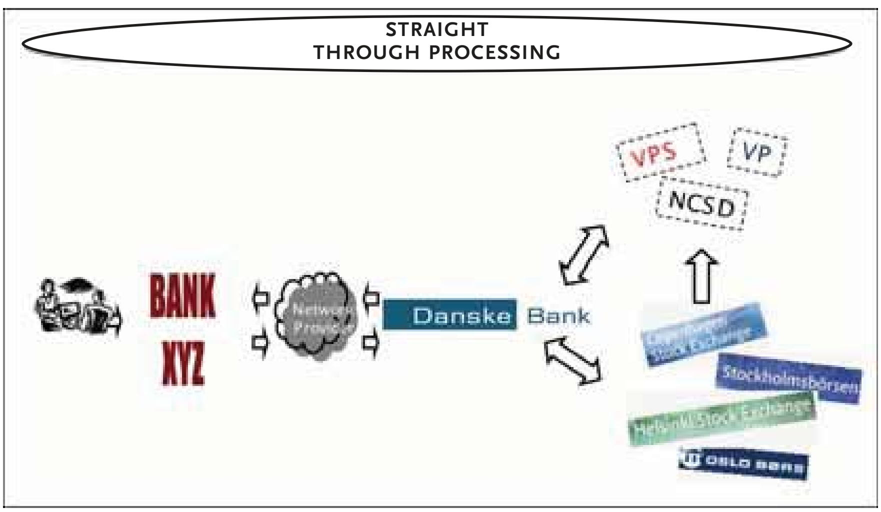
Lindström offers this advice: “Get ready for the Nordic List now and start getting acquainted with the big Nordic companies.”

OMX is a leading expert in the exchange industry. As owner and operator of the Nordic Exchange in Copenhagen, Stockholm, Helsinki, Riga, Tallinn and Vilnius, OMX offers access to approximately 80 percent of the Nordic and Baltic securities market.

OMX’s integrated technology solutions span the entire transaction chain enabling efficient securities transactions for exchanges, clearing organizations, central securities depositories and other financial institutions around the world.

OMX is listed on the Nordic Exchange in Stockholm, Helsinki and Copenhagen. For more information please visit www.omxgroup.com.

The Nordic Order Routing Flow



R&M Global Custody Survey 2006

Based on thorough consultation with pension funds and institutional investors, ISJ and R&M Surveys present an in-depth results from the Global Custody Survey 2006

Welcome to the ISJ/R&M Global Custody Survey 2006. ISJ and R&M have partnered to explore areas of mutual interest and to build on the existing value of surveys to the securities services industry. The Global Custody Survey 2006 builds on last year's R&M Global Custody Survey with new features, such as a Third Party Fund Administration Survey, and analysis. With nearly 17 per cent more responses than last year, this survey, now in its 14th year, is clearly reaching a wide audience. It is recognised by all the major custodians as being highly influential. It is studied by many investment managers and asset owners, curious to see if their views are matched by that of the survey results. It is often used in service reviews with providers. And let's not forget the consultants and intermediaries who use the results in their research.

The Tables - Overall Scores for Providers

So what do the tables tell us? They give us an idea of how well, or not, each bank is performing relative to the others. They compare results to previous years to identify trends. They measure the opinions and views of a diverse range of clients from around the world.

Survey Criteria 2006

1. The minimum number of responses to qualify for entry into the survey is 30 from any type of client.
2. At least 10 of the responses must come from independent (third party) investment managers dealing with more than three global custodians. A manager with both direct and indirect relationships with a custodian will qualify under these criteria.
3. The overall results table will identify (with symbols linked to the custodian's name) in how many geographic regions the custodian received the minimum number of responses. The minimum for each region (except ROW) is 10. The four regions are North America; UK; Continental Europe; Rest of the World (min. responses required 5). A custodian may qualify for inclusion in the overall survey even if all their responses come from the same geographic region.
4. Responses from investment managers within a related organisation are ONLY allowed if they submit responses for at least two of the other major custodians they deal with. e.g. Mega Bank Asset Management can assess Mega Bank Global Custody provided that they also assess two other custodians as well.
5. The survey covers global custody only. This is defined as holding securities for a client in a minimum of 5 different foreign markets – the definition of foreign being neither the country of the client nor the country of the location of the custodian. For example a Swiss pension fund holding UK assets with Mega Bank in London would not qualify. A Swiss pension fund holding Italian, French, US, Japanese and UK assets with Mega Bank in Zurich would qualify.

R & M reserve the right to check responses with the submitter and to withdraw responses if it feels the objectivity of the respondent is not sufficiently impartial.

All participants in the Swiss market have seen an improvement in their scores – so the overall positions have not changed from last year.

	Overall Ranking	2006	2005	Change	Regions qualified (4 regions)
1	RBC Dexia Investor Services (1)	6.18	6.11	0.07	* * *
2	Pictet (5)	6.00	5.77	0.23	* *
3	Soci□t□ G□n□rale (2)	5.98	6.08	-0.10	*
4	UBS AG (4)	5.95	5.83	0.12	*
5	Mellon Group (3)	5.91	5.85	0.06	* * *
6	Northern Trust (8)	5.67	5.66	0.01	* * * *
7	Brown Brothers Harriman (6)	5.66	5.72	-0.06	* *
8	BNP Paribas SS (7)	5.59	5.70	-0.11	*
9	HSBC SS (9)	5.58	5.57	0.01	* *
10	Credit Suisse Asset Management (11)	5.39	5.29	0.10	*
11	JP Morgan (12)	5.34	5.23	0.11	* * *
12	Bank of New York (10)	5.30	5.41	-0.11	* * *
13=	Citigroup (13)	5.18	5.22	-0.04	* * *
13=	State Street (14)	5.18	5.07	0.11	* * * *

What they do not tell us is how big each bank is or how sophisticated their product range or how diverse their client base. You, the reader, must bear this in mind when considering the results.

You may need a provider that has a broad range of products. You may want to give your business to an indigenous bank. You may feel a broader banking relationship is important. These factors and many others are considered when looking at the complexities of Investor Services. So bearing all this in mind let us take a look at the results.

For the third consecutive year the overall average score remains at 5.56 – suggesting that the status quo in the

Geographical Analysis

industry has remained, at least in terms of service delivery. Within that apparently static environment there has been a number of changes – snakes and ladders - with some banks going up and others down. No bank remained on the same score as last year. Last year's headline "let's re-arrange the deckchairs" remains just as valid!

Most Improved

Pictet of Geneva reversed the trend of the last two years and became the most improved bank with an overall score of 6.00 up 0.23 over last year putting them into 2nd place.

	Most improved	2006	2005	Change
1	Pictet (13)	6.00	5.77	0.23
2	UBS (6=)	5.95	5.83	0.12
3	State Street (14)	5.18	5.07	0.11
4	JP Morgan (10)	5.34	5.23	0.11
5	Credit Suisse Asset Management (5)	5.39	5.29	0.10
6	RBC Dexia Investor Services (6=)	6.18	6.11	0.07
7	Mellon Group (3=)	5.91	5.85	0.06
8	HSBC SS (2)	5.58	5.57	0.01
9	Northern Trust (1)	5.67	5.66	0.01
10	Citigroup (3=)	5.18	5.22	-0.04
11	Brown Brothers Harriman (11)	5.66	5.72	-0.06
12	Soci□t□ G□n□rale (9)	5.98	6.08	-0.10
13	Bank of New York (6=)	5.30	5.41	-0.11
14	BNP Paribas SS (12)	5.59	5.70	-0.11

Taken from 'Bank Overall and most improved

UK		2006	2005	Change
1	RBC Dexia Investor Services (1)	6.33	6.16	0.17
2	Pictet (4)	5.96	5.54	0.42
3	Brown Brothers Harriman (5)	5.68	5.42	0.26
4	Northern Trust (3)	5.6	5.55	0.05
5	HSBC SS (2)	5.44	5.6	-0.16
6	Mellon Group (8)	5.37	5.2	0.17
7	JP Morgan (7)	5.32	5.27	0.05
8	Citigroup (9)	5.28	5.11	0.17
9	Bank of New York (6)	5.12	5.34	-0.22
10	State Street (10)	5.03	5.01	0.02

Taken from Bank Geographic & no. of responses for regional qualification

North America		2006	2005	Change
1	Mellon Group (1)	6.00	5.97	0.03
2	RBC Dexia Investor Services (2)	5.97	5.95	0.02
3	Northern Trust (4)	5.89	5.86	0.03
4	Brown Brothers Harriman (3)	5.76	5.92	-0.16
5	JP Morgan (7)	5.62	5.26	0.36
6	Bank of New York (6)	5.37	5.34	0.03
7	State Street (5)	5.27	5.35	-0.08
8	Citigroup (8)	4.95	5.03	-0.08

Continental Europe		2006	2005	Change
1	Mellon Group (1)	6.34	6.34	0.00
2	RBC Dexia IS (2)	6.18	6.25	-0.07
3	HSBC SS (-)	6.05	-	
4	Soci□t□ G□n□rale (3)	5.99	6.08	-0.09
5	Pictet (4)	5.96	5.85	0.11
6	UBS AG (5)	5.95	5.83	0.12
7	BNP Paribas SS (6)	5.65	5.77	-0.12
8	Bank of New York (9)	5.60	5.67	-0.07
9	Northern Trust (-)	5.43	-	
10	CSAM (9)	5.37	5.26	0.11
11	Citigroup (8)	5.34	5.52	-0.18
12	State Street (-)	5.32	-	
13	JP Morgan (10)	4.92	5.14	-0.22

Pictet have always featured at or near the top of this survey since its inception and this year shows a return to form that they and their clients will no doubt be pleased to see.

RBC Dexia Investor Services, the new joint venture that was launched at the beginning of this year, also showed an improved score and takes first place matching the achievement of RBC Global Services last year. Most of the data gathering for the survey was conducted before the launch, consequently relatively few responses were received from former Dexia clients. No doubt that will change next year.

The second most improved score was another Swiss participant, UBS, who retained their 4th place by edging past Mellon Group. This has been a consistent trend of improvement from them during the five years of their involvement in the survey.

Taking equal positions as the third most improved banks are J P Morgan and State Street.

For J P Morgan this exactly reverses last year's decline whereas for State Street they still have some way to go, this year's score bringing them back to where they were in 2003. At least the trend is in the right direction.

Next most improved was Credit Suisse Asset Management Zurich who built on last year's small gain with a bigger one this year of 0.10 giving them their highest overall score since 2002.

Mellon, already high up the rankings compared to its peers, had another year of gains too, putting themselves tantalisingly within reach of an overall 6.00. This marks their 6th consecutive year of improving their score – an achievement that can only be matched by RBC (if you include this year's results of the new joint venture).

Finally the only two other banks to improve their scores (by 0.01 each) were HSBC and Northern Trust.

The remaining banks all had scores that were lower this year. Brown Brothers Harriman declined by 0.06 which means they are still ahead of their 2003 score but have declined for the second consecutive year.

In third place overall comes Société Générale with a score that has declined for the second year running, bringing them below 6.00. This is still a strong performance; it is just that the trend is in the wrong direction.

Bank of New York declined by 0.11, reversing their stronger performance of the last two years but still ahead of their 2003 score. BNP Paribas also declined by 0.11, but still recorded their third highest overall score in the survey.

Rest of the World		2006	2005	Change
1	Northern Trust	5.63	5.88	-0.25
2	State Street	5.03		

Taken from Bank Geographic & no of responses for regional qualification

The geographical break out of scores shows that the UK remains the toughest market in which to operate with average scores well below those of Continental Europe and North America. The rest of World table is small as only two banks qualified for inclusion, which is a little disappointing. All participants in the Swiss market have seen an improvement in their scores – meaning that the overall positions have not changed from last year. For the first time we are able to produce a table covering the Canadian market, showing the relative positions of the two dominant market players. The asset manager category is broken down into two constituent parts – direct and third party. The former is where an investment manager has a relationship with a custodian that he has selected and for which he pays the fees. The latter is for investment managers where the custodian is appointed by a mutual third party client such as a pension fund, who pays the fees. There are many large investment managers who maintain both types of relationship with any given custodian. They are classified in the third party (and "both") group.

Asset Managers		2006	2005	Change
1	UBS AG (4)	6.13	5.75	0.38
2	RBC Dexia Investor Services (2)	6.09	6.05	0.04
3	Pictet (7)	6.07	5.66	0.41
4	Société Générale (1)	5.90	6.12	-0.22
5	Mellon Group (3)	5.88	5.77	0.11
6	Brown Brothers Harriman (5)	5.68	5.73	-0.05
7	Northern Trust (8)	5.61	5.63	-0.02
8	HSBC SS (9)	5.50	5.40	0.10
9	Credit Suisse Asset Management (10)	5.42	5.39	0.03
10	BNP Paribas SS (6)	5.40	5.67	-0.27
11	Bank of New York (11)	5.40	5.32	0.08
12	JP Morgan (12)	5.25	5.17	0.08
13	Citigroup (13)	5.21	5.07	0.14
14	State Street (14)	5.11	5.00	0.11

Asset Owners		2006	2005	Change
1	RBC Dexia Investor Services	6.57	6.59	-0.02
2=	BNP Paribas	6.24	5.75	0.49
2=	Société Générale	6.24	6.06	0.18
4	Mellon Group	6.05	5.88	0.17
5	Pictet	5.97	6.16	-0.19
6	UBS AG	5.88	5.88	0.00
7	Northern Trust	5.76	5.74	0.02
8	HSBC	5.75	5.85	-0.10
9	JP Morgan	5.56	5.33	0.23
10	Credit Suisse Asset Management	5.38	5.21	0.17
11	State Street	5.35	5.35	0.00
12	Bank of New York	4.97	5.61	-0.64

Third Party Adminstrators /Outsourced Providers		
1	Northern Trust	5.84
2	HSBC SS	5.39
3	BNP Paribas SS	5.30
4	Mellon Group	5.17
5	State Street	5.08
6	JP Morgan	5.03
7	Citigroup	4.95
8	Bank of New York	4.78

Qualifying Respondents		Europe	N.America	ROW	UK	2006	2005	Change
1	Mellon Group	17	77	2	30	126	117	9
2	State Street	15	29	17	56	117	64	53
3	Northern Trust	15	30	5	48	98	77	21
4	Bank of New York	16	20	2	41	79	97	-18
5	J P Morgan	16	23	3	37	79	68	11
6	HSBC SS	17	6	1	52	76	60	16
7	RBC Dexia IS	10	15	2	25	52	54	-2
8	Credit Suisse AM	49	0	0	2	51	45	6
9	Pictet	34	4	2	11	51	38	13
10	Citigroup	12	18	0	19	49	53	-4
11	Société Générale	42	0	0	2	44	35	9
12	Brown Brothers Harriman	3	19	2	16	40	34	6
13	UBS AG	40	0	0	0	40	33	7
14	BNP Paribas SS	35	0	0	4	39	42	-3
	Denotes qualifying region							
	Total number per region	321	241	36	343			
	Total number of respondents					1004	854	

Includes 63 for 'other' iin 2006 and 37 for 'other in 2005 custodians

Geographical Analysis	Regional Average Score	2006	2005
1	Europe (2)	5.67	5.69
2	N. America (3)	5.62	5.66
3	ROW (1)	5.55	5.76
4	UK (4)	5.39	5.38

Swiss Respondents		2006	2005	Change
1	Pictet (1)	5.99	5.88	0.11
2	UBS AG (2)	5.95	5.83	0.12
3	Credit CSAM (3)	5.36	5.26	0.10

To Weight or Not to Weight

Some industry surveys like to complicate matters by using mathematical formula to weight the results based on criteria such as the number of responses received or the value of assets under custody. This is like saying that McDonald's hamburgers must taste nicer because they serve 50 million customers a day. Or, to put it another way, it's the same as increasing the value of a person's electoral vote if they live in a house worth more than the national average. Or decreasing it if it is worth less. The 1867 Reform Act stopped that practice in the UK. We believe that weighting results in such a manner adds no useful interpretation to the survey. Indeed it is a distortion. We assume a level of knowledge in our audience and that it is able to distinguish between global and regional players, specialist providers and generalists. We believe a more intelligent way of presenting the results is to segment the results according to different criteria – the client type, geographic location and by size. Hence the following table looks at the results from clients with assets in excess of $10bn with one custodian.

	Clients over US$10bn	2006	2005	Change
1	Mellon Group (2)	5.85	5.78	0.07
2	BBH (1)	5.74	5.80	-0.06
3	Northern Trust (3)	5.65	5.71	-0.06
4	BNY (4)	5.31	5.33	-0.02
5	JPMorgan (5=)	5.30	5.31	-0.01
6	HSBC SS (7)	5.27	5.23	0.04
7	State Street (8)	5.00	5.10	-0.10
8	Citigroup (5=)	4.86	5.31	-0.45

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CUSTODIAN SURVEY PROFILES

BNP Paribas Securities Services
About the Company: BNP Paribas Securities Services is one of the leading European providers of securities services and investment operations solutions. BNP Paribas offers clients the benefits of global scale & local market expertise, together with a commitment to innovation and excellence in client service.
Key Services - Local Clearing and Custody, Derivatives Clearing, Global Custody, Fund Administration, (Middle-Office) Outsourcing, Performance Measurement and Analytics, Transfer Agency, Fund Compliance and Trustee Services
Retail Account Administration, Securities Financing, Cash Financing, Foreign Exchange, Shareholder Services, AGM Management, Employee Share and Stock Option Plans, Global Corporate Trust
Total Assets under custody - EUR 3060 billion (EUR 3.06 trillion) at 31/12/05
Annual Performance / Turnover - Net banking income (ie revenue) EUR 725 million in 2005.
Service Centres - BNP Paribas Securities Services has a presence in 17 countries and global custody operations and/or service centres in 8: Dublin, Frankfurt, Jersey, London, Luxembourg, Madrid, Milan, Paris.
Service Structure - BNP Paribas operates a unique global custody model that combines the processing scale of centralised operational platforms with 'front-end' client support and other services that require a local market presence.
Number of Securities Services staff - 3,750 at 31/12/05

Northern Trust
About the Company: Northern Trust Corporation is a leading provider of asset and fund administration, investment management, fiduciary and banking solutions for corporations, institutions and affluent individuals worldwide.
Key Services - The custody and value-added services provided by Northern Trust include the following: -Safekeeping, Trade settlement, Income collection, Tax reclamation, Corporate action processing, Proxy voting, Derivatives processing, Foreign exchange, Cash management, Portfolio accounting, Hardcopy reporting, accounting, valuations, On-line reporting and accounting, valuations, Unitisation, Financial accounting, Regulatory reporting, Investment policy monitoring, Securities lending, Performance measurement analytics, Risk management tools and services, Transition Management, Client servicing, Investment manager liaison, Multinational head quarters reporting, Master custody, Market information, Investment Operations Outsourcing, Cross-border Pooling, Commission Recapture
Total Assets under custody - US$2.9 trillion.
Annual Performance / Turnover - net income and total revenues of Northern Trust were US$ 584.4 million and US$2,686.1 million respectively (during the full year ended 31 December 2005)
Service Centres - Beijing, Chicago, Dublin, Guernsey, Hong Kong, Isle of Man, Jersey, London, Luxembourg, New York, Singapore, Tokyo and Toronto.
Service Structure - Northern Trust is focused on servicing two main client types through its institutional and personal financial services channels. Northern Trust serves these two main client types through its three principle business areas: Asset servicing, Asset management and Wealth management and private banking
Number of Securities Services staff - 9,000 full time staff

Societe Generale Securities Services
About the Company - Societe Generale Securities Services currently ranks 3rd among securities custodians in Europe and 10th worldwide with EUR 1,418 billion assets under custody (Dec 2005). Societe Generale Securities Services provides via its Investor Services business unit custody & trustee services to around 2,289 funds. Its dedicated fund administration subsidiary Euro-VL provides valuations for 3790 funds representing EUR 270 billion of assets under administration (Dec 2005).
Key Services - Global Custody and Trustee & Depositary Services, Fund Administration Services, Transfer Agency Services
Total Assets under custody - 1418 Billions EUR (as at end of dec 2005)
Annual Performance / Turnover - SGSS turnover - not disclosable
Service Centres - Paris, Luxembourg, Dublin, Frankfurt, London, Madrid, Athens, Warsaw, Johannesburg
Service Structure - Global Custody and Trustee & Depositary services, Fund administration services, Transfer Agency services
Number of Securities Services staff – more than 1800 for Investor Services, over 3500 for SGSS

RBC Dexia Investor Services
About the Company - RBC Dexia Investor Services offers a complete range of investor services to institutions worldwide. Established January 2006, we are a joint venture equally owned by Royal Bank of Canada and Dexia. We rank among the world's top 10 global custodians, with approximately US$2.0 trillion in client assets under custody*.
Key services - RBC Dexia Investor Services provides clients an extensive range of solutions including: global custody, fund and pension administration, shareholder services, distribution support, reconciliation services, transition management, investment analytics, compliance monitoring and reporting, securities lending and borrowing, treasury services and commission recapture.
Total Assets under custody - Approximately US$2.0 trillion (€1.65 trillion) in client assets - Includes in-house assets of Royal Bank of Canada (as at October 31, 2005) and Dexia (as at September 30, 2005)
Service Centres - North America, Canada, Cayman Islands, Australia, Hong Kong, Singapore, Belgium, France , Ireland, Italy, Luxembourg, Netherlands, Spain, Switzerland, United Arab Emirates, United Kingdom
Number of Securities Services staff - 3, 800

Pictet - Founded in Geneva in 1805, Pictet is today one of Switzerland's largest private banks, with assets under management and custody totalling more than USD 198 billion (of which over USD 136 bn of assets under management). Moreover, it is considered as one of the leading independent asset management banks in Europe. The Bank is a partnership owned and managed by eight general partners with unlimited liability for the bank's commitments.
Key Services: Private Banking, Asset Management, Global Custody, Services to Independent Asset Managers, Family Office, Investment Funds
Total Assets under custody – USD 62 bn
Service Centres - Lausanne, Zurich, Frankfurt, London, Luxembourg, Florence, Milan, Turin, Madrid, Paris, Nassau, Montreal, Singapore, Hong Kong and Tokyo.
Number of staff – 2,000

State Street State Street's is the world's leading provider of financial services to institutional investors. Our broad and integrated range of services spans the entire investment spectrum including research, investment management, trading services and investment servicing. By using any combination of these services, our customers can deliver more value to their clients, control costs, launch new products and expand globally.
Key Services Fund accounting, custody, securities lending, and reporting to institutional investors around the world.
Total Assets Under custody - USD 10.1 trillion
Annual Performance / Turnover - State Street Corporation announced 2005 fourth-quarter earnings per share from continuing operations of $0.74, or net income of $249 million and revenue of $1.4 billion. Revenue, including taxable-equivalent net interest revenue, is up 10%, from $5.0 billion in 2004 to a record level of $5.5 billion in 2005.
Service Centres - State Street has offices in 26 countries servicing more than 100 markets worldwide. Countries we are located in are: Australia, Austria, Belgium, Canada, Cayman Islands, Chile, France, Germany, India, Ireland, Italy, Japan, Luxembourg, Mauritius, Netherlands, New Zealand, People's Republic of China, Singapore, South Africa, South Korea, Switzerland, Taiwan, Thailand, United Arab Emirates, United Kingdom, United States.
Service Structure - Investment Servicing, Investment Management, Investment Research and Trading
Number of Securities Services staff - Over 18,000

HSBC HSBC Securities Services (HSS) provides a full range of securities services to clients worldwide. HSS is a part of Global Transaction Banking, a division of the Corporate, Investment Banking and Markets business line of the HSBC Group. Serving over 110 million customers worldwide, the HSBC Group has over 9,700 offices in 77 countries and territories. HSBC has been in the global custody business for over 100 years and HSS achieved an AA rating from independent industry consultant group Thomas Murray in 2005.
Key Services - Global custody, Fund administration, Securities lending, Transaction cost management, Transition management, Treasury and cash management, Trustee and depositary services, Outsourcing services, Foreign exchange Sub-custody, Performance measurement
Total Assets under custody - US$3,242 billion at 31 December 2005 (for HSBC SS)
Annual Performance / Turnover - Unable to publish
Service Centres - London, Edinburgh, Dublin, Isle of Man, Channel Islands, Paris, Dusseldorf, Luxembourg, Kuala Lumpur, Hong Kong, and direct agents in 47 other markets.
Service Structure - Regional hubs and local service centres.
Number of Securities Services staff Approximately 3,600

When analysing the various merits of Dublin and Luxembourg, the notion of competing domiciles appears to have disappeared.

ISJ analyses each centre

Centres of Strength

The paths of Luxembourg and Dublin, two of the world's largest fund centres have become increasing divergent over the last few years. While the former domicile is ideally positioned for targeting fund managers in continental Europe, it is also easy to sell Dublin products to the UK institutional market. Dublin has had more expertise in servicing the hedge funds and alternative funds whereas Luxembourg may have more expertise in the core retail, private equity and real estate funds.

Luxembourg's proximity to asset managers in continental Europe is complimented by a host of language sets. For example, in JPMorgan's Luxembourg operations, the number of languages spoken is currently 24. "For these reasons, Luxembourg is an attractive option for European asset managers," says Richard Warne, Head of Client Management for JPMorgan Worldwide Securities Services in EMEA.

In addition to the UK Dublin has the advantage of being closer to the US and has had strong cultural ties to the Continent. "Even historically, the clients who approached providers in Dublin were US fund managers who wanted to move into the centre. But a couple of these asset managers have chosen Luxembourg, in order to be seen as being more European."

Dublin and Luxembourg are both governed by laws emanating from the European Union. "These laws are differently interpreted by each domicile," says Warne. "The authorities in both centres are open to talking with providers about how new products can be introduced. Both regulators are very efficient and are supportive of new fund styles, including money market funds."

Luxembourg recently abolished the tax d'abonnement, which means zero tax on commissions and returns for money market funds. When money-market funds were first launched in Europe, Luxembourg subscription tax made Dublin was the obvious choice of domicile, but the tables have turned since the abolition of the tax d'abonnement in Luxembourg.

Both Luxembourg and Dublin face the challenge of recruiting talented staff to serve the evolving funds arena. "Luxembourg can draw on resources from a broader range of neighbouring countries. Dublin is also meeting the challenge of attracting good staff," says Warne.

In order to support their evolving investment funds industries, Dublin and Luxembourg are currently automating processes. "This challenges applies to all financial services industries in Europe," says Warne. "There is no NSCC equivalent in Europe, which makes fund processing quite difficult. While the NSCC creates efficiencies in the area of mutual fund processing, the situation in Europe is a lot different. There are different distribution channels and different processing platforms which makes things slightly more complex."

Credit Agricole Caisse D'Epargne Investor Services also perceives Dublin as being oriented towards institutional investors, whereas Luxembourg is oriented towards pan-European, cross border and retail distribution. "Luxembourg is emerging as the hub for cross border distribution," says Claude Michaux, Senior Marketing and Communications Manager.

"For promoters who wish to distribute their product into a country other than the home country, Luxembourg is the preferred location. On the other hand, Dublin is the preferred choice for hedge funds and funds of hedge funds. By definition, these funds are aimed at institutional investors."


Richard Warne

Regulatory authorities in Luxembourg and Dublin are very attentive towards the needs of the local funds industry. "They listen carefully to all service providers and to other major players. There are very few differences in the regulation of Luxembourg and Dublin," says Michaux. "Both centres are quite proactive, reactive and extremely flexible. These characteristics are very evident when it comes to implementing new EU regulations. The regulators react extremely quickly in implementing new directives. Dublin and Luxembourg are both highly regulated markets. Know-your-customer and anti-money laundering rules are very prominent in these two highly regulated fund centres."

Both fund centres are faced with the challenge of attracting and retaining staff. "Recruitment becomes more complicated as the funds industry becomes more sophisticated," says Michaux. "Recruitment is Luxembourg's main advantage. This is perhaps why the centre is regarded as a hub for cross border distribution. People in Luxembourg speak three or four different languages, which presents an important competitive advantage. But an English asset manager or promoter, which does not intend to have a pan-European distribution strategy, may be more tempted by the Dublin market."

The Local Perspective

According to Fearghal Woods, Director, Head of Business Development
Bank of Ireland Securities Services, Dublin has come a long way in terms of the quality of services. "Certainly in the last 10 years, Dublin has emerged as a high quality centre. It is a regulated centre and the business carried out here is done so in a regulated environment. The combination of a high quality, servicing environment and a regulated environment is a big attraction for a lot of the managers. The cost of doing business in Dublin is much better than it was 10 years ago."

Dublin implemented the Investment Funds Companies and Miscellaneous Provisions Act in June 2005. This introduced primary legislation for the Common Contractual Fund Structure, which allows people to enter a pooled investment vehicle while retaining their individual status. "In the long term, Dublin will benefit significantly from that arrangement but it is a slow moving space," says Woods. "A lot of the pension funds and corporates who may use the framework have a lot to do before they get to the stage where they will sponsor it. The opportunity and the framework is there, but it is going to take some time to educate pension fund trustees and consultants about the benefits of using that infrastructure. It is a slow moving space but it has been the single best development for us over the last year."

Dublin is also affected by the European Union Savings Directive, UCITS 3 and IFRS. These directives require resources to ensure providers can implement them. "UCITS 3 led to a lot of changes in clients' documentation in order to leverage some of the benefits," says Woods. "We had to ensure we could meet all the requirements of structures as they upgrade to the UCITS 3 framework."

Bank of Ireland Securities Services provides services to ETFs, which a rapidly growing asset class. "ETFs have grown significantly over the last couple of years and have done very well for our underlying clients," says Woods. "The multi manager structures have become more prominent in Dublin. Clients gather assets while appointing the best-in-class asset manager in each market segment. A lot of these structures have been established and a couple of our clients have been successful here."

BOISS also has a hedge fund servicing business, which was extended from serving the hedge fund requirements of its existing client based to third parties on a hedge-fund only basis. In tandem with the growth of multi manager and ETF structures, a lot of the boutique managers are setting up alternative funds, including private equity funds. "The influx of new products on the alternative asset area is not exclusive to Dublin and we have seen a lot of non-domiciled business in Ireland," says Woods. "Alternative structures are based in Cayman but are administered from Dublin."

"The authorities in both centres are open to talking with providers about how new products can be introduced"

Recruitment

Service providers believe the issue of staff turnover overstated to an extent. "The funds industry has a very good profile and the government is aware of its contribution to the economy," says Woods. "The funds industry in schools and universities is still a relatively new concept and there is not a clear understanding of what actually happens. People tend to enter the industry through word of mouth. People are aware of our industry. We have ties with universities and offer specific workshops and graduate placement programmes with them.

"Attracting people is not an issue, it is simply a matter of putting the time in to educating them about what our business involves and attracting them in this way. I'm not sure the turnover rate is as high as some might suggest. There has been a lot of consolidation and a number of new providers in Dublin have established themselves in the last two years. This has encouraged some of the turnover rate but I wouldn't say it has been high. We just need to be more conscious of how we attract good quality people."

To its advantage, European Fund Administration in Luxembourg has recruited staff from a variety of neighbouring countries. "We have people with very different profiles in terms of culture and language skills," says Christophe Lentschat, Head of Product Development and Marketing. "This is very important for a distributor of funds on a pan-European basis."

EFA's approach to regulation is very positive. "In the past, we have been able to combine an approach that is rigorous

Total Funds Administered in Ireland

Year	Net Asset Value of Irish And Non-Irish Registered Funds	Year on Year Growth in Net Asset Value
June 1998	100bn EUR	
June 1999	158bn EUR	58%
June 2000	289bn EUR	83%
June 2001	408bn EUR	40%
June 2002	434bn EUR	6%
June 2003	489bn EUR	13%
June 2004	627bn EUR	28%
June 2005	786bn EUR	25%

Source: IFSRA, Lipper Fitzrovia Dublin Encyclopaedia

Alternative Investment Funds in Dublin 2003-2005

	March 2003	June 2005	% Increase
Number of Funds (Including Sub Funds)	2113	3020	43%
Net Asset Value (US$ bn)	199	474	138%

Source: Dublin Funds Industry Association enough to guarantee the security of the investor, with the flexibility that enables us to be at the forefront of new products. As a result, we do not annoy the fund sponsor or promoter with too much administrative hassle."

Luxembourg has a strong tradition for funds distributed on a pan-European basis. "The consensus may vary but about 80 per cent of all funds distributed on a cross border basis are domiciled in Luxembourg," says Lentschat. "But we should not underestimate Luxembourg as a centre for hedge funds. Looking at our figures I was pleased to see that we have a strong and growing hedge funds business."

"we should not underestimate Luxembourg as a centre for hedge funds"

The Luxembourg Investment Fund Sector

Management Group Name	Domicile	Countries of Sale	Number of Funds
Franklin Templeton Investments	Luxembourg	32	44
UBS AG	Luxembourg	28	198
Fidelity Investments Luxembourg S.A.	Luxembourg	28	100
Merrill Lynch Investment Managers Ltd.	Luxembourg	27	51
HSBC Investment Funds Luxembourg S.A.	Luxembourg	26	40
BNP Paribas	Luxembourg	25	63
Crédit Suisse Asset Management Fund Service (Luxembourg) S.A.	Luxembourg	23	114
JP Morgan Asset Management (Europe) s.à r.l.	Luxembourg	23	103
ABN AMRO Luxembourg Management S.A.	Luxembourg	22	115
INVESCO GT Management S.A.	Luxembourg	22	24
Allianz Global Investors Luxembourg S.A.	Luxembourg	21	97
Schroder Investment Management (Luxembourg) S.A.	Luxembourg	21	68
Mellon Global Investments Limited	Dublin	21	28
Janus International Limited	Dublin	21	28
Aviva Fund Services S.A.	Luxembourg	20	28
Société Générale (France) S.A.	Luxembourg	19	58
Alliance Capital (Luxembourg) S.A.	Luxembourg	19	33
Baring International Fund Managers (Ireland) Ltd	Dublin	19	27
Gartmore Investment Limited	Luxembourg	18	22

Source: PwC, Lipper, Pan-European UCITS Distribution 2005

Funds

While Luxembourg is famously recognised as a long-only fund centre that is mainly focused on UCITS products, the centre has increased its reputation as a domicile for alternative funds in the last year. "Luxembourg benefits from the on-going trend towards the retailisation of fund of funds products," says Patrick Goebel, Head of Fund Engineering, Fortis Prime Fund Solutions Luxembourg.

"More than 135 fund of hedge funds with total assets in excess of EUR 60 bn are regulated and domiciled in Luxembourg. While still marginal, the stronger demand for Luxembourg domiciled investment vehicles looking to invest through a fund of funds product that is involved in other alternative asset classes such as real estate and private equity is evident. With 38 registrations in less than 18 months, the Luxembourg SICAR could be used for investments in private equity and real estate development projects."

Assets under Management in Europe

Country	Assets Under Management (EUR bn)	Market Share
Luxembourg	1,423.5	22%
France	1,282	20%
Germany	995.8	15%
United	591.4	9%
Ireland	543.4	9%
Italy	411.6	7%
Spain	268.5	4%
Austria	162.2	3%
Belgium	108.6	2%
Switzerland	104.5	2%

Source: EFAMA

Josee Denis, Head of Strategic Initiatives - Shareholder Services at RBC Dexia Investor Services, has lived in Luxembourg for the last 17 years. "The centre has acquired a wealth of expertise in the last 15 to 20 years," she says. "One of the main advantages of Luxembourg is that we offer a passportable investment product and in this context, have grown to be truly recognised as a global fund distribution operating platform. We are the second biggest fund administration centre in the world after the US in terms of asset under management and the range of products we support. Our local fund industry association, ALFI, is therefore very committed to sustain the endeavours of the fund industry as it continues to grow and position itself as a key leader in the investment management arena and its dedicated fund administration service providers in that respect." **ISJ**

Recruitment in the Luxembourg funds industry

In 2005, more than 300 employees joined the financial industry in Luxembourg and the trend is going to continue. There is a requirement for staff with experience in alternative investment vehicles.

UCITS: risk managers in order to supervise investment management services of UCITS III compliant funds; custody professionals and accountants in order to handle new types of derivatives.

PE & real estate funds: custody professionals experienced in checking documents for investments in unquoted and unregulated entities.

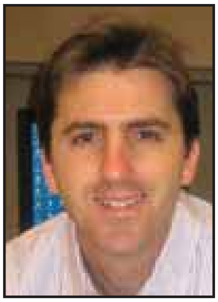
PE **funds:** accountant experienced with valuation models like EV, DCF etc. In order to provide in co-operation with the fund managers a proper mark-to-market valuation of PE funds.

Listed funds: accountant experienced with Ifrs compliant accounting for servicing stock-listed UCIs.

Source: Fortis Prime Fund Solutions

ISJ invites **service providers** to comment on the HEDGE FUNDS INDUSTRY and where they see major opportunities going forward...

Chris Madigan



PLEASE COMMENT ON THE IMPORTANCE OF CORPORATE ACTION EVENT INFORMATION FOR THE ALTERNATIVE INVESTMENT/HEDGE FUND INDUSTRY.

Chris Madigan, VP Head of Global Sales and Marketing, Fidelity ActionsXchange

The hedge fund and alternative investment firms represent one of the fastest growing segments of the financial services market. Because of their complex trading and portfolio strategies, the potential risk inherent in the corporate action life-cycle is magnified for these firms, requiring a sophisticated approach to both corporate action data validation and its delivery. Corporate actions data providers must have a complete understanding of the portfolio and trading strategies their clients utilize to generate alpha. Alpha-focused firms are looking for providers that can not only deliver timely and accurate data in support of their unique investment process, but also provide the levels of expertise and customer service necessary to further enhance their decision-making capabilities.

The impact of missing a corporate action can be devastating. Incorrectly calculated market values, trade failures, P&L exposure, client termination and damaged corporate reputations are just some of the potential risks. Conversely, timely, accurate and complete corporate actions announcements can provide significant value, particularly on alpha generation. Hedge funds and alternative investment firms employing event driven or arbitrage strategies depend on inefficiencies in the market to help drive returns. Corporate action data flow plays an important part in the decision-making process, especially in Non-US markets where information flow and interpretation of data can be less efficient. Further out on the investment frontier, in areas such as the emerging markets, the opportunity to generate alpha through corporate actions data increases significantly. In this unique segment of the market, firms supplying corporate actions data won't survive if they don't understand their clients' data usage and strategies.

The importance of corporate action event information in the hedge fund and alternative investment space continues to evolve. As assets under management grow, firms will look for both expanded coverage of events and increased sophistication in the providers they choose to deliver information. In-house expertise and systems can be costly to maintain and extremely vulnerable to obsolescence. As a result, firms are choosing to partner with companies specializing in the delivery of event data. Professional providers capable of delivering solutions that gather, validate and deliver timely and accurate corporate actions event data provide their clients with information that adds value to the investment process. These are the providers that will thrive in this market.

Charlie Woolnough

COMMENT ON THE NUMBER OF TRADITIONAL FUND MANAGERS, WHO ARE SEEKING TO BOOST THEIR PERFORMANCE BY ESTABLISHING HEDGE FUND CAPABILITIES. WHAT OPPORTUNITIES DOES THIS CREATE FOR THE FUND SERVICE PROVIDER AND CAN WE EXPECT MORE OF THESE CAPABILITIES TO BE ESTABLISHED IN THE NEAR FUTURE?

Charlie Woolnough, Business Development, HSBC Alternative Fund Services

Rather than purely in the pursuit of performance, traditional managers are entering the hedge fund arena in a quest to capitalise on increasing investor demand for absolute returns. This is part of a wider industry move by larger global asset managers who are now looking to offer products across the full asset management spectrum.

As such, we are witnessing a growing number of global managers seeking to extend their product ranges by building capabilities internally, acquiring attractive targets, forming strategic partnerships or distributing third party products.

We believe this creates a distinct opportunity for the larger, global, fund service providers who are able to service both a client's alternative and traditional fund offerings.

At HSBC we have found that the synergies between our traditional and alternative fund administration business have already enabled us to play a vital role in helping an increasing number of large traditional managers enter the alternative asset management industry.

Furthermore, by servicing the asset manager across their entire product range and creating a global relationship we also believe there is a broader opportunity to offer additional services such as banking, foreign exchange and capital market products. Indeed, as the production of fund valuations becomes commoditised to some extent, competitive advantage will come to be determined by additional product offerings. Additionally, some solely traditional managers are also beginning to apply efficient portfolio management techniques, such as the use of derivatives, interest rate swaps and credit default swaps, to their long only portfolios.

Whilst this is not the same as a full blooded move into the hedge fund arena, such a move may leave their existing s ervice provider unable to cope with their evolving needs if they do not have the ability to leverage the expertise of colleagues who are more used to dealing with more esoteric instruments.

As such, this provides an opportunity for those fund service providers with complimentary alternative and traditional offerings to better service such clients.

Sean Flynn

COMMENT ON THE LEVELS OF RECRUITMENT IN THE HEDGE FUND SERVICES INDUSTRY.

Sean Flynn , Head of UBS Hedge Fund Services

The three major centres for hedge fund administration are Cayman, Dublin and the US. All three markets have close to full employment and this creates recruitment issues.

The hedge fund business has grown dramatically over the last four years, creating demand for hedge fund administrators and hedge fund accountants. The business itself and the structure and type of hedge funds have become more complex.

Within the hedge fund administration business, the nature of the expertise required is also changing and increasing. One challenge is the increasing requirement for additional staff, as the business grows, within an already tight labour market. There is also a greater focus on additional valuation expertise as more hedge funds invest in complex instruments.

These challenges are coupled with keeping staff turnover to a minimum. Many fund administrators not only face challenges in recruiting, but also in retaining staff, and certain markets see a fairly high turnover.

This is a problem for the client in terms of the services provided to them, with new people coming in and taking on client relationships. Fund administrators have to offer a clear path to staff, to demonstrate that there is a future with the company and that they can grow within it.

There is a shortage of accountants and a huge demand for these professionals globally. An increased regulatory framework, particularly in the US and Europe, drives some of this demand.

These developments include Sarbanes Oxley in the US, which creates additional requirements and work for accountants. The challenge for all fund administrators is to manage staff, be able to attract the right staff with the right experience and to keep turnover low.

UBS operates in Cayman and Dublin and we have been very lucky to have excellent staff retention rates and very little problem recruiting staff in either location.

We tend to recruit qualified people who have come from the accounting firms and the big four auditors. Dublin has various programmes in place to provide training for people who want to enter the hedge fund administration space.

Robert Miller

TECHNOLOGY HAS THE ABILITY TO MAKE OR BREAK THE HEDGE FUNDS INDUSTRY. COMMENT IN LIGHT OF CURRENT LEVELS OF AUTOMATION AND STP WITHIN THE INDUSTRY.

Robert J. Miller, CEO, Correctnet, Inc.

Along with top-flight financial acumen and judgment, technology is the primary tool with which fund managers build profitable niches in the hedge funds industry. In businesses that were first managed on paper, then progressed to PC-based spreadsheets, a greater level of sophistication is now required to handle emerging compliance and regulatory concerns, satisfy internal and external data management needs, and attract investment funds. Over the past few years the demand for transparency forced the adoption of a certain degree of data management technology among fund managers and service administrators alike. Today, additional factors drive technology investments. Along with the imposition of compliance and regulatory reporting requirements, the sell-side push for cost containment has spread to the buy-side. A number of point solutions have materialized in the wake of these concerns. However, management teams are beginning to focus on a larger concern: overall data management capabilities. Service providers are thinking about how much new business might be lost or gained because of their firms' overall state of data accessibility, process automation and related client service costs. Hedge fund managers entertain much the same kind of thought with respect to how hard or easy it is to exchange NAVs and subscription/redemption data with their service administrators, share performance data and commentary with fund-of-funds managers, and generate high-quality investor reporting. A strategic data management plan can help these businesses avoid being "information handicapped" by building infrastructures for the long haul instead of deploying technical band-aids. Future developments such as STP cannot be ignored - at the fund manager or more complex service provider level - and the same kind of rigorous business process examination necessary for STP implementation can be leveraged to provide a competitive boost. The process knowledge derived as a result of such planning work invariably persuades decision-makers to select technology approaches and solution vendors on the basis of easy data exchange and system interconnectivity, affordable scalability, the ability to reduce or eliminate manual processing steps, and vendor domain expertise.

Fund managers and service administrators that establish state-of-the-art financial data management capabilities as a fundamental priority not only bolster their competitiveness today, but their long-term business viability.

Mark Seaman

COMMENT ON THE EVOLUTION OF ASSET SERVICING FOR ALTERNATIVE INVESTMENT STRATEGIES.

Mark Seaman , Managing Director, Spectrum

The alternative investment industry is focused on the search for investment management talent, but it is a dearth of talent in the area of daily fund operations that highlights one of the most fundamental stress points on fund management, asset growth and risk management. As traditional managers continue to rebrand themselves in the alternative arena, and managers look to generate superior return, the product mix being employed is increasing in complexity. Derivatives and other contractual based products are being employed daily to adjust the risk, exposure, leverage and basic composition of the portfolio and all put a premium on the caliber of operations and accounting talent supporting the middle and back office.

Servicing these products requires a depth of knowledge that is far more difficult to acquire when searching the operations and accounting labor pool. Eternal valuation is not the only complex factor in play when looking at the evolution of fund servicing. With respect to OTC products, daily settlement activities, document tracking, cash and collateral tracking, margin levels and rate resets must all be addressed, and errors and omissions in this area not only raise the specter of internal control with investors, but can also have a detrimental effect on fund performance by allowing cash to remain uninvested or to earn sub-par returns. Exacerbating this situation are investor demands for greater transparency, formal risk and exposure reporting, 3rd party valuation and tighter schedules on receipt of statements. These investor forces are putting a squeeze on the operational staff, as they now must compile, process, reconcile and review information on a more complex set of financial instruments within a shorter time frame. In numerous articles and as a discussion point at recent conferences, industry experts continue to highlight the premium that investors place on operational risk and the controls that are put in place. It has been observed that investors can understand and often accept a performance issue, as they build that concept into their risk/return due diligence. However they are loath to accept any type of accounting error, operational flaw or NAV restatement because they deem those issues to be controllable by good business practice and not subject to unknown or unforeseen market events. Consequently issues in this area raise significant concern because it points to a lack of control or discipline on the part of the manager in running the business, and the next logical extension of that question is "how far into the portfolio and risk management process does the perceived lack of control extend?" The fund manager needs to realize that as the specialized skill labor pool continues to contract, they are not alone when it comes to trying to solve this problem and leveraging the collective skills of 3rd party fund administration firms may provide the stress relief valve for the continual evolution of fund servicing.

Dermot Butler

DO YOU THINK THE EMERGENCE OF NEW HEDGE FUND ADMINISTRATION CENTRES (SUCH AS GUERNSEY, ISLE OF MAN, JERSEY, MALTA, ETC.) WILL COMPETE EFFECTIVELY WITH THE NOW TRADITIONAL CENTRES?

Dermot Butler, Chairman, Custom House Administration

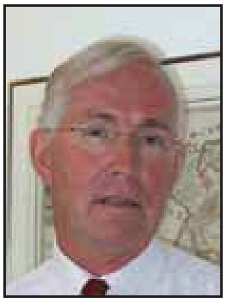
In the context of hedge funds, Luxembourg is almost an emerging centre because it came to the hedge fund table late in the game. In terms of the future of administration, Dublin stole a march on almost every established centre when it set up the IFSC eighteen years ago, creating an environment where hedge fund administrators could flourish. Dublin strengthened its position in 1995 when the Central Bank required administrators to be authorised. As a result, Dublin administrators were strongly regulated and that proved attractive to managers and investors.

Today, Dublin is the victim of its own success, with higher costs and staff shortages.

Can the emerging centers compete effectively? Maybe, but not yet. Each of these centers has enacted regulations, which permit the establishment of hedge funds in their jurisdiction. Some, the Isle of Man and the Channel Islands, require that the administration is carried out locally, which limits the choice for fund promoters and does not encourage new business, although the Channel Islands are benefiting from the migration of hedge funds from other jurisdictions, in hopes of gaining access to the Swiss market. However, many local administrators delegate the actual work to experienced hedge fund administrators, often in Dublin – so the competition there is nominal at best. Malta does not require hedge funds to use an administrator, which is sensible because there are no administrators – yet. I say "yet" because it is the stated policy of the Maltese regulator to encourage the development of a local administration industry. However, the Maltese are taking a pragmatic approach to external administrators, in the expectation that once a non-Maltese administrator has an economically viable "book" of Maltese hedge funds, that administrator will open a local office. When that starts to happen, you will see effective competition for the older centers. Malta is already being referred to as the "New Dublin" and I don't think that is an inappropriate sobriquet.

Meanwhile, administrators in Bermuda and the Cayman Islands continue to pick up the hedge fund business that doesn't go to Dublin. Towards the end of last year, the Cayman Island Monetary Authority was authorizing some twenty-seven new funds (net of closures) every WEEK. This shows that the hedge fund market is a very big pot that can absorb competition.

Willem Holst



WHAT WILL THE HEDGE FUNDS INDUSTRY LOOK LIKE IN FIVE YEARS TIME?

Willem Holst, Director, Marketing & Sales, Citco

Hedge Funds have become an accepted asset class, a global phenomenon with over 8,200 funds and US$ 1.2 trillion assets under management. In spite of the mixed fortunes in 2005 for the hedge fund industry institutional money continued to flow steadily into this market and after a relatively short period of underperformance the industry is regaining strength. Looking at the past it is easy to see why this market has grown so rapidly: i. High fund manager compensations ii. Low historical correlation with the standard benchmarks iii. Double digit returns for investors during the past 15 years iv. Cachet of exclusivity v. Few constraints on investment objectives

Institutional investors will continue to increase their allocation to hedge funds as these are seen as the portfolio diversification essential to the reduction of pension deficits. Other important catalysts to the growth in the hedge funds industry are the **retailisation of the industry.** Many financial institutions start bringing hedge funds to the market with vastly reduced minimums. This trend enables a growing group of smaller investors to participate in future growth. **Lower fees** The general hedge fund fee structure consists of a 1 to 2% asset-based fee and a 15 to 25% performance participation fee. Hedge fund of funds add another layer of fees. When returns are high investors gladly pay high fees. However with average or below average returns and less overall volatility, these fees will simply become too large a percentage of the returns, thus dragging down the funds performance. "Top" managers might be immune to this fee pressure, but emerging managers will have to succumb to fee compression. **Increased transparency** With the entry of a new breed of investors into the alternative investment arena, the factor transparency did no longer meet the due diligence requirements of these institutional investors. This type of investors wants to know exactly what they own and how returns are generated. As such, many funds, especially newer emerging funds, will be forced to deliver full transparency if they wish to raise assets. **New markets** India, Eastern Europe, the Far East and above all China will provide new opportunities for the industry. In all these markets we see a more favorable environment including more openness, liquidity and interest from the investing public. Concluding we can say that for the service providers the need to produce higher levels of transparency will increase. Nowadays this involves applying web technology to allow a greater understanding of the positions / investor shareholdings to the underlying investors. Regulation will also play a key role in the business going forward. The regulatory watchdogs will impose their new rules to the hedge fund managers, like the SEC with its widely advertised new rules to hedge funds with over 15 clients. As more managers flock the industry competition, increased institutional participation and increased regulatory scrutiny will push the evolution of new managers with niche strategies, as these are the best positioned to show superior investment performance.

AIMA WELCOMES FSA RISK OUTLOOK PAPER

The Alternative Investment Management Association (AIMA) has welcomed the Financial Services Authority's (FSA) comments on the hedge fund industry from its annual Financial Risk Outlook (FRO) paper published in January.

In its paper, the FSA recognizes the growing importance and benefits of hedge funds to financial markets and observes that the overall risk of serious market disruption and confidence erosion from hedge funds remains low.

AIMA also accepts that the FRO paper raises a number of significant hedge fund industry issues, such as valuation practices and asset pricing where the FSA is looking to encourage the continued industry development of guidance and standards.

The FSA paper also raises the issue of an independent Board of Directors and division of duties, a highly significant issue for the industry as evidenced by the publication of AIMA's 'Offshore Alternative Fund Directors Guide' in June 2005.

The Guide looks at the fundamental practical, legal and tax considerations when selecting and appointing Directors of an offshore alternative fund, outlines the basic tasks which Fund Directors should carry out and suggests ways in which Fund Directors should manage their relationships with the Fund's service providers.

Florence Lombard, Executive Director of AIMA commented: "The global hedge fund industry is constantly seeking to review and improve its practices. This is clearly evidenced by the work being carried out by AIMA and its members in the areas of asset pricing and fund valuation."

AIMA has also greeted warmly the European Commission's announcement of its Expert Group on Alternative Investment Funds. The Commission yesterday revealed the make-up of two expert groups that will help examine how the framework for investment funds in the EU can be improved.

The 15-strong Expert Group on Alternative Investment Funds was selected on the basis of nominations received from 13 European-level associations, including AIMA.

The Commission called on European trade associations to nominate candidates in December 2005, following the publication of their Green Paper on investment funds.

AIMA recognises the growing regulatory and business interest in the development of hedge fund distribution across European borders. AIMA has a strong regulatory role to play on behalf of the hedge fund industry and has a stated objective to work closely with global Regulators to achieve that aim.

Florence Lombard commented: "We firmly believe that the European Commission has recognised the crucial role that the hedge fund community at large has to play in the ongoing debate on investment funds.

"The Expert Group on Alternative Funds provides not only a potent blend of industry expertise and geographical location, but it also demonstrates the willingness of the European Commission to call upon key industry stakeholders."

The expert group will meet a number of times until June 2006, when they will produce a report on their findings. This report will also be discussed with regulatory bodies and other stakeholders. These results will then become part of the European Commission's White Paper on investments funds which is scheduled for publication in October 2006.

Hong Kong's fund industry presents a range of opportunities for service providers.

Stephanie Banks finds out why this market is such a big hit

The Glittering Rise of Hong Kong's Funds Industry

Hong Kong's fund management business reached a staggering US $464 billion (HK $ 3,600,1) of which US $291 billion or 63 percent, were sourced from overseas investors, according to a 2005 report from Frederick Ma, Hong Kong's Secretary for Financial Services and Treasury. "The significant inflow of foreign funds reflects the attractiveness of Hong Kong's financial markets to international fund managers", Ma said. Hong Kong's close ties to mainland China are particularly appealing to international investors seeking to tap into the rapidly growing mainland market and, according to Ma, Hong Kong has a large and deep stock market that attracts funds from all over Asia and other parts of the world.

The opportunity this growth provides for asset service providers is enormous with unlimited potential. Activities surveyed by Hong Kong's Securities and Futures Commission (SFC) for the year-ended 2004, found that among licensed corporations (a corporation which is granted a license under the SFC Ordinance to carry on a regulated activity in Hong Kong), and registered institutions combined, amounted to HK $3,618,1 billion, representing a year-end growth of 23 percent.

Of this total, HK $2,896 billion was reported by licensed corporations, up from 25% year-over-year, and of that $2,655 billion was in asset management and $241 billion in advisory business. The remaining HK $722 billion was reported by registered institutions with $86 billion in asset management and $636 billion in other private banking business. For comparison, the total market capitalization of companies listed in Hong Kong was HK $6,696 billion by year-end 2004.

AXA Hong Kong's Head of Wealth Management, Blair Turnbull, points out that one of the more interesting characteristics of the Hong Kong market is that, "'per capita' they have the highest number of high net worth individuals and have the highest savings rate as a percent of GDP anywhere in the world". HK is a culture renowned for their attraction to private banking products including hedge funds and other types of alterna-tive investments.

Hong Kong's mandatory retirement fund, the MPF Fund, has approximately two million people who contribute to it, representing nearly 25 percent of the current population. Mr. Turnbull added, "nearly 2/3's of investors' salary is contributed with five percent from employer contributions and the other five from the employee, up to a cap equal to HK $1000 per month (HK's average wage is HK $10,000 per annum)."

The MPF Retirement Fund has served as the catalyst for the mutual fund market in Hong Kong. Traditionally, most HK residents saved through bank deposits and only a small amount tended to speculate on the share market.

Steven Hall, Head of Investment Services at Sydney based "ipac", an AXA subsidiary in wealth creation and management added, "now we're seeing a lot more interest in alternative investments such as hedge funds and in the futures and derivatives markets".

Hong Kong's Stock Market Ranks in World's Top Ten

At year-end 2005 Hong Kong's stockmarket ranked 8th in the world in terms of market capitalization.

HK GDP in 2004 was reported at HK $1.3 trillion (US $165.7 billion) according to statistics provided by the Hong Kong government, representing six-times growth in real terms compared with that of l973.

At that time, the total annual turnover of Hong Kong's stock markets was just under HK $49 billion, the equivalent to US $ 9 billion (which in today's terms no longer even qualifies a small-cap company as it did only 15 years ago).

Scale

And with the big getting bigger, as exampled by the consolidation of HSBC and Bank of Bermuda, it is increasingly clear that organizations are realize the need to be regionally focused rather than country specific.

Paul Hedges

It comes down to volume and scale of business and, "once a financial institution reaches a certain size there is no resting point" added Standard Chartered Bank's Global Head of Securities Services, Paul Hedges. "The saturation point just keeps rising so that acquisitions become standard practice deploying organic or aggressive growth in order to continue to provide cost effective services without squeezing margins", he said.

By way of example, Hedges also says that, "in the instance of their acquisition of Korea Bank last year, it was a very good move for the Bank because it grew their size of funds and one of the characteristic opportunities it presented for the Bank, was that it allowed them to consolidate more services such as customized service, flexibility, advising, accounting and reporting services to the client".

Hong Kong Funds Industry

Fund Type	Number	%
Bonds	303	17
Equity	884	50
Diversified	111	6
Money Market	56	3
Fund of Funds	76	4
Index	19	1
Guaranteed	309	17
Hedge	13	1
Other specialized #	7	1
TOTAL	**1,778**	**100**

Source: Hong Kong SFC

All in all, institutions combining services can generate a handsome revenue stream that would not otherwise be realized from a smaller operation that would find it necessary to out-source a number of related services.

Types of Funds

Testimony to Hong Kong's status as a major international financial center, funds sourced from overseas continued to account for over 60 percent of the funds management business in Hong Kong, totaling HK $2,269 billion, up 22 percent for the period ended 2004. Capitalizing on Hong Kong's position as a magnet for overseas funds, overseas companies continue to choose Hong Kong as their regional headquarters. Around half of the assets under management are managed off-shore. In value terms, the amount of assets managed in HK has increased by over 25 percent, in line with the overall increase in the combined funds management business.

Alternative Market Hunger

In 2004, Hong Kong's hedge funds held $9.3 billion assets under management (AUMs), comprising around 13% of total AUM's in Asia. Several challenges face this asset class, among them according to Lawrence Au, Managing Director, Northern Trust Global Investments in Singapore, says "the level of manager qualifications, assessing calculation fees, fund liquidity and redemption, the anticipated retail client base and investor communications now challenge the evolving marketplace".

He says that a major challenge for Hong Kong funds managers is "the requirement that the corporate hedge fund manager must have a minimum of US $100 million in assets under management before pursuing hedge fund strategies". For retail subscriptions the requirements are much smaller, US $50,000 and US $10,000 for funds-of-hedge funds strategies.

Paul Hedges says, "clearly across Asia ex-Japan the level of sophistication among investors has matured very quickly and can be expected to ramp up. With the introduction of hedge funds and other alternative investments such as Real Estate Investment Trusts (REITs), Hong Kong investors find these alternatives attractive to traditional investments such as in equities funds".

Several global hedge funds players who have entered the Hong Kong Market in 2005, rank among some of the industry's top names. Tremont Capital, which oversees more than $13 billion of hedge investments, Mellon HBV Alternative Strategies and New York based Och-Ziff Capital Management Group, which oversees $12 billion in AUMs are just a few of Wall Street' high-end players. .

"now we're seeing a lot more interest in alternative investments such as hedge funds and in the futures and derivatives markets"

Mr. Au says, "the enthusiasm for alternative strategies is simply investors are looking for diversification and other opportunities. There is the belief that hedge funds offer uncorrelated potential and also in the case of REITs, attractive returns". Hedges says, "because HK has an incredibly high number of high-net-worth individuals, totaling around US$200-400 million, there may be say, only five participants in any one given hedge fund". Hedge funds and alternative investment deposits are largely domiciled off-shore in Bermuda and the Cayman Islands, whilst those funds administrators are located in Hong Kong.

Hong Kong - Market selection criteria for Licensed Corporations and Registered Institutions

	LC and RI
Exchange rate risk	92%
Law enforcement	94%
Liquidity	96%
Macro-economic stability	96%
Political Risk	96%
Transaction costs	81%
Transparency and	95%
Corporate governance	94%
i. Shareholders' rights	94%
ii. Responsibilities of the board	89%

Source: Hong Kong SFC

Custody Profile

International firms such as State Street, Dexia, Alliance Capital, Bernstein, Lloyd George and Alliance Dresdner are a few of the major bank distribution channels now regionally headquartered in Hong Kong. These banks typically provide in-house administration and custodial services thereby offering competitive pricing through a one-stop-shop.

Hong Kong maintains a three-tier system of deposit-taking institutions which govern the regions' investment services. Namely, licensed banks, restricted license banks and deposit-taking companies. They are collectively known as authorized institutions (AIs) under the Banking Ordinance – the licensing authority for all three types of AIs is the Hong Kong Monetary Authority (HKMA).

Hong Kong's interbank money market is a well established one. Wholesale deposits are traded actively among the AIs, and between local and overseas institutions, with an average daily turnover of $165 billion in 2004.

One of the particular strengths of HK's custody markets is the absence of any restrictions on capital flows into and out of Hong Kong.

On the international front, the HKMA continues to promote cooperation among central banks in the region, principally through the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), whose activities cover supervisory liaison and cooperation, and development of financial markets and infrastructure.

Securities' Regulators Committed

Infrastructure has probably had the most impact on the regulation of the HK funds industry, maturing from where it was in the 90's, when the lack of infrastructure, or "stops", were absent or inadequate. AXA's Blair Turnbull says, "infrastructure today is far more developed than ten years ago and well on its way to offering a lot more stable environment to service providers' roles and in safe-guarding the industry".

Committed to positioning Hong Kong as an international financial center as well as a regional hub for Asia and the capital market for the mainland, the SFC has consistently pursued a balanced approach in maintaining market integrity and investor protection, while creating sufficient room and facilitation for market development and product innovation.

In 2005, it is estimated that the total market capitalization reached US$1,049 billion, up about 20 percent compared with that in end-2004. Hong Kong's stock market last year raised a total of US$37.8 billion, ranking fourth worldwide and first in Asia. It is expected to soar even further with the upcoming listing of the Bank of China and the Industrial and Commercial Bank of China.

Going forward, Secretary Ma said "that among the initiatives undertaken by Hong Kong to further enhance its attraction as an international financial centre, is the introduction of a legislative proposal to exempt offshore funds from profits tax".

"Offshore funds" refer to non-resident entities, including individuals, partnerships, trustees, or corporations administering a fund. If implemented, Hong Kong's tax treatment of offshore funds will be on par with other international financial centers such as the United States and the United Kingdom, and even more favorable than in some other places.

Risks and Challenges Rated

Hong Kong's SFC surveyed 120 licensed corporations and 20 registered institutions, and found that in terms of the importance of the following criteria for market selection, their responses were as follows:

The survey also indicated that liquidity, macro-economic stability and political risk were the most important criteria and transaction costs was a less important criterion for market selection.

"among the initiatives undertaken by Hong Kong to further enhance its attraction as an international financial centre, is the introduction of a legislative proposal to exempt offshore funds from profits tax"

Opportunities and Challenges in Current Environment

As new funds are launched it represents new business for funds administrators and also from existing funds because of the interest in say for example, hedge funds where there is more money being pumped into this asset class. This presents the opportunity for fund administrators to increase fees.

Paul Hedges, says that, in the case of Standard Chartered Bank, "our ability to package a number of products together to help our customers' ranges from our securities services side. Revenue opportunity generated from added services such as advising on funds' structure, legal and compliance advisory capabilities to foreign exchange capabilities in all major currencies, custody of units and funds accounting, so that from end-to-end there is the 'one-stop-shop', which is more advantageous than outsourcing 'here and there'".

One of the more significant challenges to the industry is the speed at which it is advancing and rolling out new investment vehicles and asset classes. "The challenge here is being able to be accountable to them within new and changing regulation, and having the adapted ability to properly value them", says Hedges.

Investors are now clamoring to get into new and particularly "alternative" investments such as hedge funds, and beginning to think even further ahead to commodities derivatives, such as in energy derivatives Unquestionably, one of Hong Kong's greatest assets, is its' favorable geographical position, distinguishing it as an "asset magnate" and bridging the time gap between the Americas and Europe, and that attraction is further enhanced by strong economic links to the rest of the world.

Stephanie Banks is a former stockbroker with a leading Wall Street firm, with over a decade of experience in finance. She writes regularly for various international business publications and has contributed to the ABC's radio business team in Sydney.

Cash vs Non Cash

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

A comparison of securities on loan versus cash and non-cash collateral in the **third quarter of 2005**

Comparing results third quarter of 2005, about USD $ 413,485 m of **North American Treasuries** were on loan against cash collateral in the third quarter of 2005, compared with USD $ 76,434 m of securities on loan against non cash collateral in the third quarter of 2005.

About $256,896 m of US Treasuries were on loan against cash collateral in the third quarter of 2005, compared with$76,434 m on loan against non cash collateral in the third quarter of 2005.

About $60,473 m worth of **North American Equities** were on loan againts cash collateral in the third quarter of 2005, compared to $9,900 m on loan against non-cash collateral in the third quarter of 2005.

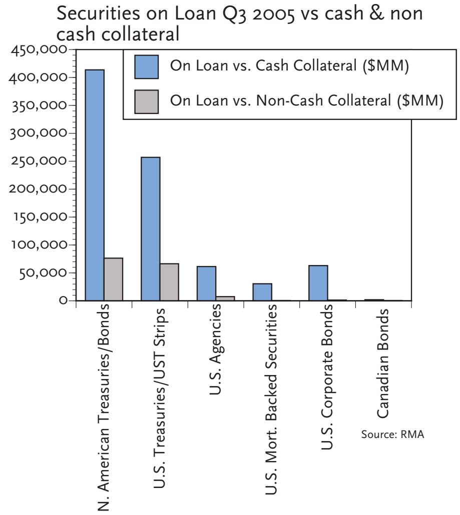
$24,494 m worth of French equities were on loan against cash collateral in the third quarter of 2005, compared to $2,935 m against non cash collateral during the third quarter of 2005.

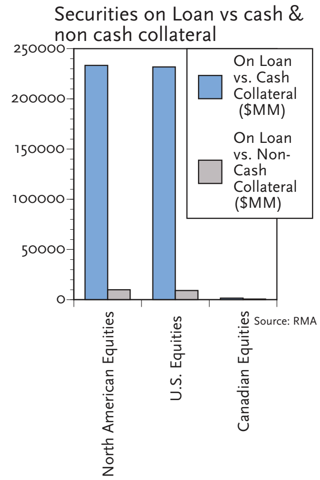
$7,418 m worth of German equities were on loan against cash collateral during the third quarter of 2005, compared to $2,735 m against non-cash collateral in the third quarter of 2005.

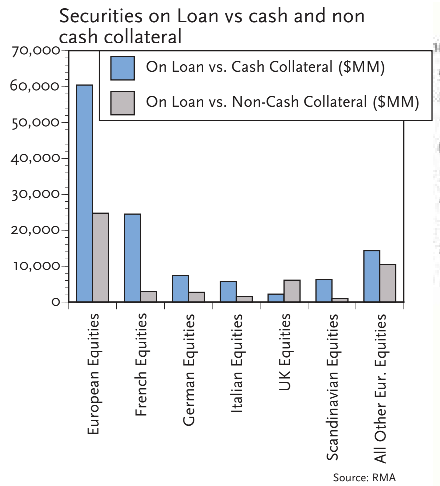
About $26,928 m worth of Pacific-Rim Equities were on loan against cash collateral during the third quarter of 2005, compared to $10,383 m against non-cash collateral during the third quarter of 2005.

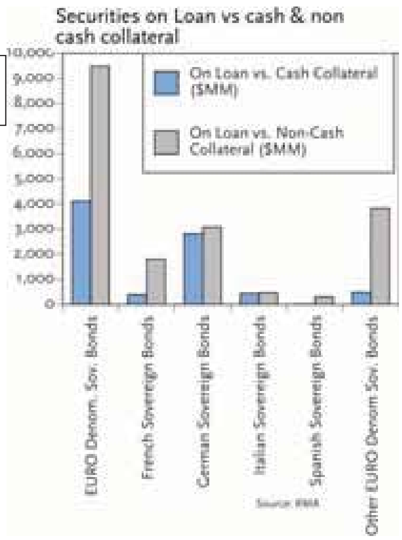
$17,092 m worth of Japanese equities were on loan versus cash collateral during the third quarter of 2005, compared to $6,937 m versus non cash collateral during the third quarter of 2005.

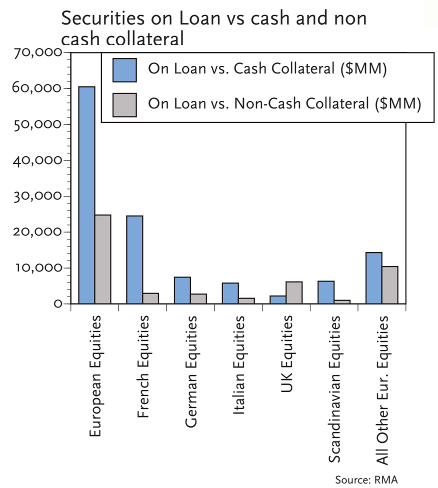
About $4,108 m of EURO Denominated Sovereign Bonds were on loan against cash collateral in the third quarter of 2005, compared to $9,474 m on loan against non cash collateral during the third quarter of 2005.











For a full analysis of Securities Finance please refer to the annual ISJ Securities Lending Review which accompanies this issue.

Top Performers

A summary of the securities financing industry / top performing securities - January 2006

The securities lending analysis focuses primarily on the state of the securities lending industry at 25 January 2006.

The total balance of assets on loan at this date was $1,750 bn (in Table 1). Out of the total amount of securities available for lending ($7,591 bn), about 17.91 per cent of those securities were utilised in a securities lending program. Government bonds were clearly the most active participants. Out of the total $1,536 bn available for lending, 47.09 per cent of that amount was utilised in a securities lending programme.

At 25 January 2006, the most lendable equity by fee was Martha Stewart (in Table 2), for equities that are greater than USD $ 10 million but smaller than $ 100 million.

Novostar (in Table 3) was the top performing equity at 25 January 2006 for equities that are greater than USD $100 million.

Delphi Corporation (in Table 4) was the top performing corporate stock at 25 January 2006 for corporate stocks that are greater than USD $ 10 million but smaller than USD $100 million.

Republic of Argentina (in Table 5) was the top performing corporate stock at 25 January 2006 for corporates that are greater than USD $ 100 million.

Securities lending assets (in Table 6) on loan peaked for government bonds at 25 January 2006, with a total of $427,738 m on loan against cash collateral. About $ 296,618 m of government bonds were on loan against non cash collateral at 25 January 2006. American equities on loan against cash collateral totalled $161,292 m at 25 January 2006. $41,567 m of American equities were on loan against non cash collateral at 25 January 2006.

(Performance data is provided by Data Explorers)

Securities Lending Group Summary at 25 January 2006 (Values presented in USD)

Security Type	Lendable Assets (M)	Total Balance (M)	Utilisation (%)	SL Fee (Bp)	SL Return to Lendable Assets (Bp)	SL Tenure (days)
All Securities	7,591,519	1,750,733	17.91	27.06	3.43	121
All Bonds	3,184,572	995,902	28.42	10.04	2.52	130
Corp. Bonds	1,645,864	219,834	11.04	14.72	1.06	182
Govt. Bonds	1,536,058	775,561	47.09	8.69	4.09	115
All Equities	4,406,947	754,830	10.31	49.50	4.09	108
Americas Equities	2,431,007	316,745	8.34	44.74	2.91	91
Asian Equities	427,975	85,041	10.31	72.64	6.56	116
European Equities	1,398,707	304,444	13.60	44.08	4.98	130
Depos. Receipts	69,444	21,007	13.65	97.81	10.57	81
ETFs	16,227	23,940	36.51	48.11	16.48	66

Source: Data Explorers

Top 10 Equity by Fee>10<100 mln

Rank	Stock description
1	MARTHA STEWART
2	AMERITRADE HLDG CORP
3	MEDIS TECHNOLOGIES LTD
4	SHIBAURA MECHATRONICS
5	ESCALA GROUP INC
6	MANNING (GREG) AUCTIONS
7	EUROTUNNEL SA ESA-UNITS
8	OVERSTOCK.COM
9	TRUE RELIGION APPAREL
10	ANTIGENICS INC

Source: Data Explorers

Top Equity by Fee>100 mln

Rank	Stock description
1	NOVASTAR FINANCIAL
2	SFBC INTERNATIONAL
3	FAIRFAX FINANCIAL HLDGS
4	FIRST MARBLEHEAD CORP
5	MARCHEX INC-CLASS B
6	ARCHIPELAGO HOLDINGS
7	ODYSSEY RE HOLDINGS
8	LA-Z-BOY INC
9	NETFLIX INC
10	LEVEL 3 COMMS

Source: Data Explorers

Top 10 Corporates by Fee>10<100 m

Rank	Stock description
1	DELPHI CORP
2	PLIANT CORP
3	FRIENDLY ICE CREAM
4	ICON HEALTH & FITNESS
5	AMKOR TECHNOLOGIES
6	GENERAL MOTORS
7	TIME WARNER TELECOM
8	LIBERTY MEDIA CORP
9	DURA OPERATING CORP
10	CONTINENTAL AIRLINES

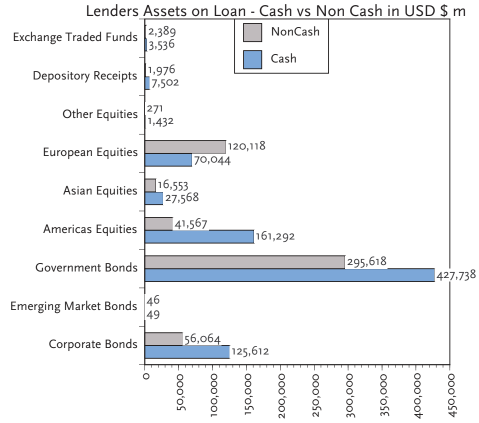
Source: Data Explorers

Top Corporates by Fee>100 mln

Rank	Stock description
1	REPUBLIC OF ARGENTINA
2	GENERAL MOTORS
3	JEAN COUTU GROUP PJC
4	REPUBLIC OF TURKEY
5	EL PASO CORPORATION
6	GENL MOTORS ACCEPT
7	FED REPUBLIC OF BRAZIL
8	GIE SUEZ ALLIANCE
9	FED REPUBLIC OF BRAZIL
10	ONTARIO (PROVINCE OF)

Source: Data Explorers

Lenders Assets on Loan - Cash vs Non Cash in USD $ m



Source: Data Explorers


Cayman Islands
Chicago
Bangalore
New York
London

The South African hedge funds industry is referred to as the biggest growth area south of the equator.

Alan Duerden finds out why

The Beautiful South


the new dawn?

The South African Rand (ZAR) is the world's most actively traded emerging market currency and, according to the Bloomberg Currency Scorecard, recorded the largest gain against the US Dollar between 2002 and 2005. Markets are buoyant in South Africa and the warm economic sun seems to be shining all year round.

With a reported R1.4trn of assets under custody, custodians have a bright future to look forward to. ISJ looks at the growth of the alternative investment industry in South Africa and what makes South Africa an ideal hub for fund administration services.

In line with the Johannesburg Stock Exchange (JSE) All Share Index, which grew 47 percent last year, the alternative investment industry in South Africa has also experienced impressive growth. The hedge fund industry has doubled in size over the last twelve months to approximately R15bn and investment in pension funds is also up after efforts to limit government pension fund investment were relaxed. "The pension fund industry in South Africa has grown," says Robert Wassenaar, Nedbank. "There has certainly been a move to include sectors of the population, and the provision of pensions to them. This has added to the growth as well."

In 2003, the Black Economic Empowerment Act was introduced to redistribute the country's wealth from the hands of the wealthy to the previously disadvantaged communities.

"Some years ago they (the disadvantaged) might not have been included in the pensions industry, but now most people are included and pensions are being provided to them. This has clearly had an impact on the industry," says Wassenaar.

The excellence of South Africa's alternative investment growth is set against a number of inhibiting factors, including exchange controls and a lack of regulation in the market.

The pension fund industry is currently limited to invest no more than 2.5 per cent of its total assets into hedge funds and exchange controls limit unit trust and pension fund investment into foreign assets to no more than 25 per cent and 15 per cent respectively. Exchange controls have also restricted the growth of hedge funds by limiting them to the local markets.

Matthieu Maurier, Managing Director of Societe Generale in Johannesburg believes the success of the stock market has also inhibited investment growth. "If you look at what the stock exchange has done in 2005, it has had more than a 40% increase over the last year which makes marketing the alternative investments very difficult. People don't want go into alternative investment solutions when they can make good returns by simply investing into South African stocks."

That said, the South African hedge fund industry has followed a similar pattern to that in the UK and US, which have recorded an increase in the number of small boutique asset management firms. Star fund managers are abandoning the large investment houses to set up and run these boutique firms. This trend is more an indication that something is stirring and that something big is expected.

"The relaxing of exchange rules will mean that securities services providers will not only handle the South African market but will also be able to connect to international markets," says Maurier. The relaxation will present servicing opportunities in the alternative investments industry.

"Providers will have to be able to service international custody, asset value calculation and all the value added products that international securities services players like Societe Generale are able to offer in other mature markets such as, performance measurement."

As the country's alternative investment industry reports further growth, South Africa is becoming an attractive administration and outsourcing location for large international companies.

"The entrance of international players such as State Street and JPMorgan will provide the opportunity for servicing foreign fund administration services"

The first of these deals occurred when Investec Asset Management outsourced its investment administration to State Street. The acquisition of Tasc Administration by JPMorgan soon followed. "The entrance of international players such as State Street and JPMorgan will provide the opportunity for servicing foreign fund administration services," says Karin Griffin, Director, Financial Asset Services, Standard Bank.

Location, location, location

The strong rand has not made South Africa as competitive as other emerging markets and outsourcing centres such as Dublin and India, but there seems to be a number of characteristics that make it an ideal hub for fund administration services.

"Obviously the time zone capability and English as the first language are advantages," says David Price, Director, Financial Asset Services, Standard Bank. "The financial markets are well developed and there is a high availability of these skills relative to some of the other developing markets," he continues.

A range of young graduates are enrolled from the top business schools and trained through the securities services processes. However, large levels of unemployment in the country mean that a lot of graduates cannot obtain positions locally. As a result, a large pool of talent is chasing a small number of jobs.

"Our philosophy in South Africa is that we are in partnership with the hedge fund manager. This makes for an efficient relationship."

Ian Hamilton

Ian Hamilton, Chief Executive Officer of Investment Data Services Group (IDS) believes the size of the market gives South Africa an advantage as it allows fund administrators to offer their clients a full and well-delivered suite of services and products. "From a market perspective the main benefit is an increased product suite," says Hamilton. "Clients can approach the administration service provider for custody but can get a lot of value added services on top of that and leverage their administration relationship to get other products. They will not just be getting accounting and valuation services, they will get a lot of value added."

The introduction of large service providers into the market has increased the competition amongst fund administrators but Hamilton believes that the smaller administrators, who offer a more tailored, bespoke approach, pip the larger institutions to the post in terms of the client provision.

"If you are a hedge fund manager then you are a special person," says Hamilton. "Our philosophy in South Africa is that we are in partnership with the hedge fund manager. This makes for an efficient relationship."

Technology

Between 1999 and 2002 the first phases of the South African Central Securities Depository, also known as Strate, were implemented for the electronic settlement of all financial instruments in South Africa. Johannesburg

Breaking News:

Fortune launches fund of funds to international market
- Johannesburg 21 Feb 2006

In July 2005 Fortune entered into a joint venture with South Africa's Novare Investments to develop investment solutions.

Novare manages the Mayibentsha Fund, which represents the largest multi-strategy portfolio of hedge funds investing exclusively in South Africa, with US$138 million under management.

Until December 2005 the fund was only available to South African investors, but from March 2006 the Mayibentsha Opportunities Fund will also be available to overseas investors through Fortune Funds Limited.

Simon Hopkins, CEO of Fortune, commented: "South Africa is a developed financial market within a burgeoning new economy. The financial community is highly sophisticated. We have been impressed with Novare's ability to deliver exceptional returns over the last 33 months with far less volatility than the local stockmarket."

Equity Trading (JET) was introduced and highlighted inefficiencies in the paper-based settlement system, previously in use by the JSE.

"I think it is fair to say that about seven years ago, the whole asset settlement system was a bit of a mess and there was certainly room for improvement," says Nedbank's Robert Wassenaar. "Nowadays, we are rated globally as one of the top emerging markets in terms of efficiency and transparency. This in itself is quite important in fund administration terms, particularly when you are attracting that sort of business from outside of South Africa."

South Africa has also embraced the move towards transparent governance with the introduction of legislation such as the Financial Advisory and Intermediary Services Act (FIAS) and the Financial Intelligence Centre Act to protect against improper conduct by financial service providers. The Acts also cover anti money laundering rules.

"One of our competitive advantages is that we have an opportunity to grow and cast out our services into the African market"

"Those two legislative improvements have certainly increased market transparency and have made us acceptable to the world from a governance point of view," says Wassenaar. Strate has facilitated certainty and risk reduction in the equity settlement cycles and further automation in accordance with the G30 recommendations, which aim for a deeper understanding of financial issues. "The focus is on removing manual processes, introducing exception based reporting and elimination of risk. This will result in significant reduction in message flows and therefore in message costs," says Standard Bank's Karin Griffin. She also cites technological movements towards a single settlement platform and centralised settlement system as well as dematerialisation of money market instruments in the second quarter of 2006 to streamline the settlemwent cycles for different instruments.

What lies ahead?

South Africa is a mature market from a financial services point of view and provides opportunities for offshore diversity and cross selling. So what does the future hold?

"One of our competitive advantages is that we have an opportunity to grow and cast out our services into the African market," believes Standard Bank's David Price. "There is a lot of opportunity for us there as well. We have put a lot of focus on Nigeria, Botswana, Kenya and Namibia. Those are four of our largest markets." Consolidation has been spoken about and is yet to materialise. It is hoped that strengthening the market and encouraging offshore investment will attract bigger players and increase competition.

"Obviously with Barclays moving into our market there are some opportunities and challenges there for us as well. We are keeping an eye on Barclays from a securities services perspective, what it does in South Africa as well as the rest of Africa," continues Price.

The South African financial landscape comprises a mixture of large global service providers, local players and new entrants. A challenge for all of them is further technological advancement, especially if it attracts more offshore administration. "Access to technology remains a challenge," believes Lionel De Nicola, Director at CSTIM South Africa. "The required technology is very expensive in South Africa and if you look at the IT expense of the large global service providers like State Street and JPMorgan against the local players, its chalk and cheese."

The demand for new value added services from service providers is increasing. Providers have to invest in different levels of resources, highly skilled staff and technology to cope with this demand. As the market becomes more advanced and gears itself towards fund administration, clients require processes like risk management and reporting as part of the core offering. "Requirements will differ and this will challenge South African providers because of the increased demand for skilled but scarce resources and expensive technology," says De Nicola.

The alternative investment landscape in South Africa has grown impressively and financial services look to be going the same way. Regulating the hedge fund industry could open doors for investment from pensions funds that would further boost this growth. Boasting many qualities that make it ideal for fund administration services, South Africa is the future hot spot of the Southern hemisphere and may well stand toe-to-toe with administration centres such as India and Dublin in the near future.

ISJ

STRATE: ACTIVELY EXPLORING NEW DIMENSIONS

STRATE, South Africa's Central Securities Depository, enters 2006 with ambitious plans to defuse perceptions that it has matured to the point that its scope for exploring new dimensions is limited.

"STRATE's think-tank has been working overtime," says Monica Singer, the CEO, who emphasises that while the proposals are significantly advanced, they still await the approval of STRATE's shareholders and its board of directors.

Thanks to record high volumes and indices on the JSE Ltd, STRATE began the New Year on a high note and is poised to investigate several new pastures from a position of considerable strength.

Currently on the drawing boards are the following:

-Advanced plans to implement the electronic settlement of money market instruments;

-A well-developed strategy to investigate an alternative settlement models for both equities and bonds;

- Proposals designed to make available STRATE's technology infrastructure to financial institutions obliged to comply with the Financial Intelligence Centre Act (FICA); and

- An innovation whereby banks involved in the transfer of mortgage bonds would benefit from a central settlement system via STRATE's powerful IT solution.

Hedge funds in positive territory

The hedge funds industry performed positively during December 2005, according to research from **Hedge Fund Research Incorporated.** ISJ presents the latest data

Hedge Funds gave investors a positive rate of return for December 2005. The Hedge Fund Research Incorporated Fund Weighted Composite Index managed to deliver a return of 1.84.

The HFRI Market Timing Index recorded the best performance, with a return of 2.10 for December 2005.

The HFRI Equity Non-Hedge Index delivered a return of 1.73 for December 2005.

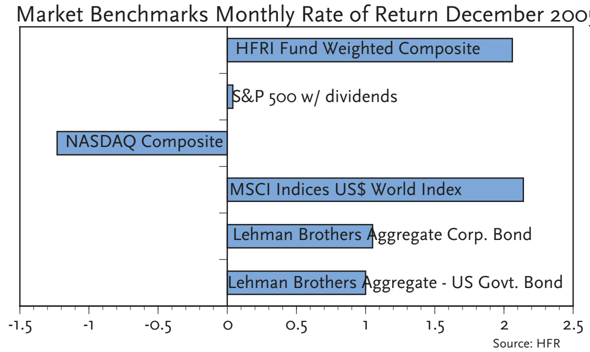
The HFRI Emerging Markets (Total) Index delivered a performance rate of 3.70.

The worst performer in the HFRI Hedge Funds Index was the HFRI Regulation D Index, with a return of -1.14 for December 2005.

The HFRI Short Selling Index delivered a return of -0.20 during December 2005.

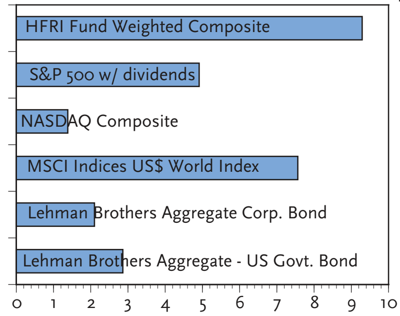
The HFRI Equity Market Neutral Index delivered a return of just 0.58 for December 2005.

Market Benchmarks Monthly Rate of Return December 2005



Source: HFR

Market Benchmarks Rate of Return 2005



Source: HFR

HFR Hedge Funds Index Rate of Return December 2005

	Dec 2005
HFRI Fund Weighted Composite	1.84
HFRI Convertible Arbitrage	0.95
HFRI Distressed Securities	0.95
HFRI Emerging Markets	3.70
HFRI Equity Hedge	2.39
HFRI Equity Market Neutral	0.58
HFRI Equity Market Neutral Index: Stat	0.83
HFRI Equity Non-Hedge	1.73
HFRI Event-Driven	1.61
HFRI Fixed Income (Total)	0.61
HFRI Macro	1.30
HFRI Market Timing	2.10
HFRI Merger Arbitrage	1.90
HFRI Regulation D	-1.14
HFRI Relative Value Arb.	1.61
HFRI Sector (Total)	2.21
HFRI Short Selling	-0.20

Source: HFR

The HFRI Fund of Funds Strategic Index performed well, with a return of 2.57 for December 2005.

The HFRI Diversified Fund of Funds Diversified Index also performed well with a return of 2.03 for December 2005.

At the bottom of the table, the HFRI Fund of Funds: Conservative Index delivered a return of 1.21.

HFR Fund of Hedge Funds Indices Rate of Return December 2005

	Dec 2005
HFRI Fund of Funds Composite Index	1.92
HFRI Fund of Funds: Conservative Index	1.21
HFRI Fund of Funds: Diversified Index	2.03
HFRI Fund of Funds: Market Defensive	1.38
HFRI Fund of Funds: Strategic Index	2.57
HFRI Fund Weighted Composite Index	1.84

Source: HFR

Meeting Targets

Performance measurement has significantly evolved over the past few years and is steadily educating trustees in a more involved and scheme specific way, writes Alan Duerden

Like buying a car, appointing a fund manager can be a question of performance. I would not stop at the first car dealership I see, pick the first car I see and whimsically hand over my hard earned cash.

I will do my research. This process ensures comfort, safety, efficiency and high quality. I also know that the manufacturer has put every waking minute into delivering a product that seduces the senses and makes me shriek with delight every time I push down on the accelerator.

Performance measurement allows investors that same luxury, an informed decision making process, and has been given greater exposure in recent years due to changing trends in the marketplace and a number of high-profile cases, such as Merrill Lynch and Unilever.

"Demand in the market is not a new thing," says Colin Kay, Director, Performance Consulting, HSBC. "Performance measurement has been established in the UK since the mid 1970's. Every pension fund does it and every fund management firm does it. It is widely used and well established."

To say performance measurement is well established is not suggesting that it has not evolved. Going back ten or fifteen years, performance measurement, as a sub-section of the investor services business, was mainly about the calculation of a fund manager's return and funds simply compared themselves against the average of a universe of other funds. "If they finished above the average they patted themselves on the back. And if they finished below the average they started to knot the noose!" says Kay.

The peer group benchmarking process was historically provided by two main organisations in the UK; one was the WM Company and the other was Combined Actuarial Performance Services (CAPS), initially independent of the custody process. The situation in the current market has changed quite significantly now as scheme specific benchmarks are set and a fund manager's performance does not necessarily take a 'where do I rank?' approach but a more sophisticated look at portfolio specific construction and performance.

"Scheme specific benchmarks have come in and that has driven funds to be more diverse," says Kay. "In turn, that has driven the reporting requirements on the performance side to be more diverse and more demanding."

Jim Trotter, Head of Northern Trust's Investment Risk & Analytical Services group, echoes this sentiment: "Benchmarking is a key issue. 15 years ago, 90 per cent of UK pension funds would have had a benchmark that was either a WM or CAPS peer group, whereas now, funds benchmarking against a peer group are well in the minority. The market has changed significantly."

This change in benchmarking and the clients' thirst for a more informed and involved approach has allowed custodians to get their foot in the door. High profile cases such as Merrill Lynch and Unilever have also meant that clients are requiring more sophisticated information and performance measurement has become more of a process designed to educate the end client as to why performance is the way it is.

Case for custodians

In today's market a number of organisations and custodians have exploited their ability to offer the performance

The importance of performance measurement

The year 1999 saw Unilever, the Anglo-Dutch consumer products company, announce its intention to pursue a claim against Mercury Asset Management, the fund manager that was acquired by Merrill Lynch in 1997.

Unilever pension fund trustees claimed that Mercury, then part of Merrill Lynch, had negligently managed £1 bn of the company's pension fund assets between 1996 and 1998 and had failed to restrain Alistair Lennard, the money manager in charge of the pension fund monies.

In January 1997, an investment agreement was signed between the two companies specifying that the fund manager had to produce a return of 1 per cent in excess of the pension fund's benchmark and that the fund manager's performance should not underperform the benchmark index by more than 3 per cent.

Unilever severed ties with Merrill Lynch in March 1998 when it was revealed that, due to inexperience on the part of the fund manager, the pension fund's investment had underperformed the benchmark index by 10.5 per cent, amounting to a loss of more than £100 million. A highly publicised court battle began in October 2001 and after several weeks of battling the case was settled with Merrill Lynch reportedly paying Unilever more than £70 million.

measurement service because they have both the data and the capability. "As a global custodian, we already hold the information that is required for performance measurement reporting and, thus, we are able to produce the information for reporting a lot more quickly and effectively than traditional providers," says Trotter. "I think clients have seen the benefits of going to the custodian, and custodians – certainly Northern Trust – are willing to invest heavily in these services where other organisations may have pulled away."

The custodian's investment in this service has propelled it into the main packages that are offered to clients. "Very rarely will you find anyone in the market place talking about performance measurement in the context of value-added," says Alasdair Reid, Head of State Street's Asset Owner Group in Europe. A lot of clients now take performance measurement as part of the custody service or they take it on a stand-alone basis. "It is core," says Reid. "That's what we do, we manage databases, produce numbers, and produce comparison on those numbers and the real value-added comes with what you then do thereafter."

"The end game is to build investor confidence through the delivery of information that highlights that the investors assets are being managed within the appropriate risk/return framework"

As external demand for understanding a fund managers' performance grows, internal expectations within fund management firms have also risen. More investment professionals have the ability to get the data and provide good in depth analytics. Performance measurement provides fund managers with a good marketing tool for staking out their strengths against the competition.

"It is really getting into the area of brand recognition and trying to differentiate yourself from the competitors," says Blair McPherson, Director of Technical Sales EMEA at RBC Dexia Investor Services. "There are so many different investment products in the marketplace and you have to clearly communicate how you are different from other providers."

Valuable information

It is clear that performance measurement is not just about spewing out numbers but about providing good quality information to the client and giving them the confidence in an asset manager's abilities. "That is a key component," says McPherson. "The end game is to build investor confidence through the delivery of information that highlights that the investors assets are being managed within the appropriate risk/return framework, as agreed upon when the mandate was created, and that value is being realised."

Daniel Hall of Mellon Analytical also sights client confidence as a key factor in distinguishing between different providers: "Performance measurement is good governance and is essential in enhancing trustees' knowledge and understanding. Understanding then allows trustees to act with confidence."

At Mellon, a web-based tool called Asset Manager Information (AMI) enables pension funds to carry out their own research into fund managers and informs them about the managers' processes and capabilities. "It serves as a resource for consultants or large funds," says Hall. "It also acts as a facilitator for managers to make information available to consultants quickly and efficiently."

To assist clients with the comparison of fund managers and to restore faith in the performance measurement process after incidents like Unilever and Merrill Lynch, Global Investment Performance Standards (GIPS) came into effect in 2000 to ensure the fair representation and full disclosure of investment performance results. UK Investment Performance Standards (UKIPS) takes the same line and highlights the measuring of investment performance as critical to the investment process.

Regulation is rife in most areas of financial markets but the positive impact of these standards is that they do not rule with an iron rod. To be GIPS compliant a firm must adhere to the standards' requirements and undergo a verification exercise by an independent third party. Once a firm has proved that it is compliant with the standards it is pretty much left to get on with the job in hand.

"The performance world tries to look after itself," says Northern Trust's Jim Trotter. "That's the way I think the performance world will continue to work. I don't think any big regulatory body is going to come along and say 'we don't think you do that right, do it another way.'"

The aim of GIPs is to move towards standardisation and as long as all players are fair, then there will be no need for the regulators to step in and take control. "We are seeing voluntary regulation in the form of GIPS," says Colin Kay. "If it doesn't develop properly or if people deliberately do things wrong then it would not surprise me if the Securities and Exchange Commission and Financial Services Authority stepped in and made it a bit more formal."

Performance measurement has significantly evolved over the past few years and is steadily educating trustees in a more involved and scheme specific way. Focus has been taken away from a 'league table' approach to fund manager performance in favour of scheme specific benchmarks that allow the trustee to choose the best fund manager for them. Trustees' confidence is being increased as they become aware that they drive performance measurement. Performance measurement does not drive them.

Choosing a fund manager is a bit like choosing your favourite Audi, the difference is not a case of Vorsprung Durch Technik, but one of Vorsprung Durch Vertrauen, progress through confidence.

ISJ

Tricky Transitions

Investor services providers debate the key challenges involved in transitioning assets from one portfolio to another

Mark Dwyer is the Vice President of Marketing for Mellon Transition Management Services in London. Before joining Mellon Mark was the Managing Director of Askari, a risk management and portfolio construction analytical service supplier to institutions with complex investment processes and/or complex derivative structures. Prior to joining Askari, Mark worked for UBS sourcing new markets and clients for the derivatives product group.
Mark entered the City as a quantitative analyst having studied post graduate mathematics and obtained an MBA in finance.
Mellon Transition Management Services is offered internationally through Mellon Global Investments, the international distribution subsidiary of Mellon Financial Corporation.

Mark Dwyer

Lachlan French, Head of Transition Management, State Street Bank Europe Limited. Lachlan joined State Street in January 2001 as Head of Transition Management Europe, having previously been a Director at Royal & SunAlliance Investment Management. He spent 14 years at RSA where he was head of the Derivative and Portfolio Trading desks as well as having responsibility for the asset allocation of the main life and general funds. He is responsible for State Street's transition management services across Europe. He read Mathematics and Economics at Durham University and is an FSA Approved Person and a member of the UK Society of Investment Professionals.

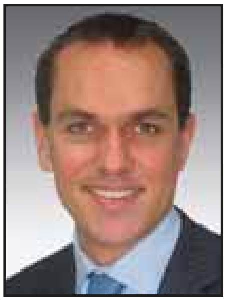
Lachlan French

Struan Malcolm, Vice President – Transition Strategist, Struan is a Transition Strategist in Northern Trust Global Investments' European Transition Management team. He is responsible for working with consultants and clients to identify and implement investment solutions to meet their needs during times of portfolio restructuring. He joined Northern Trust's custody operations group in 1996 after having gained a BA with Honours in European Business from Manchester Metropolitan University. In 1999 he moved to Northern Trust Global Investments taking the position of Operations Analyst, responsible for project management in the investment management operations team.

Struan Malcolm

Andrew Williams Andrew is a senior associate within Mercer's investment consulting business. Located in London, he is responsible for advising institutional clients on the full range of investment issues as well as having specific investment manager research responsibilities. Additionally, Andrew is head of the specialist research team responsible for all aspects of transition management. Andrew has ten years of experience within the pensions and investment industry, starting his career with Mercer in 1996. Andrew graduated with a degree in economics from Bristol University. He is an Associate member of the Institute of Investment Management & Research.

Andrew Williams



What are the latest recommended methods for comparing transition management/ providers?

Dwyer: Method implies a rather more scientific approach than what actually exists. That said, comparing various transition managers can be a complex problem as there are many factors to consider when selecting one. Firstly one has to select a business model: broker/dealer, fund manager or investment bank? This decision often comes down to the level of fiduciary responsibility that one requires their transition manager to assume and the level of revenue transparency one requires.

Another key factor is the experience of the transition managers' professional staff. Transition managers need expertise in many areas, such as portfolio management, risk management, trading, legal, accounting and settlements. Looking for this diversity and ensuring that they are dedicated to the transitions group is important. It may not be of much help to the client if the expertise one requires is working in another division on a project with higher priority.

Naturally the client should look at the business model, transition team and technology used by the transition manager, but the acid test is the service level. What level of service is the transition manager delivering, and will they make that extra effort when something unusual and specific to the client becomes apparent? The best way to evaluate a transition manager's level of service is to talk to the existing clients of the firm.

Although there is no scientific method to compare transition managers, there are strategic questions that can be used to produce a short list. Transition managers vary considerably, but at first glance they appear to be quite similar. Asking the above questions will enable the pension fund to identify the high quality provider that is best able to meet their requirements.

French: I believe that the best method for comparing managers has changed little over recent years with the core fundamentals of choosing a partner who has: the appropriate skill and expertise, a tried and tested business model that eliminates conflicts of interest, and a demonstrable track record still being crucial. The only way to test these core competencies is to get a real feel for your transition manager by meeting the team, understanding and seeing the transition process in the flesh, and talking to clients who have worked with the provider. In particular two fundamental attributes should be visible in all aspects of the transition process, namely full disclosure and complete transparency. Due to the importance and sensitive nature of a transition assignment if there are any concerns regarding these two aspects you should look for another provider.

Malcolm: Plan sponsors can find the selection of a transition manager a challenging process. Transition managers have differing business models and this complicates the comparison of cost estimates. Transition management providers are making progress with the T-charter, which calls for a template in order to level the playing field for evaluating cost estimates. However, plan sponsors will continue to have to ensure an 'apples-to-apples' comparison, for example by explicitly communicating objectives, providing each transition manager with the same portfolio information, and ensuring that all assumptions made by the providers are fully understood. Finally, the qualitative aspects should not be underestimated. Transition managers that place an emphasis on understanding your needs and maintaining a close relationship even in the post-trade phase can add a lot more value to a transition event.

> "Transition managers need expertise in many areas, such as portfolio management, risk management, trading, legal, accounting and settlements"

Williams: We continue to believe that in-depth research and detailed knowledge of each provider is the best way to assess the strengths and weaknesses of transition managers. Therefore, we look at areas such as the experience, competence and overall quality of the people together with the depth and breadth of accessible liquidity and the systems and technology available to the transition manager. One area we hope will develop is records of actual costs versus pre-trade estimates – how transition managers have historically actually performed against their expectations.

Does technology assist positively in transitions? If yes, how?

Dwyer: Integration of the risk management, trading and settlement systems is crucial to consistently delivering quality, low cost transitions. The risk of a transition is in its fluidity; it changes after every single security trade and every single security price move. The risk management strategy during a transition must be continuously monitored and, where necessary, changed to reflect the new market conditions. To do this efficiently and effectively the systems must be integrated. Were the systems not truly integrated, but dispersed around the institution in different departments, this type of continuous risk modelling is simply not possible.

At MTMS we have built an in-house platform, which integrates 23 different systems (including screening for corporate actions, risk analysis, trade optimisation and settlement to name just a few). With this level of integration we can truly manage the event and provide an audit trail, so that we can make sure that everything that needs to happen in a transition takes place.

"Not all transition managers are the same, the most important issue is whether a client can clearly see and understand the differences"

French: Given the size and complexity of most transitions technology is absolutely key to successful transition management. In particular it provides the ability to:

(a) handle seamlessly the considerable volumes of transactions;
(b) handle the complex risk analysis and risk management processes;
(c) access multiple sources of liquidity;
(d) apply sophisticated trading strategies across asset classes; and
(e) provide detailed and accurate reporting to clients.

It is vital that this technology is applied throughout the whole transition process in the form of an integrated transition management system that covers project management, book keeping, risk management, trade execution and client reporting. As always a process is as good as its weakness link.

Malcolm: A transition is more than just a big trade; some of the most important and often overlooked aspects of an assignment are the project and risk management functions. The way a transition manager approaches these areas and the systems they employ to monitor them says a lot about the likely success of a transition. Technology is very important to minimise potential errors both in trading and operations. A well constructed technology platform which tracks the many moving parts of a transition throughout the assignment is essential, especially in the increasingly complex assignments now being awarded to transition managers.

Williams: Technology is undoubtedly crucial in transition management – the complexity of the event means technology plays a large part in a successful implementation. Technology influences pretty much all aspects of a transition, but key areas are pre-trade analysis, analysing the legacy and target portfolios to establish a preferred trading strategy, trading the portfolios themselves (algorhythmic trading is being seen more here) and maintaining operational efficiency throughout the transition i.e. having electronic links with the custodian to ensure information is shared quickly and accurately.

In addition to the T-standard, does the transition management industry require further standards to ensure a level playing field? If so, please comment on what further standards we can expect.

Dwyer: The T-standard has given us a means of consistently measuring the cost of the transition, but it does not tell the client if the transition manager has done a good job. The ideal would be a whole range of measurements so that the pension fund could objectively determine the performance of each transition manager. However, this is not achievable because there are so many 'moving parts' in a transition, and the transition manager only has limited control over some of these variables. There is a qualitative element to the transition manager evaluation process.

One quantitative measure that is available is the managers's performance relative to their own pre-trade cost estimates. The client can always ask, for example, the statistics on the last 20 transitions, or the last 20 transitions of a similar risk profile to that being considered. A significant number of disappointing post-trade results would indicate that the manager is producing unrealistically low pre-trade estimates, or that there is something wrong with their market and operational risk systems.

French: I see the main driver for such industry initiatives as the T-Charter to be providing greater client disclosure and transparency, and not necessarily to provide a level playing field. Not all transition managers are the same which means that the most important issue is whether a client can clearly see and understand the differences. This is why I think the two core issues of disclosure and transparency should be the corner stones of any industry standard, as it is in providing these that the overall level of transition management services will improve. If an industry standard does not achieve this, and settles for the lowest common denominator, it will do considerable damage to the industry.

Malcolm: The T-charter aims to ensure good market practice. Its principles cover areas that are not always immediately transparent to plan sponsors, such as conflicts of interest within certain business models and how transition managers are remunerated. We believe it will also act as a useful guide for clients who are planning to select a transition manager by acting as a point of reference when comparing providers.

Williams: The transition management industry can be a complex and confusing area, particularly for pension fund trustees who do not often find themselves in a position where they require the services of a transition management provider. The industry has been discussing a series of best practice principles on areas such as conflicts of interest, client confidentiality, cost estimation, remuneration etc, called the T Charter, which should increase confidence and clarity industry customers.

Comment on the transition management landscape at present. Is there a diversity of offerings or is the industry at risk of standardised offerings by providers?

Dwyer: There has been a lot of discussion regarding the number of transition managers. There are in fact just two types of transition managers. The first type of transition manager is the firm that looks at transition as a means of increasing volume. For a transition, they pull together a multi-skilled team of professionals from different areas of the firm. The other type of transition manager is the true professional. They are a self-sufficient business with their own dedicated, multi-skilled staff with integrated specialist systems.

French: There has been a lot of talk recently about transition manager offerings converging, but this is a view I fundamentally disagree with. I feel there has been considerable blurring at the edges with providers presenting the best facets of all business models/providers, but there are fundamental differences between provider's business models and processes which can not be removed. This is why an industry standard that highlights these key differences in a transparent and intelligible manner is to be encouraged.

Malcolm: On the surface, the market would appear to be heading toward a more generic offering. However, underneath the surface there is a sub-set of providers that are truly committed to continuing to develop the 'product' into a distinct area of expertise. Plan sponsors will continue to demand more of their transition managers as their own investment environment evolves. Those providers committed to the business and that focus on their clients' needs and on tailoring solutions to individual transition scenarios will likely be successful at differentiating themselves in the long run.

Williams: There are numerous transition management providers out there, and this number currently shows no sign of diminishing. Historically providers have been defined quite strongly by the type of firm they are part of, e.g. investment bank, asset manager, custodian etc. In recent times there has been an element of convergence between the various providers. This was perhaps to be expected and, while it may lead to a more standardised offering, if the various providers can take the right aspects from other firms business models the overall quality of the product should improve.

Transparency versus confidentiality. How does one achieve a balance between these two terms during a transition, considering the time scale of the transition and market-sensitive data?

Dwyer: Clearly the leakage of information to the market will drive up the implementation shortfall. This can happen at the pre-trade stage or during the transition itself. During the pre-trade process, the more information that the client divulges to prospective providers, the more detailed analytics they can expect to receive. Providing managers with the legacy and target portfolio profiles enables prospective transition managers to make as complete an assessment of the pending transition as possible. Unfortunately, providing too much information to too many market participants too early in the process may put the client in jeopardy by less than scrupulous candidates. For this reason, the client must balance the need for establishing a level playing field during the pre-trade search with the need to preserve confidentiality.

Confidentiality or non-disclosure agreements with transition managers may be advised for significant restructurings. During the transition itself, it is the responsibility of the manger to ensure that there is no information leakage. For a manager acting as an agent this can readily be achieved by using multiple sources of liquidity, so that no party ever has sufficient information to create trading advantage.

Employing a manager who has undertaken fiduciary responsibility provides real protection for the client. They are obliged to get the best price for their client, concentrating all of their experience and trading skill on best execution.

French: I feel very strongly that these are not mutually exclusive objectives, there is absolutely no reason why a transition manager can not provide complete transparency to a client whilst also maintaining confidentiality. This is just a question of providing information to those parties that should receive it and not disclosing information to parties that should not receive it!

Malcolm: These two terms do not necessarily have to conflict with each other during the transition process. Plan sponsors should take care to only provide high level portfolio data and not provide definitive detail on timelines when inviting a number of transition managers to bid. Their objective here should be to prevent information about their portfolio that could adversely impact performance from leaking into the market. Following selection, the client's interests should be fully aligned with those of the appointed transition manager. In other words it should be in the transition manager's best interests to safeguard market sensitive information, protect client confidentiality, and be fully transparent in setting out the estimated and actual costs of the transition.

"Total cost or performance guarantees tend to be counter-productive by tempting managers to 'game' benchmarks"

Williams: I'm not sure that transparency and confidentiality are mutually exclusive concepts. Transparency relates to the relationship between the transition manager and the client, while confidentiality relates to the information on the transition known by the transition manager and the wider marketplace. The need for confidentiality should not compromise a transition managers' ability to be transparent with the client.

Which concept takes precedent in transitions, the desire for confidentiality or stock level information and why?

Dwyer: See my previous answer.

French: Due to the highly sensitive nature of most transitions, they are large in size and could attract significant trading costs, the disclosure of stock level information to any party apart from the transition manager should be avoided at all costs. The risk here significantly outweighs any benefit!

Malcolm: A transition manager whose interests are fully aligned with those of the client should take every care to safeguard the confidentiality of the transition event. Plan sponsors may choose to withhold stock level information in the early phases of transition planning. The transition manager will eventually use this data to firm up cost estimates and the final transition strategy, but this should not include any disclosure of trading activity to the market.

Williams: We would recommend that, in obtaining several cost estimates from different transition managers as part of a selection process, the desire for confidentiality should take precedence, and summary information on the legacy and target portfolios (e.g. asset classes, tracking errors, no. of stocks) should be given to the transition managers. Stock level information is proprietary information for an investment manager, and many investment managers require confidentiality agreements before sending portfolio lists to transition managers. Therefore, we believe it is inappropriate to send investment managers portfolio lists to several transition managers as part of the selection process.

Please comment on the future of guaranteed total cost arrangements in transition management.

Dwyer: Guarantees always come at a price. This is further complicated in a transition in that the price of the guarantee is unknown if the guarantee is benchmarked to closing prices. Total cost or performance guarantees tend to be counter-productive by tempting managers to "game" benchmarks. If the pension fund values transparency, performance guarantees are generally not the most appropriate choice. Guarantees may have unintended consequences by pitting the transition manager as a counterparty to the transition rather than as a trusted partner.

French: There is a fundamental difference between a trading process that is executed as an agent and one that is executed as principal. In the former case the transition manager is obligated to achieve best price for a client, whilst in the latter the transition manager is counterparty to the transaction. Thus when a transition manager acts as principal this introduces a considerable potential conflict of interest. Recently the concept of a guaranteed total cost has been applied to 'agency' trades which is just not possible and clients have unknowingly been exposed to principal trade execution and the accompanying potential conflicts. This is a clear example where more transparency and disclosure is undoubtedly desirable.

Malcolm: As an agency-only house, this is not an activity in which we would seek to participate. For clients looking to choose a manager, the actual number of real occasions when you need to get capital committed is quite low. The solution as a whole can look attractive as all the risk is moved directly to a third party at an agreed price point. However, a professional transition manager is more than capable of managing the risks and ensuring timely execution without committing capital. With the well documented debate over pre-hedging, and the inherent conflict between a client and the provider's own interests, these type of solutions need to be fully understood as transparency could be limited post the event.

Williams: Guaranteed total cost arrangements should be entered into carefully, as a transition manager who proposes a guaranteed result is effectively transferring the risk of the transition outcome from the client to the transition manager. This is likely to increase the overall expected cost of the transition, as the transition manager has to charge a premium for effectively taking on the risk of the transition. The transition essentially becomes a principal bid transaction.

How does the transition manager provide liquidity profiles while keeping opportunity costs down?

Dwyer: To minimise costs the transition manager has to utilise all available liquidity (in kind transfers, crossing, principal trades, agency open market transactions, and the use of derivatives). Some managers wrongly focus on maximising the transaction types that appear free or low-cost, without due consideration of the opportunity costs. Take for example internal and external crossing. Although crossing offers several advantages to the transition manager, it can also substantially increase the market risk. In particular a low percentage of orders submitted to a crossing system could be filled, leaving the large balance subject to a longer period of market risk exposure.

"Those transition managers who truly partner with their clients to offer bespoke solutions will be in the best position to capitalise"

French: A transition manager should have a combined execution and risk management process that balances the dual challenges of minimising cost and managing risk. There is no substitute for natural liquidity in reducing costs and here only providers with critical mass will have access to this liquidity. However this should be combined with rigorous risk management processes to ensure this dual challenge is met.

Malcolm: Determining the correct trading strategy is a core discipline of the transition manager. The pre-trade analysis phase should involve a thorough examination of the risk characteristics of the transition. Liquidity is one element in this analysis and is key to assessing the likely trading period and the associated impact cost of trading. A longer trading period, either to incorporate an aggressive crossing strategy or to reduce market impact costs, needs to be carefully balanced against the potentially much higher opportunity costs to extending the trading period.

Williams: Access to a large breadth and depth of liquidity pools (be it internally through daily trading flow or externally through a range of contacts with large liquidity profiles) is key to executing a transition cost efficiently, and not allowing opportunity costs to dominate. This is one of the reasons large global firms have been successful in the transition management industry as they have developed the necessary infrastructure to carry out a transition promptly and effectively.

What are the challenges and opportunities for transition management providers for the next year?

Dwyer: Pension funds are focusing on absolute performance. Many are looking for asset allocations that will produce the returns required to close the funding gap. This means looking at new portfolio structures as well as more complex investments. These fundamental portfolio reallocations provide great opportunities for transition managers to add value. The challenge is to ensure that you are building your product so that these new asset allocations can be implemented efficiently and at low cost.

French: The challenge to the industry is to agree and adhere to a common standard, the T-Charter, that provides complete transparency and full disclosure to clients. Achieveing this will be a significant milestone for the industry. However the danger here is that we settle for the lowest common denominator which would do the industry considerable damage.

At the individual provider level the challenge is to continue to meet the demands of our clients who want us to handle more complex and more challenging transitions, whilst continually enhancing the level of service we provide.

Malcolm: The opportunities for transition management providers will arise from the increasingly complex and diverse nature of the investment landscape. Transition managers are in a unique position to continue adding value in the transition process by responding to plan sponsors needs. The challenge will be the need to move with the times, remain flexible, and to focus on client needs. Those transition managers who truly partner with their clients to offer bespoke solutions will be in the best position to capitalise.

Williams: Opportunities continue to exist for transition managers, as asset owners make changes to their structures - the challenge for transition managers is to differentiate themselves from the competition in the relatively crowded marketplace. Another challenge is to demonstrate skills in transitioning some of the newer asset classes that pension funds, in particular, are entering into (e.g. swaps and other derivatives, hedge funds, commodities etc). ISJ

Ready to Serve?

Tim Wood

While the focus has shifted to a much more protean information business, global asset servicing remains a relationship business first and foremost, says Tim Wood

When it comes to differentiating between asset servicing providers, clients must wrestle with a paradox: the product set offered by the different players are at once different, yet in some ways much the same. Although the come in many permutations, providers' offerings generally share certain basic characteristics and components. Asset servicing operations at a basic level are conglomerations of technology and process that seek to address certain needs: safekeeping, clearing, settlement, fund accounting, lending and borrowing, performance measurement, risk monitoring. Where value is added is in the delivery of those products and services – in the quality of a provider's client service.

It is a phrase that has come to be much used and abused over the years, but what does good client service actually entail? Hard work, the ability to anticipate client needs and consistency of response and execution are key. It is about doing what you said you would do, when you said you would do it. It is about getting the basics right. It is about having the right service level agreement in place, so that you are focusing on what is important to your client. It is about using technology as a resource, not as an excuse. It is about attitude, not scale.

Without a doubt, the traditional 'hold and settle' model – predicated on the physical safekeeping and settlement of assets and associated services – on which the custody business was founded has over the past decade evolved into a far more sophisticated and multi-faceted proposition. Yet, while the focus has shifted to a much more protean information business built around timeliness, accuracy, flexibility and analytical tools, global asset servicing remains a relationship business first and foremost. Scale, assets under custody, the number of markets covered and annual technology spend are certainly all key considerations when it comes to choosing a provider, but if client service underpinning the enterprise is mediocre, then clients will only end up disappointed.

Industry surveys offer a valuable insight not only into custodians' deployment of technology, value added products and staff but also how successfully – or, indeed, how unsuccessfully – those key building blocks are combined. Yet, time and again many of the largest custodians in asset terms find themselves propping up the lower reaches of the survey rankings.

Value

Cut-rate fees and/or a plethora of technological bells and whistles are in the end simply not enough. Rather, clients are placing ever greater emphasis on the value custodians can bring to their operations. The more functions and responsibilities that clients are prepared to hand off to their custodian, the more their business depends upon the quality of the relationship they have with that provider. In contrast to the 1990s, when buyers prioritised low fees above almost all else, firms have since come to recognise that if you then need to employ an in-house team to effectively manage the custodian and pick up the work that it declines to take on, then perhaps such 'bargain' arrangements are not such a cost-effective solution after all.

As the saying goes, you can hire experts every day of the week, it is getting them to work together that is the real challenge. This is where the custodian's client relations staff come in, troubleshooting, escalating and resolving problems as they arise, building solutions and turning something inherently transactional into added value for the client. These services are becoming an ever greater part of the contract between client and supplier.

Foundation Stones

There are five foundation stones to class-leading client service, the first of which is to offer clients a tailored service. A 'one size fits all' approach to client service will be found wanting. No two clients have precisely the same needs or expectations, they all have very distinct lines of business, and very distinct clients of their own. It may be a stating the obvious, but it is nonetheless a point worth reiterating: the better you understand a client's needs, the better you can support their business, and the future growth of that business.

As a custodian, it is imperative that there is an understanding – at all levels of the organisation – as to how the client functions and what is important to them. As well as knowing where you want to be in your value chain, you must understand where your client wants to be in their value chain. Accordingly, a true partnership with a client is key.

It is vital not only that a provider understands the current needs of a client, and tailor its service offering around those needs, but that it can anticipate and manage the client's expectations. You need to ask what the client expects from you. We are there to fix their problems. That, of course, involves listening and also asking the right questions – and, crucially, correctly interpreting the answers. We fit into the client's model, rather than them having to fit in around ours.

Thinking outside the box

While infrastructure and technology have a central role to play in delivering asset servicing solutions, they are the means to an end, not an end in itself, and any servicing model must accordingly be solutions-driven. Just as important is an ability to think outside the box at all times in terms of how those solutions can be employed to address and neutralise key client pain points.

For example, we have always provided a system that tracks client queries and query resolution for timeliness. That is nothing new, but this year we have begun offering it to clients themselves, to allow them to raise queries and monitor their progress and status. This allows us to open up an alternative channel of communication between the client and ourselves, although it is by no means meant to replace existing channels that facilitate personal contact.

The ability to offer clients a single and consistent point of contact is also central to good client service. Tied into this is the ability to do the simple things right – for instance, always picking up the phone, rather than falling back on voicemail. By devolving power downwards within the organisation, we can ensure that the front-line service teams on the ground can move swiftly and decisively to address client issues as and when they arise.

Client service is not merely a question of bodies; rather it is about leveraging specific skillsets to address specific operational challenges. As a provider, we look for people who are solutions-oriented, and who can mobilise operations and product development groups. We are looking for a business mindset, because ultimately clients are dealing with business issues, not merely custody issues. Continuity, both of staff and expertise, will ensure those issues are resolved painlessly and effectively.

As a custodian, it is imperative that there is an understanding as to how the client functions and what is important to them

While asset managers in particular are moving to a more simplified, streamlined business model as they seek to focus in order to enhance performance and returns, at the same time the environment in which they operate is becoming ever more complex and multi-layered as the range of instruments and geographies with which they engage expands. Effective client servicing has thus become much more complex in recent years, and providers need to possess a far deeper insight into the client's goals and direction than ever before.

Challenge

Following our joint venture with Dexia Fund Services to create RBC Dexia Investor Services, we are now uniquely positioned to offer a service proposition that combines the flexibility and commitment to high quality client service that our predecessor organisations were known for.

We are constantly being challenged by our clients – whether in respect of alternative investments, outsourcing, front-office products, or collateral management – and we need to deliver. We cannot do this effectively with a dogmatic approach, and accordingly flexibility is hard-wired into everything we do – and nowhere is that more true that in client services.

You cannot afford to take your eye off the ball, which is why a client-centric approach must be deeply engrained within your business model, not merely a hastily slapped on afterthought. Custodians must be prepared to innovate constantly – relationships are not static, they are dynamic. Accordingly, a service provider must continue to listen and work with a client far beyond the initial consultancy stage and must be able to mobilise their entire organisation to help clients to attain their goals. As their expectations evolve so our service and solutions must also evolve – but as we move forward together, the paramount priority we afford client service will remain unchanged.

Raising the Standard

Despite the strides made in corporate actions standardisation, this area of securities processing is still crying out for bigger initiatives.

Alan Duerden Reports

Every year, almost one million corporate actions take place worldwide, across 60 to 70 different corporate actions types, ranging from single coupon payments, cash dividends and stock splits, to complex mergers and acquisitions and tender offers.

Trudging their way through this convoluted maze the Giovanni Group, the European Central Bank and the Committee for European Securities Regulators have advocated greater automation, efficiency and standardisation for the processing of corporate actions, an area that has papered over the cracks, hoping that problems will go away of their own accord. But as any builder will tell you, wallpaper is not enough to stop the walls from crumbling

"The problem with corporate actions is that it's complicated, there is no standardisation and it costs a lot of money," says Brett Lancaster, Vice President of DTCC Product Marketing, GCA Validation. "From an STP standpoint, it's the last pillar of securities processing that really needs a kick up the back-side."

This kick had better come soon as the potential risk exposure through corporate actions is huge and unless an organisation has incurred a corporate actions loss many of them don't necessarily understand the risks involved and huge losses that can be made. "10 years ago there were relatively few corporate actions but now the volume has gone through the roof," says Lancaster. "If you get it wrong you can get burnt for tens of millions of dollars."

As end-clients do not enjoy getting bad data, a company's reputation can also be tainted by the incorrect interpretation or processing of corporate actions information. This reflects back on the organisation who is providing that data.

A corporate action gone wrong

The reality is that corporate actions are a high-risk processing area where quite substantial losses can be made. "The two main areas of risk around corporate actions are about knowing the corporate event and knowing it accurately," says Harvey Colborne, Mondas. "So timely and accurate corporate action notification information is key."

Many in the industry feel that automation and standardisation is the best way to reduce risk and add accuracy to the process. The software is now available to allow companies to apply automation to corporate actions to reduce the levels of manual input and therefore reduce the human errors that can creep in.

"In the past you would replace a manual management process with an automatic manual process. Instead of having automatic feeds setting up your process you would

Corporate Actions Rights Issue: A Risky Business

A company (Harry's Marbles) may give existing shareholders the right to buy new shares at a specific price and by a specific date.

Imagine that Harry's Marbles offers shareholders 20 new shares for each one they own at a trading price of £20.
The fund manager who has 1000 shares in Harry's Marbles instructs the custodian to proceed with the offer and buy 20,000 new shares at £20 each. The purchase price is £400,000.

If the custodian does not process the message properly and the shares are not bought by the specific date then the custodian is legally obliged to still buy the shares for the client at whatever price the stock is trading at.

Imagine that the price of Harry's Marbles shares increases to £40. The custodian will have to buy 20,000 shares at £40 each. The purchase price is now £800,000 and the custodian has just lost £400,000.

Corporate Actions Worldwide from March 2003 to March 2004

Region	No. of C/A's	%
North America	624,700	67%
Europe	203,600	22%
Asia Pacific	62,000	6%
Other	44,900	5%
World Total	935,200	100%

Source: The Swiss Securities Services Corporation

France Telecom Rights Issue (March/April 2003) Illustrates Potential Loss

Time	t=04.04.2003	t+1 day	t+3 days	t+6 days	t+12 days
Share Price EUR	19.34	20.55	20.7	20.54	21.45
Size of Holding (no. of shares)	**Value of holding at day (t) in EUR**				
100,000	1,934,000	114,950	129,200	114,000	200,450
500,000	9,670,000	574,750	646,000	570,000	1,002,250
1,000,000	19,340,000	1,149,500	1,292,00	1,140,000	2,004,500
10,000,000	193,400,000	11,495,00	12,920,0	11,400,00	20,045,00
50,000,000	967,000,000	57,475,00	64,600,0	57,000,0	100,225,00

Source: The Swiss Securities Services Corporation

have to sit there and manually create your events but there would still be some automation there by using electronic calendars and spreadsheets etc."

Standardisation is being taken seriously within the securities industry and data vendors have adopted ISO15022, a standard launched for the communication of SWIFT messages in 1997. According to the International Organisation of Standardisation, ISO15022 was set up to standardise securities message flows and set out principles for the design of message flows. "This is very important," says Colborne. "For companies like ours who are producing STP and end-to-end corporate action systems, it means you take the pain out of manually creating the corporate event in the first place or having to build a costly API for a proprietary feed."

ISO15022 aims to have companies singing from the same song sheet by using a standard set of messages for corporate actions, to prevent inaccuracies in data flows.

In practice, the theory behind an industry standard has created teething problems for both custodians and data vendors alike

In practice, however, the theory behind an industry standard has created teething problems for both custodians and data vendors alike and has overlooked key issues in the transferral of corporate actions messages.

Before the standard came into being, organisations would have their own interpretation of messages, dependant upon who they received their corporate action data from. "Some of the big data vendors would be sending the same corporate actions announcements and they would be identifying them using different event names," says Gary Reinhart, Vice President of Product Management at GoldenSource. "As a result, a lot of companies came up with their own customised, end-to-end processing requirements."

The ISO standard has been adopted as one of the mechanisms to provide announcements of corporate actions, assuming that companies refer to corporate actions in the same way and call them the same thing. It is here that standard fall down as they do not really allow for company discrepancies in the way they present specific information.

"Companies have their own proprietary format for the announcements. If there was a standard out there that everyone used it would make it a lot easier," says Reinhart.

In addition to this challenge, harmonisation across countries and different markets is not seen to be complete enough and inconsistencies have crept into the data. In essence, ISO defines a glossary of terms and data elements and does not force inter-country market practice. Not one single vendor has a unified, holistic view of all corporate actions on a worldwide scale, which leads to a divergent set of requirements between front and back office uses of the data. "Not all organisations digest corporate actions the same way. Our approach as a corporate action data solution has been to apply ISO 15022 standards that exist today, while allowing flexibility to utilize formats such as XML to meet both front and back office requirements"

Under siege?

Corporate actions service providers have their say...

	SmartStream Steve Miller Senior Product Manager	Interactive Data Nat Sey Manager of Delivery & Infrasrtucture	Vermeg Philippe Rey President	ADP Robin Kneale Product Manager
WHY HAVE CORPORATE ACTIONS BECOME SUCH A HOT TOPIC IN RENT YEARS?	It is one of the next candidates for automation and implementation of STP after firms have put out the forest fires in their mainstream trade processing business lines – equities, fixed income, derivatives. There has also been an emphasis on reduction of operational risk.	Corporate actions are the one remaining area of large scale manual processing so it was inevitable that they would be next. Some would argue however, that not so long ago the industry witnessed a false dawn but since then, software vendors seem to have made a concerted effort to match that expectation and there appears to be more confidence in the notion that solutions do exist.	It is a logical step in the priority list after several other urgent areas: standards are now available; software providers have developed credible offers; costs savings remain to be done; operational risk control and measure become more an issue with Basel II; markets recovering restarts to generate higher volumes.	Because of the financial risk and the costs of processing.
WHY IS STANDARDISATION AND AUTOMATION OF CORPORATE ACTIONS NECESSARY?	Because it is the single most effective means of mitigating the immense financial and operational risk inherent in processing corporate actions.	For the most part <as an industry> we have been too good at papering over the cracks. Experience tells us that we can't be that good all the time. We could just wait for each firm to suffer a huge corporate actions related loss, but how long will that take for us to reach critical mass?	It is one of the few remaining unautomated areas. As usual it brings: lower unit costs, better service quality, lower failure costs, higher risk controls, less sensitivity to volumes and seasonality.	Processing corporate actions for retail firms is an expense with little associated revenue. There are considerable financial risks if a corporate action is missed or processed incorrectly. Reliance on manual processes and the interpretation of free text messages is far short of ideal.
HOW CAN AUTOMATION AND STANDARDISATION OF CORPORATE ACTIONS MESSAGES BE ACHIEVED?	Standardisation is being achieved through the efforts of SWIFT as the standards body for ISO15022. Automation depends heavily on standardisation of messaging, and widespread uptake and implementation of that standardisation across all sectors of the industry.	ISO 15022 is already being used by some to achieve a large degree of automation, and a few almost entire automation. Exceptions that require manual attention will always exist – the trick is to minimise them as far as possible, thereby benefiting from the associated reduction in cost and risk.	If you automate/standardize only the message itself, even if it is fully SWIFT/ISO compliant you have achieved very little. What it is important is to rethink entirely the organisation and the procedures towards clients support, exception handling, flow processing and dashboard controls.	By the industry actually using the standards that exist under ISO, or if the standards are not sufficient, ensuring that the next revision of standards does meet their needs in the majority of cases.
WHAT AFFECT DOES AUTOMATION AND STANDARDISATION HAVE ON CORPORATE ACTIONS?	Mandatory events can, in theory, be processed in a completely automated manner given an appropriate systems infrastructure and messaging capability. It vastly reduces the processing burden for voluntary events. So overall, the effect should be to reduce costs, headcount and risk.	The manual processing of potentially thousands of corporate actions a year requires skilled staff to perform often mundane tasks. In addition, the risk involved in either missing or misinterpreting an important piece of corporate actions is a major factor – never an economical combination.	To say that automation/standardisation changes the nature or the definition of the CA's, we don't think so, it is the other way around. CA's are created by the imagination of Investment bankers. It is up to standards and back office people and software providers to adapt.	Reduces risk and ongoing cost. However there is a high up front price to pay to achieve a truly automated solution.

says Chris Madigan, Vice President, Fidelity Actions Xchange. Standardisation and automation of corporate actions has also had problems relating to costs and resources needed for implementation. It has been suggested that about 80 per cent of the market is working towards the ISO standard but about 20 per cent of this market are still using manual processing.

"The reality is that until organizations truly adopt the ISO 15022 standard, automation of corporate action messaging and processing will be hindered." Although SWIFT has made a tremendous effort implementing the 15022 standard, without a regulatory mandate it will be a slow process," says Madigan.

Regulation has been cited to help all companies get onside meeting new industry requirements and certainly goes a long way in influencing firms to adopt the ISO standard

As a catalyst, regulation has been cited to help all companies get onside meeting new industry requirements and certainly goes a long way in influencing firms to adopt the ISO standard and implement it into their corporate actions processes. Whether this is the right way to go is yet to be seen, but a binding agent is needed if eliminating risk and increasing the efficiency in corporate actions messages is to be achieved. There are too many differences between companies and markets in their treatment of corporate actions to allow the system to operate as well as it should do.

"When you are in a major market; London, New York or Tokyo, the automation tends to be more mature, with a better eye on standardization and communication" believes Brian Lott, Partner at Capco Reference Data Services. "As you look into some of the smaller markets, the automation and technology, and hence the standardisation, tends to be less." So what does the future hold for corporate actions standardisation and automation?

"The biggest issues that still remain are timeliness and quality," says Lott. "They still exist because you are still reliant on third party sources and there are very few instances where the information is available directly from the sources themselves e.g., issuers, paying agents. As a result of the many handoffs that exist, the accuracy of those sources and where they are getting their data from still needs to be addressed. So there are still issues around timeliness and quality of the data."

While ISO15022 is a great start, it does not go all the way in providing the full standardisation that is needed to enable full corporate actions automation. At the same time, no single company can plaster the corporate actions hole and a major industry initiative is required. **ISJ**

Missing the Boat

A number of institutional investors have yet to claim the monies owed to them as a result of class action lawsuits.

James Reed finds out how investors can claim what is rightfully theirs

At the time of writing angry investors around the world are readying themselves for the biggest trial in corporate history. Former Enron bosses Ken Lay and Jeff Skilling are finally facing a Houston jury on 35 counts of fraud, conspiracy, insider trading and lying to auditors. Both men maintain their innocence, laying the blame squarely at the door of former chief financial officer Andrew Fastow. But there is regret at the way the wider community and former employees have been ruined by the scandal. "It's the most devastating and heartbreaking tragedy of my life," says Lay. "It will assuredly continue to haunt me until my death."

Around five thousand Enron employees were left without a job in the aftermath of the world's largest bankruptcy. Most lost hundreds of thousands of dollars in pension payments linked to stock investment plans. But what of the shareholders? Enron's stock price crumbled from a high of $90 to less than ¢30, an unprecedented collapse for a blue chip voted the world's most innovative company by Fortune Magazine five years in a row.

Battleground

Lawyers are still locked in what they call a "long battle" to reimburse investors. Defendants in the various Enron collapse lawsuits, including the energy giant's banks, have pledged more than $7 bn to settle claims from victims. The SEC, Justice Department and Labour Department have recovered a few hundred million more. Lawyers think the overall amount could reach $10 bn in a few years, to be paid out to hundreds of thousands of claimants. That works out at around 20 cents on the dollar. Not a fantastic return, granted, but certainly worth chasing all the same.

This all sounds encouraging in theory. But actually getting your hands on some of that cash is a lot more difficult than you'd imagine. In 2006, it is hard to believe that any mutual fund would leave settlement money on the table. But research from Duke University Law School professor James Cox finds that over 70% of institutions fail to claim their full share of any payout. The reasons? Professor Cox accepts there is just no "conclusive explanation". But he offers up a number of suggestions. Institutions may not understand how much money they can claim back in a class action lawsuit. Typically the size of any return is small compared to the overall size of a fund's portfolio, and that understandably puts funds off. "For smaller investors, it's a difficult process to file the forms," agrees Anthony Gelderman, Of Counsel at Bernstein, Litowitz, Berger & Grossmann, the New York law firm that recovered $6 bn for WorldCom investors.

"The larger ones are more likely to file. So it's a critical mass problem. As the technology improves, it may be possible for smaller investors to recoup more through their money management firms. Among institutional investors in the United States, securities class action cases have become more and more common."

Mister Gelderman is also starting to see more interest from European investors as they see their US counterparts winning large sums in class action cases. "The movement [in Europe] is being brought by investor organisations," he adds. "It's not lawyer-driven."

Legal Duty

At a global level, many institutions fail to realise that filing claims is part of their legal duty to the end investor and a large number do not have staff in place to handle the paperwork. The "widespread failure" of the system, as Professor Cox puts it, could be helped by a more pro-active policy from the SEC.

This is where the world's of business and politics collide and things get, frankly, a little messy. Cast your mind back to 1996 and the days before George W. Bush. Bill Clinton is sitting in the Oval Office and he's in trouble. The Republicans

MISSING BILLIONS

According to research by class action recovery specialist Magenta One, institutional investors and custodians are missing out on class action settlement payments amounting to $8,28bn. Of the 71 settled cases examined by the specialist, settlement has already been agreed and the funds deposited in an escrow account awaiting a proof of claim. There are 117 cases that have passed the proof of claim deadline where the funds are awaiting distribution by the court appointed claims administrators.

There are 33 lead plaintiff opportunities, anyone wishing to be a lead plaintiff will need to apply within a 60 day window. There are also 1070 class member cases, including those where a lead plaintiff has been appointed and the case is going forward. Around 99 per cent of cases are successful. Apart from 2001 (when there were 489 cases due to the dotcom bubble bursting), there are on average 220 class actions per year, said Magenta One.

According to the specialist, the ten largest cases to settle so far are as follows:

COMPANY / Amount in US dollars (millions):

WorldCom - 6,128.3
Enron - 4,760.5 (likely to top $8,000 million)
Cendant - 3,527.5
IPO Allocation - 1,000.0
McKesson HBOC - 960.0
Lucent Technologies - 673.4
Raytheon - 535.0
Bank of America - 490.0
Dynergy - 474.1
Waste Management - 457.0

There are more than 15 cases due to settle for $500 million over the next one to two years.

In the last three quarters of 2003 and the first quarter 2004 $2.4 billion was unclaimed by non-US investors have just taken control of the House of Representatives for the first time in 40 years and set about passing a radical legislative agenda called the "Contract with America". One of the most controversial elements of this programme was designed to free up business from what conservatives felt was a flurry of needless and costly class action lawsuits. The Private Securities Litigation Reform Act was either a gutsy attempt to reign in over-zealous and money grabbing lawyers or the "ultimate in special interest legislation", depending on your political perspective. The PSLRA was passed over President Bill Clinton's veto - one of his most politically charged decisions. "We lowered the risks for securities fraud, eliminated deterrence, and fostered a culture of laxity," says Abner J. Mikva, a former council to President Clinton and member of the House.

Either way, and for right or wrong, the Act certainly makes it harder for individuals to claim damages as part of a class action lawsuit. A report published in early January by Stanford Law School finds the number of actions filed in 2005 dropped more than 17 percent from 2004 levels, falling from 213 filings to 176. The filing rate is nearly 10 percent below the 1996 – 2004 historic average of 195. The SEC argues that this does not mean more crooked executives are getting away with fraud. In fact the opposite: "The Act is working as its drafters intended to focus litigation resources and improve recoveries for investors who have real claims," the Commission says in a statement. "The complaints filed by plaintiffs now have more factual detail, meaning that lawyers are doing their homework before bringing suit rather than hoping to hit pay dirt in discovery fishing expeditions."

Mutual funds sued

But if institutions like pension funds think filing is just too much bother when they have things like stocks and bonds to worry about then they could be in for a shock. With amusing irony, US lawyers have filed a class action lawsuit against forty mutual funds for not claiming money owed to them from class action lawsuits. "These mutual funds owned stock in hundreds of companies that reached settlements," says Lead Council Randall Pulliam. "They were also the only ones who could claim this money on behalf of their investor customers. Although the process for collecting this money was simple, the mutual funds simply didn't follow through."

New Market

With the pressure on funds increasing all the time, a market is starting to emerge for innovative consulting and technology companies. London-based Magenta One serves a range of clients from individual investors to fund managers, brokers and custodians. "Class actions are a new opportunity for clients to claim money they've never known is out there," says Managing Director David Monks. "In many cases, these institutions are not even aware they are owed anything. The most challenging aspect for us is educating our customers."

Magenta One offers an outsourced service for class actions. It collects the latest information on cases and deadlines, provides documentation and helps financial institutions with their claims. "One client made $1 m on a single claim against DaimlerChrysler," says Monks. "We looked at it, saw it was made incorrectly, reapplied on their behalf and came back with $4.25 m."

In Magenta One's experience, it's the more forward looking financial institutions are willing to take on class actions in any serious way. David Monks says that, in big banks, claims are sometimes dealt with by the corporate actions team, if they are lucky enough to get that far in the first place. Other areas of the business, like legal and compliance, don't see it as their responsibility and pass the problem on. Add to that the problems of standardisation. "Every claim has a different type of form and different requirements," adds Monks. "It's difficult to automate as there are nearly 50 basic combinations."

> "US lawyers have filed a class action lawsuit against forty mutual funds for not claiming money owed to them from class action lawsuits"

With all that in mind, it's no great surprise that Magenta One is a fast growing business, according to Monks. Just 20 months ago, the company employed four people. Now it's 14 in London, three in the Channel Islands and another three in the spiritual home of the securities lawsuit, New York.

And that kind of growth is attracting other consulting and technology companies. In the middle of last year, New York-based Xcitek launched a new web-based information management service that allows financial institutions to identify, track and collect cash from securities class actions. The firm boasts around 20 clients including custodians, brokerages and banks like the Trust Company of Illinois.

"Class actions are a textbook case of intensive, manually powered, securities processing events," says Charles W. Price, Senior Vice President at Xcitek. "Now firms are faced with a massive paper crunch. If you look at just the WorldCom case, it involved over 30 issues alone."

Using Xcitek's web-based solution, users can create watchlists that automatically notify funds of upcoming filing deadlines and new or updated cases. All claims forms and documentation are available online across the whole class action universe.

"Class actions impact everyone regardless of where they sit in the securities processing chain," adds Price. "It's really the name of the game these days… we're seeing tremendous interest in the service."

> "Class actions are a textbook case of intensive, manually powered, securities processing events"

With regulators in Brussels pushing for individuals and companies here in Europe to make more use of class action law suits, the demand for these kind of services on both sides of the Atlantic is likely to increase over the next decade. And, with the likes of Enron and WorldCom still making headlines, expect interest from clients and new technology providers alike to keep growing.

"Right now we are in a range where we see $5-6 bn a year being recovered," says Gelderman at BLB&G "That's not going to go down for a least 3 to 4 years. We're more likely to see an increase. There are an awful lot of cases pending at the moment." **ISJ**

Philippe Seyll, Director of Clearstream's Investment Fund Business explains the market desire and logic behind the announcement of the 'Central Facility for Funds' in Luxembourg.

New Launch: The Market-driven Fund Facility for all

Philippe Seyll

In recent times, the European Investment Fund industry has been debating an industry issue that is key to its future prosperity. With volumes growing strongly and demographic trends pointing in the right direction, the industry has come to realize that the level of relative immaturity within the infrastructure that supports the industry must be resolved. The problem centres around the complexity of the industry structure for Luxembourg-domiciled investment funds which represent a quarter of the European market and is growing quickly (up 28% in 2005). The issue that needed resolution was the complexity and cost of the current structures and the lack of simultaneous transfer of cash and securities for investment fund transactions. This created inherent settlement risk and transactions costs that must be removed for the sector to prosper further.

Key market players had been discussing the issues behind closed doors for some time and had begun to look for an infrastructural partner to help provide an industry solution. So it was no great surprise that Clearstream was approached by key players to become the central point of the debate. Clearstream's record as the settlement and custody operation for the international fixed income markets and its central location in amongst the Luxembourg market made it a natural choice. After chairing industry discussions on this subject throughout 2005, the announcement in March that Clearstream will launch a 'Central Facility for Funds (CFF)' may have surprised some but for those close to the centre of the industry, they all knew it was coming and needed.

The reasoning is compelling and logical. For some time now, the lack of DVP (delivery-versus-payment) in the industry has become a concern for regulators with approximately 80 per cent of transactions being processed without a secured simultaneous transfer of cash and securities. The lack of standardization and the need to manage multiple relationships across the Transfer Agency Network has created a high base cost structure which is always passed on to the end investor. Hence the need for a market-driven infrastructure solution was clear and increasingly urgent.

Natural Partner

The choice of provider was also understandable. Clearstream's history of delivering efficient and secure transaction processing and custody to the international fixed income industry has led it to a position whereby over EUR 8.7 trillion of assets are held in custody and it serves over 2,500 financial institutions across 90 countries from its base in Luxembourg. Furthermore, in recent years Clearstream has expanded its service offering to the investment fund industry with the introduction of an order-routing service called Vestima+. This service has rapidly found acceptance with a series of players continuing to realize the efficiencies offered by the service. In addition, Clearstream's wider funds business now processes over 250,000 transactions each month with a growth rate of over 100% year-on-year. When this proven experience is coupled with its location in the heart of Luxembourg investment fund industry and its close working relationship with the Luxembourg Stock Exchange and regulator, Clearstream was always going to be a natural partner.

But it was the market players that instigated the developments that led to the launch of the CFF. Across 2005, meetings were being held amongst the Distributors and Transfer agencies exploring how a centralized facility could be created and what it would do. Those meetings eventually culminated in the announcement in March.

Central Facility for Funds

Within the detail of the announcement was an explanation of the initial service. The CFF will deliver full DVP settlement facilities between fund distributors, custodians and transfer agents thereby eliminating the inherent settlement risk. Furthermore, it will deliver the capability to manage corporate actions and potentially the distribution of trailer fees. This will be backed up by leading-edge reporting services on settled positions and the provision of a central source of static fund data.

The benefits to such a facility for the market are varied and significant. By implementing DVP, the main elements of settlement risk will be removed. Cost reductions will be delivered by an increase in simplified operational procedures and the operation of a central hub delivers greater standardization and easier reconciliation benefits. Naturally, a structured market of this kind enables a reduction in the systemic and operational risk elements which are key for regulators today. All in all, the logic is solid and reasoning is sound.

Most importantly for such an initiative, there are benefits for all the types of players in the market. The CFF will deliver what the market needs no matter what your relative position. Distributors have been calling for an infrastructure that re-uses the proven processes, in particular DVP settlement, and also caters for all trading activities such as transfers and OTC settlement. They will get it with the CFF. Fund promoters want a central hub that supports international distribution and provides the required granularity of related information. They will get it with the CFF. Transfer Agencies have been vocal in their need for reducing risk and reconciliation efforts whilst at the same time increasing STP processing and holding information at the distributor level. With the CFF, they will get it.

The CFF will deliver full DVP settlement facilities between fund distributors, custodians and transfer agents thereby elimination the inherent settlement risk

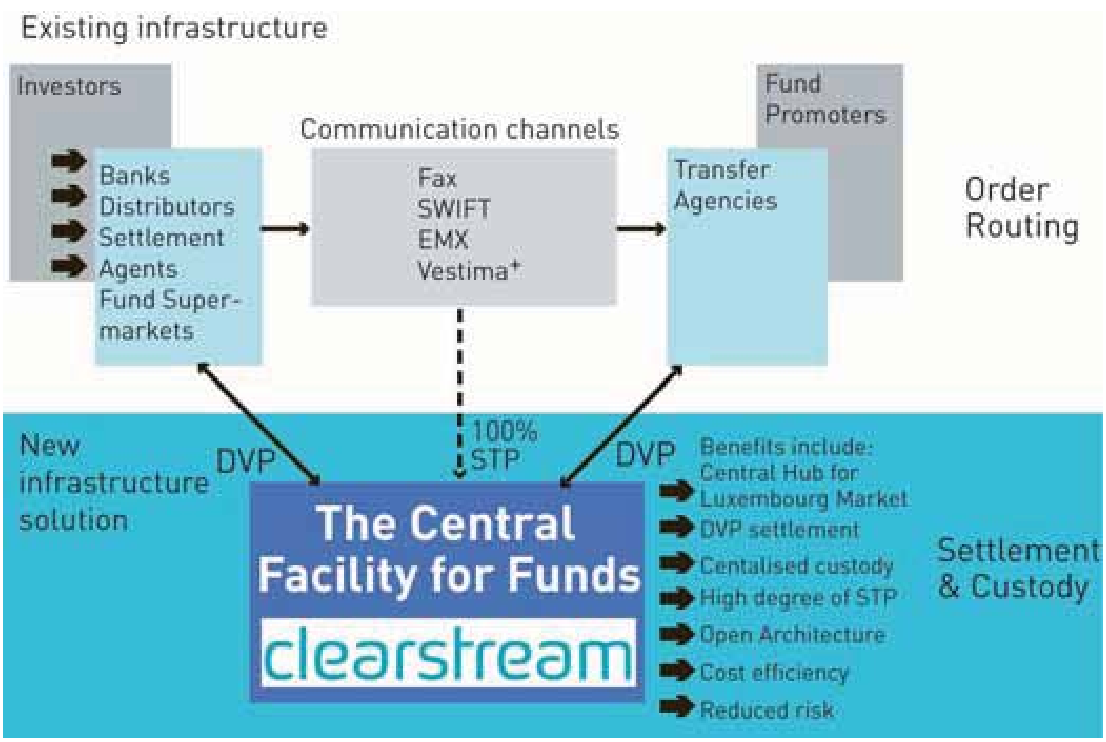
Making it happen

As with all such initiatives, design is one thing but making it actually happen is always the real challenge. But with the base idea being market-driven and the creation of a market-based steering group to oversee implementation and adoption issues, the Clearstream plan is realistic. The first early adopters are expected to go live in late 2006 with a phased enhancement program continuing into 2008.

The CFF is already being seen by the market as a smart and pragmatic way forward that all market players will benefit from and one that can evolve into the future. The prospect of the service gradually being enhanced to include central counterparty facilities is also a possibility but there is much work to be addressed first. Furthermore, the model is also geographically expandable too with the Dublin Fund market as likely beneficiary when the time is right. But for now the focus is on the operational and project management aspects of taking an industry solution from the conceptual agreement stage into the reality of daily life. With the widespread support and engagement of the industry at the centre of the process, the CFF will become the new infrastructural model for the Luxembourg Fund Market and as a direct result position it for future growth. Recently, Stefan Bichsel, President of EFAMA, was quoted saying, "The industry already realises that its successful future is dependent upon providing a solid, reliable and efficient infrastructure that eradicates the risks to investors. Every market player knows this and as an industry, we are committed to making it happen."

ISJ

THE CENTRAL FACILITY FOR FUNDS



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March 9 2006
The Williams Event - Network Management
London, venue to be announced

March 13 2006, 5 days
FIMA USA 2006
Embassy Suites, New York, NY
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Fax: (+352) 22 30 93
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April 4 2006, 3 days
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Tel: +44 (0)20 7827 4171
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29 May 2006, 3 days
DFIA/NICSA Annual Global Funds Conference
The K Club, Straffan, Co.Kildare. Ireland
Tel: +353 1 16701077
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Media Partner: **Investor Services Journal**
Web: www.dfia.ie / www.nicsa.org

June 2006
12th Annual GAIM (Global Alternative Investment Management)
Venue to be announced
ICBI
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Fax: +44 20 7915 5101
Web: www.icbi-fundforum.com

19 September 2006, 3 days
Private Equity World Middle East 2006
The Jumeirah Beach Hotel, Dubai, UAE - United Arab Emirates
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http://www.terrapinn.com/2006/peme

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26 September 2006, 2 days
The 15th ALFI & NICSA Investment Funds Forum Luxembourg
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Fax: (+352) 22 30 93
Web: www.alfi.lu / www.nicsa.org

26 September 2006, 3 days
Portable Alpha 2006
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Sweeping the Board

In response to the Award's season, custody providers are clearing up with Billion Dollar deals

The first signs of spring are being accompanied by a glittering array of success at multiple awards shows around the world. We have had the Grammy's, the Brit Awards and most recently the Oscars. And now that the custody business has picked up steadily over the past few weeks, the accolades go to..........

HSBC Securities Services (HSBC SS) has been awarded a £21bn-Eurobond custody mandate from Legal & General (L&G). The provider already provides global custody to L&G's fixed income securities and UK equities.

Keith Bewsey, Director of Operations for L&G Investment Management Ltd, said: "We had been looking at consolidating this activity to a professional custodian for some time, in order to take advantage of economies of scale in pricing and overhead costs. HSBC Securities Services was a natural choice."

Paul Stillabower, Head of Business Development in Europe for HSBC SS, said: "This new business win shows that the largest UK financial houses continue to move away from direct relationships with markets toward specialised financial services providers for both custody and fund administration."

Also sauntering onto the red carpet was Mellon Financial Corporation, whose Global Securities Services group became the sole provider of custody and related services for the $6.9 billion San Diego County Employees Retirement Association (SDCERA). Mellon also will provide cash sweep and foreign exchange services.

SDCERA provides retirement benefits for approximately 33,000 eligible employees, former employees who are vested and retirees of the County of San Diego.

"Mellon's breadth of offerings and reputation for client service are especially attractive to us," said Mark Mimnaugh, Chief Operating Officer of the SDCERA. "The ability to provide differentiating services such as performance analytics is becoming increasingly important in the marketplace."

State Street will provide a range of investment servicing solutions to four UK-based pension funds including; £230 million in assets for The Hoover (1987) Pension Scheme and £280 million in assets for The Milk Pension Fund.

State Street will also act as custodian for a new £80 million mandate from the Dumfries & Galloway Council Pension Fund and for the Massey Ferguson Works Pension Trust Ltd's new £55 million fund.

The four funds will be serviced from State Street's operations in London and Edinburgh.

"We are very happy to have added these four customers to our growing client list and look forward to establishing strong partnerships with each of them," said Alasdair Reid, Head of State Street's Asset Owner Group in the U.K., Middle East and Africa.

Month	Winner	Client	Location	Assignment	Mandate Size
February	State Street	CalPERS	US	Investor Services	$200 bn
February	State Street	Massey	UK	Custody	£55 m
February	State Street	D&G Council	UK	Custody	£80 m
February	State Street	Milk	UK	Custody	£280 m
February	State Street	Hoover	UK	Custody/compliance	£230 m
February	Mellon	Mackintosh Inv	UK	Custody	New Fund
January	Mellon	Onderlinge	Holland	Custody	EUR850 m
January	Mellon	SDCERA	US	Custody	$6.9bn
January	HSBC	Legal & General	UK	Custody	£21bn
January	Northern Trust	San Jose FCE	US	Asset Services	$1.6bn
January	State Street	John Hancock	US	Asset Services	$15 bn
December	State Street	Independ. Age	Scotland	Custody/fund admin	£220 million
December	Northern Trust	Univest	Luxembourg	Asset Services	EUR 2bn
November	SG GSSI	Weinberg	France	Trustee Services	EUR 400 m
November	Citigroup	Lothian fund	UK	Global Custodian	£2bn
November	UBS	Bantleon Bank	Switzerland	Fund Administrator	EUR 2.6bn
October	State Street	C. Schwab	US	Investor Services	$140bn
October	Phoenix Admin	GO	UK	Investment Admin.	EUR200m
October	State Street	Lloyds TSB	UK	Investor Services	£11bn
October	JPMorgan	Kiewit	UK	Fund Services	-
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 2005	ADP Wilco	Lupus alpha	Germany	Technology/Software	-
March 2005	ABN / Mellon	Derbyshire	England	Global Custody	£1.45bn
March 2005	Kas Bank	TNOPension	Netherlands	Asset Admin.	EUR1.5bn
March 2005	Mellon	Golden Leaf	US	Custody & Inv. Services	$400m
March	State Street	BofAmerica	US	Investor Services	$224bn

AGENTS OF CHANGE

European transfer agency is in a very different place compared to five years ago.

Janet Du Chenne reports from the TA Forum in Luxembourg

Believe it or not, European transfer agency has become one of the most rapidly evolving areas of investor services. This point became clear to me after I attended the 5th Annual European Transfer Agency Forum in the Grand Duchy of Luxembourg. The event had a record-breaking attendance of over 200 delegates, including senior professionals from service providers and IT companies. Organised by IIR, the Forum included a series of interactive panel discussions and presentations from key industry figures.

Panel

The keynote distribution panel, 'What is it that the distributor wants?' was particularly well attended. The aim of the panel was to recognise the importance of the fund distributor and to assess their needs.

To provide context to the debate, participant service providers first explained their involvement in transfer agency. UBS's clients include banks, asset managers, insurance companies and pension organisations. "We offer, among other things, an order desk facility, institutional register accounts and electronic connectivity," said Matteo Perrotta, business development manager at UBS Fund Services "Our distribution partners have access to more than 400 UBS funds. If one also includes the funds of our 3rd party fund administration partners, then the order desk handles close to 600 funds. UBS also distributes "3rd party" funds to its own clients having adopted an open architecture strategy."

In 2005, Clearstream has performed over three million settlement fund transactions for the transfer agency and the distribution sectors. "We provide the plumbing for all transactions," said Phillipe Seyll, Director, head of Investment Fund Services at Clearstream Banking. "Vestima + provides investment fund order routing."

BNP Paribas Securities Services' client base comprises over 5,000 distributors. When providing a transfer agency service, the company tries to be as local as possible. "We offer a local TA service to domiciled distributors," said Matteo Dadda, head of Transfer Agency Operations

ALL Funds Bank serves 100 distributors in Europe, including institutional clients, traditional funds, alternative funds, real estate funds and unit trusts. "We provide distributors with a solution, which includes commercial and informational services," said Mariano Rabadan, chief operating officer. "We have opened branches in Italy and the UK because distributors need transfer agents, which can focus on the local market."

Panel moderator and MD of IFDS, Paul Roberts, asked participants how the TA service has evolved. "We have established relationships with an increasing number of distributors in the last five years," offered Perrotta. "We have expanded our service in Luxembourg, where it is now possible to order UBS Luxembourg, Swiss and German domiciled funds. Thanks to this flexibility, communication interfaces in the TA arena have changed considerably. We provide our own web-based application (e-Fund Services), SWIFT connectivity, as well as support for Vestima and Fundsettle. Tax related information has also become increasingly important and we fulfil all the necessary country requirements as well as those of the European Savings Directive."

Institutional investors are demanding online TA systems. "They want NAVs to be made available at trade cut off," said Rabadan.

"These investors also need to know about the portfolios of underlying funds and require management information systems and tools to compare the various funds."

Dadda agreed that distributors are becoming more sophisticated in the services they require from the administrative agent. "Not only do they require a fee calculation but they want to know more about the promoter's administrative agent," he said.

Transfer agency, according to Seyll can be divided into qualitative and quantitative services. "In terms of quantitative solutions, having a global reach and the number of domiciles served are important," he said. "Cost efficiency relates to the comparison between the costs of settling and routing trades versus how much a service provider would charge for this. Settlement deadlines have also become important for managers when aggregate a number of trades on the same platform. The more trade aggregation is centralised, the better."

Another factor noted during the panel was that an increasing number of Asian distributors are currently investing in European funds. "According to research by PwC and Lipper, the top 50 asset managers are in Ireland, Luxembourg and the UK," said Dadda. "33 out of top 50 European funds are distributed in Hong Kong. The Asian market is becoming more important for European asset managers. Distributors need multiple languages for these different time zones and there are different cut off times."

Asked what distributors will be requiring in the next three to five years, the consensus was that new administrative products, standardisation for hedge funds and connectivity platforms will become a must.

"We need to get to a market that is as efficient as the equity and the bond markets," said Seyll.

Retail TA

Following the distribution panel, Christophe Lentschat, Head of Sales, product development and marketing at European Fund Administration spoke about the outsourcing of retail transfer agency. He noted that during the 1990's, fund distribution was an area dominated by banks. "The most significant development we have observed is the growing importance of the fund assembler and professional buyers such as funds of funds, pension schemes, life insurance companies, structured notes, private bankers," he said. "Distribution through assemblers is characterised by higher volume. Most recent industry surveys indicate that assemblers and professional buyers already account for half of the net inflows in cross-border funds. This phenomenon is reshaping the Luxembourg transfer agency business."

Commenting on the rise of cross border transactions in Europe, Mauro Dognini, global head of transfer agency and retail at BNP Paribas Securities Services said: "The volumes of cross border transactions have grown rapidly. Luxembourg funds, mainly sold cross border, increased their assets under management by 37 per cent in 2005. As a result of the growth of cross border distribution in continental Europe, we are opening for our clients over 50,000 new accounts per month. We are seeing the rise of the "intermediary" to simplify the process.

Andrew Barman (IIR) and Nicola Barker-Moseley (ISJ)

Annie Bazan (RBC Dexia Investor Services)

Vivien Veerkamp (State Street) and Julian Rice (IFDS)

Jean-Jacques Picard (ALFI) catches up on the latest edition of ISJ

Emily Eriksson (BNP Paribas)

Intermediaries have resulted in further efficiencies and have helped to reduce costs. Thanks to open architecture, US asset managers are selling Luxembourg funds in the US and in Europe. In parallel we see US, UK and French asset managers starting to market UK and French domiciled funds cross border, selling them to the existing distribution network used for Luxembourg or Irish existing funds. This complexity creates new challenges for the TA. Asset managers are creating an additional layer in the process by collecting orders from distributors in each fund's jurisdiction. This additonal layer, which is not cost effective, is needed from asset managers to consolidate marketing and sales information. As the fund distribution process becomes more complex, automation and standardisation are becoming increasingly more important. EFAMA, FEAM, SWIFT, ISSA, SMPG and ISO are all trying to work towards standardisation. There has been progress and our STP rates. On average in luxembourg we see 60 per cent rate for inbound trades, compared to 0 per cent three years ago. Our volumes have enabled us to turn profit, to invest and to cut costs for investors. In 2006, the multi-jurisdictional service model will gain increasing consensus."

Wholesaler

Geoff Cook, managing director of BBH in Luxembourg, also observed the rise of the wholesale distributor. "The second wave of movement towards

"The most significant development we have observed is the growing importance of the fund assembler and professional buyers such as funds of funds, pension schemes, life insurance companies, structured notes, private bankers"

open architecture for funds in Europe is leading towards more bifurcation of manufacturer and distributor," he said. "The transfer agent is often these days the bridge between these two parties and is being asked to provide both manufacturer and distributor with more information, more often and with less waiting. A key question for transfer agents is whether or not they have relevant technology such as a data warehouse that can deliver data transparency and access to both sides." This is a difficult equation to balance as needs are somewhat different; manufacturers want instant access to interpret which products are selling , through what distribution channels as well as how much they are paying for the distribution. "Distributors want to know deals placed have been executed properly, at what price and confirmation of their revenue calculation."

Domicile of choice?

The choice of domicile of product continues to be dominated by decisions around the brand of the domicile. This is however not a perfect science as often UCITS products are sold in multiple global, not just European, markets , each with their bias. "Probably more important is the legal structure of the vehicle, for example FCP versus SICAV, as this often has an effect on the taxable nature of the investment in each market," says Cook. "Taxe D'abonnement remains a competitive disadvantage for Luxembourg but there are lower rates for intuitionally invested funds and exemption for money market funds."

Alternative asset classes

A central battleground between Dublin and Luxembourg is that for leadership in alternative asset classes which now represent double digit allocation in many investors portfolios. According to Cook, Dublin took first mover advantage several years ago with respect to hedge funds. "Luxembourg has been playing catch up ever since," he says. "However Luxembourg hit back by taking a leadership position to support private equity via a new, lighter fund wrapper called a SICAR and has taken poll position in cross border real estate funds."

ThePeoplePlace PROFILE

Barbara Eelens

Barbara Eelens of Fortis Bank, continues the series of "Meet the future" profiles.

Eelens studied at the University of Wageningen for a degree in Agricultural Engineering. Quite how she ended up moving from the farm to the bank is probably a story in itself, but for now we focus on her successful career.

On entering university Eelens' heart was set on engineering and she steamed through the course with almost a full 'spare' year before her the scholarship ran out.

With time on her hands Eelens decided to do something completely off track: one of her professors enrolled her as an exchange student with Michigan State University and suggested a set of financial courses while another professor arranged an internship at a brokerage firm at the Chicago Board of Trade.

These events were life changing, to say the least. Upon her return to Amsterdam and with a fresh set of financial credentials at hand, she was granted an internship at the Corporate Finance department of Fortis (then MeesPierson). "I consider this to be my first real encounter with working life," says Eelens.

After three months of excelling at all tasks in the Corporate Finance department, Eelens decided to broaden her horizons, setting off to travel South America, not to return for another 18 months.

"The idea was that this trip might actually help me prepare for professional life and in a way it did," says Eelens. "However, no jungle proved more challenging than life in the City, my first stop on the career ladder".

Where do you see yourself in five years time? There are so many opportunities and challenges in the financial markets arena. I want to grow in my role, extend my knowledge, and excel in my job. Fortis only recently offered me a position in New York and I was happy to accept and grateful for the faith they expressed in me.

The only thing I can do now is to prove that they have been absolutely right in their choice. But on a less serious note, I hope I will never know that in advance.

I like to be surprised by myself and by opportunities along the way.

Who are your Mentors/Role models? Role models are the people around me, both in a good or bad sense. They set the benchmark, including those you want to follow or to try outperform. I try to be my own mentor so that I have always one at hand.

We at ISJ work hard, however, we did hear you work long hours too? Hard work is a subjective measure and is different from working long hours. Coming from an investment banking background I know the difference.

My job requires flexibility rather then long hours. The job needs to be done and it needs to be done well, regardless of the time of day. But work is very people-based too and we need time to enjoy ourselves.

If you were named Fortis Bank employee of the year how and where would you celebrate? Like if that will ever happen! I would celebrate in our local pub with drinks and good music. Everyone invited.

Outside of work, what are your vices? Many things. I love to travel and discover new places, but I do not always get around to it nowadays. So I settle for a good night out, sports and spending time with friends and family.

What are your goals for the future? Being happy.

The ISJ Minute

- CD or MP3? MP3
- Music or Films? Music
- Beer or Wine? Wine
- Beach or Ski? Ski
- Car or Bicycle? Bike
- Tennis or Golf? Golf
- Watching or Playing? Playing. (Depends on the game. Rather watch a good Rugby game than being on the field)
- Shopping or Relaxing? Relaxing
- Night in or Night out? Night Out
- ISJ or.......? Today there can be only one answer to that question.. ISJ

Name: Barbara Lukus Maria Eelens, 30
Title: Senior Sales Manager Securities Finance, Fortis Bank
Education: Univeristy of Wageningen, The Netherlands – Agricultural Engineering **Employment:**
2000 – 2001: Lehman Brothers, Investment Banking Analyst
2001 – 2004: ABP Investments, Client Reporting Officer, Quality Manager Alternative Investment **2004 – Present:** Fortis Bank (Nederland) N.V, Securities Finance Department, Senior Sales Manager

Letters (continued from page 4)

SEGREGATE TO ACCUMULATE

A typical multi-class investment fund established in the BVI provides for different classes of participating shares (each class corresponding to a different sub-fund), and requires the directors to maintain each sub-fund as a distinct pool of assets and liabilities separate from every other sub-fund. The intention is that gains and losses of each sub-fund have no impact on the trading performance of the other sub-funds.

> The BVI legislative and regulatory framework for Segregated Portfolio Companies is a lot more flexible than many other jurisdictions

However, each sub-fund does not have a separate legal personality. To the extent that the assets attributable to any particular sub-fund are insufficient to discharge the liabilities which are attributable to that sub-fund, the creditors of the company whose claims arise in connection with that sub-fund will normally have recourse to any of the assets of the company, without regard to the sub-fund or sub-funds to which those assets may be attributable. There is a real risk of cross class liabilities impacting on the performance of sub-funds.

Historically, one method used to avoid cross class liabilities was to establish subsidiary trading companies through which the assets relating to separate sub-funds are traded so that creditors only have recourse against the relevant trading company and not the multi-class investment fund itself.

However, for BVI investment funds, it is no longer necessary to achieve ring-fencing in this manner.

Following the coming into force of the Segregated Portfolio Companies Regulations at the end of 2005 (made pursuant to the BVI Business Companies Act, 2004), it is now possible for existing BVI funds to be registered and new BVI funds to be incorporated as Segregated Portfolio Companies ("SPCs"). The BVI Business Companies Act provides for the statutory segregation of assets and liabilities within a single legal entity using the concept of an SPC. In an SPC, the assets and liabilities attributable to a particular segregated portfolio are segregated from the assets and liabilities attributable to other segregated portfolios. Therefore, assets attributable to a particular segregated portfolio are not available to meet the creditors' liabilities attributable to any other segregated portfolio. A segregated portfolio does not constitute a legal entity separate from the SPC.

Harneys acted as legal counsel to the first BVI fund to register as an SPC. The SPC regime marks another significant step for the BVI Investment Funds Industry by allowing, in particular, umbrella or multi- class funds to avoid the risk of creditors of one sub-fund having recourse against the assets of another sub-fund. The BVI legislative and regulatory framework for SPCs is a lot more flexible than many other jurisdictions. With investment funds investing in increasingly complex and diverse instruments, the availability of the SPC regime is expected to be popular to existing BVI funds and managers and to provide another compelling reason for funds to be established in the world's largest offshore corporate domicile."

Kieron O'Rourke of law firm Harneys in the BV

OFFSHORE ENHANCEMENTS

In recent times, there have been many changes to Jersey legislation, designed to enhance the Island's appeal to institutional clients. This month Jersey legislators introduced the concept of an Incorporated Cell Company (ICC), alongside the enhanced version of the traditional Protected Cell Company (PCC), to provide investors with greater flexibility when choosing a cell structure to meet their investment objectives. The new ICC involves the formation of separate, legally recognised cells within the overall structure, with each cell established as a separate incorporated Jersey company. This is in contrast to the traditional PCC where all the cells combined create one legal entity and each cell is not treated as a separate legal personality. Jersey is not the first to the market with this PCC legislation but we have consulted widely and taken

> This month Jersey legislators introduced the concept of an Incorporated Cell Company (ICC)

into account lessons learned elsewhere. The result is an enhancement to the traditional features of a PCC and the introduction of the ICC concept. Under this new legislation, we have strengthened the asset protection provisions, avoided many of the problems identified with PCCs in other jurisdictions whilst providing the simplified management benefits associated with cell companies.

Phil Austin, Chief Executive, Jersey Finance

Letters to
Janet.duChenne@isjforum.com

ISJ's anonymous disaster recovery expert describes the implications of the bird flu pandemic for financial services

Reading the newspapers I am delighted to be informed that Monday the 6 February is the most likely day for anyone in the UK to "Throw a sickie" Obviously I am not really delighted, because I am not lying in bed watching Tricia. I am in the office trying to find out where Ian our Travel and Health expert is today. It turns out he has a dose of the flu and his doctor has signed him off for the whole week. This is far from ideal, it looks like another conspiracy is starting to hatch, and the Press has orchestrated much of it.

I had arranged a meeting this morning with Ian because some of our directors had picked up on the Bird Flu story that was all over the weekend papers. Honestly, I sometimes wonder if it wasn't for Sunday supplements what would I have to do? Obviously I am a bit of an old hand at global health apocalypse doom strategy and never being one to re-invent the wheel, I grubbed around the archive and dusted off the old SARs Continuation of Business Plan. Only three years old so it should just benefit from a quick search and replace exercise. I hadn't really looked at this plan since we backed it up to tape and stuck it in the safe in 2003. I am amazed at the effort we all put into that plan and then SARs only managed to kill about 800 people worldwide! Clearly with the World Health Organisation predicting the H5N1 strain of avian influenza, known as Bird Flu, could mutate and kill up to 100 million people or more, I might need to give this a little more attention.

Ian is really our Travel Nurse, jabs and things for exotic far-flung conventions. I had rather hoped that with his extensive travel knowledge he could give me some background on this Bird Flu. I had started thinking if I knew more about how it spread that might help me to start some sort of risk assessment. So whilst Ian and as it now transpires, almost a quarter of the London Office staff are tucked up with daytime TV or Teeing up at the first hole, I have to resort to the Internet to drum up some facts.

I would never say that our Board of Directors over reacts or has anything like a herd mentality, but I read those articles in the weekend papers. Is it reasonable that because a prominent bank decides to write disaster recovery plans to cope with Bird Flu then we should do the same? Are they not based in Asia anyway and is that not where this Flu comes from?

How can you catch this Flu?

A quick trawl of the Internet confirms that Shanghai seems closer to the current outbreak than Surbiton. Countries with confirmed human deaths are Vietnam (42) Thailand (14) and Indonesia (11). So all I need worry about, is travel to and from these areas, right? Well not really. How can you catch this Flu? I am informed that Infected Birds shed the virus in their faeces, then we breathe in dust from dried droppings or play with bird droppings and then put our hands in our mouth. Please really! OK so that's Trafalgar square out of bounds, perhaps Ken Livingston, London's major, is not all bad.

What we are forgetting of course is that the current version of Birdflu (V1.0) will only transfer from birds to humans. However the much-talked about new version with no current release date (V2.0) will transfer easily from human to human. This is the real problem, so I didn't really need to talk to Ian anyway, and he can stay in bed all month with his Flu as far as I am concerned.

One Bank, when preparing it's Business Continuity Plans, is considering sustained absenteeism of up to fifty percent of the staff

So what aspect of this Bird Flu can we really plan for?

There is much talk of Tamiflu from Roche a flu remedy that will attack the Flu Virus in your body if you can take it within 48 hours of the symptoms appearing. With all our competitors buying the total production of the drug it might take me 48 hours to find a supplier, and then can I be sure it is not counterfeit? Roche suggest that Tamiflu is useful to;

- Prevent widespread influenza outbreaks in shared living facilities, such as nursing homes and college dormitories
  Provide protection during the period of time needed for the flu shot to take effect
- Protect individuals who are unable to receive flu vaccinations. (If you are pregnant or allergic to eggs, ask your doctor about whether or not you should get a flu shot.)

So, what we are talking about here is really the morning after pill of the Influenza world. If everyone had been vaccinated for the right strain of Flu, then there would be little need for Tamiflu? And can we be certain that Tamiflu will work against Bird Flu? Well apparently not.

Mutterings from upstairs say that one Bank when preparing it's Business Continuity Plans is considering sustained absenteeism of up to fifty percent of the staff. Is this realistic? The World Health Organisation have suggested a figure of twenty five percent However, just last week Greensward College in Hockley, Essex with some 1,600 pupils reported it has had since 12 January, 1,267 children off with winter sickness (A virus). That is 75% sick and absent for two weeks.

We need to make the distinction between sick and absent and just absent. Ian might well decide that because it is a bleak cold Monday he will with the acting skills of an Oscar nominee phone his office and complain of Flu, then curl back up under the duvet for an extended doze. This is plain absence.

What we need to bear in mind is that with an outbreak of full-blown bird flu many many people will not want leave their homes. They will be perfectly fit and well, just not prepared to venture out and run the risk of catching anything. I can easily imagine whole households staying at home together, I can imagine families not accepting visitors and not going out of their front doors, I can imagine supermarket delivery vans leaving boxes of groceries at the bottom of the drive. You would think it was the end of the world.

Route cause

If we can accept that our staff are well, but are reluctant to come into the office, perhaps what we should be trying to manage is firstly the spread of infection. We can mitigate this with vaccinations, these are certainly much cheaper than, for example Tamiflu but they need to be given to everyone, every year at the beginning of the "colds and Flu" season. Also in the event of a winter epidemic, does it make sense insisting that everyone come into the office to share his or her germs and infect everyone else? Would it not make sense to have in place a plan that would at the first sign of the outbreak allow say half of our staff to work from home? Have we ever tried this as an exercise? What would be the security implications? Do all key staff have broadband access at home and a PC supplied with the correct applications installed? Do we have a supply of spare laptops that we could issue if they were required. Have we captured contact information for all our staff at home? Have we prepared a communication plan to keep everyone up to date with developments? What are we doing about cross job training?

To make my now growing headache even worse it occurs to me that I need to remember that these absences may last for several months and then reoccur several months later. There might well be waves of outbreaks travelling the Globe not just affecting us of course but all our customers as well.

I decided to adjourn to the local hostelry for a few post work glasses of liquid comfort with Dewi from the Welsh desk. He is on the spot desk really but travels in from South Wales every day. How he enquires, do I expect him help run the spot desk from his bedroom? When the earnings to common-sense ratio is stretched almost to breaking point I often tend to switch off. To begin with, I didn't, I sat there and listened like some incredulous terrorist negotiator to his demands. "No, I would definitely not come into town" "What about our hot site, where was that?" "Mmm maybe, but you would need to be talking about putting me and the girlfriend up in a local hotel or could you build some luxurious accommodation in the Hot-Site to save travelling" "Obviously any form of public transport would be out of the question". By now I had started to glaze over. The second drink was beginning to work. I had read earlier in the day that the Flu Pandemic of 1918 if it recurred today, could leave ninety percent of the population dead or unable to work, perhaps I should start working from home, perhaps I should start tomorrow? Come to think of it, I do feel exhausted.

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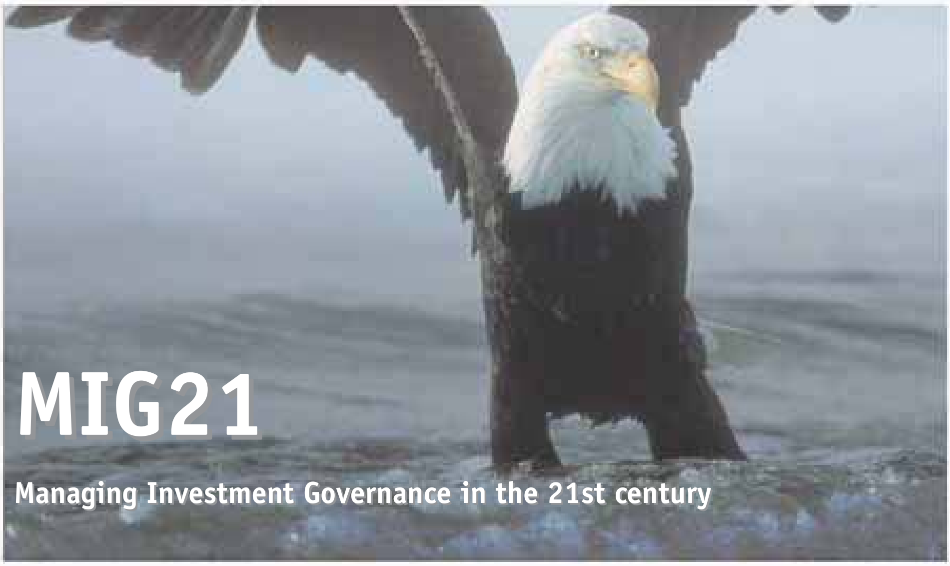

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Moving & Shaking

FTSE Group (FTSE), the global index company, have appointed of **Joe McDevitt** as Chair for the recently formed FTSE Bond Index Committee. McDevitt has over twenty-two years of bond market experience, including eight years with PIMCO where he was Managing Director. The FTSE Bond Index Committee was formed earlier this year following the amalgamation of the FTSE UK Gilts Committee and the FTSE Global Bonds Committee. The new committee will be responsible for overseeing the continued compliance of all bond indices with FTSE's transparent ground rules, and will meet twice a year in May and November.

The Board of Directors of **American International Group, Inc.** (AIG) has elected **Fred Langhammer** and **Robert Willumstad** Directors. Langhammer, 62, served as CEO of The Estee Lauder Companies Inc. from 1999 to 2004, and was President and Chief Operating Officer of the company from 1995 to 1999. Willumstad, 60, recently retired as President and CEO of Citigroup Inc., where he was a member of the Citigroup Management and Business Heads Committee and of the Citigroup Board of Directors. Commenting on the new Directors' election, Martin Sullivan, AIG President and CEO, said: "These two appointments will deepen the AIG Board's expertise in global business. I look forward to working closely with both Fred and Bob in the future."

BearingPoint, Inc. has named **Peter Mockler** as Executive Vice President of Europe, Middle East and Africa (EMEA) as well as Chairman of the Management Board of Germany, Austria and Switzerland, effective immediately. Mockler replaces Steffen Seeger who has left the firm for personal reasons after more than 20 years with the company and its predecessors. In this new role, Mockler will also become a member of BearingPoint's Executive Committee.


Peter Mockler

Commenting on his appointment, Mockler said: "We have a fantastic team of seasoned consultants focused on delivering tangible results for our clients across this critical region and I look forward to working with them."

Keith Burgess has been also named as BearingPoint's Chairman of Europe, Middle East and Africa (EMEA), a newly created position. As Chairman of EMEA, Burgess will work closely with Peter Mockler, and will be responsible for providing strategic leadership and building key client relationships across the region. "BearingPoint is headed in the right direction under CEO Harry You, and I am excited by the opportunity to be part of this effort," said Burgess. "BearingPoint is building on a strong foundation of talented people and a solid reputation with clients, and is well-positioned to take advantage of the fantastic growth opportunities across a variety of markets in this region. I look forward to contributing to the Company's success."


Keith Burgess

Misys plc, the software and solutions company have announced that **Ivan Martin**, CEO of Misys Banking Systems, is to leave the company. Kevin Lomax, Chief Executive of Misys plc, will take on the additional role of CEO until a successor is appointed. Commenting on the change Lomax said: "I should like to thank Ivan for the significant contribution he has made to Misys over the last 10 years. He has played a key role in the development of our financial services businesses and in building our banking business into one of the world's leading players in this major software market."

Wachovia Securities have appointed **Linda Delaney** as the brokerage firm's Director of Operations and Head of the firm's Broker Services and Support Group. Delaney will have senior responsibility for operations, processing and corporate support functions, including Account Services, Cashiering, Client Reporting, Packaged Products, Strategic Management and Streetside Operations. With more than 24 years of asset management and investment experience, Delaney has served in a variety of operational and leadership roles with Wachovia, most recently as Managing Director and head of the company's Corporate Trust group.

NASD have announced that **Barry Goldsmith**, Executive Vice President for Enforcement, will leave NASD in mid-March to return to private practice. Goldsmith, 56, has served as NASD's senior enforcement official for nearly 10 years and has been responsible for overseeing the investigation and prosecution of disciplinary actions at the national and district levels. "Barry has a well-deserved reputation for excellence. He has built an extremely effective and efficient enforcement operation that rivals any in the regulatory arena," said Mary Schapiro, NASD Vice Chairman. "Investors, the securities industry and NASD are very much in his debt."

Three new Department Heads in charge of Customer Relations have been nominated at **Clearstream**, the international central securities depositary member of the Deutsche Boerse Group.

Thomas Zeeb, who joined Clearstream in 2004, has been appointed Department Head Customer Relations covering Europe, the United Kingdom and the USA.

Stefan Lepp has been appointed Department Head Customer Relations covering Origination. Prior to joining Clearstream in 2004 Lepp was Head of marketing at Dresdner Bank.

Philippe Metoudi has been appointed Department Head for Asia and the Middle East. Metoudi has headed Clearstream's operations in Asia since the opening of the Hong Kong office in 1990.

The three Heads of Department will report directly to Clearstream's CEO, Jeffrey Tessler.

HSBC Securities Services (HSBC SS) have announced that **Brian Wilkinson**, Head of HSBC SS in Dublin, will leave at the end of March to pursue a career as a professional independent director within the fund industry. During his four and a half year tenure at HSBC Wilkinson was responsible for growing the HSBC SS business into one of the largest hedge fund service providers in Dublin. Paul Smith, Global Head of HSBC Alternative Fund Services (AFS), said: "We will miss Brian but fully understand his decision to pursue an exciting opportunity in the fund industry and wish him all the best in the next chapter of his career." His successor will be announced shortly.

HSBC SS has also appointed **Kate Parker** as Business Development Manager for Institutional Fund Services' European pensions segment. Prior to joining HSBC, Parker was lead sales person on pensions in the United Kingdom at KAS Bank and has also served four years in a similar role with Deutsche Bank and JPMorgan. "The addition of Kate further strengthens our sales team," said Richard Hale, Head of Sales for Institutional Fund Services in Europe. "Her skills and experience will broaden our effectiveness in the European pension market."


Kate Parker

JPMorgan Worldwide Securities Services have appointed **Christopher Kunkle** to its Securities Lending management team for the Western Hemisphere region. Based in New York, Kunkle joins as a Vice President and will head up a team focused on client management and sales to the global mutual fund segment. He will report to Gene Picone, Senior Vice President and Head of JPMorgan Securities Lending and Execution Products Western Hemisphere region. "We are very excited to have an industry expert like Chris Kunkle join our team," said Picone. "His deep experience and strong relationships in the securities lending community makes him an invaluable addition to JPMorgan."

Xcitek have announced that **Paul Fullam**, Vice President and Manager of Global Services, will join it its European-based team to support new European clients implementing its XSP software solution. Fullam, who joined Xcitek in 2000, will provide support services for product demonstrations, process flow workshops, implementations and training for XSP's growing European client base. He has worked with XSP clients in all segments of the financial industry including global custodian and trust banks, broker/dealers and asset managers.

CIBC Mellon has announced that **Arti Sharma** is to step down as Executive Director of Business Development, effective 08 Feb 2006. After several years at CIBC Mellon, Sharma will join Thomas Murray, the custody risk rating and advisory company to expand their North American practice. Sharma will be based in Toronto and cover the US and Canadian market.


Robert Kelly

The Board of Directors of **Mellon Financial Corporation** has appointed **Robert Kelly** as Chairman, President and Chief Executive Officer, effective 13 February 2006. Kelly who succeeds current Chairman and CEO **Martin McGuinn** and will be based in Pittsburgh, joins Mellon from Wachovia Corporate where he was Chief Financial Officer and Senior Executive Vice President. Commenting on his appointment, Kelly said: "I am honoured to join Mellon, an institution with more than 135 years of experience in the financial services industry and a well-deserved sterling reputation. I look forward to working with the employees at Mellon to create superior long-term shareholder value."

Barclays Capital has named **Reuben Daniels** and **Mathew Pendo** as Co-Heads of US Investment Banking. "Reuben and Matt have had a material impact on the development of our US franchise since they joined in 2003, generating significant success with some of our largest clients and adding new relationships to the firm," said Peter Goettler, Managing Director and Head of Investment Banking and Debt Capital Markets for the Americas. Daniels and Pendo will lead all of the corporate relationship teams within US Investment Banking including, industry groups encompassing communications, entertainment, diversified industrials, healthcare, consumer products, retailing, and power and energy segments. Based in New York, they will continue to report to Goettler.

Insight Investment is set to develop its presence in Europe with the appointment of **Denise Saber** as Head of European business development, effective immediately. Saber joins Insight from Rogge Global Partners where she has been a partner since 2000. Reporting to Sarah Aitken, Head of Institutional Business, Saber will be responsible for spearheading a direct sales programme in the European institutional market place.

During her time at Rogge Saber established a European sales and marketing function for the firm and developed a wide range of client partnerships across Europe. Prior to this, she was head of marketing (EMEA) for Citibank Global Asset Management.

Deutsche Bank has appointed **Elaine Sullivan** as Chief Operating Officer for Global Banking Europe, effective 06 February. Based in London, Sullivan will report to David Fass, Head of Global Banking Europe, and will work closely with Bruce Rigal, Global Chief Operating Officer of Global Banking. Prior to this, Sullivan was at IBM Corporation for six years where she was Global General Manager of Financial Markets.

ABN AMRO Mellon Global Securities Services B.V. has announced the appointment of **John van Verre** and **Pim Nederpel** to Board-level positions. Van Verre, formerly Chief Financial Officer (CFO) has been appointed Chief Commercial Officer (CCO) and Nederpel, formerly Executive Director of Euronext Amsterdam, has been appointed CFO. As CCO Van Verre is responsible for the commercial growth of ABN AMRO Mellon, including future developments in existing markets and expansion into new territories.

He will also oversee client satisfaction and retention, with René Wiegel and Nigel Taylorson, the heads of relationship management, reporting directly to him. Nederpel will be responsible for the Finance and Business Technology Services, and Legal, Risk & Compliance departments, and he represents these interests at the Managing Board.

Thomas Murray, the custody risk rating and advisory company, has hired **Bruce Butterill** as Director, Capital Markets Ratings and Advisory, Americas. Bruce joins Thomas Murray Limited following more than 18 years with The Canadian Depository for Securities Limited (CDS) where he served in a variety of senior product management and operational roles.

Most recently he held the position of Vice President, Product Management. He brings with him a very broad and deep knowledge of the securities depository and clearing businesses and their critical role within the capital markets. While with CDS, Bruce also served for six years as their representative to the Americas Central Securities Depository Association (ACSDA) and was elected the Association's President in 2003, a position he held for more than two years.

In this new position Bruce will have responsibility for the development of Thomas Murray's capital markets business in the Americas. He will also have principal responsibility for managing Thomas Murray's relationships with the central securities depositories (CSDs) in the region and will play an active role in working with CSDs globally.

"This position is a great step in my career," explains Butterill. "I have worked in conjunction with Thomas Murray Limited for the past decade and have a great respect for what the organisation and its people stand for. Joining the Thomas Murray team will provide me with the opportunity to apply my skills and experience in a much broader context than ever before."

Simon Thomas, Chief Executive Officer and Chief Ratings Officer at Thomas Murray added, "Having had the opportunity to work closely with Bruce over the years in a number of different capacities we know that he will be a tremendous asset to the firm in the Americas, a region which is of great strategic importance to the organisation."

Watson Wyatt has appointed **Richard Sard** as a Senior Consultant to its expanding defined contribution administration business.

Sard joins Watson Wyatt from MNPA, where he was Senior Client Manager looking after a portfolio of defined benefit and defined contribution schemes. Prior to that he worked for Mercer HR Consulting for 14 years.

Jane Murray, Head of DC administration services at Watson Wyatt, said: "This is an exciting time for Richard to join Watson Wyatt.

The DC client portfolio has expanded enormously in the last 2 years both in the UK and in Europe. Pension reform and the Pension Commission report are affecting the way schemes are administered. Richard's appointment strengthens our specialist DC administration client management team and enables us to meet these new challenges."

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

Agency Outlook

Andrew Chancellor talks to ISJ about the health of the financial services recruitment market

Is the recruitment market healthy?

As a whole the market for recruitment has been good. It has grown significantly in the last year from 2004. Growth is dependent on which areas are being reviewed. Compliance is a very strong market simply because of the new regulations that are coming in from the Financial Services Authority and the US equivalent. Recruitment in financial technology is increasing. There seems to be a thirst for people in this area simply because of the development of technology and because the products are changing ever so quickly. For capital markets recruitment, 2005 was a very good year and 2006 will be very similar.

Where is the highest calling for new recruits?

There has been strong growth in the corporate finance and hedge funds fields. Behind the scenes we have seen growth in some of the middle office functions particularly in the exotic derivative-type products. There has been a huge demand for quality people in this area.

Where will the top jobs come from?

We expect to see a continued demand for high quality staff in the areas highlighted above.

Or which areas are financial services organisations looking to concentrate their people resources on in the coming years?

That is difficult to say because it is such a broad area. Compliance is one area, but I would hate to select one at the expense of others.

The operations and securities industry is challenged to find skilled staff to serve their clients. What advice would you give to companies who specialise in investment operations, capital markets, compliance and financial technology in their search for skilled people?

The advice I would give is only recruit staff if they are going to help and add value to the business. Don't recruit simply because you are short of numbers.

How does regulation affect the recruitment arena?

Organisations face so much regulation, as a result of recent financial scandals, that they are recruiting better quality staff to manage risk and compliance demand. This is a very positive development. If there are clear rules and regulations then everybody knows where they stand and what they have to do. However, it can be difficult when there are so many different directives coming from different countries. For example, there are regulations emerging from individual member states in Europe, in addition to regulations for the European Union and every country seems to take a different opinion on whether they should adhere to these straight away or wait.

Do training organisations offer relevant courses?

The question is whether some of these business schools have communicated with these companies to find out exactly what they want, instead of acting on assumption. I don't think some of the education authorities talk to the corporates enough and the corporates don't talk to the education authorities enough. There could be a channel for further debate in this regard.

Andrew Chancellor, Managing Director of Financial and Professional Services Recruitment, Robert Walters

Andrew joined Robert Walters plc in 2002 as Managing Director of Financial & Professional Services recruitment in London.

Prior to joining Robert Walters, Andrew worked in both the banking and recruitment fields, firstly for Barclays Group in London and Johannesburg and latterly as a Partner in an international search firm.

COMPLIANCE DRIVEN ONTO UNIVERSITY CURRICULUM

London 25 Jan 2006 - NASD and The University of Reading have announced that they are launching the first-ever Master's Degree in Capital Markets, Regulation and Compliance.

Recruitment in the compliance market is at an all time high and the professional qualification has been developed to help fill an escalating demand for compliance professionals as businesses face growing pressure to comply with new and existing European, US and international regulations.

The Master's Degree is being launched alongside two other new international professional qualifications; a Diploma and Certificate in Capital Markets, Regulation and Compliance that will be developed in consultation with Deutsche, DrKW, HSBC, JPMorgan, Merrill Lynch and UBS.

The demand for a larger pool of qualified compliance professionals is being fuelled by a number of key international market drivers: notably the implementation of regulations including the Markets in Financial Instruments Directive (MiFID), the Sarbanes-Oxley Act and the Market Abuse Directive, which all require significant in-house compliance resources.

Robert Glauber, Chairman and CEO of NASD, commented: "Securities firms are the front line of compliance when it comes to protecting investors. The creation of this new set of professional qualifications, which will be recognised on an international level, will raise the profile of the compliance function even further and help create a respected career path for compliance professionals across the world."

Hedge funds:
the quest for STP

The 15th was a crisp, cold day in December 2005. The snow topped mountains of the Swiss Alps rose up in the distance and the still clear waters of the Lake Geneva extended out as far as the eye could see, so you'll forgive me if my mind wasn't completely on financial messaging and interface software! I was here for the SWIFT Connectivity and Automation Event presented by Financial Tradeware and SWIFT to explain how Investment Managers, Fund Managers and Hedge Funds can increase operational independence and efficiency.

SWIFT, the financial industry-owned association who supply standardised messaging services and interface software to banks, broker/dealers and investment managers, presented information on the evolution of the new ISO15022 XML and ISO20022 messaging standards and the impacts these initiatives will have on business.

The ISO20022 initiative is part of a process to create a universal financial services messaging standard and according to European Fund and Asset Management Association (EFAMA) recommendations "ISO 20022 is recognised as the single European standard for funds messaging going forward and should be the basis for all electronic communication in this area."

Klaus Schritt, Regional Manager for Switzerland of SWIFT explained how previously only banks were allowed to use SWIFT but now the community was changing. Insurance companies, asset managers and stock exchanges now use SWIFT and the contract is going to be extended to smaller players too. SWIFT want to be the messaging platform of choice for market infrastructures so that the messages are the same whether you are in the UK, Europe, Asia and USA.

"Our vision is to be the global financial community's foremost messaging infrastructure that is lowest risk and highest resilience," said Schritt.

At the event Financial Tradeware announced their status as one of six SWIFT accredited Member Contractors and Graham Bright, Head of Sales introduced the EGF/FT Concentrator service which it administers on behalf of its sister company, Européenne de Gestion Privée in France.

The costs associated with supporting interfaces and communication channels for transacting of business are increasing and the EGP/FT Member Administered Closed User Group concept provides SWIFT connectivity to small to medium sized organisations may have limited message volumes.

By using the SWIFT Member/Contractor model they are able to outsource SWIFT administration, interfaces, connectivity to SwiftNet and the transformation of transactions of SWIFT messages between themselves and their counterparties to a third party such as the EGP/FT Concentrator Services and have access to a reliable and secure service which is affordable.

Alberto Fontana, Managing Director of Financial Tradeware, said: "We are delighted to bring all the advantages that larger SWIFT members enjoy to small and medium sized players in the market through the new EGP/FT Concentrator service. It is another way of demonstrating the value of that our company brings to the market, and particularly as we are uniquely placed to offer this affordable SWIFT connectivity and messaging service to our clients."

Financial Tradeware also announced that Grosvenor Street Capital LLP have selected H-Fund as the solution to support their new hedge fund that was launched in December 2005.

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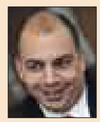

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