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Investor Services Journal

VOLUME 5 No. 27 - 2008

LEAP OF FAITH?

Latin American custody takes centre stage

THE GLOBAL SECURITIES SERVICES INDUSTRY JOURNAL

INVESTOR SERVICES JOURNAL

VOL 5 No. 27 - 2008

A time of conflict?

It has been a tempestuous start to the year as the markets continue to feel the aftershocks from last summer's credit crunch and Europe gears up for its first regulatory battle of 2008. A furore has arisen over the European Commission's recently released plans to regulate outsourcing agreements, which have pitted the legislator and the offshore markets against the national regulators of France, Germany and the UK.

The Commission's draft directive is due to formalise the extent to which back office administrative functions can be outsourced across EU borders and it is expected that this will entail a limit on how much can be transferred over these borders. The three European heavyweights are disgruntled because they are opposed to any form of capping on outsourcing and are therefore gunning for a full management passport, which would allow complete freedom to outsource to any EU state (as long as there are the prerequisite regulatory safeguards in place, of course). The offshore markets, on the other hand, are keen to limit the passport because they are successful under the current conditions, and it has been suggested that they may lose business under a full passport.

The various national regulators have therefore been engaged in a war of words over the last few weeks (and that's before the directive has even been published) and the regulatory bodies of the big three have stood their ground thus far. Ashley Kovas of the UK FSA has gone as far as saying that a partial passport would be worse than none at all. Whatever the outcome, it's guaranteed that, as is usual with any kind of European regulation, the process won't be pretty and there are likely to be delays ahead (keep your eyes peeled for an update in our next issue).

Another potential regulatory sticking point this year will be the spread of class actions from across the pond. We look at this very issue in our class actions special, beginning on page 54.

Our feature on SEPA also deals with a battleground of sorts – the increasingly competitive environment for automated clearing houses in Europe. How can these national bodies hope to compete in a cross border environment? Turn to page 46 to find out.

Of course I cannot forget to mention our cover feature this month, which examines the development of the capital markets in Latin America. We look at future potential of the markets, which are attracting such interest from the rest of the world, and how domestic custodians are being affected by the entry of global players (page 14).

Diana Chan was also kind enough to take time away from her new job as CEO of EuroCCP to discuss her vision for the future of the new kid on the CCP block (page 12).

Virginie O'Shea
Editor

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TOTAL NET CIRCULATION 12,133
Analysis for the Audit Issue Vol 4, No 22 distributed June 2007.
Source: AUDIT BUREAU OF CIRCULATIONS, www.abc.org.uk

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

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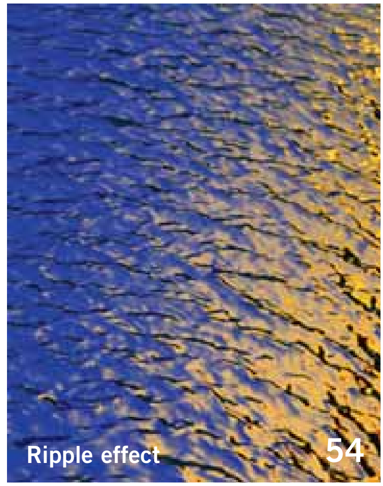

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The ISJ letter prize of a Cross writing instrument

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Winning Letter

Derivatives deluge

In response to your article entitled "Markit and SwapsWire to combine trade processing" from 4 December 2007, I wanted to raise the idea that the explosion of growth in OTC derivatives has given financial institutions both opportunity for profit and risk of loss. However, with the eruption in trade volumes, there still isn't one central service that can handle all asset classes, as well as the large number of new products being created in the marketplace.

Despite DTCC/DerivServ and SwapsWire originally working different ends of the derivatives arena, much like VHS and Betamax with video equipment years ago, they now overlap. However with Markit's recent acquisition of SwapsWire, is it going to be helpful to have two large central services fighting for market supremacy?

Let's not forget that even with a bigger and more powerful SwapsWire competing with DTCC, there is still a gap between the asset classes these two central services cover. Although competition can be good, we may still get to the point where DTCC or SwapsWire 'wins' the race for supremacy. But then are we still left with the problem of how to handle the asset classes and more complex products left exposed between the two organisations?

And what if one does 'win' and the other 'loses'? Those financial institutions that have aligned themselves with the 'losing' central service could be like Betamax's users, they will have to write off their investment and start all over again.

It would seem wiser for financial firms to concentrate less on aligning with one of the central services and more on ensuring that financial messaging is consistent internally. For example, ensuring all financial messaging is in Financial products Markup Language (FpML) before it even leaves their walls. This would allow them to not only connect to whichever existing or new central service is most effective at processing a particular product at the time, but also to automate those asset classes in between, possibly with direct bilateral messaging. Does this not then allow us to effectively bypass the VHS versus Betamax debate and jump straight to DVD?

Hugh Daly, chief executive, Message Automation

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Top down leadership

The issue of data management isn't so much a subject in its own right but initiates a trickle down effect on many parts of a financial institution's business. Once just a blip on the boardroom radar, hitting the radar screens only when things go wrong, data management is now increasingly being seen as an important component of business processes. No more is this seen than in the trading space where latency advantage is heavily dependent on consistent, accurate sources of structured data that is compatible with the data used by the rest of the trading community. The result is that the value of high quality data management is becoming a lot more visible to senior management: especially the ability to manage vast quantities of crucial data, under pressure in a short timeframe.

Companies moving to a more centralised data model and shaking off the shackles of legacy data platforms have had some success stories but there aren't many to speak of. Fulfilling data requirements from different parts of the business is a challenge with the business environment in most firms changing a lot quicker than the ability of data and IT systems to keep pace. Leadership in data management is needed, but where does it come from? The industry as a homogeneous group doesn't necessarily exist and the various regulating bodies either don't understand or don't care about the critical importance of data standardisation.

The obvious source of leadership should be the boardroom. As firms are increasingly pressured to focus on the risk management areas of their business by regulators and their customers, successful data management will ever more become the catalyst for cost reductions and organisational efficiency.

Tony Freeman, industry relations and market growth, Omgeo

CUSTODY, CLEARING AND SETTLEMENT

Munich - **HypoVereinsbank** (HVB) has concluded its transfer of securities and custodial services to **Caceis**, after the French bank took over the securities processing and custodial services of HVB at the end of 2007. The transfer of the Financial Markets Service Bank GmbH (FMSB), the HVB subsidiary, which had already been contractually agreed in July 2007, was concluded notarially on 28 December 2007. The name of the FMSB – which has hitherto carried out custody activities for HVB – will be changed to Caceis Bank Deutschland GmbH as of 1 February 2008.

Brussels - The conversion to a new electronic registration process covering all Belgian bearer securities traded on a regulated market and held by investors took place at Belgium's central securities depository – **Euroclear Belgium** – over the first weekend of the new year. Transaction settlement is working seamlessly since the transition, Euroclear says. As of 1 January 2008, all Belgian entities were only able to issue new securities in dematerialised or registered form, meaning that it is no longer possible for Belgian issuers to issue securities in physical form.

FUNDS AND ADMINISTRATION

Quebec - The **Canada Pension Plan Investment Board** has increased its investments outside Canada over the past two years from less than a third to half of its total assets. The board, ranked as the world's 18th biggest pension fund at the end of 2006, wants to expand its foreign portfolio even more as a counter balance to the domestic business cycle, largely driven by commodity markets and the US economy. David Denison, the board's chief executive, says: "As a large fund, one of the realities is that we need to be a global investor. We need to be looking for the best investment opportunities wherever they may exist in the world." The board plans to open an office in Hong Kong in early next year. One in London will follow, partly as a base to scout opportunities in Africa.

New York - Funds that employ a 130/30 strategy could attract over USD1 trillion worldwide from both institutional and retail organisations, speculates **Merrill Lynch** in recent research. The survey of US and European institutions also said pension plans could push the amount of US institutional assets invested in the strategy up to USD350 billion over the next three years, a seven-fold increase. More than half of US public pension plans are expected to increase their investments in such strategies over the next three years, as well as a quarter of corporate pension plans. About 17% of foundations and endowments said they would do the same, while some pension schemes have indicated they consider 130/30 strategies to be a good alternative to hedge funds.

London - Hedge fund advisory firm Albourne Partners has called for further clarity around the **Hedge Fund Working Group**'s (HFWG) suggested code, designed to regulate the industry, while also broadly welcoming the initiative. Albourne's response to the HFWG paper, which was made in consultation with some of its investor clients, emphasises that it encourages the HFWG initiative but feels that further efforts need to be made to ensure that there is complete clarity in the suggested code. Albourne also notes that while HFWG invites major investors to play a more forceful role, the working group did not include any representation from investors. Thus, steps need to be taken to reconcile investors' needs for transparency with hedge funds' needs for a level of privacy. Albourne's response includes comment from the investors it advises, including Australian Reward Investment Alliance (ARIA), Caisse de Depot et Placement du Quebec, Hermes, Ilmarinen and Fleming Family and Partners.

Sacramento – The **California Public Employees' Retirement System** (Calpers) is reportedly buying a 10% stake in private equity firm Silver Lake as the public body looks to diversify its investments. Calpers, which would get a seat on Silver Lake's advisory board, has also agreed to make additional investments in Silver Lake funds. Calpers' investment in Silver Lake comes shortly after it declared that it would be raising its allocation to private equity to 10% from 6% of its assets.

London - Estimates from **BNY Mellon Asset Servicing** show the average pension fund achieved an estimated return of 6.8% for the year ending 31 December 2007, the fifth consecutive calendar year of positive investment performance for UK pension funds, after the slump at the beginning of the decade. Over three years to 31 December 2007, pension funds achieved an estimated weighted average return of 11.4% per annum. Funds outpaced inflation during this period, and achieved an estimated real rate of return of 7.9% per annum against the retail prices index (RPI). Real returns were even better over a five year period when pension funds returned 12.1% per annum, outperforming inflation by 8.8% per annum.

LEGAL AND COMPLIANCE

Washington DC - The **Securities and Exchange Commission** (SEC) will raise registration fees paid by securities issuers, after the ratification of a bill of funding by US President Bush. The SEC also will raise fees on specified repurchases of securities and on proxy solicitations in corporate control transactions. As of 31 December 2007, the rate increased to USD39.30 per million dollars from the current rate of USD30.70 per million dollars.

MARKET INFRASTRUCTURE

London - A consortium of global banks will take a minority stake in **Instinet Europe**, which owns the pan-European equity multilateral

trading facility (MTF) Chi-X Europe. The consortium comprises the following firms (listed in alphabetical order): BNP Paribas; Citadel; Citi; Credit Suisse; Fortis; Getco Europe; Goldman Sachs; Lehman Brothers; Merrill Lynch; Morgan Stanley; Optiver; Société Générale; and UBS.

London - Payment services provider and international clearing and settlement mechanism (CSM) **VocaLink** will transmit more than two billion transactions over SwiftNet in 2008 as one of Swift's biggest transaction customers. VocaLink now forecasts over two billion SwiftNet transactions in 2008, with this figure doubling in the next three years. Rising transaction volumes will come from continued expansion of its SwiftNet service in the UK and growing membership of its Euro CSM.

New York - Two of **Citi**'s businesses - Global Transaction Services and Smith Barney - have completed testing of the initial phase of the DTCC's new managed accounts service (MAS), ready for an industry-wide launch in the first quarter of 2008. Assets under management for managed accounts - which include separately managed accounts, unified managed accounts, dual contract and multi-disciplined portfolios - are projected to reach USD1.5 trillion by 2011, DTCC says.

SECURITIES LENDING

Boston - **eSecLending** is to add **EquiLend** to its list of third party operational and administrative system service providers. This will allow eSecLending to communicate operational processing and trade instructions with other EquiLend participant borrower counterparties via an industry standard protocol. eSecLending plans to go live this month with EquiLend's administrative and trade processing platforms to include Contract Compare, Dividend Compare and AutoBorrow. These platforms will enhance eSecLending's straight through processing with their borrowing counterparties, says the firm.

TECHNOLOGY

Paris - **BNP Paribas** is to outsource its desktop technology demands to Paris-listed **Atos Origin**, after the vendor won a five year contract worth GBP50 million. Under the terms of the deal Atos Origin will provide desktop services for BNP Paribas' corporate and investment banking business in the UK and retail banking operations in France.

New York - The **Depository Trust & Clearing Corporation** (DTCC) and **CLS Bank International** (CLS) have launched a central settlement service for over the counter (OTC) credit derivatives transactions. The service, provided through DTCC's Trade Information Warehouse, is the OTC derivatives industry's only automated system for calculating, netting and issuing payments between counterparties to bilateral contracts. The new service reduces operating risks for users by replacing manually processed bilateral payments with automated, netted payments. ■

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Mandates round up of awards

BNY Mellon Asset Servicing has once again been mandated by as a Qualified Domestic Institutional Investor (QDII) fund, the bank's fourth win in China. BNY Mellon will act as overseas custodian for China International Fund Management's (CIFM) Asia Pacific Advantage Fund, designed to let domestic Chinese investors invest in international markets. Marketed as the CIFM Asia Pacific Advantage Fund, the fund will invest in markets including Hong Kong, Singapore, South Korea, Australia and India.
Meanwhile in the US, Northern Trust has been reappointed as custodian by the Los Angeles City Employees' Retirement System (LACERS), following a full due diligence process conducted by the fund's directors. Under the renewal, Northern Trust will extend its 16 year relationship with LACERS, providing global custody, securities lending, benefit payment and risk and performance services for the fund, which has a portfolio of USD11.6 billion in assets.
Northern Trust also secured its place as custodian to the GBP10 billion Strathclyde Pension Fund – the largest local government pension fund in the United Kingdom – following a competitive tender.

Mandates awarded in December 2007 and January 2008

Month	Winner	Client	Location	Assignment	Mandate size
January	Northern Trust	Strathclyde	UK	Custody Services	GBP10bn
January	BNY Mellon	Arizona PSPRS	Pittsburgh	Custody Services	USD7bn
December	Citi	Eksportfinans	Oslo	Custody Services	USD12bn
December	Northern Trust	LACERS	LA	Custody Services	USD12bn
December	RBC Dexia	AXA Australia	Sydney	Custody Services	n/a
December	BNY Mellon	CIFM	Hong Kong	Custody Services	n/a
December	SEB	Goldman Sachs	Helsinki	Sub-custody services	n/a

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Watchful gaze

Regulators pick up where they left off in 2007

US regulators will take up their various mantles of responsibility with renewed vigour in 2008, picking up old and often controversial debates from where they have lain dormant over past months and years.

Last March, a federal court overturned a Securities and Exchange Commission (SEC) rule that exempted fee-based brokerage accounts from being regulated as advisory accounts, after the Financial Planning Association challenged the rule. But the SEC was far from beaten and commissioned a report by non-profit organisation, the Rand Corporation, to look into the regulatory differences between brokers and advisers.

Regulatory changes and regulation are expected as the SEC considers the report's findings, with some in the industry suggesting brokers who act as advisers could be directly regulated by a industry led self regulatory organisation (SRO).

The Securities Industry and Financial Markets Association (SIFMA) applauded the SEC's decision to commission the Rand study, but also issued a caveat to avoid over-burdening the industry. "We must recognise that some of the confusion appears related to the broad range of customer choice. Any efforts to reduce confusion must ensure we don't diminish customer choice. To that end, we urge the SEC to work towards preserving customer choice so that investors have access to products and services best suited for their individual needs," said Ira Hammerman, senior managing director and general counsel of SIFMA.

"The broker-dealer community is already more heavily regulated and scrutinised than any of its peers or competitors, including financial planners. This robust regulatory regime, including oversight by Financial Industry Regulatory Authority (FINRA), provides customers with clear disclosure and powerful protections," added Hammerman.

SIFMA also has plans to once again look

at banking regulations. Last year the organisation handed regulatory proposals to the US Department of the Treasury, which is currently reviewing financial services regulatory modernisation and proposing a merger between the Commodity Futures Trading Commission in Washington and the SEC.

There are also plans from SIFMA to issue a white paper by mid-2008 on changes needed in US financial services regulations. It plans to work with the Financial Industry Regulatory Authority of Washington, which is rewriting broker regulations from the former New York Stock Exchange regulation arm and the former National Association of Securities Dealers, which merged in 2007 to form FINRA.

Meanwhile, the Investment Company Institute (ICI) will be throwing its weight behind the SEC's proposal to simplify and strengthen mutual fund disclosure. President Paul Schott Stevens welcomed the SEC's proposal in November: "Today, the SEC has taken a bold step to more effectively inform tens of millions of American mutual fund investors. The Commission and its staff, under the leadership of chairman Christopher Cox, have recognised that mutual fund investors overwhelmingly prefer information that is concise, straightforward, and focused on the issues most important to them. Further, the Commission's proposal reflects the power of the internet to provide more detailed information to investors in a convenient way."

The proposal would protect fund companies from liability, unlike previous efforts to streamline mutual fund disclosure, as long as they provided the longer prospectus and other information for investors online. ■

Passing the buck?

Custodians must tread carefully or incur the rod

Custodians learnt caution last year when they witnessed what could happen when their fund manager clients turn nasty. Several high profile managers collapsed and proceeded to sue their custodian banks in 2007, meaning custodians will have to tread carefully in 2008 and be a little more selective in who they allow onto their spreadsheets.

In September 2006, Amaranth Advisors collapsed with more than USD6 billion of losses and proceeded to sue JPMorgan Chase for USD1 billion. The claim is that the Wall Street bank, which acted as Amaranth's clearing agent, refused to execute trades that might have helped rescue it - essentially that is fraudulently took advantage of the fund manager, it is claimed. JPMorgan labelled the case 'baseless'. As ISJ went to press the case had yet to be determined.

And again, last year Archeus Capital Management filed a case for USD465 million against its former administrator, GlobeOp. The case was settled out of court in 2007.

Custodians have realised the dangers they may face and caused them to ensure their legal agreements are up to scratch and to review their operating procedures. Tim Wood, director of operations at RBC Dexia Investor Services, also suggested at the last Global Custody Forum that custodians as a whole must examine their clients more closely. "We have to consider what might happen if clients turn nasty. We must all do a better job of selecting clients and performing due diligence," he said. ■

Japanese Textile Stencil, 1900 — Mulberry paper with dye

Breaking new ground

It is set to be a challenging year for the executive team of Europe's newly established central counterparty, EuroCCP. CEO **Diana Chan** speaks to **Virginie O'Shea** about her role and her vision for the future

The announcement in April 2007 that European Central Counterparty Limited (EuroCCP) had won the race to provide all clearing, settlement and risk management services to new pan-European equities trading platform Turquoise was an auspicious start to the year for the recently established CCP. The European subsidiary of US clearing and settlement giant the Depository Trust & Clearing Corporation (DTCC) then applied to the Financial Services Authority (FSA) for recognition as a UK clearing house and set about looking for a management team.

Diana Chan's appointment as CEO was announced in November 2007, after which she took over the reins from interim CEO Richard Macek. Given her 20 years of experience in the securities services industry, Chan is more than equipped to deal with the challenges of running the new kid on the CCP block. "What attracted me to EuroCCP was the idea that we are going to play a significant role in shaping the future and the industry. We are going to introduce high quality, low cost and secure clearance to Europe that is also volume resilient. Even though we are a start-up, we are leveraging 30 years of DTCC's experience in bringing efficiency and certainty to financial markets," Chan elaborates.

"Any time that you start up a business you need someone who is very dedicated and committed to making the venture successful," she says. "You also need someone with vision to guide the business going forward. Determination and vision are therefore two essential qualities. I want to be part of an industry solution, and to make EuroCCP the CCP of choice for Europe. I come with a lot of knowledge about the industry – the regulatory and financial markets environment and what users are looking for."

That experience began when Chan left

her native China at the beginning of the 1980s to pursue a career on Wall Street. "I was born in the People's Republic of China and grew up at a time when it was a centrally planned economy without a capital market and so working on Wall Street for me was high adventure," she explains.

Her first financial services position was at the company that was the predecessor to JPMorgan Chase – Morgan Guaranty Trust of New York. It was at the time a very successful and respected company, says Chan. "It was known for its excellent approach to client relationship management and risk management – indeed, JPMorgan's practices in these two areas are something that I continue to marvel at today."

Chan was with JPMorgan altogether for 14 years, 11 of which were with Euroclear, which at the time was run and operated by JPMorgan. The most significant thing she learnt from her experience in New York was the importance of a solid reputation in the financial markets, she explains. "One of the highlights of my time there was actually discovering a problem in the product that led to the product being swiftly taken off the market. It was a case of initiative and diligence rewarded. I discovered the problem when I was trying to understand the product thoroughly before selling it to clients. This was a good lesson in the importance of reputation and preserving it. It is not quite as quantifiable as bringing in new revenue, but preventing reputation damage is important because a good name lost is not so easily recovered."

However, Chan explains that her comments need to be viewed in the light that it was a different time and a different place in terms of technology, financial markets, the economy and the workforce. Things have changed a lot in the last 20 years.

Her next career port of call was the Bank of New York, after it bought a large part of JPMorgan's investor services business – the global custody business. "That was when I was responsible for negotiating and managing vendor contracts in 14 countries in Asia, which involved choosing the best out of multiple providers and consolidating the business. The big challenge was to get the best deal and to prevent relationship damage to those vendors that lost out to other providers. I was there for one year, during the business transition," she says.

Chan then moved to Citi, which at the time was on the ground everywhere in Asia. "As JPMorgan and Bank of New York were buying services, Citi was a provider in all those 14 markets. It was a much bigger and much more complex business and that was what attracted me," she elaborates. "Citi has very intelligent people who like challenges; it is also a truly global organisation with a culture of meritocracy. You make your own opportunities and there is a lot of recognition for individuals who contribute. There are lots of opportunities to take up responsibilities, to achieve and shine, and be recognised for that."

In the 10 years that Chan worked for Citi, she was based in three different continents – she was in Singapore for two years, in New York for five years, in Paris for one year and then in London for the final two years. However, she feels the most interesting part of her time at the bank was the last few years, after she moved to Europe. This is largely down to the tremendous changes happening in the market as a result of the Financial Services Action Plan (FSAP) and the creation of a single capital market in Europe, she explains. "Many initiatives, such as the Code of Conduct, MiFID and Target2-Securities, made it a very challenging time for market participants and policy makers. My job at Citi for the last few years was to make sure that Citi actively engaged in all these initiatives and was part of the policy formation process."

Chan believes that the last few years have been fascinating because of the possibility to influence the tremendous transformation that has been taking place in the financial markets. Even the possibility of EuroCCP being established in Europe has been made possible by some of these measures, she adds.

In terms of directly relevant experience, Chan identifies her time at Euroclear as the best match to her role at the helm of EuroCCP. "At the time it was operated by Morgan Guaranty Trust and so it was in fact two businesses at the same time – a market infrastructure and a commercial bank. So, one aspect of that business – the market infrastructure – requires perfect reliability and the other aspect – the commercial banking side – requires opportunism. That was probably the most relevant experience from Euroclear for my current role as head of EuroCCP. As a market infrastructure, we need to be robust and perfectly reliable. As a start-up that will introduce new competition in clearing, we need to be entrepreneurial and deliver a better, more cost effective version of what users want," she explains.

"I have been lucky to spend almost my entire career in securities services but in very different businesses – a market infrastructure, a global custodian, an agent bank and when I was with Citi I was also at one time a product manager for the broker-dealer community. So, through over 20 years of various experiences in different parts of the industry, I know it well and I belong to the school that believes that you need to know the business to guide and run the business. Knowledge and experience about the business helps to have vision about what is needed and what is possible," Chan contends.

I have been lucky to spend almost my entire career in securities services but in very different businesses

When asked about what she feels is her greatest career accomplishment thus far, Chan highlights her endeavours to firmly establish Citi's thought leadership position in clearing and settlement in Europe. "Citi is a US headquartered bank so it is a similar situation to the DTCC coming to Europe and bringing over its low cost solution. It is important to bring the message across that this is a solution, it is not an American company only, but a company with a good value proposition for the industry. My representation of Citi in the last few years has been very successful and it has proven that regulators and market participants look beyond nationality – they look for content and they look for value."

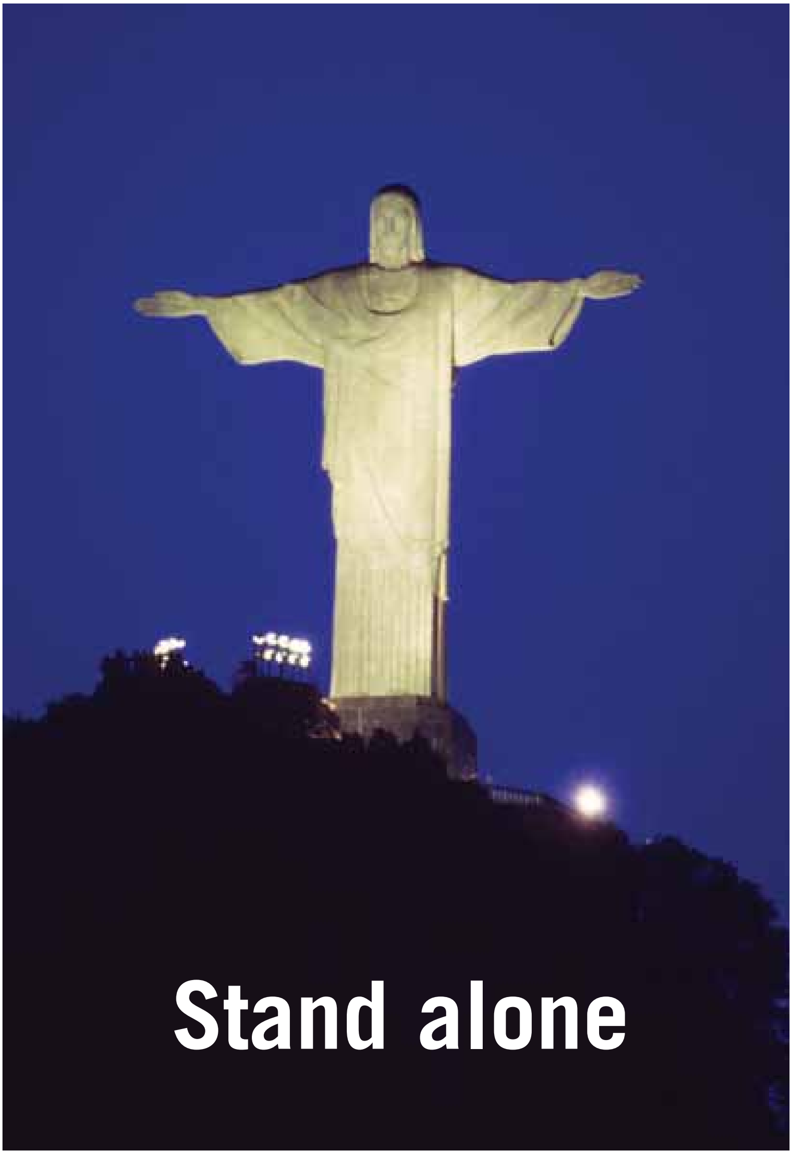
The US has often been used in Europe as the benchmark by which to measure efficiency, she adds. "EuroCCP brings US efficiency to Europe in one step. The NYSE-Euronext merger was groundbreaking and the SEC has recently blessed US and European investors having direct access to each other's markets, so I think the time is here for post-trade services to be more integrated. It is also a time when competition across the Atlantic is going to be good for the capital market's development in Europe."

Although the time of heated European competition is now upon us, it will not be beneficial to the market if there is too much fragmentation, says Chan. In securities clearing and settlement, scale economies are important because it is a high fixed cost business and, ultimately, there will be consolidation because volume is needed to drive unit costs down. However, she believes that a monopoly is not necessarily the only solution – there could be competing infrastructures and that is one of the most remarkable developments in this space. "I feel that this is the most groundbreaking and innovative change in the market. How do you have competition as well as ultimate scale economies that have traditionally meant a monopoly?"

The advent of increased competition also brings with it some dangers, warns Chan: "In the clearing space my biggest concern is that people might be tempted to start a CCP business with insufficient know-how because of the policy at the EU level to introduce competition. A central counterparty is a risk concentrator but setting up one and running it may appear simpler than it really is. If there is a CCP that is weak and gets into trouble, there may be regulatory overreaction and contagion to CCPs that are robust."

Even though there will be room for competition among CCPs, the reality is that sometimes there are still regulatory impediments to cross border competition, she adds. These may constrain CCPs' abilities to actually operate in multiple markets in the short term. "These are things that are beyond an individual organisation's power to change, so one has to not be too optimistic about the reality of complete competition across all national boundaries."

Change should not be limited to Europe, however, says Chan. "Beyond Europe there are markets in other areas of the world that would also benefit from introducing a CCP, or lowering the cost of running one that already exists. Europe is the furthest ahead because of the Code of Conduct that lays the foundations for CCPs to compete cross border, but there will be other markets in other parts of the world that can look at Europe as a good example." Today Europe, tomorrow the world…



Stand alone

The creation of the Banco del Sur and the initiative by the Brazilian and Mexican exchanges both represent an ideological and economic declaration of independence by the Latin American markets, but how will this affect the custody market in the region? **Virginie O'Shea** reports

Latin America has taken the decision to stand alone on the global stage. The launch of a Latin American regional development bank, the Banco del Sur (Bank of the South), at the end of 2007, for example, represents a controversial declaration of independence by seven of the region's governments. The presidents of Venezuela, Brazil, Argentina, Bolivia, Ecuador, Uruguay and Paraguay launched the bank in December last year with a view to promoting greater integration in the region. The founding countries have indicated that they see the bank as an important means of reducing the influence of international financial institutions, such as the International Monetary Fund (IMF) and the World Bank, in imposing what they see as neo-liberal economic policies with adverse consequences upon developing countries.

A clear sign of the region's antipathy towards the US-led institutions was provided by a group of activists at the official launch of the bank in Buenos Aires who chanted: "Motherland – yes, colony – no!" Venezuelan president and progenitor of the bank Hugo Chavez later echoed the crowd's sentiment by describing the plans as part of "an economic war that is also social and ideological" with the more advanced nations of the north. Chavez has long bemoaned the negative influence of the IMF on the Latin American region and described it as a "curse" due to its influence on domestic politics and economic prospects. The Banco del Sur proponents assert that they will provide a viable alternative to the US-biased international financial institutions.

However, the full details of how the bank will work in practice are as yet unclear and there continues to be some disagreement about the institution's goals and objectives. Should it, for example, behave in the manner of the IMF and aid countries that are in the throes of a financial crisis, or should it merely act as a promotional body for market infrastructure development? Brazil was initially hesitant to get involved due to the very fact that it was concerned that the body would merely replicate the work of the IMF, but it has since joined after assurances that the focus of the bank will be developmental.

Banco del Sur has also been heavily

criticised for the political agenda of its key advocate Chavez, who took the decision to pull out of the IMF last year. Critics fear that the establishment of the bank may turn out to be a largely symbolic project used by the Venezuelan president to spread his oil financed influence across the region, rather than a determined effort to support regional development. Regardless of these concerns, however, the bank has got the green light and it has indicated that initial capitalisation will total somewhere between USD5 billion and USD7 billion.

In the light of the recent downturn in the financial markets as a consequence of the US sub-prime mortgage crisis, this desire to seek distance from US-led institutions seems astute. Indeed, the Latin American economy does not seem to have suffered as drastic a tumble as was initially feared as a result of the crisis. Although spreads have widened and the market has been tougher on bonds as risk has been repriced in global markets, the impact has not been catastrophic; it seems much has been learnt from the volatile boom-bust cycle of the 1990s. According to a Moody's report on Latin America at the end of last year: "The region appears to be more resilient than ever before." Furthermore, Latin American equity funds were up 60.76% on a net basis by the end of last year, according to data tracker EPFR Global.

A large part of the reason why the region's economy has escaped more serious fallout from the crisis is the improved macroeconomic stability. The last four years have been good to the region as a combination of high commodity prices and low global interest rates has resulted in boom times. Economic growth over this period has averaged 5% and inflation has remained low (excluding Argentina and Venezuela that is). The World Bank has predicted that growth in the wider Latin America and Caribbean region will slow down gradually to 4.5% in 2008 due to stabilising commodity prices and slower growth in global demand. But it will be a gradual process rather than a dramatic drop due to strong projected growth in Brazil and a recovery in Mexico's economic prospects from a weak 2007.

Most of the countries in the Latin America region are experiencing solid economic growth, with a low inflation rate environment and a relatively stable political atmosphere, agrees Sylvio Rocha, head of HSBC Securities Services Latin America. "In some cases, domestic consumption is propelling the economy, which significantly reduces the dependency on the price of commodities and goods they export worldwide. The economic outlook for Brazil, Mexico, Argentina, Colombia, Panama and Chile for the coming years is extremely positive, showing important growth potential for their economies in 2008," he adds.

Brazilian custody players (and market share)

* BB (18.25%)
* Itaú (14.22%)
* Bradesco (12.63%)
* CEF (5.59%)
* HSBC (4.78%)
* Santander (4.70%)
* UBS Pactual (4.40%)
* ABN AMRO (3.97%)
* Unibanco (3.75%)
* Legg Mason (2.22%)
* Safra (2.05%)
* Nossa Caixa (1.89%)
* BNP Paribas (1.71%)
* Votorantin Asset (1.48%)
* Opportunity (1.43%)
* Mellon (1.10%)
* Hedging Griffo (1.01%)
* Sul America (0.80%)
* Credit Suisse (0.73%)
* Merrill Lynch (0.59%)

Source: Anbid 2007

The development of local currency markets in Mexico and Brazil has also contributed to shielding these countries from the fluctuations in international fund flows, especially in light of the sub-prime fallout. Moreover, the lack of direct exposure to US debt markets in many Latin American countries and the slow take-up of structured debt products have allowed the markets to attract flows from the US and Europe as the region is seen as a safer option for investment. In 2007, the foreign capital inflows in Brazil had an unprecedented high of USD90 billion. A major impulse was given by the IPOs with about USD29 billion – leaving the country to be third in the world, just behind China and US, in terms of IPOs.

The stellar performance of the Chinese economy has had a positive influence and Chinese direct investment in Latin America surged from USD1.76 billion in 2004 to USD8.47 billion in 2006. These figures are somewhat misleading, however, as more than 90% of the 2006 total went to the Cayman Islands, thus indicating that the full amount may not have been directly attributable to foreign direct investment. Nonetheless, China's appetite for the region's ample natural resources, including copper, iron ore and soybeans, does not seem in danger of waning any time soon and that spells good news for the future of the Latin American economy.

There are several reasons for the increased interest in Latin America from foreign investors, says Phillip Silitschanu, senior analyst at Aite Group. "Part of it is related to Brazil's relatively long period of economic stability, with inflation under control. Also, there is Argentina's long term recovery from a disastrous currency collapse, and their increasing stability, as well. More importantly, however, are high net worth investors in Latin America, who for the first time, are beginning to turn to private banks and brokerages for banking and investment services."

Andrew Gelb, managing director, global head of direct custody and clearing at Citi, was also positive about the prospects for the region at last year's Sibos. During the emerging markets session Gelb commented: "Latin America has become an important destination for foreign investment on the back of political stability, high commodity prices and growing economies throughout the region. Markets have transformed and the expectation is growth."

In the past, much of the wealth in Latin America was kept 'under the mattress', but in the past three to five years, governments around the world have begun to crack down on undisclosed investments and income sources. As the options available to invest assets in 'hidden' accounts have dwindled, high net worth investors in Latin America have turned to private banks for investment options, explains Silitschanu. This has helped to attract private banks and brokerages from Europe and the US into Latin America, as they seek to attract new inflows of assets.

Latin America is considered a strategically important region by HSBC, adds Rocha. The bank has a presence in Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador, Honduras, Mexico, Nicaragua, Panama, Peru, Paraguay, Uruguay and Venezuela, with a branch network of more than 3,850 branches. HSBC is one of many non-domestic banks that have chosen to target Latin America and, given the fact that net revenues for 2006 were up by more than 30% on 2005 figures, the reasons for this strategic decision are clear.

These banks are entering the markets in a number of ways – via the acquisition or the establishment of partnership agreements with domestic players, or via organic growth strategies. Although many investment banks claim to be pan-regional players, with a few notable exceptions, most do not have critical mass across the entire region. However, the competition is hotting up and over the last couple of years, there have been a number of significant domestic acquisitions by global banks. In May 2006, for example, UBS paid USD2.6 billion for Brazil's Banco Pactual and in July 2006 HSBC bought Panama's Banistmo for USD1.77 billion.

Aite Group's Silitschanu feels that Citi has made a significant amount of progress in the region: "Citigroup has been able to carve out a significant position for themselves in much of Latin America, and while competitors have struggled to gain ground in the region, Citi is still in a position to hold onto their lead."

In terms of fund administration, the Latin American region represents only 2% of the total global assets under management (AUM) industry, explains HSBC's Rocha. Nevertheless, its growth is by far the greatest of any other across the globe: 37% Latin America (CAGR), Europe 22%, Asian-Pacific 20% and EUA-Canada 13%. Local asset managers hold 60% of total AUM in the region, followed by global players with 22%, global specialised with 12% and local specialised with 6%. This situation is a result of the large presence of local asset managers in the local markets, enabling them to build a solid distribution channel, he says.

In terms of competitiveness, markets should consolidate among the large players that have strong distribution channels, contends Rocha. "A great part of the value generated by the industry is going to be retained by the ones able to distribute the product. There is also the expectation that new foreign asset manager specialists will enter the markets as demand for more sophisticated products increases," he adds.

Although many investment banks claim to be pan-regional players, with a few notable exceptions, most do not have critical mass across the entire region

Tied to this scenario, the market share for custody services providers also reflects the presence of large local institutions, normally the ones that offer asset management services, and large global international institutions. When focusing only on sub-custody services for cross border clients, the list is even smaller as around only five institutions provide this type of service. "HSBC is adding Mexico as the newest branch for custody and clearing services for cross border clients at the beginning of the second quarter of 2008. It is going to be the 39th branch of the worldwide Custody and Clearing (CNC) franchise," explains Rocha.

Although the competition seems to be gearing up in the region, Rocha does not believe there will be any major new entrants into the region. He feels that the main changes in the competitive landscape will be limited to shifts in the percentage of market share among the current providers. "It is a region for few providers," he says.

This certainly seems to be the case in one of the region's key markets, Brazil, where a few major banks dominate the custody and fund administration sector. There is no single institution dominating the fund administration market, but rather the top 20 represent around 87% of the market (out of 247 players). In the custody market, there are around 15 players and the top five (Itaú, Bradesco, Citibank, BB and HSBC) represent around 85% of the market.

There are three key sub-custodians with dominant market share: Citi, Itaú (which acquired the Bank Boston business) and HSBC, adds Nelson Pereira, who is responsible for banking and securities initiatives in Latin America for Swift. The domestic custody business players are comprised of these three sub-custodians plus the large commercial banks such as Banco do Brasil, Bradesco and Santander. "Recently there has been a segregation of roles between the custodians and the fund administrators, but we still see the main banks competing in both markets," says Pereira. "This will remain during the next few years. There has been a relative consolidation in this market resulting in five to 10 key players, including Itaú, Bradesco and Citi."

However, Pedro Guerra, vice president for the Securities Services Industry at the Brazilian national association of investment banks, Anbid, believes that the fund administration market in Brazil will face more competition rather than consolidation in the coming years. On the fund administration side, the movement towards more complex and sophisticated instruments will bring more niche players to the market, he says. "On the securities servicing side, gain of scale is the name of the game and we do not see any new player jumping into to the market, but we also believe that the existing players will strengthen their positions in order to increase market share," he adds.

According to HSBC's Rocha, the main challenge for local custody banks in these competitive times is the inability to offer the domestic investor community broader coverage in terms of different markets. "As markets open up, domestic local clients tend to select large international players that can provide a complete solution in terms of accessing different markets and jurisdictions. This is the same for international clients that tend to appoint large international banks as custodians, which have a presence on the ground, as opposed to domestic custodians. Obviously, a multi-market solution gives final investors and intermediaries more significant opportunities in leveraging volumes and size on pricing discussions," he contends.

Aite Group's Silitschanu agrees that the largest problem that smaller domestic players will face is competing with the resources that global institutions have at their disposal. This may lead to more partnership agreements springing up, he explains: "Many of the local banks may very well use third party asset managers to manage their products, while they (the regional domestic banks) focus on what they have an advantage in – the gathering of assets in their local territories."

Internal infrastructure within the domestic banks may also be an issue, says Swift's Pereira: "The challenge for the custodians is how they can merge their offerings and IT platforms when servicing the two different segments: domestic and cross border. The challenge for the smaller domestic banks is the IT infrastructure. With the trend to use international standards, the options of IT providers are limited, thus making it difficult to compete with the global players supported by global IT platforms."

Despite the operational and integration issues the domestic banks may be facing, the market infrastructure in most of the region's countries is in the process of being upgraded to international standards. Most of the central securities depositaries (CSDs) and exchanges are investing in improving their systems and best practices, and the majority of the countries have implemented delivery versus payment (DVP) settlement with dematerialised securities.

"The Americas Central Securities Depository Association (ACSDA) recognises the importance of a gap analysis of the market infrastructures in relation to Giovannini Barrier 1 protocol and supporting the usage of ISO standards," says Swift's Pereira. "Starting in 2008, trustees in the region are more likely to use more international standards such as ISO 15022 and ISO 20022 to obtain higher straight through processing (STP) rates. ISO 20022, or UNIFI, is the next generation of financial services industry messaging standards. The standards being developed under ISO 20022 also cover the lifecycle of a transaction – for example, recording an initial interest in a security purchase and following it through to asset servicing and reporting. Indeval in Mexico currently uses ISO messaging on Swift."

In Brazil, there is a solid and secure infrastructure that was implemented with its payment system in 2002, adds Pereira. "Indeed, the main clearing houses, exchanges and regulators promote regularly the Brazilian Excellence in Securities Transactions Seminar (BEST) to stimulate the international investments in the country. The major events in the past year were the demutualisation of the Brazilian stock exchange Bovespa and the Brazilian Mercantile and Futures Exchange (BM&F), which had a massive participation of international investors. The demutualisation process emphasised their concern towards international standards and growth towards other markets and products," he explains.

Brazil is a natural leader in the region, adds Rocha, so it is very likely that small countries will tend to follow Brazil's example. The initiative for the cross border investment between the Brazilian exchange and the Mexican exchange launched last year may also represent the first step in greater integration of the region's stock markets.

The work of the Federacion Iberoamericana de Bolsas (FIAB) to allow brokers in Mexico to offer investors a sample of Brazilian stock and Brazilian brokers to offer investors access to Mexican stock via an operational link may be just the tip of the iceberg. It is hoped that the link between the two exchanges will be the first in a long line of similar arrangements between the other Latin American exchanges. Colombia has already indicated that it is interested in getting involved. The ultimate aim of the initiative is to increase the liquidity of the region's exchanges and allow the domestic capital markets to develop further.

Initiatives such as this indicate that although Latin America has some way to go in terms of capital market development, the region is not afraid to go it alone and much progress is being made. The domestic fund industry in the region is growing very rapidly in terms of size and complexity and this represents a major opportunity for the large institutions that have the scale to compete, says HSBC's Rocha. The race is on. ■

Booming Brazil

According to the Brazilian national association of investment banks, Associação Nacional dos Bancos de Investimento (Anbid), the growth of the national economy over the last 15 years has been based on three main pillars: prudent fiscal policy, cautious monetary policy, robust export growth and strong external accounts.

"This mix of policies provided a shield against external shocks and led the Brazilian economy to stable inflationary expectations, lower long term interest rates, improved debt dynamics, greater fiscal flexibility and a more credit/more jobs dynamic," explains Pedro Guerra, vice president for the Securities Services Industry at Anbid. "The Brazilian financial market believes that these economic conditions and, consequently, the economic growth are sustainable in the coming year."

The Brazilian capital market offers many of the sophisticated products existing in the most developed markets, such as securities lending, hedge funds (which are officially regulated in Brazil), derivatives and futures products, receivables and products related to real estate. "The investment in all these sophisticated products may be realised when we take the behaviour of the mutual funds industry in the last five years into account. Although our industry is still based in fixed income investments, this picture is changing consistently," says Guerra. "From 2000 to 2007, the participation of money market funds and fixed income funds reduced 11% and 20% respectively, while the participation of equities funds and multi-market funds (Brazilian hedge funds) grew 3% and 20% respectively. The domestic investors represent more than 95% of the client base of the local mutual funds industry."

At Bovespa, the daily trading volume increased to USD2.7 billion in 2007 from USD192 million in 2002. Domestic investors represent 62% of this volume. Similar growth happened with volumes traded at BM&F, where local investors represent more than 80% of the client base.

"These movements towards more complex and risky investments are also bringing new business opportunities to securities servicing companies in Brazil as they are creating and offering value added services to investors, such as risk management of portfolios, clearing agent services and brokerage," concludes Guerra.

Pick of the bunch?

From possibility to actuality, Latin America has become a hedge fund hotspot. **Giles Turner** looks at why the region's increasing financial sophistication makes it the pick of the BRIC bunch

Apparently, the world is getting smaller. The market however, is definitely becoming larger, with an increasing number of markets opening their borders to foreign investment. Markets that were once seen as a locked vault are now allowing their capital to flood into developed markets. With Brazilian based funds allowed to trade abroad, this is not only a great opportunity for these funds to take advantage of the current global volatility, it also means that the expanding domestic funds need to adjust their back and middle office operations. Asset managers have to collect data, both regarding their domestic and foreign activity, as part of their daily net asset value reports. This provides opportunities for the fund servicing industry in Brazil.

LaCrosse Global Fund Services, with a strategically placed office in Sao Paulo, announced in the latter half of 2007 that it was committed to supporting complex hedge funds in Latin America, as they respond to changing regulations by local authorities in Brazil. According to Gustavo Rodriquez Ponti, LaCrosse's regional manager of its Latin American operations: "A hedge fund typically has a registered administrator in place to settle trades. Funds can rely on us to coordinate and support the formalisation of the referred transactions so that the settlement may be confirmed and duly completed." What makes LaCrosse's system attractive to those new Brazilian fund managers that have their sights set on the horizon, is that LaCrosse's extensive global coverage matches their desire in 2008 to diversify their portfolios across the globe.

While Brazilian fund managers now have the opportunity to trade abroad, the rest of the world wants to be able to trade in Brazil. São Paulo's Bovespa was one of the world's best performing stock markets in dollar terms last year, flanked by China (Shenzhen and Shanghai) and Bombay on the winners' podium. Over the last five years, the Bovespa has grown by over 1000%, whereas Shenzhen and Shanghai are up by around 700% and Bombay around 630%. The Bovespa has also attracted numerous foreign investors, and for the hedge funds in mid-2007, using bonds to bet whether Brazilian interest rates would continue to fall proved an attractive investment strategy.

The Bovespa is also an extremely sophisticated medium of investment for funds. Marco Martin, head of the Latin America practice at Harneys in the British Virgin Islands, explains: "On the capital markets front, the leading Brazilian stock market, Bovespa, is at least as sophisticated a market as any of the other BRICs, and the stock market not only enjoys solid growth, but has also recently been engaged in the market launches of new financial products. This includes Bovespa New Market, which aims to entice more investors by only listing companies that agree to adopt corporate governance and transparency practices that are in addition to those already requested by Brazilian law and the Brazilian Securities and Exchange Commission (CVM)."

Although many see the emerging markets as a new alternative, it is worth pointing out that absolute return is not a new phenomenon within the region. As far back as the late 1990s, various hedge funds have posted established returns. During that time, success for hedge funds came off the back of a number of wealthy local families seeking to exploit the region's high volatility. The funds, mainly multi-strategy and global macro funds, developed after the state defaults of Argentina and Ecuador, and the recession in 2002. What is interesting however, is that the regional recession in 2002, due to the international liquidity crisis, attracted distressed and event driven strategies to the region.

Today's liquidity crisis is again causing interest in the region, but these are not vulture funds, rather long/short equity strategies that rely on the newfound economic strength of the region. While Latin America's northern neighbour makes its mind up about how to tackle the potential recession, investors are flooding into the southerner's strong emerging market. A large number of IPOs and the current commodities boom have caused a strong localised liquidity expansion. Moreover, non-US growth has been a major driver behind global natural resource prices. China's demand for commodities has led to high interest from hedge funds in Latin America's base of natural resources. With Brazil and Columbia leading the commodities charge, mining companies such as Companhia Vale do Rio Doce, and oil company Petroleo Brazilero have been performing well on the New York Stock Exchange.

Yet it is important to be wary of seeing Latin America as a region dependent on commodities. Luiz Riberiro, manager of the HSBC GIF Latin America Freestyle fund, explains: "In a continent of such vast and varied natural resources, it is not surprising that commodities have provided the primary link with the outside world since the time of Columbus. Indeed, even in pre-Colombian times, there was a great deal of inter-American commodity trade. Consequently, the notion that Latin America is dependent on commodity exports is steeped in tradition going back 600 years or so – it is not therefore a tag that the continent will be able to shed lightly. Moreover, with commodities prices experiencing a strong and sustained up-cycle, exports of natural resources have constituted an increasing proportion of economic wealth. However, there is potentially a much more positive flipside to surging commodity related revenues: such windfalls can be directed towards strategic growth enhancing activities in order to maintain growth beyond the natural resource bonanza. These include building up capabilities in innovation, education and physical infrastructure, which can help strengthen the competitive position of the economy's non-commodity exporters and offset the detrimental influence of any exchange rate appreciation."

It is this usage of commodity driven re-investment into the region's infrastructure that means fund managers have to focus on all sectors. Ribeiro continues: "As fund managers, therefore, it is far more important for us to focus on fiscal policies and reform rather than simply immerse ourselves in data relating to commodities exports. The growth in the telecommunications industry is already very evident and new investment opportunities in sectors such as infrastructure development should be a natural by-product of macroeconomic stability and pragmatic government policies. Meanwhile, a backdrop characterised by strong growth is an environment in which banks tend to thrive together with consumption in general that will keep benefiting from higher real wages, lower interest rates and greater availability of credit." Those wishing to administer hedge funds in the region must therefore be adaptable to the changing demands of hedge funds. Only those who can cater to hedge funds' changing strategies at the drop of a hat will be able to flourish in this new market.

Regarding regulation, the CVM has authorised the various hedge fund strategies in place. The CVM has seen the growth over the past four years as a viable means of enhancing the local market's flexibility and efficiency. Riberio adds: "The law also improved Brazil's ability to develop further manufacturing capacity and to harness valuable expertise to deploy once their patents had expired. The financial market is also very sophisticated with a high volume of derivatives traded on a daily basis. The Futures and Commodities Exchange is today the fourth largest in the world in number of contracts traded."

Perhaps one of the reasons why Brazil and the surrounding region is flourishing while others flounder is because in the past the cost of securities borrowing was high. This barrier to entry meant that superior returns could only be gained by those prepared to find securities lenders at a local level. The large amount of time and effort expended by investors' means that financial sophistication in Brazil is extremely high for an apparently emerging market. Katy Dobson, manager of the Threadneedle Latin American Fund, explains: "Brazil remains the most dynamic market with a lot of entrepreneurs, and a lot of companies that could come to the stock exchange. We think Brazil has a very high level of financial sophistication. It has a good accounting system; the companies give us very timely information on their accounts, and very good disclosure. One example of the sophistication of the banking system is that it takes one day to clear a cheque in Brazil, compared to three days in the UK. Because they had to cope with high inflation, the banking system is very technically advanced. Brazil, out of the BRIC countries, is the only one to have listed its stock exchange and its futures exchange. Brazil also has PetroBras, which is the world's most liquid options contact. It is a very competitive banking environment, and they've survived these periods of volatility."

Another more indirect reason for Brazil's continued success, and an area that hedge funds interested in infrastructure opportunities will be well aware of, is the counteracting of the economic and political influence of the United States over global intellectual property law. Riberio explains that as far back as a decade ago, the Brazilian government enacted new legislation that included a 'local working' requirement, which subjects a patent owner to potential compulsory licensing within three years after the patent is granted if, among other reasons, the patent owner fails to manufacture the product within Brazilian territory. Hedge funds wishing to invest in the region have to have a high degree of local legislative knowledge in order to profit from Brazil's successful protectionism.

With over 500 million consumers spread across 21 countries, plus some major reserves of natural resources, Latin America looks set to flourish. Yet with around 90% of funds domiciled and invested in Brazil, will other regional players emerge from Brazil's shadow? Managers are few and far between across other Latin America countries. Financial centres such as New York and London are seeing a rapid influx of managers specialising in the region, but those already based in region are finding it difficult to man the desks. To their credit, Brazilian managers have made great strides over the past three years in order to diversify their client base. Assets under management in offshore vehicles managed by Brazilians has roughly doubled over the past three years. It remains to be seen whether Brazil can weather all storms, but hedge funds are no longer seen as exploiters of a region, but the evidence of an increasingly sophisticated economy. ■

In a continent of such vast and varied natural resources, it is not surprising that commodities have provided the primary link with the outside world

Ready for takeoff

Last year saw the Isle of Man talking itself up in the City; this year it delivers on its promises. **Jamie Darlow** reports

Think of a funds domicile less than an hour and a half's flight time from London City Airport with a zero percent tax rate and you'll likely think of the Channel Islands. Guernsey and Jersey are due to go live with their 'zero-ten' policies in 2008 and 2009 respectively, but the Isle of Man adopted this policy in 2006, helping to grow the assets under management on the island to USD60 billion in 2007.

The Isle of Man has sought to reinvent itself over the last few years and has put itself squarely on the map as more than a tourist destination. Its economy now revolves around professional services, banking and insurance and it is regarded as a genuine alternative to Dublin as an offshore fund management centre. Treasury minister on the island, Allan Bell, recently said he expects a select group of offshore jurisdictions to emerge, of which the Isle of Man will be in the "top drawer". If recent news from the island is anything to go by, he could be right.

The final quarter of last year proved an exciting time for the domicile, as two big names from Mayfair located their middle-office operations to the island. Run by Ross Turner, formerly of Lansdown Capital, Pelham Capital represented the biggest launch of a long/short equity fund in Europe in 2007. The fund, which is due to close at USD500 million, has been licensed by the Manx regulator, the Financial Supervision Commission (FSC), and is now up and running, having moved its middle office to the island in October.

Less than a month later, event driven fund Bridge Global Asset Management - run by the former Argo team - moved its middle office operations to the domicile. Pelham and Bridge join established funds such as Laxey Partners and Charlemagne Capital, which both have a presence on the island.

Brian Donegan, director of foreign direct investment at Isle of Man Finance, explains that this has turned heads in London. "Because they're so high profile in the City, they've generated a lot of additional interest for us, in terms of the numbers of people who are now calling me to express interest in the Isle of Man as a domicile and also relocating the middle office," he says.

The high levels of growth experienced by the Isle of Man have also added fuel to the fire and increased interest still further - while all offshore domiciles have reported high growth, the Isle of Man's has been extraordinary. The first strategic review completed by Isle of Man Finance in 2003, reported growth of USD7 billion to just over USD60 billion to date. Isle of Man Finance's target is now to reach USD150 billion by 2010, comprising USD100 billion assets under administration and USD50 billion under management.

Despite this growth, Donegan remains refreshingly modest about his island's achievements. "That's a phenomenal rate of growth, but not entirely spectacular given the nature of the growth in our competitors' centres," he says.

Donegan traces the origins of this recent success back to the review the island undertook of its funds industry in 2006, chaired by Paul Smith, formerly head of HSBC's Alternative Fund Services Division. The review group's task was to consider how it could capture more of the booming global hedge fund market and lure it away from the Cayman Islands and Dublin.

The starting point for the domicile was as a small scale jurisdiction predominantly housing back office administration for non-domiciled funds, something Smith highlighted in his review. He went on to explain that back office business was unsustainable as technology and cost would constantly drive back offices to shift to cheaper jurisdictions with larger populations.

The review therefore directed the island towards attracting middle office fund managers, such as Pelham and Bridge, where revenue is higher than it is for admin work, or in Donegan's words: "The contribution from fund management work is about 10 times greater than administration, in terms of its contribution to Treasury."

The review group identified opportunities for jurisdictions focusing on specialist institutional markets, within the alternative sector and closed-ended

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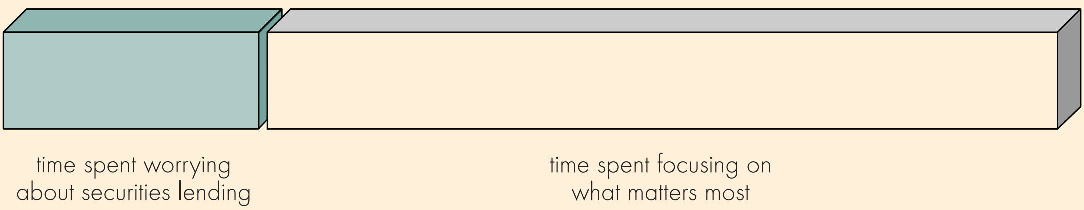

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Asset Management | Asset Servicing | Wealth Management companies. It also found some onshore fund managers were facing pressure from tax authorities. Recommendations from the report involved secondary legislation amendments and new legislation. November saw the Tynwald - the parliament of the Isle of Man - approve the introduction of the specialist fund and the qualifying fund and an update to the experienced investor fund, all of which were suggested in the review.

Donegan says the changes were drafted and enshrined in Manx law in less than 12 months. "One of the great advantages of our size is we are nimble and to go from a strategic review to major legislation enshrined in law is high speed by jurisdictional standards," he explains.

"Our stellar performance is down to the underlying changes that have been hardwired into the Isle of Man offering over the last 24 months," says Donegan. "The principle change has been the introduction of a zero percent corporate tax and the introduction of the 2006 Companies Act that runs alongside the current 1931 legislation. The Companies Act was to provide greater ease and ability for the incorporation of new businesses. The zero corporation tax has generated interest from well established businesses in our competitors' jurisdictions. We derive in excess of 70% of our exchequer revenue from VAT receipts, so we can afford to introduce the zero percent tax rate. Some of our competitors have offered to introduce the zero tax regime in the next three or four years, but whether they do that or not - I don't really know. They will derive the revenue from direct and indirect taxation."

Novelist Mark Twain once wrote: "Many a small thing has been made large by the right kind of advertising." This is something Isle of Man Finance obviously took to heart when reorganising its funds industry. Not content with merely changing the regulation, Isle of Man Finance is actively promoting the island. Smith said in his review there was still insufficient awareness of the jurisdiction. "In surveying the hedge fund community in London, by far the most overwhelming negative has been the lack of a sustained and targeted marketing campaign," he reported.

"My time is split between our City office and Isle of Man office," says Donegan, as he puts the recommendation into practice. "My three target audiences in London are fund lawyers in the City, prime brokers in Canary Wharf and fund managers in Mayfair. We raise awareness levels about the island and the strong business case it represents."

And it seems the publicity campaign may be paying off, with growth both from additional investments in existing funds and new funds, says Donegan. "The awareness we've created about the Isle of Man as a viable and alternative jurisdiction to Cayman and the Channel Islands is starting to break through."

Such change in 24 short months seems unfeasible, given the amount of time other jurisdictions are taking to radically alter their structures. Jersey and Guernsey, for example, have taken upwards of five years from conception to implementation to alter their tax status. Donegan puts this down to the Isle of Man's public-private sector partnership.

David McGarry, senior partner at KPMG in the Isle of Man, represented part of the private sector influence as a member of the Funds Review Group, and explains that the partnership approach moves initiatives forward more quickly. "When we set up the industry review group that prepared the report delivered in March, we included a number of private sector people - the head of the FSC John Aspden, Brian [Donegan] as a representative of Isle of Man Finance, and the senior civil servant from Treasury," he says.

"What we set out to do was ensure the areas we set out to reform had agreement from public and private sector regarding the strategic direction," continues McGarry. "The private sector, the public sector and the regulators were therefore comfortable with the recommendations we produced."

Did the private sector call the shots then, and dictate which direction the jurisdiction went in? "Absolutely not," refutes Donegan. "Consultation, consensus and collaboration are the order the day. When we develop major initiatives, we get around a table and work together, but it's very clear there's a mandate for the private sector and a mandate for government."

One underlying problem still unresolved by the Isle of Man as a fund centre must be its inability to offer the kind of heady amusements hedge fund managers and their families have come to expect. You won't find a Michelin starred restaurant there, nor will you see as many hours of sunlight as in Grand Cayman, and unless global warming turns up the heat, you never will.

What Isle of Man Finance has done to get round this is simply to recognise the island's shortcomings and play to its strengths. "If there was one unique point that sells the island, it's the quality of life here. There's a strong opportunity for young families - the entire infrastructure is family centric," says Donegan. "Our low population density in a vast physically beautiful environment is perfect for outdoor sporting pursuits such as cycling, hill walking. Healthcare is excellent as is the education system, which is based on the UK curriculum and is Ofsted tested."

The island's growing status has also rubbed off on its 80,000 residents who enjoy a higher standard of living than their mainland counterparts. Other enticements, drawing the hedge fund manager's eye from Jersey and Guernsey, include the overall size of the island - 227 square miles compared with 45 and 25 for the two largest Channel Islands. McGarry says: "Size means we have the room for new offices to be built. It's also open to come and live on the island and buy a house, while the Channel Islands have very restrictive housing legislation," he explains. "I am familiar with offshore jurisdictions, from Bermuda to Malta, and the can-do attitude of government, regulators and private sector in the Isle of Man is something I find very welcoming."

This has affected the domicile's third party administration sector, increasing the number of licence holders from five to around 16, says McGarry. "The reason why these have expanded is because they can bring in the skills they need and recruit good people locally and people can buy houses and establish a proper home - the staff turnover is very low," he adds.

The Isle of Man has seen funds under management and administration rise from USD36.2 billion in September 2006 to USD53.3 billion a year later. While it has come a long way in a short space of time, the jurisdiction will have to continue to raise its profile and continue to innovate as the market demands, if it's to reach its USD150 billion target by 2010. ■

The future is bright

Let me wish you all a very happy new year. Annually at this time we tend to look back over the previous year and forward at what might lie ahead for us during the next 12 months. Well, if 2007 is anything to go by, then the phrase 'expect the unexpected' should cover us for 2008.

This time last year I was looking back over the tremendous achievements of Guernsey's funds industry in 2006. Given those successes and the positive start to 2007, it appeared that the same growth might not be sustained throughout the year. This became even more likely with the sub-prime crisis and the unprecedented issues regarding Northern Rock.

However, while activity is not quite as frenetic as pre-credit crunch, business flows have remained more than robust. The value of funds under management and administration in Guernsey reached GBP164 billion at the end of September – an increase of 6% over the quarter and 36% on the same time in 2006.

The sector has been boosted by February's introduction of the innovative registered closed-ended funds regime, which was heralded at a specific master class session in London. This event was followed by September's Guernsey Funds Roadshow to Manchester, Leeds and Edinburgh and there are now plans to promote the sector again in London but also in New York as further changes emanating from the Harwood Report come on-stream during 2008.

What I hear is that, at least for the first half of 2008, there is a strong pipeline of business coming into the island and there is also other substantial business out there to be won. That is why we are still very much active in promoting the island and particularly our growing reputation as a centre of excellence for alternative investments, like funds of hedge funds, private equity and property, as well as more esoteric asset classes such as fine wine, fine art and timber.

I wonder whether looking back later at 2007, we might believe it was a pivotal year – a watershed – but of course for that we will have to wait well into 2008.

In a world of ever-increasing competition, Guernsey remains at the forefront of international finance centres through its ongoing development of attractive products and pragmatic regulation. In fact, all the ingredients are in place for Guernsey to maintain its position as a jurisdiction where clients want to conduct business (and keep coming back for more) – long may that continue.

Peter Niven is the chief executive of GuernseyFinance

Fund launch

In September 2006, the Isle of Man Funds Review Group (FRG) was established and charged with the task of reviewing the Isle of Man's investment funds strategy. The FRG comprised leading members of both the public and private sector.

Since the FRG published its report in February 2007, the FRG implementation group, including myself, has been working to progress the initiatives identified by the FRG to position the island as a premier location for the domiciliation of specialist institutional funds in the alternative and closed ended fund sectors.

As a result, on 1 November 2007, a key new fund product was added to the Isle of Man's fund offering: the specialist fund (SF). The SF is aimed at institutional and super-high net worth individuals and is not intended for retail investment. The SF regulations provide a clear definition of what constitutes a "specialist investor", which broadly speaking, covers institutional investors, affiliates of the fund's promoters and managers and individuals with a net worth in excess of USD1 million.

As there are no regulatory restrictions on asset classes, trading strategies or leverage for SFs, an SF is suitable for any type of alternative investment. In addition, no regulatory pre-approvals are required from the Isle of Man Financial Supervision Commission (FSC), which means that SFs can be launched quickly without any risk of regulatory delays. For the SF there is a minimum initial investment requirement of USD100,000.

Another initiative identified by the FRG is to position the island as a preferred location for the establishment of front and middle office operations for global fund managers. As a result, the FSC has recently launched refinements to its licensing policy which is designed to attract hedge fund management and related operations to the island.

In common with normal licensing requirements, all license applications must be made by Isle of Man companies that are managed and controlled in the Isle of Man by individuals with appropriate experience and qualifications.

Any fund management or administration business based in the Isle of Man will benefit from the island's zero rate of corporate income tax. In addition, the fees levied by fund administrators and investment managers based in the Isle of Man are exempt from VAT in the Isle of Man.

I have assisted in relation to the establishment of two new operations, namely Pelham Capital Management (Isle of Man) and Bridge Global Asset Management (IOM). Both these companies were recently issued with appropriate investment business licences by FSC.

With the ongoing global environment looking challenging for the short to medium term, the vast majority of new hedge fund start ups will need to identify jurisdictions that can deliver robust regulatory and fiscal infrastructure. The Isle of Man is such a jurisdiction. The island welcomes quality start up hedge fund business. In addition, it is becoming home to more discerning investment managers and hedge fund managers who see the Isle of Man as a compelling business case in a world where quality, integrity and reputation mean so much.

Brian Donegan, director, Foreign Direct Investment, Isle of Man Finance

Challenges ahead

Germany faced a year of consolidation in 2007 and this year will prove just as chaotic, reports **Jamie Darlow**

Caceis concluded its lift out of HypoVereinsbank's (HVB) German custody business at the end of December, drawing to a close a year of turbulence and consolidation in the German custody market. As the big names in custody - ABN AMRO Mellon, BNP Paribas and HSBC - have moved in, most domestic players have been squeezed out, as clients demand more complex services from their banks.

HVB wrapped up its departure from the German custody market on 28 December when it transferred its subsidiary, the Financial Markets Service Bank GmbH (FMSB), across to Caceis. From February 2008, FMSB will be known as Caceis Bank Deutschland GmbH.

French banking groups have made a number of recent advances into Germany, including last summer's purchase of Pioneer Global Asset Management by Société Générale. SocGen entered the market with a bang, securing Pioneer's related funds under administration of EUR55 billion.

The resulting mix of custodians in Germany is dominated by the international players and structural change to the region will continue to shift in years to come as consolidation continues, explains Dietmar Roessler, BNP Paribas Securities Services' global head of sales and relationship management in Germany. "Classic German Depotbanks are likely to exit the business as they would need to significantly invest into their infrastructure and staff, in order to offer the scope of services necessary to attract new business," he says.

Moritz Ostwald, head of sales and relationship management for Custody at BHF-Bank, explains that Germany remains one of the most highly contested markets in Europe, with nearly 10 banks operating in the custody market. "What is more, some market participants do not consider custody to be a core business area. For these reasons, there certainly is further need for consolidation in this market," he says.

"On the other hand, Germany has traditionally been an important market for many investors and its importance has grown even further in the last three years," continues Ostwald. "So foreign custody providers remain very keen to establish a direct presence in Germany. The numerous bidders that did not succeed in the takeover bid for the German HVB business will continue to look out for interesting buying opportunities in 2008. Providers focusing on custody business and offering their clients tailor made solutions and comprehensive personalised services will certainly have a role to play on the German sub-custody market in the future, too."

Michelle Grundmann head of pensions, EMEA at BNY Mellon Asset Servicing, agrees that consolidation will continue in the Federal Republic. "Market consolidation in both the KAG and custody sectors will be a continuing trend in Germany, as domestic and foreign providers realign their focuses to core businesses," she says. "The investments required to maintain state of the art custody services are now becoming barriers to the continuation of business operations for those companies that view custody as an operational cost centre only. Only through continual renewal of product and reinvestment in the custody business can banks continue to play in this space."

What is increasingly important to German funds is the size of their custodian. "Scale is another catalysator that did not matter in the past, as long as local providers were able to charge two digit basis point fee called 'abwicklungsprovisionen' on settlement amounts," Roessler says. "These in turn were used to x-subside asset management and other activities. In this context scale requirements for classic German providers have quant leaped to international levels."

Clients in Germany are also becoming more demanding, says Roessler. "All this happens at a time when investors and their asset managers are increasingly pulling the value chain to pieces, expect to separately mandate execution, FX, asset management and global custody and overall market growth due to increased competition from Luxembourg is limited. Clearly we will see further Depotbanks ownership changes such as Invesco to BNP Paribas and the HVB deal."

Like fund managers in developed markets across the globe, German investors are looking to tap into derivatives to increase returns. "Derivatives strategies dominate the investment policies of many pension funds," says Grundmann. "The greater level of sophistication within the marketplace precipitated by the use of these instruments has had a ripple effect on both Depotbanks and KAGs alike."

According to a survey by Frontiers Management Consulting and Mercer Investment Consulting, around 10% of the German institutional investors hold alternative investments, Ostwald points out. More than half of those already invested in this segment are planning to invest up to 5% of their portfolios, and a further 10% want to hold more than 10% in this asset class.

Yet this diversification may not indicate a desire from pension funds to peruse riskier strategies. "It is interesting to note that the survey also found that 6.8% of respondents in 2005 stated that they were planning to invest in alternative assets, while the share of those actually invested in this segment in 2006 only rose by 1.7%," Ostwald says. "Maybe the primarily conservative mentality of German investors should be considered in this context. With only 5.1% in direct equity investments, Germany still has one of the lowest equity investment ratios among the developed countries. According to the survey, approximately 75% of the investors chose alternative investments to lower the risk of their overall portfolio. So there are no signs at present that by stepping up their investments in alternative assets, investors are adopting more risky strategies."

One of the greatest impacts on the German market has been the shortfall in pensions created by the implementation of international financial reporting standards (IFRS). These standards have highlighted the extent of the pension liabilities that German institutions now face. The standards have driven those institutions to externalise their pension provisions and put pressure on them to make up pension shortfalls.

Funds are also becoming increasingly attentive to their investments. "Investors are keen to use tools that help them to understand if there is a deviation between the invested portfolio and the investment guidelines given to the manager," explains Roessler. "This has led investors to actively use our style analysis tool, which is one of the means to provide this transparency. Along with this, clients tend to mandate BNP Paribas, as we provide even for institutional funds daily NAVs, allowing daily investment guideline monitoring and daily online risk reporting."

The knock on effect is that custodians must invest in products and services in order to compete. This was unwelcome but it was proved to be all the more necessary in 2007, when Germany was rocked by the US sub-prime crisis - it was one of the hardest hit countries in Europe. IKB Deutsche Industriebank found itself in difficulty in July, after admitting its exposure to the sub-prime crisis, thus prompting the German financial watchdog Bafin to warn a collapse of the bank could trigger Germany's worst financial crisis in more than 75 years.

Daniel Brückner, business development, Custody Services in Germany for HSBC, says that the damage was gigantic, both in terms of real financial losses as well as in loss of trust and investor confidence. "GDP growth expectations have been reduced by 0.5% because of the sub-prime crisis," he says. "For a market the size of Germany, that is a monumental figure. Nonetheless, it is also true that the worst concerns of our supervisory authorities did not actually come true. The system, despite the huge damage, proved to be stable - proof of the maturity and reliability of the German market."

At the time, investors were fearful that other German banks could be at risk. State bank SachsenLB also came into difficulties but was saved by a last minute rescue from Landesbank Baden-Wuerttemberg. The sub-prime crisis also put strain on fund managers and thereby their custodians. "Investors seem to have forced their managers to become significantly more prudent," says Roessler. "Managers are struggling to answer challenging investors in their quest to truly understand the underlings and their dynamics."

He points out that BNP Paribas' German institutional clients have historically had limited exposure to these assets and, as such, the direct impact for the bank's clients was very limited. "However, we noticed a strong change in demand with regards to more comprehensive performance and risk managements tools," Roessler continues. "Clients who satisfied themselves in the past to look predominantly at performance analysis are now closely considering risk budgeting and are asking for ex-ante risk analysis, and risk contribution analysis."

BHF-Bank has also adapted to new demands from clients. "As the products funds are investing in are getting ever more complex, it is only natural that fund service providers are adjusting to the changing investment strategies," explains Ostwald. "At BHF-Bank, this is shown among other things by the success of its market risk measurement product. Other new services, such as the transaction cost analysis offered in cooperation with the company xtp Transaction Partners, are also well received on the market. These are the benefits of being a small and flexible organisation that can react promptly to evolving client requirements."

The general feeling among custodians in Germany is that they haven't seen the last of consolidation. Caceis and SocGen's entry into the market has increased competition among custodians and there is bound to be further movement in this space. There are also fears that 2008 could prove as tough a year as the last with fallout from the sub-prime crisis perhaps yet to be fully realised. ■

Keep on running

Portugal's pension reforms will drive custodial growth in 2008, but has the restructure gone far enough? **Jamie Darlow** investigates

Portugal's pension system was on the verge of meltdown in 2007, with experts predicting that the national scheme was sustainable for no more than 10 years, even allowing for the positive balance of its assets that amounted to EUR6 billion, or roughly one year's worth of expenditure. Last year's much needed reforms have sought to redress that balance but may not have gone far enough in reducing the role of the state and opening up the private sector to growth.

José Pavão Nunes, chairman of the Organisation for Economic Cooperation and Development's (OECD) Task Force on Pension Funds Statistics, highlighted, in June 2007, the main factors that might invert market stagnation and generate a new pension funds cycle. He listed: social security reform; the changes related to the third pillar (personal pension plans), which might also involve tax reforms; the reinforcement of the funding basis; the creation of a real and complete European internal market; and the provisions established in the government directive of 2006, updating pension regulation on the activities and supervision of institutions for occupational retirement provision.

The Portuguese government's approach to tackling the problem has been to address some of the issues highlighted by Nunes, tinkering with the public sector and concentrating on retirement age, benefit levels and public saving.

The public social security system in Portugal will from 2008 onwards consider an individual's contribution history to determine pension entitlements. Furthermore, the average life expectancy in Portugal will be taken into account to determine the date for retirement. "The combined result of these two aspects is that people will certainly receive less and will need to work until later," says Alexandre Canadas, head of BNP Paribas Securities Services, Portugal.

The previous system allowed retirees to use their top 10 earnings years to reference their pensions and public employees were able to retire at the age of 60 if they had 35 years of experience under their belts. Consequently, the aging population - consistent with nations across Western Europe - meant there were fewer people working than already in retirement.

The reforms had been expected to move Portugal to a sustainable system, albeit largely by reducing the amount a pensioner receives. It was anticipated last year that following the reforms, as a percentage of their individual earnings, a retiree would receive 54.1% of economy-wide average earnings, down from 90.1%, according to the OECD.

First pillar pensions were expected to be reduced by 10-20%, causing individuals to turn to occupational schemes and personal savings plans.

However, reforms in Portugal did not live up to their initial high expectations, as is so often the case in politics. The private sector has not been directly impacted by recent policies, as the Portuguese government did not establish a cap on the payouts from the public sector, contrary to the original expectations. Unsurprisingly, the cap had been set at the level paid to the prime minister.

"Unfortunately, and despite the expectations created in the early 2000s, the pension system in Portugal is still very much relying on the public sector rather than the private sectors," explains Canadas. And there is unlikely to be change in the near future, he continues. "In reality the reform of the public sector system did not include any opt-out possibility from the public system and no new reform should take place while this government stays in cabinet (until 2009)," he adds.

"That said, it is important to note that the recent reform of the public sector implies that in the long term, individuals will receive lower pensions

from the public sector. Therefore it is expected that the weight of the private sector and the amount of money it manages will increase," Canadas says.

Custodians are hopeful that the public sector reforms will make private sector contributions necessary and complementary to public pensions. Canadas feels there is room for growth not only on the pension management world, but also in the investment management world. "In reality the market has been consistently growing and becoming more sophisticated in the past few years, as more investors have entered the asset management world in a search for higher returns than those they get in traditional investments like bank deposits and government bonds," he explains.

Market capitalisation is currently over EUR250 billion in Portugal, of which around 80% is in equities. Speaking generally, Canadas suggests asset allocation reflects both the conservative style of most Portuguese investors (with a significant part of investment made in money markets and euro-denominated bonds) and the restrictions imposed by the law on pension funds. "Concerning investment management, we have seen a growth, as in most of continental Europe, of the weight of alternatives. However, the total volumes distributed in the market are still reduced," he continues.

The sub-prime crisis has also reared its ugly head in Portugal, as it did across Europe, affecting the funds industry. Canadas says this caused some managers to move out of high risk assets and look for safer investments. "But we believe this is a temporary move that will be reverted once the turmoil in the markets is over."

Recent reforms and growth have yet to reverse the years of relative stagnation in the custody market in Portugal, where the private sector was shackled by an overly generous public sector. This has naturally restricted the sophistication of services demanded by fund managers of custodians. "The Portuguese custodians provide good levels of service to their customers, but maybe not as advanced as those of custodians in some other markets, when it comes to the type of products on offer," says Hugo Rocha, sales and relationship management, continental Europe, for Santander Global Securities. "This is not due to any lack of quality when compared with their peers in other major markets, but mainly to the fact that custodians also tend to follow their own markets' level of development in terms of products offered to investors."

Investment in alternative asset classes is also limited in Portugal, partly because regulations restrict the amount pensions may put into hedge funds (5%) or fund of funds (another 5%). Portugal has not embraced the principle of high risk/high return as the UK has. This may be because second and third tier schemes do not have to be as aggressive or successful in their hunt for alpha, given the generous nature - up until now - of social security payouts. There are also suggestions that the regulator has not been receptive enough to changing market conditions, restricting the way in which funds invest.

The funds market is also controlled by global banking groups and domestic custodian banks, which manage the vast majority of assets - consequently, custody is controlled 'in-house'. However, fund managers are well serviced. Canadas contends that asset managers are quite demanding and request very extensive reporting, foreign exchange capabilities and efficient securities lending.

Custodians are hopeful that the public sector reforms will make private sector contributions necessary and complementary to public pensions

Yet legislative reform is still missing to allow other entrants into the market and bring Portugal in line with its Western European neighbours in terms of value added services. "Important changes in the legislation, applicable for example to securities lending, are still required, in order for this to be an attractive instrument to institutional investors and fund managers," says Rocha.

However, the image of a Portugal dominated by giant banking groups and the public sector may be misleading. "Fortunately, we may say that the market's liberalisation and the policies that followed during the past 20 years have played a relevant role in changing that perception," explains Rocha.

He continues: "Even though there are a few sectors - mainly the financial and the transportation ones - where the state still owns an important stake, it is important to say that the privatisation plans that have been followed by the different governments during the past 15 to 20 years have been positively changing the companies' landscape in this market and, as a result, the attractiveness they have amongst individual and institutional investors."

Custodians dominating the space now include Santander, MilleniumBCP, Banco Espírito Santo, BNP Paribas and Citi, while Banco Portugues de Investimento (BPI) and Caixa Geral de Depósitos (CGD) only offer services to domestic clients.

"We may say that this market became very competitive mainly in the past eight to 10 years," explains Rocha. "Nonetheless, even though competition among custodians is strong, we must say that some of the improvements that have taken place during this period would not have been possible if they had not decided to work together, aiming for a common goal, which is to have an efficient, developed and attractive market."

The market potential in Portugal can never match that of its closest neighbour, Spain, given its small, albeit ageing, population (inhabitants number only 10 million). "Even though 2008 and 2009 may see important privatisations that will most probably bring more companies (either partially or totally), to the exchange [Euronext Lisbon], Portugal's potential in terms of assets under management is limited due to the size of its companies, which, in many cases, cannot compete with those of other European markets, no matter how developed and efficient they may be," Rocha says.

It is also handicapped by the unwillingness of the Portuguese legislature to fully reform the pension system. The 2007 reforms - much needed though they were - did not redress the entire balance and will be remembered as a missed opportunity. The government has done enough to keep the system ticking over for a few decades but without allowing it to flourish as the darling of Europe. ■

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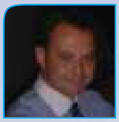
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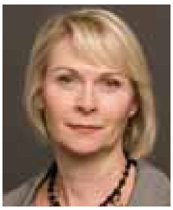

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Tricia Riddell, Bravura Solutions
Tricia Riddell is head of product EMEA for global financial software company Bravura Solutions. A publicly listed organisation, Bravura Solutions is a leading supplier of wealth management applications and services, supporting more than 175 financial institutions worldwide. She is responsible for the strategic direction of the Rufus Global Transfer Agency (GTA) platform in EMEA.

Etienne Carmon, Caceis
Etienne Carmon is head of International Product Development at Caceis. Carmon joined Caceis as senior product manager for the TA business in September 2005 and now heads International Product Development. He has previously held roles at EFA, Chase Manhattan Bank and First European Transfer Agent.

Olivier Portenseigne, RBC Dexia
Olivier Portenseigne is head of Shareholder Services in Luxembourg, responsible for transfer agency service delivery. He has been with RBC Dexia for close to a decade. During this time, his roles have included development of the Distribution Support business with RBC Dexia and client facing roles within the wealth management unit of Dexia BIL's private banking service.

Paul Roberts, State Street
Paul Roberts is managing director, International Financial Data Services (IFDS) at State Street. He joined IFDS in June 1998 as a client relationship director. He is responsible for the development of IFDS' business in the UK and Europe. Roberts was formerly operations director at Robert Fleming Luxembourg. He has 20 years of experience in financial services.

It is said the market for transfer agents is shrinking, is this accurate and if so, what is causing this decline?

Denis: It depends what one means by shrinking – shrinking in terms of number of funds, shareholder accounts or transaction orders it is maintaining? Shrinking because of the advent of fund distribution platforms that could potentially reduce the TA business processing described beforehand? Shrinking because of the perceived consolidation we have been experiencing over the last few years?

I do not believe the TA market is shrinking at all – it is actually expanding and evolving. In reality, it is shaping itself to support the ever changing fund industry and its increasing global distribution landscape. We must take into account the various elements that have come to the fore for the transfer agency community: in terms of the various TA business developments, fund processing standardisation initiatives, ongoing regulatory requirements, notwithstanding the increasing role that TA has had to play to support the growth of global cross border fund distribution, specifically in Asia – and that's just to name a few. All these fundamentals have had a great impact on the TA services landscape and it's certainly not over yet.

The TA needs to consistently adapt itself to follow and be operationally ready to support emerging global trends, like the explosion in more sophisticated funds – not just the hedge funds but, more recently, real estate funds and specialised investment funds. As the funds industry is shaping itself as a global distribution model, the transfer agent is required to provide more TA 'added value' services. These include more sophisticated functions, rather than just the traditional TA service provision we have been used to, such as register maintenance, transaction processing, cash management and shareholder reporting.

All these elements (and these are just a few) do not really plead for an actual shrinking of the TA market.

Riddell: Fund supermarkets and aggregators are beginning to take a significant amount of the retail volume out of the transfer agency business, leaving a rump of institutional business, which is much smaller by volume but still of substantial value. The lower overall scale of the operation may leave some fund managers who had previously outsourced, feeling that the business is now of an appropriate size to be managed in-house again.

In order to repatriate this business, however, they will need to invest in systems that can provide the high availability and full STP functionality required by these aggregators.

There has also been some consolidation in the third party administration space (for example, the recent Bank of New York and Mellon merger). In the longer term, this is likely to lead to increased TPA activity, as these new 'powerhouse' TPAs can afford to invest more heavily in state of the art improvement to their TA software, which will be beyond the reach of most in-house TA IT budgets.

Carmon: In Luxembourg and other European countries, the fund has a legal obligation to appoint a transfer agent, as the TA is responsible for funds' shareholder recordkeeping. Any promoter launching a fund must use a TA; therefore markets are relatively stable. The various new actors such as distributor platforms for transactions and communication, which are operation hubs for asset management companies, are changing too. Small banks and managers still come to the TA for shareholder recordkeeping as they are unable to perform it themselves, but today we see large asset managers keeping their own investor data and then opening only one nominee account with the TA. If the market for TA is judged by the number of nominee accounts, then this could explain a decline.

The impact of this is these counterparts are different from retail counterparts, in that the levels of transaction are much higher and require more automation. Furthermore, the TA must offer other added value services, as maintaining the shareholder register and processing transactions can be done by any player. At Caceis, we see services such as maintaining investors' holdings data across complex distribution networks and trailer fee calculation based on consolidated holdings becoming key offerings. This is the way in which TAs must evolve to remain profitable.

Portenseigne: Transfer agency tends to be one of the main differentiators in the funds industry today. As a consequence, we see more and more opportunities for transfer agents to provide added value services. This is particularly the case in a fast growing third party cross border distribution environments such as Luxembourg and Ireland, which have predominant positions and see their assets under administration increasing more quickly than any other European country. Transfer agency services are also among the most visible products to the external world and hence are a key element of the value chain, bringing a real competitive advantage to asset managers in terms of operating model and complexity of investment products. Indeed, such services enable asset managers to consolidate their positions in existing markets and penetrate new jurisdictions, such as Asia, Latin America and Eastern Europe. We also see increased convergence of models between the funds industry and the insurance industry that could potentially lead to even more opportunities for transfer agents, as their systems and infrastructure could easily support insurance products.

I do not believe the TA market is shrinking at all – it is actually expanding and evolving

However, there are challenges facing transfer agents, who could see their books of business decrease to the benefit of fund distribution platforms. That is one of the reasons fund administrators and transfer agents are positioning themselves in this arena by launching distribution support services, which are complementary to the TA business and enable them to provide additional services to asset managers and distributors.

Roberts: We see a high degree of change rather than decline. As the market polarises into product manufacturers and product distributors we are seeing a contraction in some areas of the transfer agency market. This includes continued consolidation among the traditional asset managers and a general reduction in the number of 'retail investor accounts' in the books of the traditional managers (In the UK, we are seeing traditional managers' books contract between 5-10% per annum unit holder numbers). Whereas, in the cross border markets this consolidation is over and volumes are more constant. On the other hand, there is strong growth in 'boutique' and 'specialist' managers, continuing increases in the number of funds and classes from all types of manager and a rising demand for investor recordkeeping for our distributor clients as retail investors' shift into trading via distributors and platforms.

Will we see yet more consolidation in this sector over the next few years?

Denis: From a pan-European/global cross border perspective, the overall sentiment in the TA industry is 'yes', as we have been experiencing some consolidation over the last few years. This is primarily due to the various joint ventures and mergers in the market by some of the bigger fund administration players. Having said that, we must bear in mind that this ongoing concentration of the industry is another consequence of the increasing complexity of the TA operating landscape.

The actual consolidation of the TA market is paradoxical in that you also have additional players that are moving into the TA space at the same time, primarily to provide niche TA service offerings to support the more sophisticated products range, for example alternative investments such as real estate funds, sophisticated investment funds, and so on.

One should also consider the evolution of the 'one stop shop' fund administration service offering, which embeds TA as part of the overall package of providing custody, fund accounting and TA under one hat. This enables economies of scale and is seen by some fund groups as an appealing opportunity to resolve the cost/efficiency dilemma of the TA function as a whole.

Riddell: In the UK, the number of substantial TA players is now down to single digits. A few of the smaller players are likely to get swallowed up, but the scope for further consolidation among the larger players is very limited.

In offshore locations, asset managers are continuing to drive down costs, while still requiring increased complexity of products. This will result in fewer larger providers; however, there will still be scope for small boutique players in the alternatives and property space.

Carmon: In the past five years, the number of TAs in Luxembourg has halved. Smaller players are being forced out or absorbed into larger players, because of their inability to launch the necessary added value services. If a TA does not have critical size, it is not feasible to make the heavy IT developments necessary to launch new services. For big asset servicing companies, the TA function is a service that helps to attract further business if it is performed well, so it is unlikely that there will be consolidation among the big players, as the TA function is still perceived as a competitive advantage. In the Luxembourg market, I would predict that in 10 years' time, pressure on the small TAs will lead to there being a total of 10 TAs. Today there are 60 and in the days when the TA was simply a back office of a bank, there were over 100.

As the funds industry is shaping itself as a global distribution model, the transfer agent is required to provide more TA 'added value' services

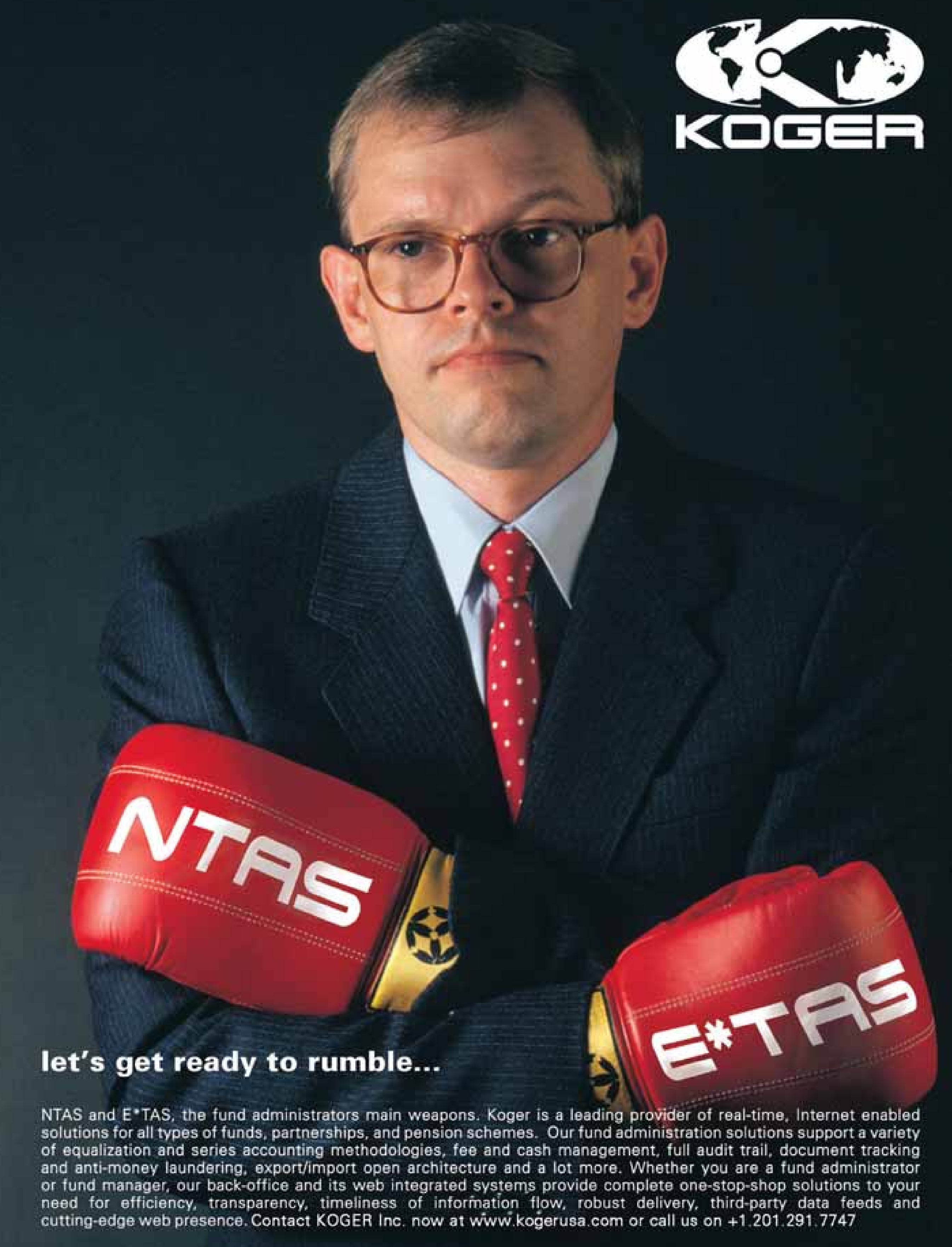
Portenseigne: Asset managers are becoming increasingly global through the distribution of local and cross border products. Transfer agents will follow the same tendency by accompanying their clients in new markets to service a wider range of distribution channels and types. Consequently, there will be less room for players that do not have a global reach via local presence in various markets and that do not operate on a single TA platform. This requires strategic investment both in terms of technology and human capital – only players that have the adequate commitment to the funds industry will succeed in implementing this strategy.

Roberts: Yes, the number of active committed suppliers will continue to contract. Then there will still be a number of more marginal suppliers focused on specific types of TA business or handling TA where it is bundled with their core product offerings. This consolidation will be driven by continued pressure on costs. This comes from two sources – the requirement to handle accelerating rates of change in regulation, product innovation, distribution patterns, and so on, and the demand from clients for ever lower unit costs. A further factor is that selling large scale TA software is it is still a very tough model and we are yet to be convinced that it can be made viable over the long term. Long term TA providers cannot be dependent upon such software.

Is the adoption of automation still in its infancy? How do you view the technology uptake and developments?

Denis: No I don't think so. The whole issue of STP could possibly be viewed as a double edged sword for TAs in that it reduces the amount of manual intervention in the funds industry – an area that used to bring in much revenue for TAs. However, the vast majority of those in the TA market welcome an increase in efficiency. All of us are consistently moving towards STP but this has not made our business less fruitful and there is still a lot more STP needed, particularly in the alternative investment space.

For some time now, fund providers, third party administrators and distributors in continental Europe have been reaping the benefits of automated deal processing that includes lower operational costs, reduced volume sensitivity and lower processing error rates, and that allows managers to deploy staff more effectively to more intellectually rewarding roles. Other by-products of automation include improved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audit trails and control over the order transaction process and due to higher productivity, the capability to offer more flexible order cut-off times by which distributors can place orders with fund providers. The take-up of automated dealing throughout continental Europe has been progressing steadily over the last five years during which time distributors most commonly adopted the Swift ISO 15022 messages. However, there is a sea change that has taken place during the last 12 months as distributors and fund providers have started to adopt the new Swift ISO 20022 XML message formats and the momentum is gathering pace. In the Asia Pacific region automated dealing is relatively new, but things are changing. There have recently been some exciting developments in both the Asia Pacific region as well as in continental Europe.

We must not forget EFAMA's role in driving fund processing standardisation initiatives since 2003, with the introduction of the Fund Processing Standardisation Group (FPSG) and the recommendations this working group provided in February 2005 to the European funds industry, namely 28 recommendations on order routing and settlement and the Fund Processing Passport (FPP). Although the market take up has been slow, we are now experiencing a momentum in ISO 20022 standards adherence and the recent commitment by various funds industry associations to rollout the FPP across their domestic and cross border markets. The FPP is intended to serve as a basis for developing a maximum degree of fund processing standardisation both nationally and internationally, since the European fund market is still characterised by fragmented infrastructure, a wide variety of tax models, different regulatory authorities and different languages.

The main objective is to automate processes used in the cross border distribution of investment funds, thus enabling usage of a common communication protocol. The primary focus is to automate the interaction between different organisations that is on external processes, although the same automation should be used within a company.

Fund supermarkets and aggregators are beginning to take a significant amount of the retail volume out of the transfer agency business

Riddell: Overall, automation is still very much in its infancy within the TA world. We have recently reached a tipping point in the UK with regards to EMX trading, and this is now very much the accepted way of trading for medium to large institutions. In contrast to this, retail IFA is still reliant on phone and paper. The industry will start to look towards the opportunities to automate this part of the process.

In the European offshore market, the fax is still king, and a relatively small proportion of business is instructed electronically. The Swift ISO 15022 standard has been making steady headway, and this was bolstered by its adoption as the standard format for Clearstream and Fundsettle trading. The new XML-based 20022 standards cover a much bigger range of fund transactions, and may start to make an impact over the next two or three years.

As electronic trading begins to become the norm, the focus is likely to shift to making the entire TA operation STP end to end. This will potentially include the electronic delivery of client correspondence (contract notes, statements, confirmation of detail changes), electronic settlement of transactions, automated electronic reconciliations (internally and with counterparties) and the automation of those 'tricky' transactions such as ISA manager transfers and OTC trade notifications.

Carmon: The problem remains the same. Automation levels are still relatively low and it is a mammoth task to improve on this. Caceis' automation rate is now 65%, up from 50-55% a year ago, which is today's standard rate in Luxembourg. Caceis itself is well placed in the statistics, but nevertheless, every TA has to deal with many new countries of distribution and many counterparts that are not TAs, banks or distributors, which are Swift compliant. Today, we are still dealing with many small entities that use fax, and this situation is likely to remain this way for some time to come.

Big asset managers distribute their funds in 30-40 countries, which for the TA often includes new countries with different market practices and proprietary technologies. Interfacing is complicated, especially in Asia, where the automation rate is very low. Asia's low uptake of technology can be explained largely by the fact that it is cheaper and easier to hire more manual labour than to invest in technology development and implementation. However, the Asian Fund Automation Consortium (AFAC), a group of 10-12 asset managers, has been to see the big distributors, for which they represent 90% of their business, to attempt to pressure them into improving their automation rate. It is thanks to them that Swift is now penetrating the Asian market. Despite this success, automation rates are unlikely to change in the near future, remaining low.

Portenseigne: Automation has always been a challenge for transfer agents in such a fragmented market. This requires transfer agents to have technology that is flexible enough to comply with different client operating models, local market needs and market initiatives that aim for standardisation. RBC Dexia has reached a level of 75% automation of the order processing in Luxembourg (85% globally), whereas the market average of automation is around 50%.

Roberts: 'Institutional' investors are well advanced in the adoption of automation with FundSettle and Vestima+ and so on, and there are ongoing initiatives that will keep this momentum, such as the move in the UK to accept electronic transfers.

On the other hand, in the retail investor space, much of the market is still lamentably manual. There is movement to automate much of the reporting and so eliminate paper there. We all thought that the transforming distribution patterns with platforms might create more change, but there is no sign of that. The shift in ownership of much of the UK distribution may create the need for the new owners to drive through greater efficiencies.

The issue is that most retail investors are generally interacting once or twice a year in respect of their investments. Secondly, most client advisers want to retain their personal contact with their clients and so are not advocates of DIY for the end investor.

What effect have multi-fund platforms had on the TA market?

Denis: Although there are some predictions floating around, they are specifically related to the UK market whereby it is forecasted that the retail market will move to distribution platforms within five to seven years, thus reducing the large retail shareholder accounts currently maintained by TAs to a minimal number of accounts.

The European market has not really shifted in that direction, in that open architecture is still in its infancy in some countries. In this view, we have not yet seen the true effect that distribution platforms may have/have had on the TA market per se.

What we are seeing, however, is the increasing role the TA has to play in terms of global distribution support. The TA industry has worked tirelessly and in partnership with other players to establish the requirements for an infrastructure that will support the future of global distribution support. As the shift continues towards a distributor, rather than an investor support model, the benefits to any fund promoter who empowers its TA to manage most aspects of a distributor relationship are obvious for all to see. It includes the negotiation, management and monitoring of distribution agreements, as well as the reporting and monitoring of rebate requirements. Today, most TAs will have multiple relationships on behalf of fund promoters with the same distributors. Multiply that across a global distribution model and it is a very powerful communication network yet to be fully exploited.

Riddell: Multi-fund platforms have reduced the number of transactions dealt with by transfer agents, and have shifted the detailed recordkeeping to the fund supermarket.

Carmon: Platforms like Clearstream and Euroclear offer a series of funds, not just plain vanilla mutual funds, but also more complex funds of hedge funds. Their platforms are interfaced with the TA, so the TA must be able to process all types of funds, which requires system improvements or the purchase of new systems to handle non-standard funds' processing needs. Smaller TAs that are unable to deal with more complex funds have major problems interfacing with these multi-fund platforms and will slowly be squeezed out. Market-wide, these platforms put greater pressure on TAs by forcing them to respect cut-off times that are far tighter than if the investor invested directly into the funds. These cut-off times can be some 1-2 hours earlier.

Portenseigne: Fund distribution platforms are among the chief threats for transfer agents. They are gaining market share and could potentially reduce the first origin of TA revenues. Transfer agents have developed distribution support platforms and sub-TA services. The combination of these services can help sustain market share and allow TA providers to enter the fund distribution market through partnership with the transfer agent clients. At the same time, it enables providers to provide complementary services to asset managers by offering consolidation and transparency on their distribution network.

There has been some consolidation in the third party administration space

Roberts: The retail investor now transacts more and more via these platforms, generally still in an advised model. This means that the investor recordkeeping activity moves from the fund company to the distribution platform. In this way domestic markets are moving in the direction of the cross border model.

It then means that the TA's transaction profile changes, platform transfers become a key transaction type and average values of transaction rise considerably. Those TAs providing services to platforms need to cope with clients offering at least many hundred funds and a wider range of products, some of which will be handled elsewhere.

In Luxembourg and other European countries, the fund has a legal obligation to appoint a transfer agent

What are the major differences between operating models in the TA markets of the US, Europe and Asia?

Denis: I like to think of the overall global TA landscape looking like this - you have three main fund centres as you so described in your question. However, all are very different operating models with Europe being the leading contender.

Although the US TA market is the leading fund centre in terms of assets under management, its operating model is captive, primarily domestic with limited multi-currency and multi-lingual capabilities, as opposed to other major fund centres in the world. Because of this domesticity, it has its own home grown operating platform (NSCC's FundServ) supporting the full value chain of the US mutual funds industry, from the fund, to the distributor, the TA, to cash management and custody. It has one regulatory environment where the SEC regulates the TA function. It's a high retail market from a third party TA service provision standpoint with major TA players that have been on the market at the onset of the US fund industry and have established quite a mature and sophisticated TA service offering to support only the US funds industry.

The European TA market is completely different in that it is typically categorised by various operating models: the UK TA market, the global cross border TA markets, being Luxembourg and Ireland, and the rest of Europe, bearing in mind the increasing growth of Eastern European fund centres such as Poland as an offshoring TA service centre.

You have the UK TA market, which is primarily a high retail market, serving domestic UK products with the increasing advent of institutional TA servicing to support high end investors and the growth of the alternative investments industry. There are less than 10 TA market players that have the market share of TA retail business in the UK. These are typically large US service providers such as IFDS/State Street, BNY Mellon, PFPC, JPMorgan Bank, Northern Trust, and so on. Having said that though, let's not forget, the in-house TA administrators that still prevail where a fund group administers its own funds such as, Fidelity, and so forth. We are, however, seeing an increase in market participants looking at Europe to support existing clients.

The global cross border TA market, Luxembourg and Ireland, is a truly global TA operating model that has evolved over the last 15 to 20 years and is considered mature in European terms. It is a TA model servicing a blend of global asset managers, their underlying retail and institutional investors and global distributors, where multi-currency, multi-jurisdictional, multi-lingual as well cross-border administration capabilities are a must. The fund markets in Ireland and Luxembourg continue to grow considerably faster than those in the rest of Europe and represented the majority of new fund sales in the last year.

As for the rest of Europe, most countries are still fairly domestic with limited cross border distribution of local domiciled products. However, as regulators are opening the distribution of foreign domiciled funds in these markets, we may see an increase of cross border TA service requirements in the near future. There is still limited outsourcing of transfer agent functions, however some countries are looking into the prime TA concept, particularly Germany and France.

On the other hand, the third party TA business is relatively new in Asia, in that most fund groups have an in house TA function. There are only a handful of key players providing third party TA in the region, such as HSBC, BNY Mellon, RBC Dexia Investor Services and Citigroup. Having said that though, in view of the growth of the main markets (Hong Kong, Singapore, Taiwan, South Korea) in the region, we have definitely seen an increasing demand for third party TA business over the last year or so. I am sure this will continue to grow in the next few years.

Riddell: The US is the most mature and saturated of the three markets, and is one that is dominated by a small handful of multi-fund platforms and an equally small number of third party administrators. It has benefited from having a large, wealthy and homogenous political and economic marketplace.

As the market polarises into product manufacturers and product distributors we are seeing a contraction in some areas of the transfer agency market

Europe is equally large and wealthy but, despite the best efforts of the European Union, is not a homogenous political or economic market for financial services. It is following the pattern set by the US market and is probably five to 10 years behind it; however, the emerging giants are not likely to be pan-European. For instance, it is unlikely that the dominant fund supermarkets in the UK will be the same entities as the dominant fund supermarkets in, for example, Italy.

Asia is similar to Europe in that it consists of a number of very distinct markets defined by their own particular distribution processes and regulatory environments. This is very unlikely to ever evolve into a single pan-Asian market.

Carmon: In the US, for plain vanilla funds, the TA operating model is extremely simple and very advanced. Throughout the US, all actors use NSCC, the US's own trading platform. Trade dates, settlement dates and settlement processes are all standardised, and the system is now open to the outside world. The US is by far the most advanced continent in terms of operating models, thanks to country-wide, federal legislation. Europe is a different case. Even with increasing amounts of legislation at a European level, there remains much local legislation to contend with, and the TA must be able to process both European and local regulations, which causes significant interfacing difficulties. Europe's operating model lies between that of the US and Asia. In Asia, not only is there no standardisation between the various countries, there is no pan-Asian authority that is trying to establish standardised practices. Therefore, Asia remains a very fragmented market with the differences in legislation sometimes used as protectionist measures, for example funds from certain funds are blocked from being sold in others. Interestingly, Asia's complexity is an advantage for Luxembourg UCITS, which thanks to its standardised methods of operation, are seen as a trusted brand and subsequently gain authorisation for sale in many Asian markets.

Portenseigne: The US market is a very mature market, highly standardised and not open to cross border fund distribution. Asia and Europe are facing challenges associated with fragmentation, different local market practices/regulations, and openness to cross border distribution, which makes the fund distribution less efficient due to a highly manual environment. Europe is for the moment a step ahead of Asia in terms of maturity and automation and we see significant growth of assets coming from Asia into offshore funds. As a consequence, there is a real need for streamlining the communication and process flows between increasing fund processing centres in Asia and transfer agents in Europe and it has never been so critical. So the growing trend is for fund management companies to outsource to third parties that can provide the right operating model.

Roberts: The obvious one is scale in the US. In Asia it is multiple distinct markets with both offshore and local products distributed, and with investors with a much shorter investment time horizon. ■

Following the flow

As more funds flow to the Asian markets, the competition is hotting up in the transfer agency market. **HSBC** explores the state of transfer agency in the region

Fund managers in Asia have seen a significant growth in their assets under management (AUM). A key driver to this growth has been the rapid growth in the number of investors in mutual funds or unit trusts. As fund managers increase distribution to attract more lucrative retail investors, fund registers are growing fast. India today has more than 25 million investor accounts, up from 16 million in 2003. In Korea, Asia's largest market for mutual funds after Japan, investor accounts grew 35.7% in 2006 to 12.2 million, while China has in excess of 7 million. Assets in Asia, which are currently at around USD1.5 trillion, are expected to grow to USD8 trillion in the next five years.

The number of investor accounts is expected to expand rapidly. This massive growth in AUM, coupled with the explosion in investor accounts with their constantly evolving requirements, is causing a fundamental change in the processing and servicing models previously adopted by the investment management world. It is in this context that the long forgotten discipline of the fund management world - transfer agency - is finally coming of age in Asia. The initial role of transfer agencies has expanded and today encompasses a wider range of services to look after the needs of individual investors, distributors, investment managers as well as the regulators in some countries. Transfer agents are becoming increasingly important to fund managers as they turn to outsourcing.

Fund manager challenges

As Asian retail investors increasingly buy into mutual funds, the number of transactions goes up but the average holding per investor goes down. This is a feature of emerging fund markets and follows similar patterns seen in Europe and the US previously. Fund-based pricing gives way to transaction-based pricing and scale becomes important to keep down unit costs. Add to this the fact that Asia still continues to be a predominantly paper-based market. Operational risk increases with volumes in a manual environment. The technology cost of keeping up with constant industry and regulatory changes, coupled with continuous product and process enhancements, is wearing down even the most resolute fund house. The increasing penetration of European and US schemes in the region is adding an extra dimension to the complexities of providing register and transaction services. Additionally, personnel management is another challenge in Asia. Finding and retaining knowledgeable domain staff in the region is becoming a challenge.

According to Jitendra Somani, global head of Transfer Agency at HSBC Institutional Fund Services: "This double edged sword of rapidly rising transaction volumes and lower average investment amounts is having a profound effect on our clients' business models. The combined increase in cost and risk for international fund managers in multiple markets has become too great for some. We are seeing a growing recognition of the benefits of outsourcing the transfer agency function, which was once viewed as an inviolate component of in house customer service. The problem in Asia is that fund markets are still largely paper and fax based, reminiscent of the equity world before dematerialisation in the 90s."

STP – a panacea for industry ills

The explosive growth in Asian investors has created severe stress on paper-based processes and has stretched fund market infrastructure to the hilt. While straight through processing (STP) is the panacea sought by many in the industry, from fund managers to investors, progress is not consistent across the region and overall Asia remains very manual. The funds industry averages only around 15% trade transactions on STP rates if we

HSBC – leading from the front

- Put in place a state of the art transfer agency model for both the Asian and European markets
- Business model rolled out to clients in Dublin, Luxembourg and Hong Kong as also Singapore, Indonesia and Vietnam. Taiwan is next
- Pioneering several STP initiatives – piloted SwiftNet Funds with one leading distributor in Hong Kong to allow transactions to pass straight to the register. In Singapore, a system to system integration with a leading distributor back office system allows nearly 100% STP
- Only service provider to be processing transactions on Swift in Hong Kong
- Services are enabled for processing on ISO 20022 Swift and Vestima+
- Centre of Excellence based in Kolkata, India, for supporting the Transfer Agency Product globally

include a mix of mature (Hong Kong and Singapore) and late starter markets (Korea, Vietnam, Thailand and Philippines). Europe by contrast can boast an STP rate approaching 80% (trade transactions) with limited room for further automation. While the verdict is still out on what may be considered as the maximum achievable STP rate for Asia, the Asian fund industry is several years behind Europe with regards to automation.

Asia is expected to see a continuing influx of funds over the foreseeable future. China, India and other emerging markets will lead this funds pool

Most players in the Asian industry still see Swift as a significant investment, not only in systems, but also in a workforce capable of understanding the impact of Swift on the internal infrastructure at each firm. It is an investment that is expected to pay off over time, especially with the increasing flows that the region has witnessed. To some extent, there is a 'chicken or egg' scenario with regards to funds automation and Swift will have to take this into account in promoting the use of ISO 20022 among the region's fund industry players. Distributors and TAs will not connect to Swift simultaneously and one of these partners will always have to be convinced to take the first step. Without that move, manual or semi-manual processes will continue to predominate.

It is in this context that the role of large providers such as HSBC will be key.

Most players in the Asian industry still see Swift as a significant investment, not only in systems, but also in a workforce capable of understanding the impact of Swift on the internal infrastructure at each firm

"Being a market leader with substantial local presence in funds services markets in Asia has helped HSBC to read the changes and stay abreast of the changing fund administration dynamics" says Jayant Rikhye, deputy global head and head of Asia Pacific, Institutional Fund Services. "HSBC's pre-eminent presence in the funds services market enables us to continuously explore the next areas of change and offer a full value proposition to our clients. Transfer agency is both a core competence and a differentiator for HSBC in the region. We truly understand the many nuances of the local fund markets. Asian investors want Asian currencies, Asian languages and Asian time zones."

Investing in the future

Asia is expected to see a continuing influx of funds over the foreseeable future. China, India and other emerging markets will lead this funds pool. Given the retail nature of this growth, there would be a key requirement of geographically dispersed distribution channels to collect funds from the various corners of these economies. The new order is also about distribution complexity and volumes; how to handle vast quantities of subscriptions and redemptions from multiple cities at a price acceptable to Asian countries where US and European cost bases are still an anathema to many.

The nascent nature of the distribution channels coupled with paper-based clearing systems with multiple clearing zones require strong partners who can work with fund managers and/or distributors to ensure robust and streamlined processes, and also effective investor servicing. It is here that the fund industry, along with various industry associations, needs to play a proactive role in setting up a robust fund infrastructure. Fund order routing systems such as Vestima+, and Fundsettle have helped to promote Swift as an ideal STP platform in Europe. Local industry initiatives such as the Asian Fund Automation Consortium, will also need to play a major role in the coming months in promoting ISO 20022. Swift will need this support to expand and build a common communication standard within Asia. Such initiatives, along with active partnering by the TA providers, will go a long way towards ensuring a well oiled mechanism right from collection of funds to dissemination of investor information, thus letting the fund managers focus more on front office network and technology rather than back office intricacies. ■

Asian transfer agency – key characteristics

- Mutual fund assets in Asia are at USD1.5 trillion and are poised to grow to USD8 trillion in the next five years
- AUM growth in 2007 was at almost 50%
- Growth from more retail-based – large number of investor accounts to be serviced
- High volume, low ticket sized transactions
- STP is largely missing
- Non-standardised processes with local intricacies
- Few global TA service providers in Asia – fund managers process in-house

Spectrum of change

Turquoise was the colour of the day at the Global Custody Forum this year, says ISJ's **Jamie Darlow**

Morgan Stanley employees are a fairly reticent bunch when it comes to talking to the trade press, preferring instead to shun the limelight where possible, so imagine the surprise when Adrian Farnham's name appeared on the Global Custody Forum's first day agenda. However, all became clear during his presentation to a packed out conference hall, when he explained he was no longer Morgan Stanley's representative to Turquoise and instead would be an employee of the alternative trading system itself.

Turquoise's new chief operating officer Farnham explained to delegates how Turquoise will function, giving an overview of the role of EuroCCP and Citi, the clearing body and the settlement agent. Farnham explained why Turquoise was created: "From a platform point of view, for the most blue chip pan-European shares, there really isn't an exchange to trade all securities in one go."

With these 300 "big securities" the platform will have 80% of the flow of liquidity and this is why Turquoise will initially focus on the biggest shares, he said. The operating model expectation is to have 40 trading participants by the time the platform is live – "if it's up to 100, we will have the majority," explained Farnham.

"Turquoise will be purely electronic, which is one of the reasons we went down the EuroCCP route," Farnham said of the system's choice of vendor. "It will be a hybrid market – a public order book with market orders, but also with new order types introduced to Europe including dark liquidity pools," he added. "The system will have a simple tariff structure a bit like the London Stock Exchange's today and will be valued based. But there will be a difference between those posting and those taking liquidity – we will credit the providers of liquidity and pay them to do so."

There will be 1,500 securities listed across Europe. The system will be multi-currency, beginning at the launch with the Danish krone, pound sterling, euro, US dollar, Swedish krone, Norwegian krone and Swiss franc. All core markets will be covered, with the exception of Spain and Greece, he said.

"Who can be a participant? Turquoise is completely horizontal and our criteria states participants must be a regulated entity in Europe and a member of another regulated market in the region. We are not a regulated market, but a pure trading platform. We are non-exclusive with EuroCCP and if it makes sense, we will add others to EuroCCP," continued Farnham. "You do need a clearing relationship with another clearer on EuroCCP."

He went on to explain that the choice of EuroCCP and Citi's Global Transaction Services for clearing and settlement was an elegant solution and plays to the strengths of both. Farnham reassured potential users of Turquoise that Citi is not the CSD and no one's account will end up at Citi – instead, settlement happens in the underlying settlement market.

"Turquoise is trying to achieve a pan-European marketplace. Turquoise is cost conscious and we wanted to see how much clearing really costs – our target is to be more than 50% cheaper than the rest and, for clearing and settlement, it will be. We wanted also to ensure that securities were fungible," continued Farnham.

Turquoise is taking longer than anticipated to get to the first stage of the technology partnership, but we are now there with clearing and settlement, he said. "We are now in the process of application: in January we will be speaking to our participants and in February and March, processing them; from May onwards we will be testing; and going live in August."

The conference began with a panel debate on Target2-Securities (T2S), detailing the state of the project at present. The panel was asked why T2S was needed and why the European Central Bank (ECB) didn't just pick up the phone to Euroclear and use its system? "That's a question for the ECB," responded Paul Symons, director and head of public affairs at Euroclear. "Our goal was to cover five markets [not Europe entirely]. We would always be willing to have dialogue."

The ECB's response was through consultant Iain Saville who said the bank has a legitimate agenda in T2S: "Why? It provides that core, neutral, borderless infrastructure that moves Europe to the broad homogenous market the US has. It makes sense to have a core infrastructure in which people can compete. We are not nationalising clearing and settlement – I think market participants' energies are better employed elsewhere."

Symons countered that T2S only really works if you have a direct link into it. "I'm not convinced this is practical," he said. Thomas Kindler, director of marketing and sales support at Clearstream, added: "Many CSDs will never get there while others will consolidate to get there. We are about to move up the value chain, but at the same time we are being stabbed in the back."

Saville replied he would be astonished if the European bureaucrats couldn't recognise value in T2S. "But it's entirely possible some CSDs won't have a place. When there's a structural change there's always change to business markets – national markets will have to make up their minds what to do with their CSDs."

The panel was then asked to consider the effect T2S would have on custodians. Saville said there had been support from custodians, but suggested that they think hard about whether they want to see harmonisation. "One of the issues is, nobody knows the exact scope of T2S," said Kindler. "The impact of costs, whether CSDs are to be decommissioned and what that means for individual markets. I feel like a broken record."

I don't blame anyone for not having a clear grasp of T2S, replied Saville. "The scope is that T2S takes instructions from CSDs to settle them. It is somewhat complex but not complicated. Nothing changes in how custodians hold their accounts – you still need a CSD. However, if you want to you can ask to be directly connected for settlement to T2S – but I can't see anyone would want to do that because of latency."

Symons added: "It's an admirable and noble thing, but it's not an alternative to using a CSD. It's voluntary, but the real challenge is to persuade our shareholders and users that this will be an advantage." Kindler reinforced Symons' words: "T2S has to deliver efficient services, but we haven't seen it yet. Where are the cost savings coming from?"

CSDs will carry on doing what they do, Saville responded. "But at the moment, CSDs charge a bundled price for clearing and settlement and they are being asked to separate that out."

Following the lively T2S debate came a reminder that MiFID should remain part of our collective consciousness. John Siena, assistant general counsel at Brown Brothers Harriman, said MiFID affects everyone. "MiFID isn't behind us, it's very much ahead of us. The UK Financial Services Authority (FSA) has required us to apply the regulation to everything and forced everyone to re-evaluate all fee arrangements, custody fees included."

Tim Wood, director of operations at RBC Dexia Investor Services, followed with a report on the challenges custodian banks face in servicing the new breed of clients that combine long and short strategies. "There is hype about alternatives and we are hearing a lot more managers transferring to alternatives. No one wants to miss out on money and US custodians are no different," he said.

But he cautioned those custodians that promise to service clients' needs without having the ability to deliver. "We need to treat alternatives with a degree of scepticism – alternatives are a minute fraction of the market – it's like the Princess and the Pea, a lot of fuss over a small matter."

That said, custodians still have to take notice to serve their clients, Wood continued. "We are taking a big risk, however. Clients are taking us into new fields. Funds are asking us to support areas where there's as yet no proven return. Investment banks are getting in on the act too, such as Goldman Sachs," he explained.

RBC Dexia's unique selling point is that it is driven by relationships rather than just transactions, he continued. "Our relationships last over many years as we are prepared to do some of the grimy bits and this is what differentiates us." Wood went on to issue a caveat: "As custodians, we need to concentrate on relationships. The minute we lose that focus we're no better than the transaction junkies on Wall Street."

Wood explained the additional burden on custodians from alternatives: "Some custodians can't handle these alternatives and can't handle the transaction processes, leading to increasing burdens and risks. Some clients are using their presence to make their custodians provide services that are uneconomical. This is not a trivial investment, to be able to handle alternatives, and custodians need to be fairly compensated. Custodians are happy to develop, but the client has to recognise the value of our services and I'm hearing from others that some aren't prepared to do that yet."

The potential for serious losses is now much more immediate, Wood said. "We have to consider what might happen if clients turn nasty. We must all do a better job of selecting clients and performing due diligence. My last caveat – we could be brilliant at client servicing and still become an also ran, such as Mellon, because we don't listen to clients," he said, speaking generally. "It's a buyers market out there."

Clearing and settlement was debated after lunch, with a panel discussion on the potential benefits of the EU's Code of Conduct. Rory Cunningham, director of strategy at LCH.Clearnet, asked why the code was needed, given that there is already a code under the London Stock Exchange. "What LCH.Clearnet would like to see is if we can be allowed to compete in markets other than the UK. It is unclear if there will be the level of success the code was intended for.

Clients are taking us into new fields. Funds are asking us to support areas where there's as yet no proven return

Chair Simon Thomas, CEO and chief ratings officer at Thomas Murray, asked the panellists whether the code was necessary or whether it could deliver on its promises. "Is it the code we would have designed? No, but the alternative was a full directive on clearing and settlement," answered Jane Levi, director of strategy and network management, Global Markets and Investment Banking Services Group, Merrill Lynch.

"A directive would have been more onerous and it would not have been clear what the impact might have been," she said. "The code is likely to have flaws, but we are very keen on it as an alternative. It's a great achievement that the code has come as far as it has, given that some would have preferred full regulation and some preferred nothing at all."

LCH.Clearnet has in the past been accused of dragging its feet when it comes to opening up its markets to others as the code requires. Barney Reynolds, partner at Shearman and Sterling, came to its defence, saying LCH.Clearnet feels under siege. "There is no real reciprocity across the rest of the market. It's all very well saying LCH.Clearnet should open up if no one else is."

Ilse Peeters, director, public affairs at Euroclear, concluded that the code will deliver cost savings, albeit further down the line. "What the Commission has is, first competition and then a second phase, consolidation – that's where costs will go down," he said. ■

Picking up the pace?

The ViaNova initiative was launched in the UK in 2006, but how much progress has been made towards achieving STP? **Virginie O'Shea** investigates

For an industry that is noted for its antipathy towards technology, the issue of straight through processing (STP) has progressed by leaps and bounds over the last 12 months in the UK corporate pension administration sector. This progress must largely be attributed to the work of the Investment Managers Straight through Processing Development Group (IMSDG), an industry discussion group that was established in 2004 to raise the profile of STP for pension funds. To this end, the group has been engaged in setting up and running an STP pilot project over the last two years and announced the addition of a second wave of participants at the end of last year.

The pensions industry has often been criticised for its Luddite tendencies – it is estimated to be at least five years behind the rest of the financial services community in terms of its adoption of technology. Of course this is understandable when pension funds' aversion to risk is taken into account, as well as the issue of cost to an industry that is already struggling under the burden of an ageing population. Any investments (whether it be time or money) must therefore have significant and tangible end results and building an STP interface is neither an easy nor a low cost endeavour.

In order to prove the benefits of investment in technology to a sceptical industry, the IMSDG launched the ViaNova project in February 2006, focusing on automating the space between pension administrators and pension product providers. Following a review of the available message standards, the group decided to base its pilot on the ISO 20022 UNIFI message set and chose the SwiftNet Funds service as the method of transportation. The first phase of the project involved a group of five industry players – Barclays Global Investors and Legal & General Investment Management, Capita Hartshead, Mercer Human Resource Consulting and Watson Wyatt – alongside Swift and consultancy Idea Group, who worked together to run the pilot programme.

The ISO 20022 message provides a common platform for the development of messages in a standardised XML syntax and the group adapted this message set over a period of two months between February and April 2006 to meet the requirements of the corporate pensions industry. The standard requirements document, which deals with the part of the business where pension contributions that are calculated during the payroll run are sent as subscriptions into the corporate pension scheme, was signed off on 11 April 2006.

As well as codifying message standards, the group has also established a set of market practices, taking the legal implications of the introduction of STP in this area into consideration. Rather than introduce a separate contractual agreement between third party administrators and pension product providers, the group decided to tweak their existing client mandates to allow the inclusion of ISO 20022 messages and SwiftNet Funds as a means of transmitting orders between the two parties. This work culminated in the live launch of phase one in March 2007, which means that all five members of the group are now able to pass transaction requests, prices and confirmations between themselves electronically.

"The last 12 months have seen the hard work of the pioneering companies pay off," says Steve Wallace, head of STP Solutions at Idea Group. "In April 2007 the first live orders were processed and by the end of the year, the companies in the pilot group were all exchanging live ISO 20022 messages over the Swift network. This in itself was a major achievement. In the same year, the group has also had to cope with an upgrade to the ISO 20022 message, which was accomplished successfully in October."

The upgrade that Wallace is referring to is the SwiftNet Funds upgrade that took place on 27 October 2007. This enhancement to the Swift service means that the group is now able to include a mechanism to effect multi-manager switches, which allows scheme members to switch between fund families without their money going back to the administrator.

Edward Glyn, commercial manager, Investment Funds, Swift, adds: "Our achievement over the last 12 months is easy to summarise: an industry wide initiative, with an agreed market practice (ViaNova), using a single standard (ISO 20022) over a single network (SwiftNet). Above all, the group's activities have evolved from theory to practice and we have now gone live with five principal industry players. Our next challenge is to maintain momentum and successfully bring on the next wave of participants, ensuring that we achieve critical mass across SwiftNet Funds."

The group launched phase two of ViaNova in February 2007 and began recruiting new members to the cause. During 2007, the IMSDG, Swift and Idea Group have worked hard to encourage the second wave of automation in the industry and are optimistic that 2008 will see the next wave of companies come online, explains Wallace. "These include Fidelity, Prudential M&G and Scottish Widows from the sell side, and a focus on adding STP functionality to their pension administration products from the likes of Aquila Heywood, Northgate HR, Profund and Xafinity could mean a rapid expansion on the buy side," he says.

"Introducing true automation is not a trivial matter and is has taken time for the new players to be ready to make their move. There is a growing awareness in the industry that STP cannot be ignored. Not only for defined contribution (DC) schemes, but in the defined benefit (DB) space as well, investors are aware that automation is one way to improve the efficiency of their pensions and drive out costs and risks," Wallace continues.

The decline of the DB pension and the rise of the DC pension has been a contributing factor to the necessity for automation in the pension fund world. Wallace estimates that a DC scheme requires up to 13 times more transactions than a similar DB scheme. This is largely due to fact that DC pension scheme members are more likely to demand information about the value of their pension savings as the onus is on them to monitor where their money is invested. This has the knock on effect of pension product providers being required to enhance the level of client reporting available, provide better returns and keep a close eye on costs – all of which can be assisted by the introduction of STP.

The benefits of STP are tangible as a result of the group's efforts during phase one of the project, according to Glyn: "So far the group of five live pension players has automated in excess of 50,000 transactions over SwiftNet Funds. In theory, each transaction could contain multifarious instructions – orders, switches, prices and statements. Real and tangible benefits are being realised with one of the most important pensions administrators, Watson Wyatt, achieving 96 aggregated round trip orders in a 30 second period. When you consider the cost and time delay caused by manually inputting a fax, the value that we are bringing to the industry by only charging pennies for 100% automated STP orders is considerable."

Swift has witnessed a lot of interest from the industry, Glyn adds. It has been getting a constant stream of enquiries from the Swift community as to how they can leverage their existing SwiftNet infrastructure currently being used for payments, trade, treasury or securities, to maximise operational efficiency in their pensions or wealth management businesses.

But the evolution is not just a one-way street, says Wallace. The project is also having an impact on the financial messaging network itself: "Swift has its roots in the banking industry and it is used to large volumes of messages and big budgets. The adoption of ISO 20022 UNIFI messaging by the UK corporate pensions industry is one of the factors that are influencing Swift to develop more cost effective ways of accessing the network. Idea Group is currently working with Swift to develop solutions that will enable smaller and smaller players in the industry to get online."

Glyn is enthusiastic about the spirit of teamwork and collaboration that is being fostered by the group's endeavours. "We are delivering a consistent message across different media – press, conferences, client events and advertising – and the story is a compelling one. The group has been encouraged to help both large and small players alike and Swift's recent waving of the joining fees, coupled with new, lighter applications and different connectivity models will certainly help the smaller users."

The STP cavalcade is marching on and the focus over the next 12 months will be to bring the next wave of participants on board. Many of the pension fund players are also already looking to improve other parts of their businesses, adds Glyn, including areas such as corporate actions, alternative investments, payments and settlement. "I expect we will certainly see additional projects to increase efficiencies in additional parts of the pension fund operational lifecycle," he contends.

"Following the success of the order processing automation initiative, we are currently taking advice from the industry on what our next priority should be – such issues as settlement, performance and client reporting are likely to appear on our spring agenda," adds Wallace. "The next six months should see the growth of the UK corporate pensions STP initiative. One important piece of news is that the control of the business requirements document, which defines the market practice for the use of ISO 20022 messaging, has been placed under the control of the UK funds market practice group – part of the worldwide Securities Market Practice Group (SMPG) organisation. This has been done to emphasise the open nature of this project and to encourage more participants to join the discussion. In January 2008, we will be holding three meetings of the new UK Funds Corporate Pensions Working group to work towards the next version of our market practice documentation. We have had a great response to these meetings and are hoping that they will help the industry engage even further with STP."

The progress is not limited to the UK, however. Fidelity represents the first in what is hoped to be a long line of European players that will choose to participate. "They have been using ISO 20022 messages in Luxembourg for some time and one of the main objectives of our working group meetings in January is to enable us to agree common market practice with them. Since ISO 20022 UNIFI messaging is still a relatively green field site and thanks to the work of the SMPG to document market practice, I am optimistic that the standard will help open doors around the world. It's up to the industry now to take advantage of these worldwide possibilities," Wallace concludes. ■

ViaNova's evolution

■ **2004:** Legal & General Investment Management and Idea Group set up the Investment Managers Straight through Processing Development Group (IMSDG) to facilitate discussion about STP in the pension fund world.

■ **2005:** The IMSDG works towards raising the profile of STP.

■ **2006:** Two of the UK's largest investment managers join with three third party administrators, under the guidance of Idea Group and Swift, to develop a common message standard based on ISO 20022 and SwiftNet Funds. The group begins phase one in February.

■ **2007:** The first phase of ViaNova goes live in March and phase two of the project is initiated in February with five additional participants.

Feeling the squeeze

SEPA has the potential to lower cost across Europe but automated clearing houses must embrace change or be squeezed out, **Fabien Buliard** reports

The implementation of the Single Euro Payment Area (SEPA) is affecting everyone from banks to corporates and consumers, but it is probably Europe's automated clearing houses (ACHs) whose business models will see the greatest impact from the move to standardised payment instruments across Europe.

Local ACHs, most of which were until now monopolies in their domestic markets, will eventually be forced to compete with their European counterparts for the processing of SEPA instruments, such as credit transfers and direct debits. Consolidation has already begun, with the formation of VocaLink in the UK, combining Voca and Link, and the creation of the Netherlands-based Equens, which merged Dutch processor Interpay and Germany's Transaktionsinstitut. The two companies have so far been the most vocal about their pan-European ambitions.

"The migration to SEPA will probably take three to five years, depending on the response within the market," predicts Michael Steinbach, Equens' chairman of the board. "This in turn depends on the extent to which the gaps between domestic products and the SEPA equivalents are filled, and the pace with which bank customers make the transition to SEPA products."

He continues: "Governmental bodies – some of which are extensive users of payment services – can set this pace by becoming first movers. The migration to SEPA will be the trigger for real competition between ACHs and will drive market dynamics and the ongoing consolidation in the ACH space, creating three to five large scale processors and a smaller number of niche players."

For the time being, however, most domestic ACHs haven't given up on their relevance under SEPA and intend to maintain their franchise going forward. Notable exceptions include Belgium, whose banks have decided that their local ACH, the Belgian Centre for Exchange and Clearing, would not serve as an international payment system and would eventually close down. Sweden is another example, with local clearing house Bankgirocentralen (BGC) deciding last year to outsource its processing to VocaLink.

More generally, much will depend on the approach taken by Europe's banks, which, in many cases, are in one form or another stakeholders in their home country's ACH. A move to a more opportunistic approach by banks could see the demise of smaller domestic ACHs. So far, however, financial communities appear to have stuck to what TowerGroup analyst Gareth Lodge calls a 'national airline mentality'.

"Banks still haven't divorced the control of an entity, like governments maintaining national airlines when it makes absolutely no economic sense," he explains. "I think that, going forward, some of the big banking players are going to realise that if they don't own the company, they are not going to be asked for further investments, and that their huge volumes will enable them to impose their terms and conditions, and to swap to another provider if needed. I think we'll start seeing processing contracts that are time limited to three or five years, a bit like in the cash management world."

Gene Neyer, global product manager at payment software vendor Fundtech, also expects banks to start shopping around for clearing houses at some point. "At the moment, they are limiting the number of clearing entities they are dealing with, because it is early days and they are trying to limit the complexity," he says. "We certainly expect the banks to look for every opportunity to lower their costs. The easiest way to do that is to avoid clearing altogether and move to bilateral relationships. And it is possible that some of the banks will move in that direction."

What is already clear, however, is that the European ACH space is very unlikely to consist of a single pan-European ACH (or PE-ACH), a vision initially envisaged during early SEPA discussions. But the Euro Banking Association (EBA) and its Step2 platform, purpose built to take on the role of Europe's PE-ACH, still asserts that it is the only provider fulfilling the exact definition of a PE-ACH.

"The PE-ACH accreditation is not a term we have given to ourselves, but a term that the European Payments Council (EPC) has defined," explains Daniel Szmukler, head of communications and corporate governance at EBA Clearing. "That definition consists of having a pan-European distribution capability of payments to the largest part of the SEPA area, being country neutral in terms of governance, as well as offering a business platform that allows banks to create products on top of the instruments that the EPC has created and that can be processed and validated by an infrastructure."

However, players such as VocaLink insist they too have reach across the euro zone. "To be a player in that market, you have to meet that requirement," says Martin Wilson, chief marketing officer at VocaLink. "We have a model that enables us to reach all bank accounts in the SEPA. We do that primarily through a network of reach agents, consisting of a series of commercial partnerships we have with significant banks throughout Europe so that we can leverage their networks and correspondent banking relationships to reach all parts of the euro zone." VocaLink also has a bilateral arrangement with the EBA and is developing an interoperability framework with other clearing and settlements mechanisms (CSM).

With 12 billion payments processed in 2006, France's GSIT is another major contender in the pan-European ACH competition. The sheer size of its operations makes it one of the most likely survivors in a post-SEPA environment. The new entity formed by GSIT banks to operate in the SEPA context, STET, declined to be interviewed for this piece, saying the company would communicate on its post-SEPA plans at a later time.

The move to a more commercial approach and a richer offering may prove challenging for GSIT/STET, used to acting as a "thin" ACH focused on pure processing, on what can be described as a utility model, against rivals like VocaLink and Equens, which seem to be quite a few steps ahead in their transformation.

Spain's Iberpay is another European ACH planning to be around in years to come, even if its primary purpose remains to serve its domestic community. "In principle, the main goal of Iberpay is to offer SEPA services to the banks within our community in Spain," says José Luis Langa, business development director, Iberpay. "However, we cannot disregard that banks located in other communities may be attracted by our prices or the quality of our services. In any case, we do not intend to dedicate too much effort to commercial activities, at least in the short term. We are fully confident that Iberpay will be one of the surviving ACHs in the euro area after SEPA."

For any national ACH getting into the pan-European game, one of the main conditions for survival will be the loyalty of its domestic banking community beyond the transition phase for the processing of SEPA instruments. Competitive pricing will certainly be a pre-requisite for any sustainable business case.

"I really doubt that other European processors may offer better prices than Iberpay, either because they have much bigger fixed costs than us or because they do not attract as many transactions," Langa says. A non-profit operation, Iberpay processed 1.5 billion transactions in 2007 for a total operating budget of about five million euros. Significant volumes will be essential to achieve a competitive cost base, but that does not mean that pricing alone will be the determining factor to gain market share.

"Pricing will be a qualifier," says Equens' Steinbach. "This means that the inability to offer a competitive price will disqualify a competitor immediately. Other factors, such as reliability, efficiency and compliance will also be qualifiers. The determining factors will be the qualities that distinguish you from your competitors, but only if all of the qualifying factors are in place."

Another requirement to be able to effectively compete in a SEPA environment, according to Steinbach, is interoperability. Equens is one of five CSMs - with VocaLink, STET, Iberpay and Italy's Seceti - that announced last October an agreement to establish interoperability for the exchange of SEPA payments.

"Interoperability is vital to the success of SEPA," Steinbach explains, "as it creates a marketplace that allows for competition based on true added value, instead of competition based on proprietary infrastructural solutions. The fundamentals for interoperability have been established and are currently under implementation, but some work will have to be done during the next year to finalise it and create the reach that is needed within SEPA. However, when SEPA becomes effective, the focus will shift to competition, based on the achievements resulting from interoperability."

While prices will certainly drop as result of SEPA, competition will also revolve around added value services, which both Equens and VocaLink are already working on.

In the second quarter of this year, VocaLink will start providing a corporate access channel for banks to offer to their corporate customers, followed by a mandate management service for SEPA direct debits, meant to address the concerns raised by many banks about the complexity arising from the many different approaches to direct debit across Europe, according to Wilson.

"As part of this service we retain a database of mandates in the centre, rather than banks having to develop their own that will only be as current as their customer base," he explains. "Acting as a central payments provider, we will have a much more extensive database with reduced costs, increased accuracy, and thereby a higher level of STP."

VocaLink also intends to extend some of the services it offers in the UK to a pan-European market, such as its electronic

Interoperability is vital to the success of SEPA as it creates a marketplace that allows for competition based on true added value

bill presentment and payment service. "We are also introducing a new, real-time payment service into the UK in May 2008," Wilson continues, "and again, there is an opportunity to extend that into the SEPA market in 2008 or 2009."

For Richard Spong, Financial Services Solutions marketing manager EMEA at Sterling Commerce, a technology provider to Equens, one the avenues of diversification for clearing houses lies around various outsourcing services leveraging their processing infrastructure. "They could potentially extend their activities beyond payments," he says, "for example with services like outsourced cash management."

Spong can also see European ACHs being keen to enable a European card scheme, should an independent European alternative to Visa and Mastercard, currently being pushed by European authorities, come to fruition.

In fact, Equens is already present in both the card and back office processing spaces. Steinbach considers Equens to be more than an ACH, as it offers Back Office Processing (BOP) services to a number of large customers. "Our BOP creates links to processes deeper within banks – closer to the core processing of the banks themselves," he explains. "Consequently, we can offer scale advantages by combining multiple, essentially basic payment processes within different banks, without standardising their individual core processes."

Steinbach adds that Equens also aims to explore the full potential of new transaction types in several markets across Europe, which he says has already led to a successful line of innovative payment solutions in mobile payments, as well as in the e-invoicing and prepaid card spaces. "We believe that the flexibility to offer basic, thin processing like SEPA reach as well as specialised processing with tailor made interfacing like BOP will ultimately set Equens apart from the competition," he adds.

EBA Clearing, on the other hand, has positioned itself as a "thin" ACH. "We look after core products and services that we can equally provide to all communities across Europe without the conflict of interest, from a governance point of view, of having services that only serve certain communities and not others," says Szmukler.

"However, to me this is only the foundation on which you build your house," he continues. "The question is what will the first, second and third floor of this house look like. Our shareholder and user banks will tell us what they want to have as the necessary value added services across SEPA."

We certainly expect the banks to look for every opportunity to lower their costs

Chris Pickles, industry relations manager at BT Radianz, whose financial IP network is one way for Europe's banks and ACHs to connect to each other, also sees card processing as a promising way for Europe's ACHs to branch out. "The question is how cost efficiently they can process financial transactions," he explains. "The more different kinds of transactions you can bring into the portfolio of services you offer, the more attractive you become. Clearing houses are looking at the strategic strengths they have within their organisation, what they can do with them to build new services, and which of those services will be in demand. They are acting more like businesses and less like utilities."

If the vision of a single PE-ACH definitely seems to be behind us, just how much consolidation is likely to take place is anybody's guess, with estimates ranging from a handful to a dozen survivors. "I think we are going to see a set of federal type solutions, whereby one clearing house may join with other ones, either through merger or cooperation, and offer a single service, for which each of the individual clearing houses will be the distribution point," Pickles says.

"Let's imagine a large player like Equens comes to an agreement with clearing houses in six other countries, " he continues. "It could process things centrally to get economies of scale, but the marketing and customer support would be done by the local clearing houses, so the customer can deal with the local enterprise in the local language. You get the economies where you can, typically in processing, but being careful not to cut out customer services, because it can make clients go away."

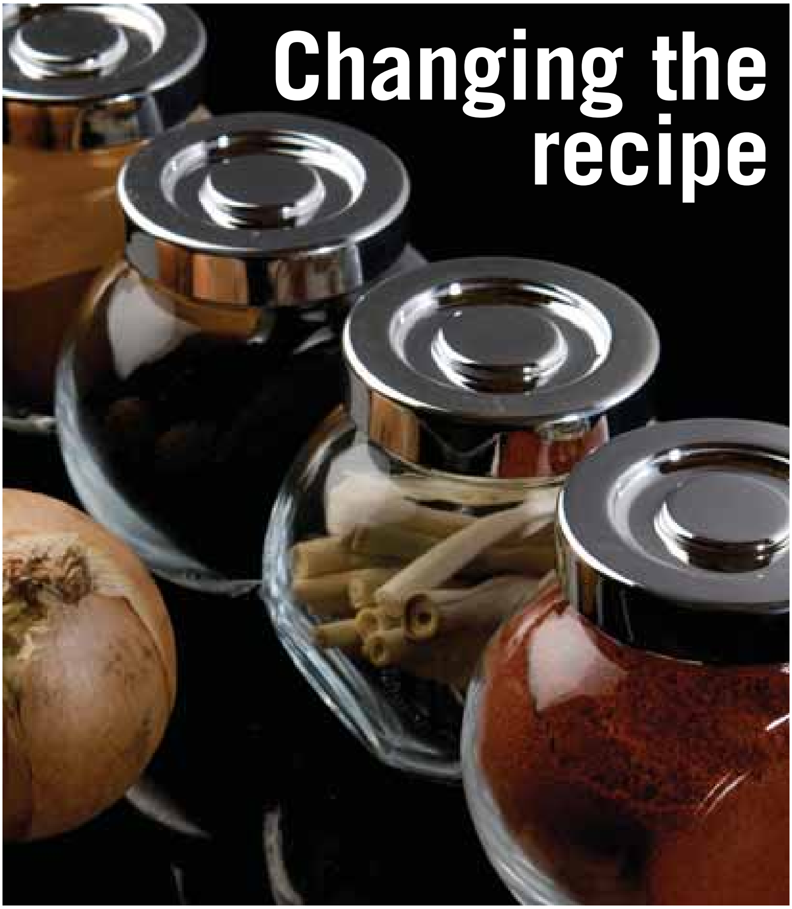
While more consolidation appears inevitable, new entrants are also likely to try and get a piece of the action. "There is a blurring of the edges already occurring," says VocaLink's Wilson. "Some of the major transaction or cash management banks are starting to play a very active role in what you might have traditionally called an ACH space. In addition, some players are looking at their strategic options in terms of partnerships or mergers."

Indeed, the potential competition ACHs will have to face could also come from commercial entities such as card processors or payment solutions vendors. Indeed, if ACHs can extend their processing capability to card payments, commercial card processors like First Data certainly have the potential to add direct debits or credit transfers to their range of services.

Besides, should banks decide to forego their control of ACHs to take on a more opportunistic approach, investment firms or commercial players could potentially be tempted to invest in Europe's existing processing giants. In many cases, a change in governance statutes might be required for outside investors to take stakes in ACHs, none of which currently are floated. But whatever the nature or exact number of competitors in the future environment, domestic monopolies will become a thing of the past and the European ACH space will undergo very deep changes as a result of SEPA.

The migration to SEPA will be the trigger for real competition between ACHs

"I think there will be a variety of offerings in the market and this has to be a good thing," adds Wilson. "It is the SEPA vision being realised, with a number of players competing in the market and looking to differentiate themselves. It brings commercialism into the payments market, which will drive innovation and is healthy for consumers, banks and corporates." ■



Changing the recipe

Just what is the outlook for securities lending auction platforms? Asks **Brian Bollen**

Newcomers to the industry could be forgiven for being perplexed at a time when even experienced industry players, both active market participants and seasoned observers, appear not to know which way the future lies. When ISJ posed a loaded question a year ago – have securities lending auction platforms had their day – it sparked off something of a debate, at least for the duration of the research period in question.

Once the dust had settled, it seemed that the likes of eSecLending and EquiLend would continue to grow their business, that SecFinex might be on the verge of a change of direction following its acquisition by Euronext, and that the industry was waiting agog with excitement for Icap to unveil another new auction platform. Fast forward 12 months and the picture is nothing if not distinctly blurred.

For Paul Wilson, global head of client management and sales for securities lending at JPMorgan, the reasons are clear. "Demand for auctions and exclusives tends to be high when the markets are strong, when equity values are rising, merger and acquisition activity is plentiful, and corporate profits and dividend pay-outs are growing strongly. The market conditions of the past few months have been much more uncertain, and there has been a significant flow of securities lending business away from exclusives into more traditional discretionary lending programmes. For example, we have seen about 35% of the assets in exclusives that we manage for clients flow back into our discretionary programme. The broker-dealer appetite to pay for exclusive use of a portfolio also appears to have dropped, with levels in some cases up to 25% lower than in the prior year. A one-trick pony trafficking only in auctions and exclusives would struggle; the key to being successful over the long term is to have a diversified book."

Against this background, SecFinex seems to have performed not just a u-turn, but also a handbrake turn, and to hold the auction platform part of its product offering in something closely resembling contempt. This conversation will be fairly short, said Peter Fenichel, the SecFinex CEO, as a preamble to being interviewed. "Auctions are boring. As a result of the credit problems in the markets we are not seeing much activity on the auction platform, and we are not encouraging it. We are focused on other things. Auctions are yesterday's phenomenon; it is hard to see why a lender or borrower would see it as advantageous to use auctions."

On the positive side, he says that SecFinex has identified as a more relevant issue the question of whether there is an advantage to be gained by shifting auctions into the crossing process. "We asked the question, and it is a legitimate question; this is a project for 2009, unless custodians ask us to restructure our auction process."

The SecFinex business is not driven by custodians, however, he reminds us, but by brokers and borrowers. "If people are sitting on a big block of stock that is not moving, maybe there is a benefit to put it up for auction if it's a price dynamic." In other words, if a lender can't lend stock at a certain price, put it up for auction and see what it fetches.

As detailed in a previous issue of ISJ, a favourite subject of his remains the need for a central counterparty in the securities lending market, a need that has been exacerbated by the global credit crunch.

EquiLend, too, offers a wide range of trading and post-trading capabilities. Its auction capability is just one of more pieces of functionality, explains CEO

Brian Lamb. "Clients can use our auction platform as they wish, but it is not the most widely used of our services," he says. Even so, EquiLend averages around 16,000 new deals worth USD16 billion to USD18 billion in 25 countries every day. These deal levels are substantially higher than a year ago, both in terms of volume of deals and their nominal value, adds Brian Lamb, up 30% year on year.

"The sub-prime crisis and credit crunch have driven an uptick in business, as volatility has increased in the cash equity market. It is true of all securities that as there is an increased need to hedge and cover short positions, the demand for securities lent will increase," Lamb explains. While volumes are up, spreads are likely to be compressed, he says, although that will depend on how loans are collateralised. There has been a renewed interest in non-cash transactions in recent months.

"We offer a global solution to global agent lenders and borrowers, a solution that works the same wherever you go, and we have seen a lot of interest in what we have to offer," he says. EquiLend views itself not as a vendor to the industry but as an industry utility created by the industry for the industry, almost at the direction of the industry. From its conception in 2001, it has grown to include seven broker-dealers and four custody banks or asset managers on its shareholder list, with another 34 firms globally as clients. "Over the next three to five years this market will continue to grow at a healthy clip."

A key part of preparing to address that growth should be a new emphasis on interoperability, he believes. "The industry should address interoperability, but I don't know that it will," he sighs. "It's not sufficiently profitable to merit that, although some might launch their own initiatives individually. Progress will be slow."

Elsewhere, the driving force behind the creation of Icap i-Sec, Roy Zimmerhansl, is as engaging and positive as ever, but he goes to some lengths to stress that he does not consider i-Sec an auction platform in any way. This is much to the bemusement of those of us who wrote thousands of words on it around the time of its conception and throughout its gestation, but we are never too proud to stand corrected. "In practice, users post bids and offers and others trade (or don't trade) based on those prices," he says. "There isn't any facility on i-Sec to conduct an auction and Icap is not directly involved in the auction process."

Our new, revised understanding is that for Icap's investment bank clients the source of a large proportion of their lending supply is sourced from exclusive portfolios gained through auctions. i-Sec assists these banks in distributing their excess supply, whether from auctions or other sources. By enhancing the revenue generation process, i-Sec says it is effectively helping to underpin the prices that banks are willing to pay at auction and therefore the fees that clients and agent lenders generate from auctions. "Auctions are a major source of supply that gets offered in i-Sec," he says. As such, he sees auctions as just another part of a multi-faceted market.

"Inevitably, different firms will have different appetites for auctions at different times. For instance, several years ago non-resident lending of Korean equities was approved. As the lenders had no way of quantifying prospective revenues, they tended to lend portfolios only on an auction basis – and the borrowers were happy to pay for the right to scarce resources. As more stock became available, the premium reduced and my understanding is that the overwhelming majority of Korean stock is loaned out on an 'open' basis. Market participants with experience with a series of auctions on Taiwanese stocks over a number of years will recall how the supply of Taiwanese stocks did not grow as quickly as the Korean supply had, and the demand side grew dramatically for Taiwanese stocks. This resulted in the auctioneer generating higher fees each year for the same portfolio. Individually, firms will be at different places in their business profile that might generate greater or lesser interest in a specific auction or series of auctions," he explains.

Even at eSecLending, arguably the purest auction platform in the market, the tune sounds as if it might be changing. The very word 'auction' doesn't even appear in the opening remarks made by Chris Jaynes, president of the firm, as he reminds readers that eSecLending is a third party securities lending agent. "We are a full service provider and administrator of securities lending programmes offering our clients optimal returns, programme customisation, integrated technology, extensive risk management, superior client service and greater transparency than traditional lending programmes," he says. "For clarification purposes, we compete with custodial and other third party agent lenders but not with the likes of EquiLend, i-Sec or SecFinex. EquiLend is primarily a provider of trade and post-trade services for borrowers and lending agents such as eSecLending. We consider these firm's service offerings as complementary products, given that our target market and service offering differ to each model."

The market conditions of the past few months have been much more uncertain, and there has been a significant flow of securities lending business away from exclusives into more traditional discretionary lending programmes

"We have seen major developments in the market over the past year or two with regards to the use of auctions in the securities lending industry," he continues. "Today, we are increasingly seeing beneficial owners implementing exclusive lending arrangements via an auction process. In response to this change in demand, we are seeing more and more providers now realising the added value an auction can provide to a beneficial owner and they are beginning to incorporate this type of product alongside their traditional agency lending offerings."

It is difficult to determine how much business is being done via auctions, but it is clear that it is significant and growing, Jaynes says. Since its inception, eSecLending has auctioned over USD1.5 trillion in lendable assets across approximately 1,700 exclusive contracts. "We continue to see an increase in the use of auctions and exclusives globally. The auction model is gaining wider acceptance amongst the beneficial owner community because it facilitates better price discovery, promotes transparency and offers results that are measurable and auditable to report to boards."

The increase of business being done via auctions is really a mixture of both lendable assets from other routes to market and new lendable assets, he continues. Many lenders are making the switch from traditional agency lending to exclusives managed via an auction, while some first time lenders are realising the auction is a useful decision making tool in the process of determining the optimal route to market, whether it be exclusive or opportunistic lending.

"For lenders, the auction process enables them to obtain higher returns, achieve greater control over their programme structure and realise price transparency for their lendable assets. It is also allowing lenders to utilise another route to market in order to optimise their programme and introduce competition, which is also good for the industry as a whole," Jaynes elaborates.

Competition amongst providers usually translates into enhanced performance and better service levels for beneficial owners. It is no surprise that many of the large plans are adopting a multi-manager approach using specialists and multiple routes to market in order to optimise their programmes. As the market evolves, the lines that used to delineate third party lending from traditional custodial lending are become increasingly blurred. Lenders are more concerned with the strength of their providers' lending programmes regardless of where the assets are held in safekeeping, says Jaynes. Similarly, agent lenders are now more accepting of being a provider in a multi-provider programme for these plans.

"From eSecLending's perspective, our service model is lender-biased and therefore the lender benefits by recognising premium returns for their lendable assets as compared to traditional lending programmes. Our clients are in the best position to prove that, as most have used traditional custodial agent lenders and some still continue to do so for a portion of their lendable assets. Some of our clients make their securities lending earnings publicly available and we always encourage direct communication with our clients where appropriate for further proof of the model," he explains.

There are significant differences when comparing providers offering auction capabilities. According to Jaynes, eSecLending is a specialist provider focused on the use of auctions and therefore it has more experience than any other provider in the market in managing auctions. "Our business is committed to the auction process and we have built our services and infrastructure to support the use of multiple exclusive lending arrangements. We also differ from any other provider in the industry in that we are independent and do not have any conflicts of interest with other lines of business or a traditional agency lending pool."

He continues: "We see no signs that their growth might be faltering and with the increasing demand globally for best execution and transparency it seems unlikely. We continue to experience significant growth across all areas of our business and are now one of the largest lending agents in world."

Exclusive lending awarded via an auction is an effective way to manage a portfolio's specific risk/return profile, adds Jaynes. In an auction, beneficial owners have the control to set their risk parameters any way they choose. "In our experience, our clients generally have not altered or increased their risk tolerances when implementing exclusives as compared to their previous traditional agency programmes. We also provide our clients with indemnification insurance to protect against borrower default and we manage the complete credit and counterpart monitoring functions on behalf of our clients."

The additional income that lenders are able to generate via an auction is a combination of many factors, says Jaynes. Exclusivity is one part of the equation, but the competition inherent in a blind auction also contributes significantly to the premium results a lender can achieve. "The independence of our firm and the fact that we do not manage a traditional lending pool, which could influence pricing, also contributes to the results our lenders can achieve," he concludes. ■

New kid on the block

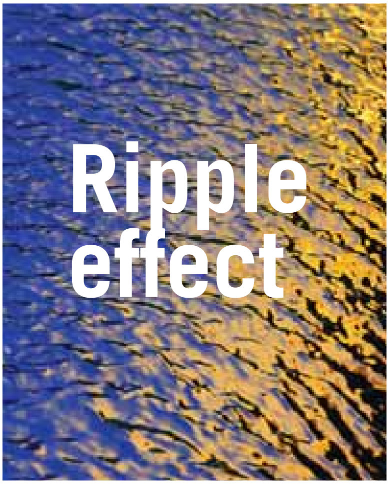
The newest kid on the block is New Jersey-based LendEx, which says it will include a daily auction feature in the real-time electronic securities lending market that it plans to launch in the first quarter of 2008. Founder and managing director of LendEx, John Tabacco, eagerly accepted ISJ's invitation to paint his own picture of the current marketplace.

What is the current state of play with auction platforms? There is one major platform out there that can handle bulk portfolio term auctions: e-eSecLending. LendEx is launching a single stock electronic auction-based marketplace as a complementary exchange to offer shorter term price discovery to opportunistic lenders. That means there are now two genuine auction platforms currently in existence, says Tabacco.

What direction is the market moving in? There is an aggressive move in the direction of offering beneficial holders more options, transparent tools, and innovative market data products to address securities lending's price discovery issues. All lenders are seeking more transparent solutions today, he explains.

Competition is driving up revenues paid to beneficial holders of securities, and in turn increasing returns to pension plan and retirement system contributors, because every new market participant is offering much needed transparent tools to further educate the beneficial holders. And every bit of education helps, he adds.

"Customers are clearly benefiting and have only started to see the benefits. The magnitude of the profits disproportionately shared with beneficial holders over the last 20 years is enormous and it is slowly coming to the forefront. Thanks to recognition by US regulators, regulation is moving in the direction of placing more responsibility on fund managers to actively be involved in ensuring best executions on their stock lending, and I suspect, in 2008, the SEC will link assuring best executions on securities lending to the fiduciary responsibility of managers. This shift in regulatory focus will expedite the advent of electronic, and transparent tools to the forefront. It is a proven fact in the financial markets that the biggest agent of innovation is regulation. And thankfully for the contributors to pension plans and retirement systems, regulation is moving in the direction of demanding better market data, and transparent tools to increase price discovery," Tabacco says.



Ripple effect

The sub-prime fallout will draw class actions across the Atlantic in 2008, says **Jamie Darlow**

Last year was predicted by many to be a slow year for class actions in the US, but those forecasts went out the window after the sub-prime crisis hit in August. Federal filings were projected to have increased by 58% by the year's end, with 207 cases in 2007, following 131 filings in 2006, according to a recent study. With 2008 expected to be increasingly busy for US courts, the number of class actions making their way across the Atlantic looks set to increase.

Last March, a US judge in the Vivendi case, where plaintiffs are suing the French media conglomerate over alleged securities fraud, ruled that some European investors can join the class actions against the firm, meaning they would also get a share in any monies awarded. The ruling included French, Dutch, UK and US investors that bought ordinary shares and American depositary shares (ADS) in Vivendi between 30 October 2000 and 14 August 2002, and this may be a portent for things to come.

Certainly US attorneys will increasingly seek to recruit UK-based plaintiffs, or even lead plaintiffs, in 2008, as fallout from the credit crisis becomes clearer. Given that it is estimated some 59% of sub-prime business found its way into Europe and that around 34% of this could be located in the UK, that could potentially lead to a high number of case loads.

However, it is not yet clear to what extent jurisdictions outside the US will enforce the rulings found therein – comity, as the lawyers call it. In the Vivendi case, for example, while the UK courts will enforce the US ruling, German-based investors were excluded. As Patrick Daniels, partner at Coughlin Stoia Geller Rudman & Robbins, explains: "I think European courts will uphold US judgements. Respect between the jurisdictions is well established. That was the big issue in part of the Vivendi decision – one of the reasons they excluded the German investors was because the judgement may not be upheld by a German court or may not be respected. In the case of Germany, there is a question mark and that is why the Vivendi court decided not to opine reflecting German investors."

Ianika Tzankova, senior associate at law firm NautaDutilh, also suggestes there has been increased judicial interaction between the US and the European courts in the field of collective redress. But as long as there aren't clear uniform European guidelines about how to treat US judgements, that activity will have a rather inconsistent character, she continues. "The different national courts of the European member states may treat US class action judgements differently. In Germany for example the picture is quite clear: one believes that US class actions infringe individual due process rights and are (always) unconstitutional. Other national courts, like the Dutch who are international oriented and do have their own positive experience with national collective actions and case management, might have a different attitude."

She continues: "If European national courts decide to recognise and enforce US judgements that would be solely on the grounds of 'moral authority' of the US court approval of a settlement, but probably not after the given national court has scrutinised the settlement conditions and has found them adequate. What may play a significant role in this test is the size of the pay outs to the plaintiffs."

As for a class actions style law of its own, Europe may have to wait until 2011 for an EU directive, pushed along by an investigation into 'mutual recognition' by the US Securities and Exchange Commission (SEC). NYSE-Euronext has lobbied the SEC to launch a new regime of 'mutual recognition' with other global financial watchdogs, beginning with the European college of securities regulators.

Kevin Brady, director of Exchange Data International (EDI), explains this allows foreign stock exchanges and broker-dealers to provide products and services to US investors without having to register with the SEC. "Instead, the SEC would allow them in based on their home regulator's regime being 'substantively comparable' with that of the SEC," he says. "Should this happen, then the home regulator's regime will have to support the SEC guidelines for investor protection and, ultimately, class action litigation."

Charles Price, senior director of Entity Data Products at Interactive Data Pricing and Reference Data, confirms we have seen the beginnings of change in other markets, something that could continue to mature with additional regulatory directives. "Outside the US, Australia and Canada are currently the leading markets for security class actions. As additional barriers are removed in the European marketplace, we can expect to see an increase in the volume of cases being filed," he explains.

What will limit US class actions in Europe until then will not be the legal obstacles, rather, the practical business barriers. "There are two big hurdles in Europe for class actions to have any foothold," explains Daniels. "First, the loser pays: class actions already have a big financial risk for the funders – in the US, the attorneys. We are able to assess the risk, but if you add on top of that the additional risk for defence costs, that's too much risk. It's too hard to build a model for that."

He continues: "The other is the contingency fee and the way cases are funded. I don't think the contingency fee system is developed or permitted in enough jurisdictions in a way that would make cases easier – it makes it more practical."

The prevalence of US class actions has had another practical effect, diminishing the appeal of US capital markets. Listing on a US exchange exposes the foreign issuer to potentially bankrupting securities liabilities, liabilities that would be owed not just to US investors, but also to a much larger worldwide class of foreign shareholders. ■

RESTRICTIVE REGULATIONS?

Daan Lunsing Scheurleer, head of the Class Action team at Benelux law firm **NautaDutilh**, examines collective redress in Europe

On 9 and 10 November 2007, the Portuguese presidency of the European Union, supported by the EU Commissioners Kroes (Competition) and Kuneva (Health and Consumer Affairs) hosted a conference in Lisbon under the title: "Towards collective redress in Europe?"

As only half of the 27 EU member states have some form of collective procedure available through which consumers can enforce their statutory rights against businesses, the

Commission is looking into the question of whether the internal market is impeded by the lack of collective redress mechanisms available to citizens in some member states. Following a brainstorming session at Leuven University in the Netherlands earlier in 2007, the Lisbon conference brought together various stakeholders, including consumer organisations, business organisations, government representatives, academics and legal practitioners. Their task was to provide the Commission with input on a number of key issues; most importantly, whether or not the Commission should take action to ensure that citizens can enforce their statutory rights, within one member state or cross border in cases where the individual damages incurred do not outweigh the costs of litigation.

What is the relevance of all this? The answer is simple - if introduced at an EU-wide level, collective redress mechanisms may not be limited only to consumer rights, but may have a more general scope and result in a viable mechanism for holders of securities to pursue their rights against issuers and underwriters.

The form that such a mechanism will take, however, will most probably be quite different from the US class action model. Competition Commissioner Kroes, who said that consumers should be empowered to claim damages incurred as a result of competition law infringements, made it clear that the Commission is not in favour of replicating the US system, as it has learned from its strengths and weaknesses. Indeed, both business and consumer organisations agree that the introduction of US style class actions should be avoided, because of the perceived unwanted side effects.

Diana Wallis, vice president of the European Parliament, said that the introduction of US style class actions in Europe is politically a non-issue. She stressed that even if one would want to transplant the full US litigation model into a European context, it would function in an entirely different way with different results, given the different legal cultures and practices between Europe and the US. Most European jurisdictions do not have juries, contingency fees or punitive damages, whereas there is a "loser pays" rule in many EU states that does not exist in the US.

In Italy, where there is no effective redress mechanism, Italian consumers and retail securities holders try to obtain compensation from European companies through class actions in the US. There is a view that if the Commission does not introduce an effective form of cross border collective redress in the EU, the US class action system would be introduced through the back door. The conference noted US plaintiff law firms are setting up in Europe to find European clients for US class actions. Wallis made it clear that lobbying for a US style class action system in Europe would not receive a warm welcome in the corridors of the European Parliament.

What will the European model look like and in what form will it be introduced? The presentations at the Lisbon conference showed that there are many differences between the various forms of collective redress mechanisms. In some states, only an ombudsman or an authorised consumer organisation can bring a collective claim, in others there a no such limitations. Some countries have an opt-in system, some opt-out, either for litigation (Portugal) or settlements (the Netherlands), and some have a combination of the two. Others use test cases, the outcome of which is then binding in all similar cases relating to the same issue (Germany for securities cases).

Wallis believes that a European model would probably be a mix of public and private enforcement, with a public gatekeeper to weed out unmeritorious claims. She warned the conference that imposing a fully fledged collective redress mechanism on member states would lead to political difficulties, since national substantive and procedural law is the realm of the states themselves. It is pure law, she said, indicating that the directorate-general for justice should be involved as well.

Will the EU move forward on this? They have commissioned two major studies on collective redress and the competition directorate will publish a white paper on private enforcement of competition law all in 2008. Commissioners Kuneva and Kroes are committed to empower the citizens of the EU and, in her closing remarks at the Lisbon conference, she referred to the various uniform sets of consumer rights and obligations that have been introduced by the EU or are currently in the works.

Those rights must be able to be enforced, she said, for: "Our credibility as politicians is at stake". While it may not yet be clear what the Commission will propose, the participants left the conference with little doubt that there will be a major proposal soon. However, even if it contains characteristics not entirely unfamiliar to US lawyers, it will not be called class actions in Europe. ■

The Commission is looking into the question of whether the internal market is impeded by the lack of collective redress mechanisms

The form that such a mechanism will take, however, will most probably be quite different from the US class action model

Daan Lunsing Scheurleer is a partner in the Banking and Finance group and leads the firm's recently formed Class Action team at the Amsterdam office of Benelux law firm NautaDutilh

Class acts

Stephen Everard, managing director of **GOAL Group**, looks at the future of class actions

Class actions – where many litigants combine to pursue a joint action against a single defendant for their collective claim for damages – used to be a purely US phenomenon. Other countries' legislatures had mechanisms for joint actions, but these were rarely employed. But since the corporate governance scandals around the millennium – Enron is a prime example – class actions in the US courts have been used by non-US shareholders to seek redress for their losses. This is now spreading to other legislatures too. In Australia this is already well developed, and various pundits now predict an escalating level of class action – or equivalent – in Europe.

Let us first take a look at the situation in North America. The securities markets are regulated and policed by bodies such as the Securities Exchange Commission (SEC) and by investor representative bodies. Class action litigation has been used by groups of shareholders to recover losses stemming from fraud and misgovernance for decades. However, since the late 1990s, a number of major frauds have come to light, and these corporate frauds were not confined to the United States. According to research body Nera Economic Consulting, the top 10 shareholder class action settlements since 2000 have ranged from Enron Corporation, at just over USD7.2 billion, to Lucent Technologies, at just over half a billion dollars. In between this range come well known US firms such as WorldCom and AOL Time Warner, as well as European companies including Royal Ahold and Parmalat. If mega-settlements such as these are included in the average class action securities settlement, then that average sits at some USD54 million. If settlements over USD1 billion are excluded, then the average remains at a staggering USD33.2 million.

There is a question often asked in the legal arena as to whether these class action cases – and settlements – were a one off affair. In answer to this question, to date, there are two factors to consider. First, such class actions have a long tail – 235 federal actions were filed in 2000. To date, over 90% have reached some form of resolution: 60% have been settled and 30% dismissed, broadly speaking. But some still have further to go, even eight years later. Second, a downturn in actions filed in 2006 raised the possibility that shareholder class actions – in the US at least – were on the wane. The figures from 2007, however, show a different story. The main authorities on the subject tell us that securities class action lawsuits filed in 2007 were up by between 43% and 58% (definitions vary) on 2006, with up to 207 such actions instigated during the year.

Part of the reason for the upturn has been the recent crisis in the sub-prime mortgage market, inspiring a surge of class action lawsuits. To the end of the year, 32 sub-prime class actions had been filed in the United States, in the main against mortgage companies and lenders who had allegedly improperly inflated the value of their mortgage books and were being accused of failing to disclose that loans may have been based on substandard appraisals. We may conclude, therefore, that although the Sarbanes Oxley Act and its European equivalents are undoubtedly suppressing the possibility of further Enrons and Parmalats, new factors have arisen in the financial and corporate markets where class actions are being used to try and claim compensation for shareholders and investors. Moreover, most pundits are predicting that the credit crisis will affect corporate, as well as financial, organisations, and that the results of its contagion will be felt worldwide in 2008. Since we have evidence that resolution of the cases can take 5-7 years, then the sub-prime crisis will undoubtedly spawn another half a decade's worth of business for class action lawyers, their clients and the courts.

What happens in the US is of great consequence for European investors. The typical European share portfolio, especially amongst institutional investors, is strongly international. The average balance is in the order of 75% domestic shares versus 25% foreign shares. Plus, the US is one of the most attractive markets for European investors, with its transparent reporting rules and cultural similarity. Since the millennium, there has been a noticeable shift in the US courts, as an increased number of European investors have sought to lead shareholder class actions against both US and European companies. Between 2000 and 2003, 68 foreign companies were sued by their shareholders in US class actions, of which 24 were European. Well known European firms that have come before the US courts are Parmalat, Shell Transport, Vivendi, Daimler Chrysler and Cable & Wireless, to name just a small sample.

However, when a European firm is being sued in a class action in the US, European investors need to be particularly alert, and ensure that they are included in the list of litigants. Where an American investor controls the class action, there is a twofold temptation to exclude foreign investors. First, arguments around the jurisdiction of the US courts regarding foreign shareholders are avoided, making the legal process potentially quicker and less expensive. Second, the fewer the claimants, the greater the proportion each will receive from any settlement. These two dangers have inspired European companies to become active litigants in US class actions – for instance in the Parmalat case, where all of the lead plaintiffs are European.

Class actions in the different European legislatures are much discussed, but are not yet implemented. In the UK, US style class actions are not allowed, but two other instruments – group litigation orders and representative claims – are available, even though they do not ensure the finality of claims. In Spanish law, various consumer associations and bodies are legally constituted to defend the collective interest of injured groups. French legislation only allows individual actions, although in recent years, the introduction of class action legislation has been seriously considered.

Germany has introduced legislation,

called the Capital Markets Sample Proceedings Act (KapMuG), which refers to a highly restricted number of capital markets transactions. This is effectively a legal experiment, and will be monitored until 2010 to examine how effectively the legislation works. Finally, Italy and the Netherlands both have laws that allow collective actions to compel certain types of corporate behaviour, but damages claims still have to be largely pursued through separate action. The introduction of class actions in Italy is currently on the political agenda.

Interestingly, it is not Europe but Australia where shareholder class actions are straightforward to pursue, and have taken hold. The legislative basis for class actions was introduced into Australian law and has existed at the federal level since 1992, with the introduction of Part IVA of the Federal Court Australia Act of 1976. In parallel to the American experience, the largest corporate collapse in Australian history – that of HIH Insurance in 2001 – has helped to accelerate class actions being employed as a vehicle for prosecuting claims for shareholder damages. More recent examples include the settlement by Telstra of a shareholder class action for breaching continuous disclosure obligations, although this was for USD5 million rather than the action's original USD300 million.

The findings of various parties – both within the legal profession and academic studies – have revealed that non-claims are estimated to amount to anywhere between 25% and 35% of total settlements. To quote one authoritative source, it appears that: "Some institutional investors are not filing claims in securities fraud class action settlements, and are therefore leaving potentially large sums of money on the table. We have attempted to answer the question of whether institutional investors are leaving money on the table by failing to file claims in securities fraud class actions. We think that their fiduciary duties to file such claims are clearly established by existing law, and that the costs of filing such claims are likely to be trivial. Thus, even if the benefits from filing are small, institutional investors should be filing claims in these settlements. We conclude that it appears that many of these investors are failing to file such claims."

In order to quantify the scale of losses to investors through non-registration in securities class action lawsuits, Goal Group combined its historical records of registration and settlement claims, with market data sources. The results were stark. Almost USD12 billion has not been claimed on behalf of entitled investors between 2000 and 2007. USD3.6 billion of this total can be attributed to European investors. A huge spike of losses was experienced in 2006, the year when the bulk of the mammoth Enron settlement was finally authorised by the courts. However, 2007 also saw a strong throughput of mega-settlements, as well as an overall increase in filings over 2006.

Keeping track of the opportunities to make a claim, and the actions required to do so successfully, can be a complicated and daunting task, particularly for European investors. Such an undertaking requires timely and accurate information about the relative merits and procedural processes of the actions. It also requires the time and resources to review and evaluate relevant settlement provisions. Investors must then cross reference these outputs against extensive individual trading activity data and then compile and submit the often complex paperwork necessary to make a valid claim.

A majority of institutional investors seem to believe that the cost and time taken to undertake these tasks is likely to outweigh the benefits from potential settlement recoveries. This is often not the case.

The demand for efficient and affordable means of participating in securities class actions and recoveries has inspired the development of outsourced services that overcome the claim processing complexities. These services combined legal and procedural expertise, with a shared knowledge bank and alert facility. The key processes comprise: pinpointing and informing investors of portfolio losses suffered allegedly due to corporate fraud or malfeasance; delivering accurate and appropriate legal advice concerning US law, investors' legal rights and their legal options; tracking and monitoring securities class actions in the US legal system; and putting strategies and procedures into action for investors' to submit valid claims and recover settled funds.

Such automated processes and services are now widely available for investors, fund managers and custodians to process all the necessary corporate actions to register and pursue a claim through a class action. This extends to the automatic alerts that prompt such claims in the first place. Costs vary between services, but all are minimal in relation to the settlement sums recovered. Since it is the judgement of academic legal commentators that there is a clear duty of care for institutional investors to register claims on behalf of their clients, it would seem that there is a dangerous gap in the reclamation process, and one that (according to our data) has narrowed little in recent years.

In conclusion, it seems that securities class actions in the US are once again on the increase, based on the continued growth of mega-settlements, as well as the upward trend in class actions filed. In the early 2000s, corporate fraud was the main instigator of class actions; the mantle now seems to be passing to cases born out of the recent international credit crisis.

Around one quarter of all entitled parties still do not seem to be claiming their share of settlement payouts resulting from the class actions. The result is that since the millennium, just short of USD12 billion that could have been claimed was 'left on the table' (as one commentator put it). There is an urgent need (indeed, legal obligation) for institutional investors to make claims on behalf of their clients where a class action is involved. And since there are now low cost services that are already enabling many financial organisations to do so, there remains no excuse for ignoring this important client responsibility. ■

Around one quarter of all entitled parties still do not seem to be claiming their share of settlement payouts resulting from the class actions

Stephen Everard was appointed managing director of Goal Group in November 2002 and has been introducing a best practice culture while implementing numerous alliances with acclaimed market leaders around the globe

Central and Eastern Europe

What are the trends and opportunities in the CEE market?

PHILIPPE KERDONCUFF, HEAD OF NEW MARKETS DEVELOPMENT, BNP PARIBAS SECURITIES SERVICES

Central and Eastern Europe encompasses 15 countries and boasts a population of 320 million. But it does not form a homogenous block. Seventy five percent of the people live in only three countries: Russia, Ukraine and Poland. Although total equity market capitalisation reaches EUR1.5 trillion, it is also concentrated in only three places, this time: Russia, Austria and Poland.

Moreover, the level of stock market and post-trade infrastructure development differs from state to state. Generally speaking, though, the markets remain underdeveloped in terms of infrastructure and liquidity, and they all share a common peculiarity: savings are weak and mainly in the form of bank deposits. Furthermore, the ratio of market capitalisation to GDP remains low, well below the West European average.

Having said that, we must remember that these countries are adolescent in terms of financial markets, only 15 years, and that growth has already been strong and impressive in several cases. And the introduction of the euro, which should become a reality by 2010-2012 for a few economies, will further fuel expansion.

In Central Europe, there are three leaders that are attracting more and more foreign investors: Poland, Hungary and the Czech Republic. Here, local regulators and stock exchanges have been active in launching new products, for example: derivatives and stock lending; new trading platforms; attracting new issuers or allowing remote membership for brokers. In the post-trade environment and infrastructure, there is a clear willingness to harmonise rules with Western Europe. Commendable initiatives have been made, including: the simplification of the accounts structure in order to give up the mandatory segregated accounts and move towards omnibus accounts; development of the OTC market through the suppression of stamp duty; strengthening of pre-matching practices and mandatory buy-in rules in Poland; and separation of the CSD and CCP functions in Hungary scheduled for the middle of this year.

However, in all eastern countries of the region, foreign investors are still facing difficulties in accessing these markets. For example, no nominee concept; segregated accounts; a heavy account opening process; foreign currency restrictions in Ukraine; mandatory settlement in Romania. And Russia and Ukraine, with the absence of a single official CSD, constitute risky environments.

Nevertheless, the whole region should continue to register strong growth rates, with market capitalisation expected to swell and GDP per capita to catch up progressively with Western Europe.

This is why for BNP Paribas Securities Services it is essential to develop a physical presence in this region. In line with our global organic growth strategy and our willingness to consolidate our position in Europe, we are currently setting up branches in Poland and Hungary to create an on the ground operational presence. We are implementing advanced technology, which will bring efficiencies, and shall be maximising the benefits of the established presence of the BNP Paribas Group.

These two new branches will complement our current clearing and custody offering for Austria, and represent the first steps in further expansion.

What is the attraction of the CEE markets?

TIINA NORBERG, RELATIONSHIP MANAGER, HANSABANK ESTONIA

While the three Baltic markets continue to be in growing demand by Hansabank Estonia's international clients, local clients in particular have expanded their choice of markets to CEE regions over the past few years. This has triggered our custody department to broaden its focus, open up 13 CEE markets for our clients and work feverishly to keep pace with new requests.

During the past year Poland, Romania, Serbia, Hungary and Russia have been popular among our clients – the assets in

those markets have grown significantly. During 2007, we added Kazakhstan and Bosnia to the list of offered markets and are about to open Ukraine. But the clients, and fund managers in particular, are now requesting Uzbekistan, Azerbaijan, Georgia, Armenia, Macedonia, and Montenegro, to name just a few.

Among the CEE markets, Poland looks to be the more active one in the coming years. The Polish market has been the centre of attention within the CEE region due to its current size (the Warsaw stock exchange market capitalisation was circa EUR300 billion at the end of 2007) as compared to the rest of the CEE markets, and, secondly, due to its enormous growth potential. As ruled within the Polish pension reform, the bulk of the assets of the local funds must be invested in the local market. The many new listings of Polish equities and dual listings of equities of the surrounding markets have contributed to increased liquidity. To facilitate investing in Poland for its clients, Hansabank became a remote member of the Warsaw Stock Exchange at the end of the previous year.

Leaving aside the lucrative investment opportunities, for custody the CEE and CIS markets involve a set of special concerns in connection with sub-custodian appointment procedure. Non-alignment with international anti-money laundering conventions is one of them. But the main challenge in connection with offering CEE markets is certainly the sometimes vague or non-existent nominee concept. In Hungary, the market participants and regulators are making joint efforts within the framework of a working group towards the introduction of the nominee concept. The topic of the nominee is also at the forefront in Poland and Romania.

Still, in Russia, Kazakhstan and Ukraine such discussion seems not to have started yet and the custodians have to resort to either opening accounts in the name of the beneficial owner or safekeeping their clients' assets in their own name. The latter causes new concerns for the clients from the point of view of segregation of assets. The absence of the nominee concept also brings about often intricate documentary requirements and makes the whole procedure lengthy and expensive. It also complicates the procedure of significant threshold reporting.

The newly enforced MiFID directive adds spice to the offering in the CEE markets by defining some of the risks as too high for certain client groups. It rests the responsibility on custodians to safeguard that the clients are fully aware of the possible consequences of their investment decisions. Also, providing the clients with full price information prior to the investment decision may prove to be difficult with respect to some of the CEE markets.

We sense a continued heightening of interest in the custody of CEE assets for 2008 on the strength of the prognosticated growth in the region. With the hardened regulatory demands in the background, we expect to be offering to our clients an expanded choice of Baltic and Eastern European markets. Beyond 2008, Hansabank aims to become an acknowledged provider of CEE custody to international institutional clients.

CEE custody from a North European perspective

Ulf Norén, head of Sub-Custody Client Relations, SEB Custody Services

SEB's markets in CEE (Estonia, Latvia, Lithuania and Ukraine) benefit from the global investment trends of multiplied cross border investment. Key reasons behind this include the fact that remote members are realising true benefits following the introduction of one trading platform in all Nordic Baltic markets: Saxess Trading. The higher degree of participation from global professionals has accelerated the development of further sub-services, which must be quickly assimilated and further developed.

A comparison with larger European markets shows that this region has outperformed its European peers for several years in succession.

Clients are looking for regional services supply spanning over many markets. This is in order to benefit from fewer contacts in their network, financial rewards in exchange for more volume and a simpler and less risky contractual arrangement.

The Baltic markets will be affected by the potential acquisition of OMX. The outcome is still not set in stone and there are some very strong opportunities and some less dramatic threats involved, all depending on the final outcome.

A consolidation of the post-trade arena will take longer and much of that is related to Target2-Securities (T2S) and the missed opportunity for OMX to divest the positions it has in the CSDs and thereby contribute to a market led regional CSD consolidation.

A true competitive advantage of the Baltic markets is the access to a young and well educated workforce.

Margin pressure will affect these markets while the volumes in Western Europe standards still are weak. Scale revenues will be crucial to continue to develop and invest. MiFID's effects in terms of liquidity fragmentation look less dramatic due to low liquidity in the first place.

We see the most rapid development in Ukraine. The economy is pre-transitional and we foresee very rapid growth and development in all sectors of our business: rapid GDP growth, predominantly capital market friendly reforms, a focus on pension systems and outperforming returns. The challenges in Ukraine are also fairly severe: lack of consistency in regulation, absence of asset servicing guidelines, no DvP worth the name, political instability, lack of English speaking professionals and discriminatory currency regulations top the comparatively long list.

A fragmented region with further challenges in 2008?

LILLA JURANYI, GLOBAL HEAD, CUSTODY, ING WHOLESALE BANKING SECURITIES SERVICES

Central Eastern Europe is not a harmonised region yet and the significant differences among the countries will provide plenty of challenges for 2008.

2007 was a record year in Poland - the Warsaw Stock Exchange had its best year with ever increasing transaction volumes and a significant number of new listings. In other smaller markets like Slovakia or Hungary the limited number of listed securities does not make these markets very attractive.

Are there still other opportunities that would attract the foreign investors to these countries? Improving the market infrastructure and eliminating legal barriers would certainly help. It has been expected for several years that the nominee concept would be clarified in most countries where it is acknowledged, but progress is slow. In January, meetings are organised in Hungary between custodians, issuers and regulators so a common understanding can be agreed prior to the corporate action season. However, it might mean that foreign customers and global custodians are obliged to provide the required details of the beneficial owners to the local authorities, when needed.

High expectations exist in Russia about the central depository in 2008. Due to the upcoming presidential elections the decision is not expected before the elections and we cannot expect that this would be among the first actions of the new government. Increasing the capital of the DCC – following some disputes between NDC and DCC – is expected around the end of January 2008. That would be a big step towards establishing a central securities depository in Russia. As FSFM (the supervisory authority) actively stepped into the dispute between NDC and DCC, that is a good signal that at the highest level there is the intention to create a unified stock exchange in Moscow. Russia however, remains the biggest growth market in the region, contrary to all its difficulties and the slow infrastructural progress.

A recent change in Ukraine – in December – caused a lack of clarity about the repatriation of dividends and sales proceeds. A new decree rejected with immediate effect to accept a confirmation of a foreign bank in connection with the payment for the original securities investment. No clarity was given on how to handle investments made prior to the new decree when the related payments are effected offshore. The local custodian banks will try to give an explanation in the first weeks of 2008. The Ukrainian market needs many improvements and that is why the Securities Market Practice Group (SMPG), with the participation of ING, has an important role in 2008 to assist the development of the capital market.

Securities lending and borrowing in the Czech capital market

MICHAL JEZIOR, RELATIONSHIP MANAGER, SECURITIES CUSTODY DEPARTMENT, CSOB

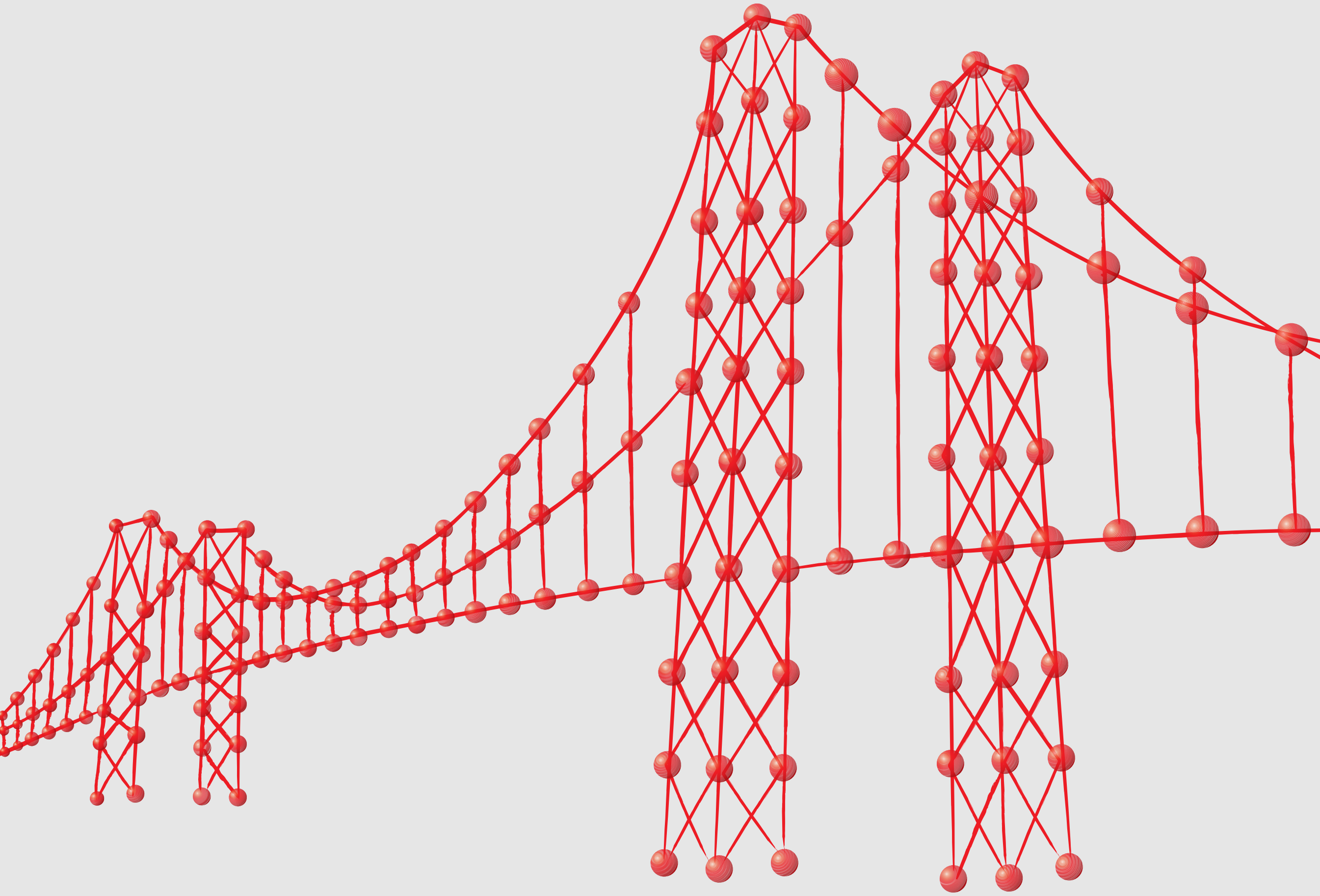
CSOB has noticed lately an increase in interest from foreign investors in borrowing and lending shares on the Czech capital market. One of the main reasons for this increased attention are the growing interest rates in the Czech Republic, which increases the profitability of such transactions. Another reason is new share offerings by the Prague Stock Exchange, as well as the increase in activities by asset managers concentrating on returns from the assets under their management.

The share lending and borrowing system in the Czech Republic is organized via UNIVYC (the settlement house) arranging not only the loaning of shares but also managing and operating the whole settlement system, ensuring sufficient protection and reliability. Under Czech law, borrowing of shares entails a change of ownership, so therefore collateral to the value of 110% of the borrowed shares is required. Furthermore, UNIVYC is bound to compensate for damages that it would cause other users of the borrowing system by failing its duties as per the regulations for lending shares.

Instruments that can be borrowed are freely transferable shares, which are listed on the Prague Stock Exchange (PSE). The maximum borrowing reservation period is governed by internal UNIVYC regulations and currently stands at 28 calendar days.

UNIVYC and SOB have been working together in the past few months on improving the share lending system, executing changes predominantly based on feedback from foreign investors. The resultant effect can be seen in the improved quality of services offered.

This year should see the commencement of services of a new central securities depository (CSD) in the Czech Republic, which should merge the existing UNIVYC and Prague Securities Center. Currently, foreign shares are registered at UNIVYC and domestic shares are registered at the Prague Securities Center. This change should ultimately lead to higher effectiveness of the whole system of borrowing of shares in the Czech Republic.



Brave new world?

ISJ speaks to CEO of investment management software and consulting firm Bravura Solutions, **Iain Dunstan**, about the challenges he faced during 2007 and his aspirations for this year

This time last year when ISJ spoke to Bravura CEO Iain Dunstan he was positive that 2007 would prove to be a vintage year for the Australia-based company; and it seems his predictions were not far off the mark. For example, Bravura reached a significant milestone in November, when it announced that it had reached the USD1 trillion mark in funds administered globally by its suite of wealth management applications. This growth has largely been from the push into the UK and European markets, which accounted for 63% of the company's revenues in the 2007 fiscal year.

Could you describe some of the key milestones that the company has achieved over the last year?

Bravura Solutions secured four large strategic clients in 2007, together with a number of smaller clients, adding to a list of more than 175 clients globally. For the third year in a row, Bravura Solutions tripled its revenue and more than doubled its net profit after tax for the 2007 financial year. The company more than doubled its employee base and integrated all staff that joined following acquisitions. We won numerous awards including a number nine ranking in Deloitte's Fast 50 Australia.

How has Bravura been responding to clients' evolving needs?

Responsiveness to client needs is at the core of our philosophy, stemming from our stated mission to provide superior service to clients. Our responsiveness is driven by legislative requirements, functionality, client requirements and market trends.

Bravura Solutions employs legislative analysts to monitor regulatory issues affecting our applications and clients. Analysts identify relevant issues, liaise with relevant industry bodies and the client's own legislative analysts, provide detailed analysis of regulatory impacts and implement changes.

We are frequently involved with our customers and industry groups in product design. Functionality is regularly added to our products as a direct result of client feedback. We run regular interactive user groups to engage with clients.

There is an additional market trend that requires product unbundling for simplicity and ease of use, as well as allowing for individual client customisation. Bravura has developed a suite of products to specifically allow for the implementation of some modules initially, and further modules when required. It has become common for products to stand alone and software must support this.

We also monitor the market for indications of future additional requirements. We strive to be at the forefront of technology and functionality, combating the competitive landscape. This has served us well to date. For example we have been rewarded for being an early adopter of service orientated architecture.

We have also responded to our customers' desire to have fewer vendor relationships. We have invested in our applications so that we support a very large range of financial products and instruments. We have done this because we understand that organisations want to simplify administration procedures and reduce errors. This delivers a better service to investors/advisers while providing a consistent and better user experience and of course, reducing costs.

How many new clients have you added over the last 12 months and what do you think attracted them to invest in Bravura's products?

We currently provide software applications and support to more than 175 financial institutions globally. Our largest client numbers are in Australia, followed by the United Kingdom and Europe. Overall, we secured four new strategic clients and 23 mid-sized financial institutions in the financial year 2007 and a number of additional existing clients renewed or extended their contracts.

Of the new strategic client wins: one was to implement our Talisman suite of software in several countries within the Asian operations of New York Life International; one was a five year license agreement with the Bank of New York, now the Bank of New York Mellon, for our transfer agency software; and one was to provide Friends Provident with a UK wrap solution.

Bravura Solutions believes that there are a number of factors that have attracted new clients to partner with the company. These include service oriented architecture

(SOA), the quality of the software applications, the reputation and credibility of the company, our customer orientation and an experienced and dedicated team.

Could you describe the progress that Bravura has made in upgrading its current product offerings?

Bravura Solutions' foundation clients expressed a strong preference for development to focus on business and legislative functionality and connectivity and a single client instance, with a secondary focus on the technical architecture. Accordingly, our systems have been upgraded to now support the administration of an increased range of products and assets.

Our systems now administer a complete range of retail investment, superannuation, pensions, annuities, corporate superannuation and term deposits in Australia. They also administer: Portfolio Investment Entity (PIE) and KiwiSaver legislation, investment and superannuation products in New Zealand; various pension regimes in Asia; and wrap functionality, incorporating SIPPs, ISAs/PEPs, OEICS, hedge funds, child trusts, pensions and annuities in the United Kingdom. Our Portfolio Administration system also caters for IMA/SMA products and DIY superannuation.

To ensure optimal connectivity of our systems, the company has focused on the transformation of our systems code base to Java-based SOA. This has included the development of a full production version of the interoperability layer supporting web service and Java message services, the two key messaging technologies for business to business (B2B) and business to consumer (B2C) integration.

Bravura Solutions has integrated its core systems with its next generation of web-based solutions that provide functionally rich applications enabling end to end STP services for advisers and clients. These have specifically targeted the provision of an array of online services that will allow advisers and distributors to effectively create new business and have online access to all the information they need to maintain and leverage their client base.

Systems have been upgraded to access an extensive set of modules that manage different messages and transactions (for example, orders management, custody, statements, reconciliation, settlement and payments), external connectivity to particular markets and platforms, (for example, Allfunds Bank, Clearstream, EMX, Euroclear, FundSettle, NSCC and Vestima+), as well as specific message protocols (for example, FIX and all Swift standards).

The ability to quickly interrogate and manipulate data has become a core requirement of our clients. In catering for this, Bravura Solutions has developed the Sonata Business Intelligence module that assists in the immediate delivery of business data from the Sonata and Talisman Suites and allows for the integration of data into an existing enterprise data warehouse.

How has the regulatory environment and the increased focus on risk in the last half of 2007 affected your business? Are institutions expected to spend less on IT over the next 12 months?

In terms of spend over the next 12 months, Celent's 2007 report entitled "IT Spending in Financial Services: A Global Perspective", predicts that growth in spending in Europe will increase by 5.6% in 2008 (and grow by a further 6.8% in 2009). Consistent with Celent's research, Bravura Solutions expects IT spending in the non-banking segments of financial services (the wealth management and securities segments) to increase at a greater rate.

Wealth management and investments segments' IT spend will increase most significantly due to securities continuing to increase in sophistication and as a competitive response from institutions seeking to differentiate themselves in a crowded market. This should drive both product development and spending to increase automation and reduce total administration costs.

Complexity in the regulatory environment and a focus on risk mean that administration products using mature but robust systems loosely coupled with spreadsheets "to make it work" won't be sufficient. Understandably, institutions of all sizes are reviewing their operations, which invariably means that they need to increase their IT spend to replace some of their 'less elegant' or manual processes.

Finally, an interesting dynamic that we believe will occur irrespective of people's views on whether institutions will spend more or less on IT over the coming 12 months, is the trend towards the outsourcing of functions that are not a source of sustainable competitive advantage. This is also true for IT. Institutions are finding that they can sensibly outsource many of their IT functions while still maintaining continuity of operations and improving their speed of product development.

What are Bravura's key objectives for 2008 and how will these be achieved?

Bravura Solutions has developed a clear strategy for 2008 that will see the company continue its track record of strong growth and achieve our vision and goals. As one of the ASX300 companies, our business development will remain focused on maintaining profitable growth and return on investment for our shareholders, while continuing to add functionality and streamlining our existing wealth management applications into key product suites.

The company intends to seek further acquisition opportunities in our target markets of Australia, New Zealand, Europe and Asia, as well as growing the business organically. In EMEA, we have established a significant presence and a strong platform for growth. Our suite of applications is well suited to meet European requirements, and with spending on software by banks alone due to rise to AUD21.7 billion in 2008, we are well positioned to capitalise on these opportunities. Further, we will look to expand our geographical presence in Europe with new offices planned for Stockholm, Warsaw and Dublin during 2008.

In Australia and New Zealand, we will focus on consolidating our market leading position and improving profitability in a mature market.

We will also look to continue to build on our achievements in Asia from this year, by leveraging off recent success and capitalising on growth opportunities in the broader Asian market.

In consultation with our clients, Bravura Solutions will continue to invest significantly in the R&D development of our software, adding increased functionality, product coverage and ensuring the sustainability of the technical architecture. ■

MOVING & SHAKING

London – **Adrian Farnham**, formerly Morgan Stanley's representative to **Turquoise**, is now an employee of the alternative trading system. He took up his new role as chief operating officer on 7 December 2007.

New York – **Tony Blair** is understood to have accepted a role with Wall Street bank **JPMorgan** as a senior adviser, the first of a series of positions the former UK prime minister is expected to take, press reports suggest. Details of Blair's duties with JPMorgan are as yet unknown.

London – The **UK Financial Services Authority** (FSA) has appointed **Sally Dewar** as managing director of wholesale, succeeding Hector Sants who became chief executive in July last year. As wholesale managing director, Dewar will have responsibility for all regulated markets and the related infrastructure such as clearing and settlements; the operation of the UK Listing rules; and regulation of firms or groups that conduct primarily wholesale or institutional business between professionals. Dewar is currently the director of markets at the FSA and will also join the FSA board. She began her career at the FSA in 2002, as head of primary markets in the markets division, and was promoted to director of markets in October 2005. She previously worked at the London Stock Exchange's Listing Authority, after nearly six years at KPMG.


SALLY DEWAR

New York – **Bear Stearns** has named **Alan Schwartz** chief executive, after James Cayne quit his position but stayed on at the bank as board chairman. Cayne has served as executive chief since 1993 and chairman since 2001. Schwartz joined Bear Stearns in 1976, and was named president and co-chief operating officer in June 2001.

London – **Saxo Bank** has appointed **Hugh Taggart** as head of Financial Products, based in London, which Saxo says reflects the bank's increased focus on expanding its existing product range to create a multi-asset platform. Taggart was formerly product manager and sales specialist for Dow Jones' machine readable news. He will head up the bank's financial product management team, with members based both in Denmark and the UK, and will help to direct future product strategy. Taggart joined Dow Jones in 1999 as a journalist, having been a commodity broker in his native Zimbabwe, eventually becoming head of EMEA markets coverage across asset classes.


HUGH TAGGART

Douglas – **Abacus Financial Services Limited** (AFSL) has appointed **Paul Kneen** as its new managing director, replacing Andrew Ashworth who will now combine semi-retirement with work in a new role as an industry consultant, AFSL says. Kneen joined Isle of Man-based AFSL as a client director during May 2007, before taking up the position of managing director on 1 January 2008.

London – **UBS** is to recruit four additional investment bankers for its Asian real estate business, as analysts predict a surge of investor interest in the sector this year. The Swiss bank is hiring in anticipation of another wave of property deals, similar to the flurry of real estate blockbusters issued last year, which have almost invariably outperformed. It has not yet named the bankers.

Boston – **State Street Global Advisors'** (SSgA) chief executive **William Hunt** has resigned, as the investment management firm set up a USD600 million reserve to cope with legal and other costs associated with its exposure to the credit crisis. SSgA said in a statement: "As a consequence of the unprecedented events in the credit markets over the past six months, these strategies were adversely impacted by exposure to, and the lack of liquidity in, sub-prime mortgage markets. In aggregate, the reserve will be USD618 million on a pre-tax basis."

London – **Northern Trust** has appointed **Rohan Singh** in Singapore to the newly created position of head of Asia Pacific (APAC) sales, to manage new business development opportunities across the APAC region.


ROHAN SINGH

New York – **Brown Brothers Harriman** (BBH) has appointed **Douglas Donahue** as new managing partner, effective 1 January 2008, succeeding Michael McConnell who had filled the role since 2002. McConnell, who will be turning 65 in January, joined BBH in 1968 and will remain a partner of the firm. BBH currently has 40 partners.

Washington DC – **Carole Mahoney** has joined the **Enterprise Data Management Council** (EDM) as head of Business Operations with responsibility for business development, calendar and events management, communications and the management of data infrastructure. "I am excited that we were able to lure Carole to join the council," says Michael Atkin, managing director of the EDM Council.

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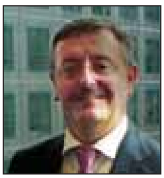

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Senior VP - Global Treasury Services
BANK OF AMERICA

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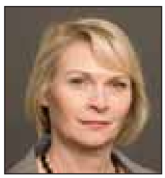

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Martyn Cuff
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ALLIANZ GLOBAL INVESTORS EUROPE

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Global Head of Operations
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GOAL is the widely-acknowledged industry leader in providing creative products, services and solutions to automate and optimise the global reclamation of withholding tax and class action compensation. Our research has shown that in excess of US$6 billion of withholding tax remains unclaimed each year by the rightful owners and beneficiaries and the amounts for class actions is even larger.

To establish your potential ability to reclaim over-withheld taxes and/or class action compensation GOAL provides a free proof of concept analysis. We simply require details of the income entitlement(s) and/or trade details together with the type and domicile of the underlying beneficiaries. We do not need the name(s) of the beneficiaries.

Our Products include GTRS, Class Actions, GQI, e-Reclaim, GOAL TaxBack, DMS and Bespoke Software Development.

goal
accelerating investor returns

Custody & Clearing

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BHF-BANK is one of Germany's most prestigious private banks. Its roots date back to the year 1854. As an advisory, service and sales & trading bank, we offer our discerning clientele a comprehensive array of customised solutions. BHF-BANK combines the strengths of a private bank with a long track record of capital market competence.

Trust, an individual approach and impartiality - these qualities are at the very heart of the long-term guidance and advice we provide for our clients. Our bank's activities are grouped within the divisions Asset Management & Financial Services, Financial Markets & Corporates and Private Banking.

The bank's longstanding experience in the German securities services market goes hand in hand with a corporate culture that values prompt acknowledgements and short decision-making channels.

BHF-Bank offers tailor-made custody services to meet its clients' particular requirements. It's reporting services include a comprehensive SWIFT reporting matrix as well as its Internet-based reporting tool cds@web. Assets under Custody: **EUR309 bn** No of funds: **409**

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CACEIS is an Investor Services company with six offices across Europe. Owned in equal parts by Crédit Agricole and Natixis, CACEIS provides Custody, Fund Administration and Corporate Trust services to demanding Corporate and Institutional clients. We have considerable expertise in Cross-Border Fund Distribution Support as well as Alternative Investment and Private Equity servicing.

Our staff have the language skills and industry knowledge to develop business relationships into strong partnerships and our powerful IT systems are constantly updated to ensure high levels of process automation.

CACEIS is responsible for over EUR1.75 trillion held under custody, and over EUR850 billion under administration.

caceis
INVESTOR SERVICES

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

DnB NOR

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The cornerstone of Handelsbanken's philosophy is to put the client and the client's needs in focus. Nordic Custody Services are locally present in all the Nordic markets and offer a wide product spectre to a diverse client base.

Each client is allocated an account manager in each market, fully responsible for the day-to-day activities, as well as a regional relationship manager. Handelsbanken provides specialised and tailor-made custody services including complete corporate action services, securities borrowing and lending for all Nordic countries, as well as settlement and clearing services to clients that are remote members of the Nordic stock exchanges.

Handelsbanken

ING Wholesale Banking Securities Services provides award winning local and regional custody services for investment professionals. We are proud to be the largest custodian provider in terms of assets and number of foreign clients in Central & Eastern Europe. ING has been providing Securities Services in CEE since 1994 and we will continue our ongoing pursuit of excellence through new technology. Innovation and client focus are the key drivers to service our clients the best way.

Other activities of ING Wholesale Banking Securities Services are Paying Agency Services and web-based management of employee stock option & share plans.

ING is your local partner in: Belgium, Bulgaria, Czech Republic, Hungary, Poland, Romania, Russia, Slovak Republic and Ukraine.

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Nordea is the leading financial services group in the Nordic and Baltic Sea region and operates through three business areas: Nordic Banking, Banking & Capital Market Products and Savings & Life Products.

Nordea is the leading custody services provider in the region. Nordea provides high quality, tailor-made custody services for local and foreign investors dealing with Nordic, Baltic or global securities.

- The leading financial services group in the Nordic and Baltis Sea region
- A world-leading Internet banking and e-commerce operation
- The largest customer base of any financial services group in the region
- A leading asset manager in the Nordic financial market
- The most comprehensive distribution network in the region

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RBC Dexia Investor Services offers a complete range of investor services to institutions worldwide. Established in January 2006, we are equally owned by Royal Bank of Canada (RBC) and Dexia. We rank among the world's top 10 global custodians, with approximately USD 2.0 trillion in client assets under custody, including in-house assets of RBC and Dexia. Our innovative products and services help clients maximise operational efficiency, minimise risk and enhance portfolio returns. And our 3,800 professionals in 15 markets offer proven expertise to enhance clients' business performance.

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Santander is Spain's leading financial institution and the largest bank in the euro zone by market capitalization. Our commitment and contribution to the securities industry is well established after more than a century of providing services in this field.

Santander's cutting edge technology enables it to offer a comprehensive array of innovative services in a broad range of markets. Santander currently has full local capabilities in Iberian and Latin American markets along with a franchised presence in many others. Santander`s experience and product range ensures that every aspect of the securities business is fully contemplated.

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SEB is the leading provider of securities services in the Nordic and Baltic area. We are committed to custody and clearing processes for the wholesale market. We hold securities worth over 560 bn EUR and provide services in more that 75 markets, 10 of them under the SEB name (Sweden, Norway, Finland, Denmark, Luxembourg, Germany, Estonia, Latvia, Lithuania and Ukraine).

We offer a full range of securities services including corporate action and information services, securities lending and services to remote members of the Nordic and Baltic stock exchanges. We continuously develop new products in connection with clients and partners to ensure we deliver the high-quality products our clients demand. We always strive to make the processes more efficient. With a history of over 150 years in the securities industry; we know the market and our clients well.

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Société Générale Securities Services offers institutional investors, asset managers and financial intermediaries a comprehensive range of financial securities services: custody, clearing & trustee services, fund administration, asset servicing and transfer agency. SGSS currently ranks 3rd European custodian and 9th worldwide custodian (Source: Globalcustody.net) with EUR 2,580* billion in assets held and valuates 4,354* funds representing assets of EUR 405* billion (as of June 2007).

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A:Standard Bank Financial Asset Services 3rd Floor 25 Sauer Street Johannesburg 2107 **T:** +2711 636 6615 **E:** adam.bateman@standard-bank.co.za **W:** www.standardbank.co.za	**Financial Asset Services** is the custody and investments-servicing division of **Standard Bank**, providing a unique suite of services to sophisticated investors in South Africa and eight sub-Saharan markets. Standard Bank has assets under custody to the value of **ZAR1.56 trillion** and an overall market share of approximately 40%. Standard Bank's unique selling point lies in its consultative approach to relationships combined with the bank's commitment to custody and investment administration services.	Standard Bank
C: Neil Daswani, Global Head, Securities Services **T**: +65 6517 0022 **E**: Neil.Daswani@sg.standard-chartered.com **W**: www.standardchartered.com	**Standard Chartered** leading the way in Asia, Africa and the Middle East. Standard Chartered has a history of over 150 years in banking and is in many of the world's fastest-growing markets with an extensive global network of over 1,200 branches (including subsidiaries, associates and joint ventures) in over 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of Asia's leading custodians, Standard Chartered has an impressive track record across the 16 Asian markets in which it provides securities services. It serves global, regional and local custodians and broker-dealers, as well as local and regional fund managers. The Bank plays a key role in promoting the development of these markets and keeping the international investor community informed of industry developments across the region.	Standard Chartered
T: +46 8 5859 1800 **F**: +46 8 7237 147 **C**: Neal Meacham, Head of Custody **E**: neal.meacham@swedbank.com **A**: Stockholm SE 105 34 Sweden	**Swedbank** provides client-focused custody services to domestic and international securities lending (including auto-borrow facilities), derivative clearing services, proxy voting, full corporate actions and income service. Flexibility is an important aspect of Swedbanks products and services. Our dedicated Client Relations Managers and Account Managers are focused on personalized processing and reporting solutions. **Other Features:** - ISO9001:2000 quality certification. - Swedbank Markets Online (SMO) internet information and reporting toolfor Custody and Securities Lending. - Nordic Custody alliance with DnB NOR (Norway), OKO Bank (Finland) and Amagerbanken (Denmark) to offer regional custody product. **Institutional Assets under Custody: USD 70 billion** **No. of Institutional Clients: 110**	Swedbank
T: +43 50505-58510 **F:** +43 50505-58579 **C:** Andreas Petzl , Head of Sales and Relationship Management **E:** Andreas.petzl@ba-ca.com **W:** www.hvb-custody.com/	Unicredit Markets & Investment Banking (MIB) serves as UniCredit Group's global product and competence center for global financial markets and investment banking services, including Custody throughout Central and Eastern Europe, including Austria. Brand diversitiy under which the group operates (Bank Austria Creditanstalt, HVB, Bank BPH, Bank Pekao, Zagrebacka Banka and International Moscow Bank), has its roots in local market presence and knowledge, contributing into a single unified product across the region. In 2006 the group was recognised by no less than 3 independent surveys as being the best region custodian The group's ability to deliver service excellence across 13 markets is the cornerstone of our success. From participation in local market associations to our inter group training sessions, to a client consultative approach, the group continues to work towards making a single impression - excellence.	UniCredit Markets & Investment Banking

Data Services

Avox Redwither Tower Redwither Business Park Wrexham, LL13 9XT United Kingdom **T:** +44 (1978) 661 813 **F:** +44 (1978) 661 668 **W:** www.avox.info	**Market Data & Analytics** provides high-value real-time market data, indices and back office services. Information from diverse sources are provided to its customers, tailored to their specific information needs. Accuracy and reliability are ensured by collecting the data from the Group's own trading platforms, such as Xetra® and Eurex® and cooperation partners like STOXX Ltd. and the Irish Stock Exchange. **Avox®**, a majority-owned subsidiary, validates, corrects, enriches and maintains business entity data. With an operational model, unique in the industry, Avox® enables clients to comply with regulatory requirements and to achieve a holistic view of the risk exposure towards a client.	Avox DEUTSCHE BÖRSE GROUP
www.interactivedata.com **T:** 020 7825 7800 **F:** 020 76083514 Brendan Beith - Europen Sales Director eu-info@interactivedata.com Fitzroy House 13-17 Epworth Street London EC2A 4DL UK	Interactive Data Corporation (NYSE: IDC - News) is a leading global provider of financial market data, analytics and related services to financial institutions, active traders and individual investors. The Company's businesses supply time-sensitive pricing, evaluations and reference data for more than 3.5 million securities traded around the world, including hard-to-value instruments. Many of the world's best-known financial service and software companies subscribe to the Company's services in support of their trading, analysis, portfolio management and valuation activities. Through its businesses, Interactive Data Pricing and Reference Data, Interactive Data Real-Time Services, Interactive Data Fixed Income Analytics, and eSignal, the Company has approximately 2,200 employees in offices located throughout North America, Europe, Asia and Australia. The Company is headquartered in Bedford, Mass. Pearson plc (NYSE: PSO - News; LSE: PSON - News), an international media company, whose businesses include the Financial Times Group, Pearson Education, and the Penguin Group, is Interactive Data Corporation's majority stockholder.	Interactive Data

SmartCo	**SmartCo** is a leading provider of data management solutions for the financial industry. SmartCo's software, **Smart Financial Data Hub**, covers all the data area, including financial instruments, market data, third parties, funds, transactions, and provides full connectivity, a powerful and user friendly front-end, traceability, quality control, data enrichment and customisable workflow. Our solutions are based on **SmartPlanet**, an innovative technology focused on data management, and able to meet evolving business requirements. SmartCo offers to its customers the ability to respond in the fastest way to regulatory and business changes. For further information: www.smartco.fr or info@smartco.fr	SmartCo 37 rue de Liège 75008 Paris France **T**: + 33 1 58 22 29 60 **E**: info@smartco.fr **W**: www.smartco.fr
Telekurs Financial	Telekurs Financial specialises in the procurement, processing and distribution of international financial information. Financial market specialists at Telekurs Financial gather information from all the world's major trading venues – directly and in real time. The Telekurs Financial database with its structured, coded securities management data is unique in terms of its depth of information and data coverage. With offices in 22 countries, Telekurs Financial combines the advantages of global presence and local know-how.	Telekurs (UK) Ltd 15 Appold Street London EC2A 2NE **T:** +44 (0) 20 7550 5000 **F:** +44 (0) 20 7550 5001 **E:** info@telekurs.co.uk **W:** www.telekurs.co.uk

Fund Administration

APEX Fund Services Ltd	Apex Fund Services Ltd is a global hedge fund administration solution for hedge funds and private equity clients located in 9 separate jurisdictions across the globe. The company uses the software solution, PFS PAXUS, which is a fully integrated hedge fund accounting system combined with web-based reporting to allow clients and investors to access their information 24/7 securely online. We will tailor all solutions to meet your needs and our continuing focus on the quality of service and the relationship with each and individual client ensures that we retain our ethos of providing a personalized service rather than a generic solution. Highly qualified and experienced staff, mirrored with top tier technology and competitive fee structures make Apex Fund Services Ltd the clear choice for your fund administration needs.	C: Peter Hughes Group Managing Director T: +1 441-292-2739 F:+1 441-292-1884 E: info@apex.bm A: 31 Reid Street, Hamilton,HM11 Bermuda WWW.APEX.BM
caceis INVESTOR SERVICES	CACEIS is an Investor Services company with six offices across Europe. Owned in equal parts by Crédit Agricole and Natixis, CACEIS provides Custody, Fund Administration and Corporate Trust services to demanding Corporate and Institutional clients. We have considerable expertise in Cross-Border Fund Distribution Support as well as Alternative Investment and Private Equity servicing. Our staff have the language skills and industry knowledge to develop business relationships into strong partnerships and our powerful IT systems are constantly updated to ensure high levels of process automation. CACEIS is responsible for over EUR1.75 trillion held under custody, and over EUR850 billion under administration.	**International:** Olivier Storme **T:** +352 4767 2847 **E:** olivier.storme@caceis.com **France:** Patrick Lemuet **T:** +33 (0)1 57 78 03 34 **E:** patrick.lemuet@caceis.com **W:** www.caceis.com
folio	Folio Administrators Limited, part of the Folio Group of Companies supplying fund administration, company management, director services and insurance management, is the leading fund administration company in the British Virgin Islands. We specialize in servicing the needs of start-up to medium sized hedge funds, covering all aspects of fund formation, structuring and on-going operations. We work closely with an extensive number of banks, brokers, custodians, auditors and lawyers to ensure that our clients receive the best independent advice and structures.	Daniel Cann, Director Daniel@folioadmin.com William Harris, Director William@folioadmin.com Folio Administrators Limited Folio House, Road Town British Virgin Islands www.folioadmin.com **T:** 284 494 7065 **F:** 284 494 8356
IMFC Fund Services	Established in 2002, IMFC Fund Services B.V. is a boutique hedge fund administrator and a trustee with its offices in Amsterdam and Sydney. IMFC offers third parties administration and related services to all type of onshore and offshore funds combining high quality, independency, technology, timely calculation with flexibility, experience, custom-made solutions and competitive rates. Our services include: fund set-up and corporate services, NAV calculation and other accounting services, R&T agent and other investors and compliance services. For more information visit our website: www.imfcfundservices.com	www.imfcfundservices.com t +31.20.644.4558 f +31.20.644.2735 Mrs. Consuelo Nardon e: consuelo.nardon@imfc.nl Rivierstaete Building, Amsteldijk 166, 1079 LH Amsterdam, Netherlands

C: Fred W. Jacobs, III **A:** PFPC, 301 Bellevue Pkwy Wilmington, DE 19809 USA **T**: 302-791-2000 **F:** 302-791-1570 **E:** Information@pfpc.com **C:** Fergus McKeon **A:** PFPC Riverside Two Sir John Rogerson's Quay Dublin 2, Ireland **T:** +353-1-790-3500 **E:** Information@pfpc.com	**PFPC** is a premier provider of processing, technology and business solutions to the global investment industry. Our core offering includes accounting, administration, investor services, middle-office services and regulatory administration services. Whether your products are U.S. or non-U.S. domiciled funds, trust vehicles, limited partnerships or commingled investment products, PFPC's multi-jurisdictional, multi-fund capability allows us to process your complex fund structures - from hedge funds, fund of funds and private equity funds to master/feeder and multi-managed funds. PFPC offers personalized alternative investment solutions tailored to your unique needs. With more than 30 years in the fund servicing industry, our seasoned and responsive professionals bring you the know-how, focus and dedication to deliver the services you need, when and where you need them, any way you want them.	PFPC Solutions to stay out front.
C: Stuart Mauger **T:** +44 (0) 1481 744479 **F:** +44 (0) 1481 744529 **E:** stuart.mauger@rbc.com **A:** PO Box 48 Canada Court St Peter Port Guernsey GY1 3BQ **C:** Deanna Bidwell (Cayman) **T:** +1 345 949 9107 **F:** +1 345 946 1288 **E:** deanna.bidwell@rbc.com **W:** www.rbcprivatebanking.com	Our clients have access to a broad range of value added services and tailored solutions including global custody and fund administration services for funds domiciled in the Caribbean and Channel Islands. Our services include Trustee, banking and credit facilities, treasury and foreign exchange, trade execution, financial accounting, corporate services, derivative support services and online access, leveraging a custody network that covers 80 plus markets worldwide. Our service combines leading edge technology with professional expertise and a truly integrated service delivering creative, customised solutions.	RBC Royal Bank of Canada
Sébastien Danloy Global Head of Sales,Investor Services Société Générale Securities Services **T**: +33 (0)1 41 42 98 65 **E**: sebastien.danloy@socgen.com **W**: www.sg-securities-services.com	Société Générale Securities Services offers institutional investors, asset managers and financial intermediaries a comprehensive range of financial securities services: custody, clearing & trustee services, fund administration, asset servicing and transfer agency. SGSS currently ranks 3rd European custodian and 9th worldwide custodian (Source: Globalcustody.net) with EUR 2,580* billion in assets held and valuates 4,354* funds representing assets of EUR 405* billion (as of June 2007).	SOCIETE GENERALE Securities Services
Swiss Financial Services (Ireland) Ltd. Block 4B,Cleaboy Business Park, Old Kilmeaden Road, Waterford, Ireland **T**: +353 51 351180 **F**: +353 51 871595 Adrian Maher **E**: amaher@swiss-financial.ie	Drawing upon an extensive track record of proficiency, dependability and responsiveness, Swiss Financial Services acts as administrator as well as registrar and transfer agent of funds investing in a broad range of financial instruments. These include futures, foreign exchange, equities, options, bonds and other funds. We perform accounting and administration services for diverse fund types domiciled in, but not limited to, the United States, Bahamas, Cayman Islands, B.V.I. and Ireland.	swiss financial services
W: www.ubs.com/fundservices **C:** Mr Gerhard Fusenig **T:** +41 44 235 4992 **E:** gerhard.fusenig@ubs.com **A:** UBS Global Asset Management, Fund Services, Stauffacherstrasse 41, PO Box, CH-8098, Zurich, Switzerland	Fund Services offers comprehensive fund administration services including fund set-up, registration and support around the world (currently 28 countries), fund accounting, NAV calculation, compliance management, risk control and reporting. We provide a flexible offering from the full range of services, including Private Labelling, to selected functions. Services are based on leading fund administration architecture, multi-source pricing and powerful compliance tools. Capabilities also extend to services for hedge funds through our teams in Cayman, Ireland and Canada. In times when management attention is increasingly focused on value creation, it may be rewarding to re-evaluate whether asset administration remains a strategic core business to you. **Luxembourg:** Jean-Paul Gennari, tel. +352-44-1010 1 **Switzerland:** Markus Steiner, tel. +41-61-288 4910 **UK:** Mark Porter, tel. +44-20-7901 5000	UBS Global Asset Management

Hedge Fund Administration

Custom House Administration & Corporate Services Limited A: 25 Eden Quay, Dublin 1, Ireland **T**: +(353) 1 878 0807 **F**: +(353) 1 878 0827 **C:** dermot.butler@customhousegroup.com **C**: david.blair@customhousegroup.com ww.customhousegroup.com	Custom House is one of the world's largest independent alternative investment and hedge fund administrators and the first and only one to be awarded a Moody's Management Quality Rating. Custom House offers a round-the-world, round-the-clock service from its office in Dublin and representative offices in Chicago and Singapore, enabling it to provide, not only complete global administration services, but also the ability to produce daily dealing NAVs. Custom House is authorised by the Irish Financial Regulator under Section 10 of the Investment Intermediaries Act, 1995, which authorisation does not extend to the Chicago and Singapore representative offices.	CUSTOM HOUSE THE SPECIALIST FUND SPECIALIST

Quintillion is a full service hedge fund administration specialist which supports all portfolio investment strategies and fund structures from its head office in Dublin's International Financial Services Center (IFSC). The company has made a considerable investment in technology and operations expertise, to give clients the opportunity to manage a range of funds with the support of a single administration partner. Key technologies are Advent Geneva, Koger NTAS and Paladyne.

Typical strategies supported include **Convertible Arbitrage, Multi Strategy, Distressed Securities, Global Macro, Fund of Hedge Funds, Market Neutral and Managed Futures funds**. A comprehensive range of fund structures, currency classes and performance fee mechanisms are also accommodated.

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Hedge Fund Services, based in the Cayman Islands, Ireland and Canada holds a leading position in the area of hedge fund administration, offering a complete range of services including accounting, NAV computation, share holder services, banking and credit facilities. With the dedication and experience of a professional team of 200 and our state-of-the-art web reporting, accounting and shareholder systems, we are well positioned to provide clients with a first class service.

With specialist expertise in both single manager and fund of hedge fund administration, we provide facilities for both onshore and offshore funds.

Capabilities also extend to services for investment funds through our teams in Luxembourg, Switzerland and the UK.

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International Finance Centres

The British Virgin Islands has created a progressive and transparent environment for the establishment and regulation of mutual/hedge funds and their functionaries. By the end of Q3 2006 the BVI had recognised or registered more than 4,000 funds, and licensed some 700 managers and administrators, making the BVI a leading domicile of choice for investment business.

Benefits of conducting investment business in the BVI include:
- Fast-track registration and licensing system - funds can be registered in a few days.
- Presence of qualified, experienced legal, accounting & administration practitioners.
- A well-developed corporate professional infrastructure.
- Modern, robust and cost-effective regulatory and corporate regimes.
- BVI private and professional funds fall outside the scope of the EU Savings taxation Directive.
- Segregated Portfolio Companies - also known as Protected Cell Companies - can now be formed as mutual funds under the BVI Business Companies Act 2004.

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The DIFC is the world's newest international financial centre. It aims to develop the same stature as New York, London and Hong Kong. It primarily serves the vast region between Western Europe and East Asia.

Since it opened in September 2004, the DIFC has attracted high calibre firms from around the globe as well as its region. Firms operating in the DIFC are eligible for benefits such as a zero tax rate on profits, 100 per cent foreign ownership, no restrictions on foreign exchange or repatriation of capital, operational support and business continuity facilities.

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Prime Brokerage

Newedge Global Prime Brokerage Group is a global, multi-disciplinary, solution-providing team dedicated to delivering superior services to alternative investment industry participants including hedge funds, commodity trading advisors (CTAs), fund of hedge funds, family offices, and institutional investors (insurance companies, banks and pension funds).

The Newedge prime brokerage team offers a global range of brokerage services covering a wide range of asset classes including equities, bonds, currencies, commodities, and their related listed and OTC derivative products. We also offer an innovative portfolio-based cross-margining solution, a dedicated account management desk, hedge fund start up services, quantitative information on the hedge fund industry, capital introductions services, and recently prime brokerage services to Sharia compliant hedge funds.

Newedge is a major new force in finance, resulting from the merger of the two brokerage firms - Calyon Financial and Fimat - on January 2nd, 2008. Newedge is wholly owned by Calyon and Société Générale, with both companies having 50% ownership.

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Payments & Settlement

Eiger Systems solutions are designed to be best in class and are the leading products within their market sectors. Developed to meet the needs of organisations with complex or mission critical payment processes, our solutions interface easily with existing business applications and are available for all main operating systems.

EigerPAY Gateway is a global payments platform which handles complex payment requirements and multiple payment channels. Already the UK's leading BACSTEL-IP solution, EigerPAY Gateway is ideally suited to organisations with one or more of the following:
- a mission critical reliance on payments
- complex functional or technical requirements
- a requirement for numerous communication channels such as BACSTEL-IP, CHAPS, SWIFT, or PE-ACH connectivity

EigerPAY Gateway's flexible architecture enables organisations to integrate with the many new and developing payment systems, with minimal change to legacy systems.

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A: Europe/Asia/Africa 42 New Broad Street London EC2M 1SB United Kingdom **T:** +44-207-588-1100 **F:** +44-207-588-1155 **A:** Americas 30 Montgomery Street Suite 501 Jersey City, NJ 07302 **T:** +1-201-946-1100 **F:** +1-201-946-1313	Fundtech's payments solutions automate all aspects of the funds transfer and customer notification process, enabling straight-through-processing (STP) of payments. Fundtech also offers payments solutions for continuous linked settlement (CLS), nostro account management and enterprise-wide payments management. Global PAYplus - The enterprise-wide payments management solution for global financial institutions. PAYplus RTGS - A fully integrated, multi-currency payment system for banks residing in countries outside the U.S. that have established Real Time Gross Settlement (RTGS) standards. PAYplus USA - The leading payments solution for financial institutions in the US.	FUNDtech Expect more.
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Michael Goldman, CEO of London-based **Mazuma Capital Management**, continues our series of asset management perspectives on taking from the past to the future

HINDSIGHT

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

It is more a matter of repetition than innovation. In the 20 years that we have been involved in hedge funds, systemic problems have tended to originate in the interest rate markets. Typically, interest rate changes or debt defaults have had massive effects on the global financial markets due to over-leveraged exposure to ostensibly low risk trades. These low risk trades, because of over-leverage, have turned out to be very, very risky indeed. The fall-out as a consequence of the problems in the sub-prime market is not dissimilar to problems we have experienced over the last two decades. For example, the economic turmoil that followed Russia's debt default in 1998 and the US interest rate hike in 1994.

On a micro level, some of Mazuma's strategies have evolved positively. One example of this is within event driven strategies. A decade ago investors confined themselves to strategy specialists such as convertible arbitrage or merger arbitrage. Today, most event driven managers take a more diversified, multi-strategy approach and are far more opportunistic and better able to profit from market inefficiencies wherever they occur.

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

It seems that many of the innovative or new strategies in recent years have been affected by, and significantly contributed to the recent market turmoil. The fastest growing investment sector over the last three to five years has been in vehicles such debt in the CLO and CDO market, often underpinned by exposure to the sub-prime market.

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

Despite the fact that many investment managers, especially in the event driven and debt areas, have long anticipated a collapse of the debt market, few managers were able to benefit from the recent collapse. This was due to the relative newness of the hedging instruments and the heavy cost of carrying short positions over a long period of time during an irrationally buoyant market.

FORESIGHT

Are hedge funds still alternative?

The huge influx of capital from the traditional investment world into hedge funds has rendered them less 'alternative' than a decade ago. Nonetheless, while it is true to say that the strategies deployed by hedge funds are largely still alternative in style, the performance of many hedge funds has tended to mirror the traditional indices. While there are great alternative managers to invest with, they are perhaps harder to find and the poorer ones are harder to avoid.

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

Our key focus over the next few years will continue to be on event driven and distressed strategies with an emphasis on restructuring opportunities. We believe the credit crisis will create unusual investment opportunities in these strategies. We also believe that in periods following such economic turmoil, as we have seen a number of times over the last 20 years, the market and the economic climate will combine to produce outstanding profitability for our managers, all of whom we have followed and worked with for many years and through several such cycles.

What is the biggest risk you face?

We have very little downside risk to the market as evidenced by our August and November 2007 returns. The issue now is a matter of how long it will take to benefit from the recovery. ■