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# Investor Services Journal

**Fund Administration -** UCITS IV

**Panel -** US Custody

**Settlement -** Mutual Funds

THE CUSTODY AND ASSET SERVICING INDUSTRY MAGAZINE


# The After FX...

## Uncovering the cost of custodians' currency services

**PLUS: Beneficial owners: Cash collateral**

**Profile: Jay Hooley, State Street**

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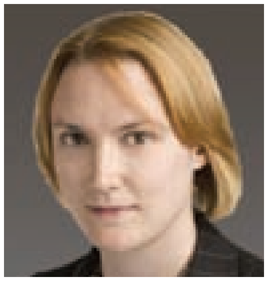




INVESTOR SERVICES JOURNAL

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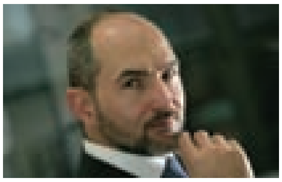
## Editor-in-Chief's letter



2010 has already shown indicators that this will be a massive year for financial markets and institutions. Rising stock markets have encouraged a bullish outlook for many, and numerous institutions have sought record levels of capital via the bond market – particularly in the US – for restructuring, hoping to capture the opportunities of the upside.

After the 2,000 estimated pages of financial proposals by regulators and industry bodies that accumulated by the end of 2009, this month saw a significant statement of intent from US president Barack Obama. Curbs on risk taking in trading and a distinct echo of the Glass-Steagall Act attempted to ensure that – as 'markets return' – new fundamentals as to the structure of banks could be imposed. We can expect the dialogue between banks and regulators to continue, particularly over the details of this announcement. Like one of the experts in this issue's custody panel says: "The era of light-touch regulation is over."

Custodians – partly on the back of a welter of reform proposals – can also look forward to a massive year. So much of the discussion between ISJ and the industry hits home on common themes that characterise the challenge. In particular, the recognition among institutional clients of sophisticated needs for their portfolio – stress testing, derivatives pricing – and increased consideration of areas such as liquidity management almost inevitably means it is to their custodian that they seek such services. What a few years ago were 'value addeds' are increasingly becoming the norm. Again, turn to our panel for this testimony.

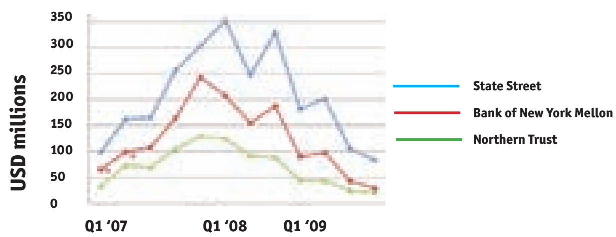
Custodians will also need to continue their drive for greater transparency and clarity of their operations. The lawsuit against State Street surrounding the bank's foreign exchange service highlighted questions as to how much even the traditional services offered by custodians can be understood and analysed by clients. The reinvestment programmes of cash collateral from securities lending is another key area in which transparency and client-provider interaction needs to remain strong. Even UCITS IV will require thorough understanding by custodians and administrators. And if that's not enough, big changes in the post-trade space, including new infrastructure choices, will provide further homework.

All four of these subjects are covered in this issue, and ISJ.tv welcomes reaction and further ideas from readers. ■

*Roy Zimmerhansl,*
*Editor-in-Chief*

**Securities lending revenues 2007-2009**

**GRAPH: Investor Services Journal**




* Pro forma combined results for Bank of New York Mellon

**Latest mandates**

| Month | Winner | Client | Location | Assignment | Mandate size |
|---|---|---|---|---|---|
| January | BNY Mellon | GLG MMI | London | Custody/administration | n/a |
| January | RBC Dexia | BNP Paribas SS | Toronto | Sub custody | n/a |
| January | BNP Paribas | Prudential Capital | London | Custody, administration | n/a |
| January | RBC Dexia | Advent Capital | Luxembourg | Custody, administration | n/a |

# Contents





# Letters

## Dear ISJ

Quantifying counterparty risk exposure is something many firms have yet to get right. Why? A large part of the problem is data continues to sit in too many places. Putting a figure on the level of counterparty exposure is critical information and stakeholders and regulators now expect institutions to have it to hand. Poor data means poor decisions.

The financial crisis is littered with examples of trading partners going to the wall and their counterparts not having a handle on what their exposure was.

Acceptable? No. Fixable? Yes. Data has to be linked across all offices, asset classes and entities. Time, standard and structures are all needed.

This requires firms to take action now. As the crisis abates, flows will up and this is likely to lead to pressure from other projects.

Buying counterparty risk information off the shelf isn't an option and waiting for a central counterparty to remove the risks of OTC derivatives is tantamount to parking the issue. Intelligent data management across the enterprise is an essential foundation to any counterparty risk strategy. Can I say it again? Start with the data.

**Daniel Simpson,
CEO,
Cadis**

## Dear ISJ

Emerging from the financial crisis are investors whose confidence in markets and advisors has been shaken. The era when investors trusted the authenticity of their statements is over. Investors now require verification, independently provided.

Fund portfolio valuation is one area under a spotlight, largely due to the complexities of price determination that can include vendor expertise, model implementation and data source and control maintenance.

To bring order to the process and increase transparency, funds should look to introduce valuation policies. In committing to a pricing policy, the fund creates a blueprint for the consistent application of methodologies and hierarchies, tolerance limits and a process for managing price exceptions. These policies must also be regularly reviewed and updated.

Best practice should also ensure that independently verifying prices is distinguished from the more limited role played by pricing vendors.

Pricing vendors provide third-party figures for a specific set of products, often using independently sourced data. An independent valuation service, as well as providing independent numbers, combines pricing vendor data with additional pricing sources such as counterparties, prime brokers and the fund manager.

By aggregating all prices available on all instruments, the independent valuation service can objectively test the veracity of these prices and their impact on the performance of the fund. Testing for tolerance, bias and stale prices – combined with an objective valuation policy – assures valuation accuracy.

A valuation agent's involvement in other activities such as execution, lending, leverage or trading can give rise to conflicts of interest. An independent process with increased transparency will make an important contribution to regaining investor trust and rebuild a more robust, institutionalised market.

**Jon Anderson
Global head of valuation and OTC derivatives, GlobeOp**

To express your views, write to ben.roberts@2i.tv or blog at www ISJ.tv

# News

## Custody

State Street was left facing many lawsuits at the end of 2009. Missouri Public School Retirement System sued the bank following the custodian's demand for the return of USD4.2 billion to its securities lending programme. Missouri is claiming against a breach of fiduciary duty, breach of contract, and is seeking a restraining order on the bank to take further action should the securities not be returned.

British American Tobacco and Glancy Binkow & Goldberg filed suits in December – the latter on behalf of the District of Massachusetts on the grounds that the bank made false and/or misleading statements, and failed to disclose material adverse facts about its operations.

Elsewhere, the bank won mandates from Calamos, Caldwell Investment Management, Morgan Stanley and McCains Food, and launched a Corporate Governance DashboardSM.and a CAD15.6 billion mandate from MD Physician Services (MDPSI) in Canada

Goldman Sachs was sued by the Security Police and Fire Professionals of America Retirement Fund over the bank's multi-billion dollar bonus payouts.

Jacques-Philippe Marson was fired as CEO of BNP Paribas Securities Services after breaking company rules. He was replaced by Jacques d'Estais, former president.

BNY Mellon Asset Servicing won mandates from Jubilee Financial Products, Pensioenfonds Horeca & Catering, and the ADR programmes of the Grupo TMM and Grupo Nacional de Chocolates.

RBC Dexia Investor Services has been reappointed by La Commission de la Caisse Commune des régimes de retraite de la Ville de Montréal - the city of Montréal pension fund - to provide a range of investor services, including custody and securities lending. It also won a custody mandate from Louisbourg Investments Inc.

## Fund Administration

Credit Suisse announced that it is in exclusive talks to buy Fortis Bank Nederland's alternative asset management services division, Prime Fund Solutions.

US-based hedge fund Crabel Capital Management selected Citi to provide a range of hedge fund administration services. The bank also signed a new five-year agreement with Standard Life Investments. The bank provides fund administration and securities services to the asset manager.

## Securities Lending

Quadriserv and SunGard gave access to the clients on its integrated platform to straight-through processing of price discovery, central counterparty clearing, settlement and open loan contract maintenance.

Wells Fargo has responded to reports that it is facing a probe from the US Securities and Exchange Commission (SEC) by claiming that an information request it received from the regulator was part of a wider review of securities lending in general.

## Settlement

CME Group, the derivatives exchange, announced the initial group of dealer founding members supporting its initiative to clear credit default swaps (CDS): Barclays Capital, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, J.P. Morgan, Morgan Stanley, and UBS. Each bank executed a non-binding term sheet.

Bank of Ireland Securities Services launched a pan-European exchange traded fund (ETF) settlement platform - 'BoISS ETP Direct' - for ETF issuers who use the bank as a custodian.

LCH.Clearnet launched central clearing for OTC interest rate swaps using the firm's global clearing offering SwapClear.

A "significant step" was taken towards launching Central Securities Depositary Prague, following an agreement between the Ministry of Finance and the Depositary to facilitate the transfer of files of dematerialised and locked-up securities from the Prague Securities Centre.

BNP Paribas Securities Services was appointed as post-trade partner for Vega-Chi, which is to be Europe's first Multilateral Trading Facility ('MTF') for convertible bonds.

J.P. Morgan became the custody, clearance and settlement services provider to GreTai Securities Market (GTSM), Taiwan's over-the-counter exchange, for the trading of foreign government bonds.

The National Depository Center elected 11 new members of the companies Committee for Innovations and Products, including Yekaterina Anisimova, product development manager, Securities Department, ZAO Citibank, and Yuri Dubin: Director Depository, Sberbank.

RBC Dexia's Dublin-based mutual fund custodian and investor services branch linked to Calastone Limited to become a participant of its cross-border transaction network. The custodian's clients can now access its network of mutual fund providers and distributors that boasts automation and transaction efficiencies. RBC Dexia, the first user of ISO20022 funds messages in Ireland, became one of the first firms to be able to offer these services in the country. Aviva Investors, the asset management and securities finance firm, and its administrator, IFDS, also connected to Calastone's network.

## Technology

SEI agreed a partnership with RiskMetrics Group to provide indepth risk analysis reports into SEI's Manager Dashboard tool. The link up reflects the greater emphasis on transparency and risk mitigation.

Chi-X Global hired Steven Silberstein CIO and Gregory E Smith, former CEO of Chi-X Global Technologies, was appointed vice chairman.

## Regulation

US President Barack Obama launched dramatic proposals for the reform of the financial sector. In an echo of the Glass-Steagall banking act of 1933, Obama called for bans on proprietary trading and hedge fund investment by commerical banks.

Two thousand pages of regulatory reform documentation hit the desks of banks in December alone, as estimated by JWG Group. Announcements from the G20, the EU, the Basle II Committee among others led a crowded set of announcements.

In the UK, Lord Myners, City Minister, launched the Treasury's proposals for banks to develop 'living wills' that outline how the firms would be wound up in case of default to improve administration after the prolonged difficulty following the collapse of Lehman Brothers in September 2008.

New rules from the SEC will "promote independent custody", according to the US regulator, and will introduce a requirement for advisers to use independent public accountants.

Reporting requirements would also see a rise next year, according to opinion, with nearly 40% expecting an increase in requirements. 29% believing that there will be a greater requirement for demonstrating a "culture of compliance".

The New York Fed plans to address problems identified in the recent report on the OTC derivatives market, Policy Perspectives on OTC Derivatives Market Infrastructure, by increasing additional central clearing requirements and ensuring greater transparency.

## Prime Brokerage

Hong Kong-based Shin Futures appointed Jonathan Loh Ti as director of client services.

For more news, visit www.isj.tv

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# Model query for prime-custody

## Deutsche Bank's new service has still to iron out some issues

With hedge fund managers still twitchy over PricewaterhouseCoopers' initial reluctance to hand over client assets recovered from Lehman Brothers, prime brokerage really did have to do something to calm nerves.

On the issue of protecting unencombered assets, two questions arise: firstly, what model is best suited to segregate unencumbered assets (assets not being used to support margins, for example); secondly, which of the big prime brokers would be the first to roll out an offering?

On 16th December Deutsche Bank provided its answer to both questions. The "right" model consists of the broker offering a platform that gives the fund manager a choice of custodians to hold assets that have no reason to leave with the prime broker.

The alternative is the internal model, where the bank offering the brokerage services also has a custodian capability and offers the separation between the two divisions.

Most will prefer a model where assets moved out of the broker to the custodian are completely free of any contact with the prime broker.

Custody and brokerage are not natural bedfellows. Gavin Maguire of Citi's Global Transaction Services division, pointed out in Global Securities Lending that a custodian bank may not be able to provide the same services, particularly given the bespoke and often demanding set up of hedge funds. "The traditional custody model requires different infrastructure requirements for hedge funds."

"Hedge funds will need people with experience of working in a the traditional custody process, for a small hedge fund with five or six people, it's another resource."

For some, the external model - with both Deutsche Bank and the custodian doing all the due diligence to ensure that there can be no muddling over the ownership of the assets - has to be favourite.

But there are some practical restrictions on the choice of custodian using the Deutsche Bank Integrated Prime Custody service (IPC). In the first instance Deutsche Bank has worked closely with BNY Mellon to present hedge funds with a system that links the German bank to the US firm.

"A hedge fund manager could say: 'I want to have custodian A or B, instead of Bank of New York Mellon as my custodian, but there are cost and process implications," Anthony Byrne, Deutsche Bank co-head of European prime finance and global head of securities lending, explains.

If the custodian was a leader and it was clear the work done to link ICP to the custodian's systems and to do all the due diligence, then Deutsche Bank wouldn't fret too much about the cost and the fee to the hedge fund would be, well, in the ball park. A small custodian, where the bank could not reasonably anticipate further such contracts, would be decidedly less attractive.

Although early days, several large European clients have already signed up as IPC clients and hundreds of millions of euros worth of securities have been segregated, according to Byrne. Deutsche Bank in the US already has a large pipeline of clients interested in taking up the service when it is offered State-side in early 2010.

Fees are a ticklish question. Byrne points out that prime brokers tend to offer custody services as a no cost service to secure the broking business. However, custodians have a completely different approach. Byrne says that Deutsche Bank will be involved in the fee setting discussion with the custodian, but that whatever fee is agreed, from the client's point of view it will only be a small part of the equation.

One area of particular interest is corporate actions. While custodians are accustomed to offering corporate action services, Byrne says that with the IPC approach, Deutsche Bank will provide the corporate action service and will pull securities back from the custodian to action any events.

It will be provided by the custodian with a list of forthcoming actions so even though it is not holding the assets, its view of upcoming events should be unimpeded. Stefan Ahlner, BNY Mellon's head of product management and sales for collateral products EMEA says that he is pretty comfortable with this approach, given that BNY Mellon has dealt with corporate actions in its tri-party collateral management programme for many years in this way. ■

# ISLA's Field day on MP claim

A war of words erupted in the securities lending world after outspoken MP Frank Field claimed that a pension fund he had spoken to had been entered into a securities lending programme by its custodian without the trustees' permission.

In addition, the MP said that UK gilts had been borrowed from the fund with South American bonds used as collateral.

Field told ISJ sister publication Global Securities Lending that custodians were "behaving as mini-Maxwells", in reference to the former media magnate Robert Maxwell, who lost large amounts of his companies' pension funds through fraud. International Securities Lending Association chief executive Kevin McNulty said that the claims were "very unlikely", but that "we don't have enough information" to be certain.

McNulty suggested that an agreement may have been made by a trustee no longer at the fund, but Field said "there was no question" of an agreement having been in place, adding: "The custodian has admitted that it didn't have that permission."

Field made his concerns known to the UK Pensions Regulator, which released new securities lending guidance for pension funds, although this made reference to fund managers rather than custodians.

The regulator mentioned cases where lending programmes had been started "without full knowledge of the trustees", but refused to reveal whether this implied that programmes had been started without permission or there was simply a lack of trustee understanding. ■

*Full story: www.gsl.tv*

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# View from the top

## Jay Hooley, State Street president, COO and soon to be CEO, tells Ben Roberts of the bank's target for foreign business revenue.

Jay Hooley starts 2010 with the top job at State Street less than two months away. When Ron Logue, current CEO and chairman, steps down on 1st March to become a non-executive chairman, Hooley - current president and chief operating officer - will take up the mantle.

A challenging last year for the bank ended with some good news for its overall strategy to reap 50% of its profits from foreign business, with the purchase of the securities services business of Intesa Sanpaolo.

The EUR1.28 billion deal enhances the bank's standing in Italy and Luxembourg and includes a long-term arrangement to service its investment management affiliates, including Eurizon Capital, Italy's largest fund manager, with approximately EUR135 billion in assets under management as of 30th September 2009.

The acquisition increases the foreign business income from 35% to 38%. But how was the 50% target decided upon?

"It's a goal that's been set based on our belief and experience recently that in the businesses of asset management and servicing we'll continue to see greater growth outside the US," he explains, speaking to ISJ in December. He says that the bank defined seven markets that represented the majority of the growth opportunity in Europe, and – just as the purchases of Deutsche Bank's global custody and its servicing relationship with AXA enhanced the bank's standing in Germany and France, respectively – the Intesa deal represented "the last piece of the puzzle in us having a significant on-the-ground presence to provide to the Italian market".

He adds that Europe's key offshore centres – such as Luxembourg, Dublin, and Jersey – represent perhaps the highest growth opportunity across the continent. This is mainly down to the cross-border distribution, including into Asia, and the fact that many asset management organisations have ramped up their capabiliites in the offshore market.

"Going in with a market-leading presence in Luxembourg and adding 20% of the Intesa deal further advances our

leadership in that market and positions us extraordinarily well to capture the upside growth," he says.

Of that 50%, he estimates that emerging markets will represent a

**"The Intesa deal is the last piece in the puzzle in us having a significant presence to provide in the Italian market"**

"material growth" in the next five to seven years. "Our business is in many ways a reflection of how the asset management and pension industry flows, and as long as we're out in front of it, we'll participate in that growth with our clients."

His 23 years at the bank have been marked with great variation and some significant success. After heading the company's US mutual fund sales organisation, Hooley joined State Street's shareholder servicing joint venture with Kansas City-based DST systems. From 1988 to 1990, he served as president and CEO of National Financial Data Services and went on to become president and chief executive officer of Boston Financial Data Services from 1990 to 2000.

He was also responsible for the creation of International Financial Data Services (IFDS) – a key provider in transfer agency - extending the joint venture's shareholder servicing offering to Europe and Canada. He returned to State Street in 2000 to manage its global investment servicing business. In 2006 he was named vice chairman, and became president and COO two years later.

As he steps into a role that needs to monitor all aspects of the bank, he nevertheless acknowledges the transformation of securities services. "I think it's definitely become more visible. It's come from being 'back office' dealing with very important but perhaps mundane activities to one where in some segments – such as the hedge fund market – it has become front-and-centre in terms of underlying cash, [and] the importance of getting valuations right on a portfolio.

"I think that that has only been positive from the standpoint of people's appreciation of the true value of a custodian. I'd also say that it brings with it the need to continually invest in new capabilities."

He cites the greater automation of derivatives settlement as an example of the technical challenges that require such investment – which is often a driver for the consolidation of the industry.

"Most recently in the last three to four years there has been a direction towards consolidating, with fewer players, and I think that's driven by the desire to have a custodian that is focused, with adequate size and capital standing."

Regardless of size, all financial institutions will have to be nimble enough to keep up with new regulation. Hooley suggests that more demands from lawmakers on State Street's clients could lead to further opportunities for the bank itself to offer solutions.

What is certain, regardless of the changes in the market, is his excitement for the upcoming role. "I most look forward to spending time with customers and employees. I've always been very disciplined about carving out 20-25% of my time travelling, curious about how the markets unfold and how we can position State Street." ■

*Keep up with State Street news at www.isj.tv*

# The after FX...

## The CalPERS-CalSTRS lawsuit against State Street lifted the lid on foreign exchange over-charging - but who is most accountable? asks Ben Roberts.

2009 was to be the year that revealed more about the workings of financial institutions than any other.

Bail-outs - some continued from the end of the previous year - government and central bank liquidity schemes, troubled asset insurance programmes and new drafts for rules on capital requirements and alternative funds pointed to one end: companies would work differently as a trade-off for the unprecedented scale of the efforts to stabilise the sector.

Scrutiny among institutional investors intensified, and third party administration, more regulatory and client reporting, and risk management became central issues in asset servicing.

But in October 2009 a lawsuit by CalPERS and CalSTRS - California's two biggest public pension schemes - against State Street, their custodian, surrounding revelations of a substantial spread against the price of inter-bank foreign currency trades by the bank in the last eight years, said much about how far transparency and due diligence has still to go.

The case - in which two funds seek recompense of USD200 million for overcharges on the charge of "unconscionable fraud" - was originally filed under seal by whistleblowers 'Associates Against FX Insider Trading'. The suit was filed in the Sacramento Superior Court by Attorney General Edmund G Brown.

An investigation by Mr Brown confirmed expectations: that the custodian was charging their clients for currency trades that were consistently executed at or near the high point of the spread of the day, rather than the mid inter-bank rate as they typically operate.

The omission of time stamps detailing the time of trade allowed for the alleged cover up. Some say marking up foreign exchange fees is a widespread occurrence among custodial banks, a cheap and easy way for a provider to add profit.

For Aidan Dennis, co-founder at Amaces, a consultancy that advises investors on their choice of custodian, the drive for custodians to overcharge on foreign exchange trades may have intensified due to a sharp decline in other

sources of revenue. Specifically, falls in custody fees due to a decline in value of the assets, reductions in securities lending activity and historically low interest rates have dried up the inflows to custody balance sheets.

"The ability to earn a spread when the interest rates is 6% is far greater than when it is 0.5 %," he says. "At 6%, clients might have been happy to accept a custodian making money of around 100 bps - but you can't do that when it's 0.5%.

"[Custodians'] ability to earn spread has declined, and for many securities lending revenue have dropped dramatically - some claim as much as 50%. If you take the combination of securities lending, interest revenue and fee revenue from custody assets, you're seeing only one place left: foreign exchange."

Low interest rates have also been detrimental to the funding of the pension schemes themselves, and Dennis believes the pressures of under-funding may have distracted managers from the activities of their custodians.

"Every pension fund manager in countries such as the Netherlands and the UK have been dealing with dramatic changes in funding levels. Unfortunately the focus on the nitty-gritty of a custody operation and monitoring your custodian is not always first on the list - not even sixth or seventh."

John Galanek of Massachusetts-based advisory and analysis firm FX Transparency says foreign exchange is particularly overlooked by an institutional investor.

"If you think about the investment decision hierarchy, the decision as to 'if my currency costs are meaningful' is the third and fourth thing down the list," he says. 'What's my asset allocation, did I buy them low and sell high when the portfolio rebalances?' - those decisions are going to make or break your fund. Giving away 40 basis points on every currency trade is not going to make or break your fund. But they are costs that can and should be controlled - those are real dollars."

The hidden cost of foreign exchange for the institutional investor is linked to the foreign exchange trading that is automated, rather than a 'live' negotiated phone call. Phone dealing typically involves exchanging large volumes that are very close to the mid market price. But automated trades, perhaps booked for overnight currency conversion for a client's dividends, allow room for the trader to bump up the price of transaction.

Say there is a currency pair of yen to sterling that over one day has a low of 140 and a high of 160. A bank will be aware of the need to convert it, and will set a rate during the day based on the market rate and then add, for example, 50 basis points.

"If you know the market price is around 150, then if you add 1% to that you will always make money, because by the time you then cover that deal the market will have not moved 1%," explains Dennis.

Amaces provides analysis of custodian's activities on behalf of clients via a monthly collection of inventory from banks. This includes results of a range of services, including foreign exchange, corporate actions, securities lending, settlement, income tax and net asset value accounting.

"We look at all the foreign exchange conducted on behalf of particular clients – irrespective of the size of the trade, currency pair," explains Dennis. "We compare the rate given by the custodian to its pension fund client for the automated trades to the mid-market rate."

Amaces also can analyse the foreign exchange undertaken by the fund managers of the client – which might typically be bigger trades by individual value and therefore would be negotiated over the phone. A fund manager might work with a number of counterparties in this business, such as custodian banks. The rate that managers will trade with these entities – acting as agent - can be significant to a pension fund.

"We'd be able to show the clients that when their manager traded with counterparty 'A' they were getting a good deal, whereas against counterparty 'B' it was not so good."

This can disclose how clients might be getting different results from a shared custodian, as well as the price at which fund managers act as agents for the pension funds. These two aspects of Amaces' service shine light into a key area of understanding as to the relationship between institutional investor and service provider that might have gone overlooked.

"You are assuming there's been an explicit discussion between pension fund and custodian as to how they are pricing that foreign exchange," he adds. "I would challenge that assumption. I would say it's a rare event that a pension funds or fund manager has had an open and frank discussion over how the deals will be priced."

Banks have been not just secretive but some would say protectionist of their foreign exchange revenues. In 2006, US banks lobbied hard against the Employee Retirement Income Security Act - a federal law that aims to provide protection for the plan's members - seeking an exemption that allowed them to take up to 300 basis points on a currency trade, either 300 above the high, and 300 below the low.

John Galanek says this reiterates the onus for institutional investors that "unless your custodial agreement protects you from that, the regulation does not".

FX Transparency provides analytics for clients based on the mid market rate - the rate at which sell side banks use for all their pricing algorithms. The firm was created based on a growing demand for clarity on custody cost from their institutional contacts. "Pensioners and endowment are very anxious to start to quantify these costs as you can't think about a cost benefit analysis of a custodial relationship if you don't know the whole cost number," explains Galanek.

He says the firm uses the mid market rate - for example 22.5 as the middle of a bid of 20 and offer of 25 - as market-making banks on average trade at the mid-market rate. The cost to trade is the difference between the buy-side participants' transacted rate and the mid-market rate, times the volume of the trade. In the equities world of Volume Weighted Average Price - the ratio of the value to total volume traded over a particular time horizon - selling at 20 and the market is 20 bid means there is no trading cost.

This is not the same for a foreign currency trade, which are often executed to fund some other security investment. "When you sell that security you have no expected return on that currency other than what's already embedded on the security side. When you go the other way you must pay a 25 offer to get out."

It could be argued that foreign exchange remains a largely unregulated market, facilitating to a degree the shadow activity of altering automated trades.

But PJ Di Giammarino, CEO of JWG Group, a regulation and technology think tank, argues that in Europe the Markets in Financial Instruments Directive (MiFID), now two years old, included foreign exchange trading in its pledge towards encouraging 'best execution' by brokers dealers for underlying clients.

**"40 basis points on every currency trade is not going to make or break your fund... but those are costs that can and should be controlled."**

**John Galanek, FX Transparency**

However, he concedes: "It's fair to say that the level of diligence and scrutiny that foreign exchange has had is not as great as it probably should have."

He adds that the Committee of European Securities Regulators, which provided technical advice to the European Commission on MiFID, is yet to 'come off the fence' in explicitly naming the instruments to be included within MiFID.

Amid the confusion, there is a grey area around the issue of due diligence between institutional investors and the broker dealers placing their trades that does not exonerate the former.

Sebastien Danloy, global head of sales and relationship management at Societe Generale Securities Services, says he is "puzzled" by the State Street case on the grounds that CalPERS and CalSTRS receive cash statements, including foreign exchange, and that it has them taken many years as clients to highlight the problem.

"I think it is on the part of institutional investors like CalPERS to handle their FX activity, as well as the execution on equities and bonds and make sure there is a fair pricing for each transaction expected. If the price is not fair there is nothing that prevents them from using a third party provider for their FX activity."

He adds that SGSS can provide a report detailing FX deals, the high and low of the day, and the analysis of each transaction should it be requested.

Colin Rainbow at Watson Wyatt, the pension fund consultant, widens the counterparties of accountability by including the investment manager of the fund, and not just the trustee.

He spoke to ISJ following work with a number of custodians to encourage the production of standard reports for clients. This would provide a concise snapshot of the performance levels of the securities services executed, he says - and highlight the triumvirate of responsibility.

"We recognise that getting concise monitoring reports directly from the custodian not only gives insight into the operational efficiency of the custodian but some insight to the underlying investment manager's efficiency," he says.

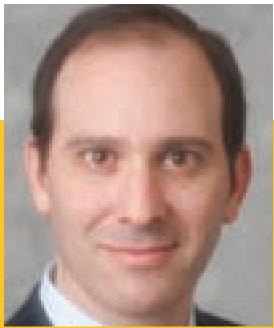
"On the foreign exchange side, if at the summary level these reports [show] there are large volumes of trades going through the custodian then questions need to be asked about if the underlying investment manager is allowing those trades to happen."

However, Rainbow concedes that although the consultant asks the custodians for time stamps to indicate the time a trade was executed, they are not always forthcoming.

Like Di Giammarino, he argues that the trustee is still responsible overall. "Within every portfolio the underlying investment manager has responsibility for monitoring what happens within that portfolio at all levels. From an oversight point of view, the responsibility falls to the client."

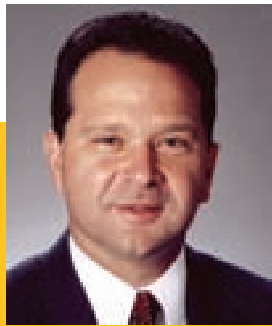
State Street blocked requests for comment, stating in an email response: "We categorically deny any allegations of wrongdoing and will defend ourselves against any litigation." ■

# ISJ panel: US custody



**Nick Rudenstine is the recentyly appointed head of global custody at JP Morgan**

**Sam Sparhawk is Senior Vice President and Managing Director PNC Global Investment Servicing**



**Vince Sands is executive vice president of Bank of New York Mellon Asset Servicing**

Clients want more in testing times, our expert panel of providers tell ISJ.

**1.Has 2009 seen any changes to the relationship between you and institutional clients?**

RUDENSTINE: The market conditions we have faced over the past 24 months have been unprecedented. In the wake of the Lehman crisis, there was an extreme sense of uncertainty across the industry, borne out by clients' flight to cash. That flight to a safe harbour has receded and relationships have largely 'normalised' again.

That being said, as institutional investors and asset managers strive to find new ways to maximise returns in the current economic environment, they are taking a much more thoughtful approach to their relationships with their custodians.

Asset safety and understanding the relative risk profile of where and what you are invested in have moved centre stage.

Whether it be more transparency around positions, new structures to segregate instruments, or the resiliency of custodians to handle extreme market events, what drives the business in the post-crisis environment is the ability to provide an integrated, risk management platform that allows our clients to focus on their primary goal: generating greater alpha, safely.

SPARHAWK: I would say that there has been increased interaction with the client base. This includes increased transparency and disclosure, increased education, making sure reporting is where it needs to be and working with the clients to understand the material.

There have been more dialogues around risk management and compliance oversight, with firms dedicating analysts to oversee certain elements or securities lending relationships, we're interacting with those clients on a more frequent basis. I think that's a good thing.

SANDS: BNY Mellon has enjoyed a great relationship with its clients for many years with strongly proactive client response at its core - I think that's important.

Our clients have experienced unprecedented market and industry events over the past year, and we have seen an increase in the need to better monitor and manage risk. These are issues that are front-and- centre.

Second, clients want to ensure the custody process remains efficient and productive. The reason these two areas are so important is that they're dictating our technology spending plans. So based on client feedback we're helping them in those two ways: better managing risk and helping them be more productive.

**2.Have there been any new demands from clients – eg. increased focus on risk management, reporting – and how have they manifested themselves?**

RUDENSTINE: Investors have been severely tested by market conditions and are experiencing enormous pressure to reduce expenses and risk while maximising returns.

These forces will continue to push demand for asset safety, transparency and risk-weighted returns. Clients are looking for improved risk management solutions, assistance with their own regulatory reporting and innovative ways to save costs, and custodians need to step up to that challenge.

Whether this means pushing further into the middle office space by offering third-party messaging or seamless execution and custody, or whether it is the integration of prime brokerage and custody, delivering a best-in-class service by taking a solution-based approach will be critical.

Above all, investors demand their service providers ensure the safety of their assets. The importance of a fortress balance sheet and detailed, ongoing and continuous oversight and due diligence to all processes designed to protect clients' assets cannot be overstated.

SPARHAWK: Risk and its mitigation are definitely key. With respect to risk management we're doing a lot more site visits with chief compliance office for mutual funds in particular.

It has also called for more detailed reporting, and on our side we've developed an intelligent dashboard that we're rolling out for clients.

Initially this will be information on securities lending programmes and it will expand to information on custody and other areas. These are the areas in which we've been seeing more information and dialogue.

SANDS: Like most organisations, our clients are looking to save money. They are looking at custodians and wondering how they can leverage the investments we've made and the abundance of experienced people we have to help them.

The way the custodian market place is evolving is that we're becoming the accountants for the whole industry. When you look at what we do today, we're the natural repository for investment portfolios. We're able to pull information together to be able to help clients with the regulatory developments that are occurring.

Since we're the repository of that information we not only help them with the reporting, but also help them manage risk with our compliance and analytical tools.

Further, we have the portals to enable a client to access this information, often daily. The custodian's role is changing – it is not only settling trades but also becoming the accountant for the entire industry. That's an important change.

Risk management is crucial and also changing. In the past, clients might have used a traditional risk-return model, looking at risk with traditional measures, using the analytical tools they've become accustomed to. Now, clients look for risk management to be far more dynamic - they're doing multiple scenario testing and stress-testing their portfolios to better understand the potential impact of varied economic and investment models.

The whole area of performance will continue to change from a static, calculated model to clients asking for comparisons to a benchmark, or to a more dynamic system based on "what-if" scenarios.

**3.Have you seen any significant changes in the asset mix of your client's portfolios?**

RUDENSTINE: The global financial meltdown has changed the rules and has caused everyone to re-examine their business. We have seen a continued convergence between hedge funds and traditional long-only managers. The ability to support the full spectrum of investment strategies in a seamless, integrated manner has become a key requirement for any custodian.

At the same time, investors are increasingly looking for simple, transparent and low cost structures. Witness the popularity of passive investment vehicles such as ETFs and trackers, which can then be enhanced with targeted alpha strategies, achieving the twin objective of maximizing return in a controlled, risk-adjusted environment.

SPARHAWK: Overall, a general trend we're seeing is increased cross-border investing, we're opening more emerging market accounts, more international custody mandates and an expansion of investments overseas. So our global book growing more quickly, obviously the alternative investment space is an area we provide services. The hedge fund market had appreciated to USD2 trillion from lows of USD1.5 trillion, so we're seeing more opportunity there. We're also a large provider to money market funds, and over the last year and a half we've seen an increase in balances there as investors had cash on the sidelines. As the US market has appreciated, we've also seen more money going back into the equity market.

SANDS: There have been many funds seeking a flight to quality with Treasuries and money market funds. Over the last few months we've seen many of these funds decide it's an opportune time to get back into equities and fixed income - in many cases, through ETFs. We see a significant increase in ETF usage as a structure to support these investments at lower cost. Our clients have not gone back in to private equity and hedge funds to the extent they had in the past – but it's still early days.

**4.If so, what effect or changes has this developed on the custody side?**

RUDENSTINE: As investors are increasingly looking to deploy/redeploy their capital to take advantage of the market recovery, we have seen increasing flows into emerging and frontier markets. Clients are asking us to support new asset classes, including instruments they may have serviced internally and that they now want their custodian to support. Moreover, we are seeing the trading and settlement methods for certain existing instruments changing, for example the new clearinghouse for OTC derivatives. Even where custodians have always supported a product, market or instrument, our clients are now asking us to enhance service levels and improve control and efficiency.

Across our franchise, there has been an increased focus on operational support for funds as investment vehicles. This includes full automation of funds order routing and support for the issuance of global ETFs. Furthermore the move to long/short strategies to maximise alpha in a risk-remediated manner for both traditional long-only asset managers and hedge funds has created a demand for comprehensive and integrated product support that has been a key driver for our integrated Prime Custody Services offering.

SPARHAWK: As a service provider - and specifically as it relates to our custody offering - the focus has been continued investment in our infrastructure, both technology and people.

I think the demands on transparency and customised reporting is a common theme. We're doing more with dashboards and with our internet portals – and there has also been an increase in performance benchmarking in the securities lending space.

Obviously, clients are looking at risk management and risk mitigation, and I think more straight through processing capability is a focus to increase efficiency and reduce risk.

We talk to the majority of our clients regarding this issue: the more automated the more control. We've heard some of these themes in the past, but with an increase in the transparency of things among the risk management component, we continue to investment infrastructure to be more efficient and effective.

> **"The era of light-touch regulation is over. Both the SEC and the European Commission have announced plans for increased investor protection "**
>
> **Nick Rudenstine, JP Morgan**

SANDS: We are fully prepared to support our clients through providing normal custodian and accounting services. The key is working out how to make this a competitive advantage, to put together a set of products and actions to allow us to provide clients with the services they really value.

Regulatory reporting is a key concern. Today we're monitoring 47 proposed legislative changes in the US, along with an additional 25 potential accounting rule changes. We're investing a fair portion of our capital plan this year on potential regulatory reporting requirements. If these changes are enacted, our clients will be looking to us to help them with these requirements.

Two potentially significant rule changes would be the move of OTC derivatives from a professional agreement to a clearing house, and the money market fund reform proposed by the SEC. Then there are the custody rules created post-Madoff that could be profound, which essentially say that sponsors - whether a mutual or pension fund - need to have clear identification of all the securities they own. If you have an omnibus account or private equity you still have to have a full understanding or reporting of the underling assets. That's a major change.

It all points back to us as a custodian: we're the repository of the information.

**5. A recent study by TABB Group found more hedge funds considering separate accounts with custodians. Further, a service merge between classic custody and prime brokerage has been evident among some institutions this year. Has this been the case with your bank and how might this evolve?**

RUDENSTINE: Integrated prime brokerage and custody is a reality at J.P. Morgan. Our acquisition of Bear Stearns has helped us to deliver an integrated Prime-Custody offering that provides a comprehensive and fully integrated long/short asset management product covering the full spectrum of services across prime brokerage, securities lending and financing, collateral management, custody and accounting. As we are witnessing the continued convergence between hedge fund and traditional long-only strategies, delivering an end-to-end solution across both longs and shorts within a structure that ensure asset safety, reduces financing and operating costs and provides a consistent service model across all funds will be key.

SPAWHAWK: We have seen that happening. Just as we've seen multiple prime brokers to diversify their needs, we've seen hedge funds come to us for long only custody mandates as well as other services we offer in alternative. We've traditionally offered multiple services to hedge funds – such as accounting, administration and record keeping – and now we're seeing more requests on the custody side for the long positions.

SANDS: One relevant question these days is, what exactly is a hedge fund? You could have a long investment manager that looks like a hedge fund. For a long time we've supported asset managers in both their longs and their shorts – now we're seeing that they are looking for the same services as any other constituent. Looking for a provider that does more than just custody, that can provide valuation, online access to information – not just feeds. We're seeing more managers overall looking for higher quality fiduciary and custody services.

**6.What regulatory developments in 2010 might be influential to the custody part of financial institutions and how do you assess the relationship between rules makers and institutions?**

RUDENSTINE: The era of 'light-touch' regulation is over. Both the SEC and the European Commission have set out plans to 'increase investor protection by reducing losses arising from fraud and the misuse of investor's assets.' In the U.S. specifically, the SEC is proposing changes such as surprise audits of asset managers using affiliates by an independent accounting firm to audit all positions, including alternative assets. In general, regulators are going to be looking for more transparency from our clients around positions and where those positions are held, and our clients will look to us to facilitate that reporting. J.P. Morgan is actively engaged in the reform efforts and involved in relevant industry forums. We are also advancing our product development agenda to respond to these changes.

SPARHAWK: We monitor the regulatory environment very closely, from short selling and dark pools to derivatives and leverage. Each of those rules could theoretically have some effect on our custody or securities lending offering. We're committed to working with trade groups and regulators to improve efficiency and support risk mitigation efforts.

From a pure custody perspective, we'll work with clients to help them to adhere to any new rules - in the hedge fund space in particular.

There will be agreements working more closely with prime brokers and hedge funds regarding asset control. Generally speaking the industry saw quite a bit of turmoil, the regulators have been very active and we'll work very closely with them to see how the rules pan out.

SANDS: BNY Mellon has full time staff involved in the debate in Washington related to some of these changes. Regarding the derivatives clearing house, there are many questions. Who would be the clearing house? How would it be structured? Would it be independent? What would be the timing and reporting necessary by constituents? Today we serve in that role as an exchange in information, where in a clearing house you would be using more technology. It takes time to do it properly, but I'm in support of executing and clearing trades in a more structured way.

## "Clients look for risk management to be far more dynamic "

## Vince Sands, BNY Mellon

**7.Securities lending has had a transformative year, with increased attention from investors, regulators and the wider market. Is there any change in the prominence or structure of securities lending programme within your general custody offering?**

RUDENSTINE: Securities lending continues to be a core component of our general custody offering. The structure of our program has remained consistent throughout as we've continued to focus on offering our clients customised separate cash collateral investment accounts designed to meet their individual risk/reward requirements.

Our program's conservative philosophy has remained intact as demonstrated by our historically low mismatch (the difference between the maturity of the investments and maturity of the loans) and key duties remain segregated among independent parts of our firm to ensure effective management and control of securities lending activities.

J.P. Morgan's financial strength continues to support our industry leading indemnification against borrower default.

SPARHAWK: Our programme has always focused on intrinsic value lending with a conservative cash collateral management programme. We've had no client losses and we're going to continue to focus on intrinsic value trading philosophy and conservative cash management approach and this message is playing very well with clients. The market is generally seeing the return to intrinsic value lending and evidenced by our pipeline of prospects around the philosophy of adding alpha as well as mitigating risk. It's a dialogue that we're having more frequently and it's welcome.

SANDS: Securities lending has gone through historic change. It's a time of not cyclical but structural change. With that, there are the implications to custody and how we serve our clients. Right now our clients are trying to understand how it should fit within the programme, to ask 'Is it worth the risk or not?' If so, what are the proper investment guidelines for the collateral?

For a long time in the US every constituent in the market understood there was a close relationship between securities lending and custody. If there's a change it relates to pricing.

A client may make a significant change to the stock lending programme, from reducing the collateral investment to withdrawing from the programme. Since it was initially priced in a bundled way, pricing will have to change to reflect the custodial fee, given that you no longer have the securities lending revenues to supplement it.

That's an open dialogue we're having – clients understand it and support it, just as they did when we shook hands on an initial deal that securities lending was supplementing the custody contract.

If they reduce their securities lending involvement, they understand, recognise and support that there would have to be a discussion relating to the custodial contract.

# The fourth amendment

UCITS IV is about to hit European shores, carrying with it new opportunity, but also increased responsibility for custodians and fund administrators and significant tax issues.

The fourth instalment of the directive, now in its twenty fifth year, is to be implemented in July 2011 as the European Union continues its mission to break down the legislative barriers for funds between member states.

UCITS , or the 'Undertakings for Collective Investments in Transferable Securities', is a set of EU directives for allowing open ended funds investing in transferrable securities to operate freely throughout the European Union - subject to the same regulation in every member state and sold publicly without further authorisation.

However, state-specific marketing rules meant that the reality was continued segregation. While amendments to the 1985 directive attempted to eradicate these issues in pursuit of a single European market, UCITS II was soon abandoned for being too ambitious.

UCITS III launched in 2001 contained significant amendments that substantially boosted its investment powers. The European Commission continued to monitor the success of UCITS III, leading to the presentation of the first draft of UCITS IV on July 2008. This preceded a successful first reading by the European Parliament on 13th January 2009, whereupon the member states were given until 1st July 2011, to implement the directive into local law.

UCITS IV adds to the harmonisation of fund laws in European member states by imposing legal requirements to add standardised Key Investor Information (KII) and notification procedures. It also aids fund mergers and master-feeder fund structures, allows for management company passports and encourages regulatory alignment and communication.

For James Lasry, a senior partner of Hassans, an international law firm, the most important of these changes is the passport of the management company.

Under UCITS III, the management company and UCITS had to be domiciled in the same country, and despite passporting possibilities foreseen, this possibility was not accepted by EU supervisory authorities. UCITS IV allows the management company to be situated

## Custodians and administrators should keep an eye on UCITS IV's details, says Kimberley Ferguson.

in any EU member state. "So what this means for institutional investors is that they will probably be dealing with larger, more professional institutional types of funds. Because you now no longer have to set up a separate management company in each jurisdiction where you have a fund, chances are businesses are more likely to use just one Management Company to service all of your UCITS funds," he says.

Mario Mantrisi, senior vice president of product innovation and regulatory relationships, KNEIP, says: "Larger groups may now re-insource the management company closer to the decision centre, while small- and medium-sized companies will look to their centres of competency".

UCITS IV aims to facilitate the cross border merger of funds by establishing a standardised framework for fund mergers in the EU - applicable on cross border and domestic funds, sub-funds and classes.

"Whilst fund mergers have before been possible, from a legal point of view, this has always been very complicated," Mr Lasry explains. "There was not a lot of law surrounding the cross border merger of funds. With the UCITS IV changes, this will be a lot more straightforward".

Mr Mantrisi believes that this change was spurred by the sheer number of funds - often meaning that the total assets per fund does not obtain critical mass - especially in comparison with the US and Asian markets.

The concept of Master-Feeder funds is being encouraged under UCITS IV. A feeder UCITS is a UCITS fund that invests at least 85% of its assets in one other UCITS. The UCITS that hosts the investment is called the Master UCITS. The Master and Feeder may be established in the same or in different member states. Under UCITS III, virtual pooling techniques have neither been forbidden nor specifically allowed, whereas Master-Feeder structures were specifically excluded due to fund diversification rules.

Of this particular change, Mr Mantrisi suggests that "the Master/feeder structure should allow managers to efficiently structure fund ranges in the future, however it is not yet clear how the various fund management groups will make use of this potential".

The notification procedure for 'passporting' a UCITS fund, as opposed to a UCITS manager, characterises the third change outlined in UCITS IV. The objective is to facilitate cross-border distribution by replacing a clumsy country by country registration process by a mere notification. "This is pretty big" says Lasry.

"The passport idea was always a great one, but didn't always work that well. The way you would do it under the old directive is, you would inform the host regulator that you wanted to enter into their market, and they would speak to the home regulator. But because you would have to get approval from the host regulator, they would sneakily impose lots of requirements on you, for example, the requirement to translate any documents into their language was common.

"Even at best, the funds were not able to talk to the host regulator directly; they would have to appoint counsel in the host jurisdiction in order to apply. Now, you just need to tell your regulators where you want your passport, and they will organise the rest."

The KIIs aim to enhance transparency and comparability through a short and standardised fact sheet that is easy to read and understandable to the investor. UCITS III offered a simplified prospectus, but was deemed sometimes unclear and not always up-to-date.

UCITS IV is also focused on 'Regulator to Regulator Co-Operation', which aims to achieve regulatory alignment and reduce administrative burden by enhanced collaboration. Regulators will be expected to upgrade existing mechanisms for exchanging information to a more sophisticated model.

KIIs will become a standard fixture until UCITS IV. "UCITS III allowed for a shortened prospectus, which is meant to be a synopsis of the larger prospectus, however when you read the requirements of what had to be in the shorter prospectus compared to the larger one, there wasn't a whole lot of difference," Lasry explains.

Mantrisi adds that UCITS III's simplified prospectus did not obtain the expected success because it neither reduced the complexity of the document nor help the investor to better understand the product. "The KIIs should be comprised of a maximum of three pages, and be written in a style that is easily understandable by all. In brief, this document must succeed in being understood by the end investor," he says. In addition, its standardised format and especially its focus on performance and risk profile should allow for easy comparison of funds."

UCITS IV also highlights an increase of custodian liability regarding its sub custody network.

Previously, a custodian was responsible if a sub-custodian defaulted. However, custodians often asked to opt out of this responsibility clause, with the client liable. "This will change with UCITS IV where the custodian will be asked to take on more responsibility in the event of a sub-custodial default," says Lasry.

On the surface, the UCITS IV changes seem to aid and encourage the uniformity of European funds. However, deeper research exposes some significant flaws in the form of tax implications.

Ali Kazimi, a partner at Deloitte LLP, attended a series of public consultations held by the European Commission in the lead up to the UCITS IV launch. At these events, the changes - the cross border mergers of funds, the master-feeder structure and the management company passport, in particular - were discussed at length from a tax perspective.

"The cross border mergers of funds are based on the assumption that if a fund manager was running a North American fund in Ireland, and a North American fund in Luxembourg, then perhaps it would be easier to merge the two funds into one" explains Mr Kazimi.

"However, if you were an investor in, for example, an Irish domiciled fund, and your fund manager decided to collapse this into a Luxembourg domiciled fund, under some domestic laws, this may be seen as a 'deemed disposal', which means that in regards to tax purposes it could be viewed that you had sold your interest in the Irish fund and you have acquired a new interest in the Luxembourg fund".

This could thus potentially translate into quite a hefty bill for the investor.

"Another example is, if you own UK shares held in an Irish fund, and UK shares held in a Luxembourg fund. When one fund is collapsed into another, some of these shares could be viewed as having a 'change of beneficial owner'. This transfer could also incur stamp and other taxes.

"The Master-Feeder funds face similar issues. If you have a feeder fund in Luxembourg, and you decide you are going to buy into a fund in Ireland, which you seed with securities, this too could incur a transfer tax. Withholding tax also could become an issue, because depending on which jurisdiction you are based in, some will have a wider network of tax treaties than others."

Mr Kazimi and colleagues say in order for UCITS IV to be beneficial commercially, the tax laws must be amended throughout the member states to enable the proposed investment structures and transactions to happen in a tax neutral manner.

> **"A custodian will be asked to take on more responsibility in the case of a sub-custodial default "**
>
> **James Lasry, Hassans**

While the issue of tax barriers to UCITS IV was acknowledged at the consultations, it was felt that introducing any tax matters would hinder the progress and it would not be feasible to implement UCITS IV by the proposed July 2011. All tax decisions at the European level require unanimity across all the member states.

The Commission has accordingly brought in the principal legislation, without directly addressing the tax issues.

The resolution? "The EU plans to rely on market operators to come forward and challenge these tax laws. When this happens, they will be instructed to go to the European Union to start legal proceedings on a discrimination basis. The Commission will then start proceedings against the member state, saying that they have a taxation system that is thwarting attempts by the European Union to implement UCITS IV. Until these tax barriers are removed, UCITS IV will not be effective" says Mr Kazimi.

Ian Headon, product manager for alternative asset administration at Northern Trust, is positive on UCITS IV, but considers the extent to which hedge fund strategies can be accommodated as the crucial point. "There are clearly some restrictions within UCITS on leverage and distribution. However, by and large, our clients, particularly our more conservative hedge fund clients, and our clients with less complex strategies, have been able to accommodate their business in a UCITS vehicle. It remains to be seen if this investor demand is just a short term response to particular market events and to the credit crisis, or whether this is a more significant shift."

Mantrisi believes UCITS IV will strengthen the UCITS brand enhancing its transparency, efficiency and attractiveness. "Achieving household savings within Europe is one important aspect. In addition, making the European product a gateway to other promising markets such as Asia and the Middle East is crucial to international harmonisation and growth" he says. However, he is also concerned about the tax implications.

"While UCITS IV is a great step in the right direction, broader considerations at a European level such as the lack of tax harmonisation, could hamper its success," he says. "In addition, the proposed measures, which are already challenging EU market participants, will become even more complex when applied to non-EU countries".

Across the pond, David Friedland, president of the Hedge Fund Association is not entirely convinced. "Given the cost of compliance and registration, the real beneficiaries in my opinion will be the larger hedge funds who can afford compliance and are targeting institutional investors as their predominant client base. The majority of hedge funds in the US have less than USD250 million and so are less likely to be attracted to setting up a UCITS compliant fund."

Todd Groome, non-executive chairman of the Alternative Investment Management Association (AIMA), adds: "There are US managers with offices in London who are looking to access the UCITS system as a way to reach other class of investor. Some managers are comfortable with the added level of complexity of reaching out to new investors under new or different regulatory regimes, and UCITS provides a way to access another class of investors."

# Reinvestment revolution?


Craig McGlashan asks what changes to the oversight of cash collateral programmes can be expected after a tumultuous last year.

In the whirlwind that hit the financial world over the last two years, securities lending was one of the most demonised sections of the markets, with even the mainstream media picking up on what had previously been seen by many as a plain-sailing, back-office part of an institutional investor's portfolio.

In particular, the reinvestment of cash used as collateral in these transactions was deemed by many to have been at the root of losses and instability, with numerous lawsuits appearing from clients outraged that their cash had been reinvested in what they deemed poor quality instruments.

The maelstrom has begun to die down, but the lawsuits continue, and many in the industry believe that there are more on the way. No-one doubts that a lot of money was lost through cash collateral reinvestment, but the effect on the future involvement of beneficial owners in lending programmes, and what collateral they will accept if they do, is still to be decided.

Certainly, cash collateral reinvestment received a grilling at the US Securities and Exchange Commission (SEC) roundtable discussion on securities lending in September of last year.

Jerry Davis, chairman of the board of trustees for the New Orleans Employees' Retirement System, told the discussion that he was unhappy with the level of disclosure from his fund's lending agent on exactly how the cash would be reinvested.

"The exhibits to that agreement were marvels of simplicity," he said. "The exhibit number three, I will never forget. It purported to list the allowable investments for collateral alone. And it said cash, securities and letters of credit, period, the full content of that page.

"There was nothing about the rating of these various instruments, there was nothing at all about the monitoring of the instruments, there was nothing at all that described how the bank was going to care for those instruments. So I think that even though the document itself, for a small fund like ours, was 30 pages, the meat of it was the protection for the lending agent, not for the beneficial owner."

So have agent lenders being guilty of failing to disclose how cash collateral will be reinvested? Sonja Spinner, a Senior Associate at Mercer Investment Consulting, says: "I see a fair number of collateral schedules and when you look at one, there will normally be no mention of the allowable duration mismatch, there will be no mention of the type of instruments that are allowed and the type of credit risks that are allowed to be in there. A beneficial owner can take in almost anything."

**"Collateral schedules will normally have no mention of the type of instruments allowed"**

**Sonja Spinner, Mercer**

Spinner's experience in insurance has meant that she has been "quite shocked" by the very large duration mismatches she has seen agent lenders allow to arise in their reinvestment pool.

"If you work as an insurer and you have to hold risk capital against those asset liability mismatches on the loan side and on the asset side - which is what you would have to do if you were writing an insurance contract - you just would not see those sorts of mismatches arising. It would be too apprehensive."

Mark Payson, global head of trading and asset liability management at Brown Brothers Harriman (BBH), believes that disclosure from agent lenders is vital.

"It is the responsibility of every lending agent to make sure that they are aware of their clients' trading practices," he says. "So if a client has USD500 million on loan, but suddenly needs to reduce the on-loan balance to USD250 million, the agent must ensure that the USD250 million can be redeemed from the collateral pool. Strong asset and liability management is the key."

However, Payson believes that the BBH approach is different from many other lenders and that it is important to differentiate between securities lending and what he calls securities finance.

"In its purest form, securities lending refers to the generation of revenue from the intrinsic value or borrowing demand of securities, with the transaction supported by the exchange of collateral that is liquid and of a high quality," he says.

"Securities finance is a different practice, and results when securities lending is used to generate cash collateral with the sole purpose of reinvesting said collateral in riskier products as a means to generate higher revenue.

"In some cases, agent lenders got into trouble because the lending and borrowing of securities with low intrinsic value and with low demand was encouraged in order to raise loan and utilisation levels. In order to facilitate these transactions and to generate large cash balances beneficial owners were required to be increasingly aggressive on the collateral reinvestment."

Payson believes that cash collateral reinvestment should be seen as a "complementary product" and not the "main driver" of securities lending. However, other concerns have been raised about cash collateral reinvestment. The issue of fiduciary responsibility can be affected – pension trustees and other beneficial owners may have no say in who is appointed to manage the cash.

One investment manager at a pension

### Another one bites the Trust

*Claims against the Chicago custodian and other lenders*

**September 2008** – University of Washington, Seattle lawsuit against Northern Trust

**October 2008** – BP sues Northern Trust; Minnesota Workers' Compensation Reinsurance Association (WCRA), Minnesota Medical Foundation, Minneapolis Foundation and the Robins, Kaplan, Miller & Ciresi Foundation for Children sue Wells Fargo

**January 2009** – AFTRA Retirement Fund sued J.P. Morgan; Carolinas HealthCare System sues Wachovia

**March 2009** - Joseph L. Diebold Jr, participant in plan of Exxon Mobile, suits Northern Trust

**April 2009** - Imperial County Employees' Retirement System files suit against JPMorgan Chase

**November 2009** – Woodmen sues US Bank

fund in the north of England told ISJ: "It is one step removed - are you in control of it?"

This situation is changing, according to Simon Lee, senior vice president for EMEA business development at agent lender eSecLending. "Beneficial owners are now more focused on their collateral management activities and many are adjusting their strategy, guidelines and structure as a result," he says.

"We are seeing a trend toward clients either bringing collateral management activities in-house or hiring specialist cash managers and utilising best-in-breed providers across custody, securities lending and collateral management."

The SEC meeting also raised the issue of comingled cash collateral pools, where lenders would group together beneficial owners' cash collateral in an effort to make higher returns. Opinions on these structures varied at the roundtable, and the issue still seems to be divisive.

Mercer's Spinner says: "Where people suspended lending programmes or where they have done a risk review, if they have got the appetite for cash collateral we have been telling them not to go into co-mingled cash funds but to go into their own cash funds."

She can also see the use of co-mingled funds becoming less popular in the future: "People will not want to be in co-mingled cash pools because they want the ability to cease lending and do not want to see their assets immobilised.

"If people do want to use cash and potentially get the additional returns that some portfolios might accrue, then increasingly they want to understand that reinvestment decision and not to be just pushed into a pooled cash fund with 200 or 300 other people.

"I have been pushing to get more specifics on the quality of the collateral and the haircuts mandated in agreements because if the worst happens and a borrower defaults, as long as the agent lender or point of market access has not missed their schedules, you can at least get some redress from them. But just now the problem is that lenders have acted within their guidelines but have still caused beneficial owners pain."

However, BBH's Payson believes that co-mingled funds have their place within the market. "It is inappropriate to characterise a commingled pool as better or worse than a separate pool, or vice versa," he says.

"Larger vehicles may offer the benefits of stability and performance, and if and when a participant wanted to change their approach to lending, or exit for a short period of time, they can do so in a co-mingled product. In a separate account, beneficial owners control their own destiny through customised investment guidelines but forego the benefit of shared liquidity.

"I do not think the ills of the market over the past 18 months would have been cured by separately managed accounts." Perhaps one of the highest profile funds to lose money through cash reinvestment was the USD207 billion California Public Employees' Retirement System (CalPERS), which provides benefits to more than 1.6 million people in the US.

According to CalPERS, its exposure to potential losses through reinvestment of its collateral cash in pools ranges from USD600 million to USD1 billion – but the firm stresses that this is an "unrealised loss based on current market value; [there is] no actual loss until assets are sold at what could be a higher value".

Indeed, CalPERS does not plan any change in the lending part of its programme, while it has opted to "[develop] new policies to reduce potential risk and losses in [the] programme's reinvestment of collateral cash".

Additionally, despite some high profile losses, there is a suspicion that these incidents have hidden the overall picture. According to various estimates, 90% of stock lending programmes in the US use cash collateral, but this does not mean nowhere near 90% of the beneficial owners have lost money.

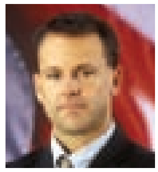
So is cash collateral reinvestment still a viable option, albeit in perhaps a different form than before?

Mercer's Spinner says that many people have come to her firm, desperate to understand the risks involved with reinvestment. But this new awareness does have its own problems, she explains.

"I have told the Bank of England that the problem is that beneficial owners have so many things on their plate. They are trying deal with actuarial reviews, management selections, asset allocations, strategies to de-risk and 3,000 other things, and lending is such a small part of what trustee bodies have to think about.

"So there is a limited amount of time that they do devote to it. But the more sophisticated ones have certainly been asking us quite a few questions about their lending programmes."

This is a welcome development, according to BBH's Payson. While the



**"I do not think the ills of the market would have been cured by separately managed accounts"**

**Mark Payson, BBH**

various lawsuits that have appeared may reveal where ultimate responsibility lies in each individual case, the responsibility of ensuring securities lending programmes are run well is as much the beneficial owner's duty as the agent lender's.

"Many agent lenders are now doing a better job of being more transparent and sharing more information, but beneficial owners also have a responsibility to exercise more active oversight and participation in their programmes."

There is an argument that suggests cash collateral should be used for just that – collateral. But does avoiding reinvestment reduce the profitability of the programme? It depends on the loan, according to Spinner.

"If you have a portfolio of global equities and a lot of your income comes from dividend arbitrage trades etc., it makes very little and there has been times where I have taken client portfolios out and asked for revenue estimates and asked for them on a cash reinvestment basis as compared with a tender-only basis and the revenue estimate still stands.

"Not taking the cash in for the beneficial owner with a portfolio with a high intrinsic value of loans does not actually impact them. What probably does impact more is if they have a portfolio with less intrinsic value where really it is securities financing as opposed to the intrinsic value of the loans that is driving the revenue stream.

"But it is a very portfolio-by-portfolio question."

Cash reinvestment decisions may be made for beneficial owners, under added regulations. Indeed, regulators globally are looking at securities lending and "the scale to which it became a gearing and cash reinvestment play as opposed to a straight play about the intrinsic value of the loan," according to Spinner.

"It feels to me that they have been uncomfortable about that from a financial stability point of view and it will be interesting to see how that plays out in terms of regulation. I don't know where that will land, but it feels like the world will change in some form. What's going to be interesting will be to see, particularly with the US, where there is such an advantage of taking in long-cash, whether the barriers to non-cash collateral in that market will change."

That said, some regulators have loosened their requirements on collateral. In December 2009, the Securities and Exchange Board of India removed a guideline for mutual funds on valuing collateral, whereby collateral was always required to remain higher in value than the securities on loan.

For 2010, Payson believes beneficial owners will be making sure the collateral and the investment of that collateral is suitable for the asset class of the portfolio being lent.

"An asset manager with fixed-income assets, US equities, European equities and Asian equities may have four different collateral programmes, whereas previously they may have lumped all into one pool. Additionally, each one of those programmes will have a different risk profile.

"In 2010, I think you will see beneficial owners greatly increase their level of active programme oversight (daily reporting, quarterly reviews, board/committee oversight), particularly for those programmes that experienced issues in the past. They will demand transparency and agent lenders will be responsible for providing it to their customers in a meaningful way." ■

# Let's settle this

Scale or specialism? That's one way of assessing the competition of settlement services for mutual funds, says Anthony Harrington.

Servicing mutual funds has long been bedevilled by a history of paper-based, manual processing and is behind its cousins in the bond and equities space.

However, all that is now changing, according to the upcoming competition between post-trade providers such as Euroclear and newcomer Calastone.

According to HM Treasury, the UK mutual funds industry could save somewhere between GBP70 million and GBP290 million a year by moving to transaction-processing automation instead of its paper-based ways of transfer forms, confirmations and cheques in the post.

**In the red corner**

Calastone - more well-known for an electronic distribution platform for mutual funds - is to launch a mutual fund settlement system in the first quarter of this year.

Calastone was approached by its UK clients who required a model that would facilitate better settlement and reduction of risk in the UK market. "The model we are introducing does not involve us holding cash," says Dan Llewellyn, head of standards. "We are not a Central Securities Depository (CSD)-type solution."

The first steps to automation, according to Llewellyn, is to facilitate counterparties' systems to talk to each other. This, he says, is best achieved through both subscribing to a third party system that handles the 'plumbing' and is 'agnostic' as to the messaging system of choice in the client's hardware environment.

It means that it is just as effective for counterparties trading across borders or continents as it is for UK companies trading with a counterparty next door.

"One of our key selling points is that we do not prescribe messaging or connectivity standards which the clients have to follow. The messaging can use any standard in any syntax that is not proprietary," he says. The system can handle any form of messaging, ISO 15022 or ISO 20022.

This is important, he explains because although ultimately everyone in the industry wants a single standard at some point in time, not every fund currently has the resources to leap to ISO 20022. "Our system allows them to communicate with their peers in the industry and thus to increase their distribution capability as well as driving down costs," he says. Recent changes to the UK legal system which removed the necessity for "wet signatures" (actual signatures scrawled with pen on paper) to exchange property titles has also helped to drive demand for at least a move towards Straight Through Processing (STP) in the sector.

With this hurdle out the way, the industry has had its hands untied and can now start to move wholeheartedly to electronic, automated processing. As Llewellyn puts it: "Once the orders become more automated, then post trade downstream services have the opportunity to become more automated as well."

At present a large percentage of the UK fund industry's business is domestic. However, increasingly fund managers want exposure to, for example, Luxembourg funds or even Middle East and Asian funds. According to Llewellyn, cross border trade is really increasing. "Right now there is a lot of cross border marketing of UCITS III funds passported across Europe, so there are lots of initiatives to enhance the cross border selling of funds to retail and institutional investors," he comments. But the absence of systems to connect buyers and sellers in a technologically efficient way has hampered that development though, he argues.

One of the major requirements was the ability to be able to confirm and match trades as a pre-settlement confirmation exercise. "In our model, on the back of trade mapping, we can provide a netting service that advises both counterparties of the net position that they have with each other," Llewewllyn says.

The alternative is a large number of BACs payments as each trade is settled individually. "Clients were adamant that the mutual fund space was not like the equities space 10 to 15 years ago. This is not a market facing huge systemic risk issues, but it is a market that needs "updating," he comments.

The basic premise that Calastone is working off is that if institutions can electronically instruct to confirm settlement obligations, then that instruction should trickle right through the payments process and should tie up with reconciliation procedures.

**In the blue corner**

Euroclear pipped Calastone by launching a mutual fund settlement system at the end of last year. It settles UK fund transactions with the same FSA-regulated service provider that already settles the client's bond and equity trades.

But the fact that the system was in fact created for settling equities and bonds is significant, concedes Andy Rudd, mutual fund project manager at Euroclear UK & Ireland.

Mutual fund transactions are continuous primary market instruments, whereas bonds and equities trade as secondary market securities.

The fund manager is constantly creating and removing units as investors subscribe to and redeem them, and the settlement system has to address this fundamental difference.

Euroclear's offering was developed on the back of the creation of its Fund Liaison Group in 2008, which comprised the major fund distributors, managers, platforms and registrars in the UK to discuss fund services. "There was unanimity on the fact that the industry needed a solution that would automate and standardise the settlement and asset servicing of UK funds," Rudd says.

"The aim was to provide the sector with a reliable settlement system, with proven processing expertise, that would reduce the costs, risks and settlement cycle to T+4 instead of as much as T+10 for UK fund transactions. Euroclear UK & Ireland also designed its new service to automate and centralise fund transaction reconciliation between all relevant parties. Market participants can avail of the service via the same interface they already use to reconcile other security transactions they settle with Euroclear UK & Ireland. We will also provide clients with a choice of message standard - that is, proprietary or ISO - which they may already use to process other types of financial transactions.

This is the very point that Calastone offers as one of its uniques –that it does not constrain its clients as far as choice of messaging system is concerned. At this point in time, Calastone could argue that it offers more communications flexibility than Euroclear, but it sounds as if that advantage will be dissipated soon after its service is launched in 2010.

Rudd admits that Calastone's offering, when launched, will be a direct competitor to the combined Euroclear/EMX offering, but he points out that Euroclear/EMX had already gone live with the new system in September. Clients are already testing and it has the support of the Investment Management Association. "This is a solution that we created with the funds industry, through the Funds Liaison Group, so there has been industry wide input into the model that we have delivered," he argues.

Euroclear UK & Ireland and EMXCo have plans to extend coverage beyond UK funds. For settling cross-border deals, Euroclear offers its FundSettle platform, which has been serving the fund industry since 2000.

The idea was to take the order routing capabilities of EMX, the most widely used order routing system in the UK, and connect it directly, on an STP basis, to Euroclear UK & Ireland," he comments. This means that orders sent through EMX will automatically flow through for settlement at the UK's central securities depository (CSD). Given the focus on risk management in the market today, and the proven track record of CSDs during the recent financial crisis, Euroclear UK & Ireland is the natural place to settle fund transactions as well.

Rudd says that Euroclear plans to connect the EMX message system to its FundSettle system in 2010. This will allow UK fund investors to route their orders via EMX to settle foreign fund transactions on FundSettle and help foreign investors in UK funds reach the relevant infrastructure in the UK more easily and cost-effectively than at present.

It will certainly facilitate more cross-border traffic in UK funds. "Right now we have funds from 21 markets settling on FundSettle and that number is growing all the time," he says. These 21 markets are all the major markets and as such constitute the markets with the greatest appeal to professional fund investors.

For Rudd, the critical factor is that the bulk of potential users of its mutual funds settlement offering are already Euroclear UK & Ireland customers. They can easily leverage their existing relationship with Euroclear UK & Ireland that was previously established to process bond and equity trades. "For funds in particular, fund promoters, distributors and others will be able to use the data we retain to automatically reconcile their positions, simply by downloading transaction summary reports.

Rudd adds that – when it comes to settlement - there is a considerable advantage for clients in settling fund transactions on a gross basis.

"When reconciling trades, market participants need to see the gross transactions that have been processed on the system. Just getting a netted figure would make trade details completely invisible and impossible to reconcile.

"In the funds universe, netting creates more complexity than it reduces. I do see value in netting the cash component of a fund transaction, to ensure the client only needs a minimum number of cash transfers between banks. However, for reconciliation purposes, they need transaction details, particularly to detect and resolve exceptions. This is why the Funds Liaison Group recommended that we work on a gross settlement basis, with net cash settlement at the end." ■

# MiFID & post trade

The concept of 'best execution' in the 2007 Markets in Financial Instruments Directive (MiFID) and the new multi-lateral trading facilities (MTF) that sprung from it have changed the post-trade landscape. Some, such as Eamonn Ryan, product manager for Euroclear Bank's EquityReach service in Brussels, believe 'best execution' did not consider the post-trade element nearly enough.

Best execution includes elements such as optimal cost and likelihood of settlement, according to MiFID Article 21.

New trading venues have vastly increased trading competition and driven down transaction charges.

When traders route an order to any trading venue, they are also choosing their clearing and settlement infrastructure.

It has turned post-trade into a

*continued page 22*

competitive element, where venues such as Chi-X offer a new clearing system. At the Global Custody Forum 2009 in London, Ryan compared this with Ryanair, the Irish airline, which produced not just planes and cheap flights but new airports too. New CCPs from EuroCCP and EMCF and established exchanges such as Nasdaq OMX and LSE IOB have also launched.

If a CCP allows clearance for a trader using multiple venues, then CCP netting reduces a trader's on-exchange settlement cost reduces to a fixed charge per CCP.

However, while competition between CCPs in offering clearing services for the same exchange will drive through efficiencies and cost reductions, There have also been tentative steps towards CCP interoperability, in line with the one of the pillars of the European Commission's Code of Conduct. Indeed, one of the pillars of the European Commission's Code of Conduct is for CCPs to become interoperable.

The London Stock Exchange, for example, has an agreements with LCH. Clearnet and SIX x-clear. Marco Strimer, CEO of SIS x-clear, told ISJ at the Sibos conference that "interoperability is not a swear word".

But the risk of contagion inherent in CCP interoperability has been exercising the regulators, who recently called a temporary halt to LCH.Clearnet's plan for interoperability with EMCF, as CCP for BATS and Chi-x in Europe.

The prime risk factor of interoperability is the way the risk management dynamics shift, according to Ryan. For a stand-alone CCP, it is a very "do-able" exercise to look at the extent of the CCP's operations, capital base and risk management practices. With multiple, interconnected CCPs that exercise becomes massively more complex, due to risk-related interdependence and the process of distangling trades if a major broker fails.

"There are issues relating to risk management that are unresolved at the moment. What, for example, if you choose a CCP and it chooses to interoperate with a second CCP that you have deliberately excluded from your choice of CCP? That is an exposure that you will have not factored into your risk equation," Ryan comments. If a chain is only as great as its weakest link, there are some thorny regulatory problems to be resolved here.

At the moment, the lack of interoperability among CCPs places real limits on the fulfilment of best execution. ■

# Analyse This: Middle Office Technology

## How important is real-time reporting? Thorsten Heissel, SunGard

As the role of the middle office grows in significance, now may be a good time to question the potential broader impact of some commonly accepted best practices in middle office reporting.

Highlights from two recent research reports put this question in context.

First, Beacon Consulting Group reported last year that institutional respondents cited the importance of real-time reporting as their number-two technology concern, right after lack of automation at number one.

Second, Aite Group recently predicted that global revenue for investment operations outsourcing will surge from USD2.8 billion in 2009 to USD4.5 billion in 2013. At least some of this growth will be driven by demand for newer middle office services such as investment analytics, OTC and corporate action processing, collateral management and reconciliation.

I believe the value of real-time reporting in these new, sophisticated middle offices can now be questioned. As the core mission of the middle office is to identify, report and resolve operational irregularities, it will likely require new and different methodologies as it grows in importance.

While real-time is certainly appropriate for simple data activities such as aggregation or position reporting, will it be as effective for more sophisticated activities such as investment analytics? Investment analytics involves multi-factor modeling for risk assessment across geographies, sectors, investment styles and economies.

When evaluating results from such complex data activities, you don't want to wonder if the underlying data is correct or not. You want to be sure that the data has been reconciled and that the appropriate exception detection procedures - or other quality measures - have been executed. You need assurance that all exceptions have been cleared or communicated with the report. Without that assurance, a newer version of such a report, processed in real-time, might be sent later (again in real time) and show different results, calling into question the report's credibility and even the credibility of the data processing organisation.

So, if real time is not a one-size-fits-all solution, what else is there?

We may be better served by a right-in-time approach rather than real-time for at least some of the middle office's new tasks. Right-in-time means processing the data as soon as it is available and relevant to a specific recipient of the data.

A right-in-time approach recognises that the value of data changes over time; that data is most effective when it arrives at the point where it is required for a specific action. To be fully valued in this context, data is dependent on the quality of the action being performed with it.

Right-in-time would facilitate the use of process management technology in these more sophisticated areas, allowing you to define your processes first and then determine the steps to take around the data to make it valuable and actionable for the recipient. It will lead to not only more accurate data but full transparency as to the value-added tasks provided by the middle office.

Data processed this way can then be used to better manage middle office activity, while, in an outsourced situation, providing an asset manager with another valuable oversight function. ■

*Thorsten Heissel is senior vice president, strategy and marketing, institutional asset management at SunGard*

### Studies... and a diary date

Technology announcements abounded in the new year, including from Sterling Commerce, which found that 72% of 300 senior IT managers in France, Germany and the UK,plan to invest in a cloud-based B2B integration strategy. Buy-side firms should keep a diary date for Europe's biggest buyside event, TSAM 2010, in London: 10 streams, 450+ attendees, 40 providers and 60+ speakers. ■

4th

# Clearing, Settlement & Custody Asia

## MINIMISING RISK & DRIVING SUSTAINABLE POST TRADE PRACTICES IN A VOLATILE MARKET

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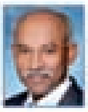
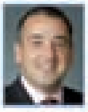


**Muthukrishnan Ramaswami**, *Senior Executive Vice President and Chief Operations Officer*, Singapore Exchange Ltd (SGX), Singapore

**Dr. Werner Frey**, *Managing Director*, European Securities Services Forum (ESSF), (An Affiliate of SIFMA) & *Chair*, Corporate Actions Joint Working Group, Switzerland

**P K Nagpal**, *Executive Director – Market Intermediaries Regulation & Supervision*, Securities and Exchange Board of India (SEBI), India

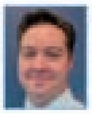


**David Wicks**, *Senior Vice President / Regional Head of Asia Pacific, Operations and Technology*, Northern Trust Company, India

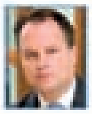
**Venkatesh Rathnam**, *Global Operations Head, Securities Services*, Standard Chartered Bank, Singapore

**Göran Fors**, *Global Head of Custody Services*, SEB, Sweden

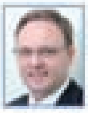
**Taketoshi Mori**, *Chief Manager – Planning, Transaction Services Division*, Bank of Tokyo-Mitsubishi UFJ, Japan



**Nico Torchetti**, *Head of Domestic Custody Services, Hong Kong and Head of Securities Clearing, Asia*, Deutsche Bank, Hong Kong



**Carlo Venes**, *Managing Director, Head of Institutional Business Asia Pacific*, Fidelity International, Hong Kong



**Greg Robinson-Kok**, *Chief Executive Officer*, Vietcombank Fund Management, Vietnam

**Sharon Seow**, *Director – Investment Operations Asia*, Templeton Asset Management, Singapore

**Rob Scott**, *Head of Operations – Asia Ex-Japan & Middle East / Regional Head of Operations Engineering – Asia Pacific & Middle East, Global Technology & Operations*, Deutsche Asset Management Asia, Singapore

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- Improving Risk Management Controls in Clearing and Settlement Transactions
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- Achieving Cost Optimisation and Operational Efficiencies
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No of funds: 478

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Isis Financial Systems provides mission critical investment management software and services to many large and small companies. Our customers perform a broad range of functions including fund accounting, derivative and hedge funds, wealth management, and pension and endowments, etc.... Our integrated solution services the front, middle, and back offices of these companies with software that accommodates most any security type. Built on a contemporary three tiered architecture our application helps financial companies improve operating efficiencies, increase accuracy and reliability and improve customer service. IsisFS has the experience and IMS has the tools to improve your operations and save you money.

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Misys provides integrated, comprehensive solutions that deliver significant results to over 1,200 financial institutions globally. Our buyside solutions help asset servicers, asset managers and hedge funds handle the latest complex products, streamline processes, reduce costs and improve STP. Misys Summit is our award winning, multi-asset class solution that boasts 18 years OTC derivatives market expertise. With extensive OTC buyside coverage and the market leading structured products module, Misys Summit delivers the solution you need for handling the end to end process for OTC. We also provide a customisable ASP service for fast implementation and lower costs.

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Building on over twenty years of experience in capital markets and cross-asset software solutions, Murex introduces Mx Asset Manager - a unique cross currency, cross asset fund management solution capable of handling the full range of products, from plain vanilla to the most complex derivative products. Coupled with a high degree of flexibility and customization, Mx Asset Manager features a multifaceted design catering to the needs of both service providers (prime brokers, administrators, asset servicing providers) and direct clients (portfolio managers for mutual, pension or hedge funds, insurance companies). With so many new challenges presented to buy-side managers when integrating increasingly-complex derivatives into their portfolios and funds, Mx Asset Manager represents a strong and reliable ally for dynamic position keeping and multi-dimensional risk management in a thriving market.

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PIRUM

Pirum provides a full suite of automated reconciliation and straight through processing (STP) services supporting Operations within the global securities finance industry. The company's on-line SBLREX service encompasses daily contract compare, monthly billing comparison, mark-to-market & exposure processing, pending trade comparison, income claims processing and custody reconciliation.

Subscribers to Pirum's services significantly increase their operational efficiency and reduce their risk by using Pirum's solutions, as staff are able to focus on fixing the exceptions instead of using their time to check and process routine business. These automated processes are more scalable and risk controlled too, allowing significantly higher volumes to be managed without corresponding increases in operations headcount.

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SimCorp

SimCorp Dimension is a powerful, comprehensive and truly seamless investment management system. It can handle NAV and other calculations, with complete related accounting, for a huge variety of fund structures and product types, including regional specialities.

SimCorp Dimension has been designed from scratch as an enterprise-wide system, handling all aspects of the investment management process and related administration functions, consistently. Data is recorded once into a core database so that reporting is made easy, there is no reconciliation of data and no duplication of procedures.

-By cutting latency in securities processing, our clients are recognising new efficiencies, reducing costs and increasing throughput

-By streamlining their customer on-boarding processes, our clients are gaining faster access to fees, increasing customer satisfaction, gaining greater cross-sell opportunities.

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SUNGARD®

SunGard is one of the world's leading software and IT services companies. SunGard serves more than 25,000 customers in more than 70 countries, including the world's 25 largest financial services companies. Dedicated to post trade securities operations, GL RIMS is your comprehensive real time securities post execution processing solution, covering middle office, settlement and accounting requirements. Its wide use of automation enables global capital markets organisation to achieve maximum STP. It is a flexible, highly scalable and easy to install platform with a new Service Oriented Architecture feature that allows smooth and efficient connections with other third parties within a company.

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## Witholding Tax

goal

Goal is widely-acknowledged in the financial services sector for its innovative and creative solutions to highly-specialized niche processes.

Goal's research has shown that in excess of USD8 billion of withholding tax remains unclaimed each year by the rightful owners and beneficiaries and that over USD12 billion is lost because rightful beneficiaries are not participating in class actions, bankruptcies and disgorgements.

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