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Equinoxe and MadisonGrey to merge

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Equinoxe Alternative Investment Services Holdings is to merge with MadisonGrey Holdings.

The transaction creates a global hedge fund administrator with combined assets under administration of over $7 billion, which will accelerate it into the rankings as one of the top 10 largest independent administrators.

This increased size will enable servicing of funds onshore in the US through the Atlanta office, as well as offshore in Bermuda, Cayman, Mauritius, and in Europe through Ireland. It will provide enhanced opportunities for dedicated manager service in more time zones.

The new US entity, to be known as Equinoxe Alternative Investment Services (USA) Inc., will increase to 50 the number of employees across the five Equinoxe offices servicing 150 funds.

Stephen Castree, CEO of Equinoxe said: “We are thrilled to be able to create a global force through this strategic merger. The integrated companies will extend the full service platform onshore in the USA, a cornerstone of our expansion plans, whilst continuing to leverage our institutional technology capabilities with a highly focused boutique service model, our key differentiator in the market.”

Charles Thornton, president of MadisonGrey Holdings added: “The benefit to our clients of this merger will be seen in the expanded international geographic reach, additional technology and services, plus the greater resources that we can offer as a combined group.”

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Paladyne releases latest reference data suite

Paladyne Systems has announced the release of Paladyne Security Master 7.0 and Paladyne Price Master 7.0, the major components of Paladyne’s reference data management suite. This release introduces many new product features and extends many areas of existing functionality.

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J.P. Morgan wins FHLBank Atlanta mandate

J.P. Morgan Worldwide Securities Services has been selected by FHLBank Atlanta, a federal home loan bank, to provide custody and liquidity services for the bank’s own investment portfolio and for assets it holds for its member banks.

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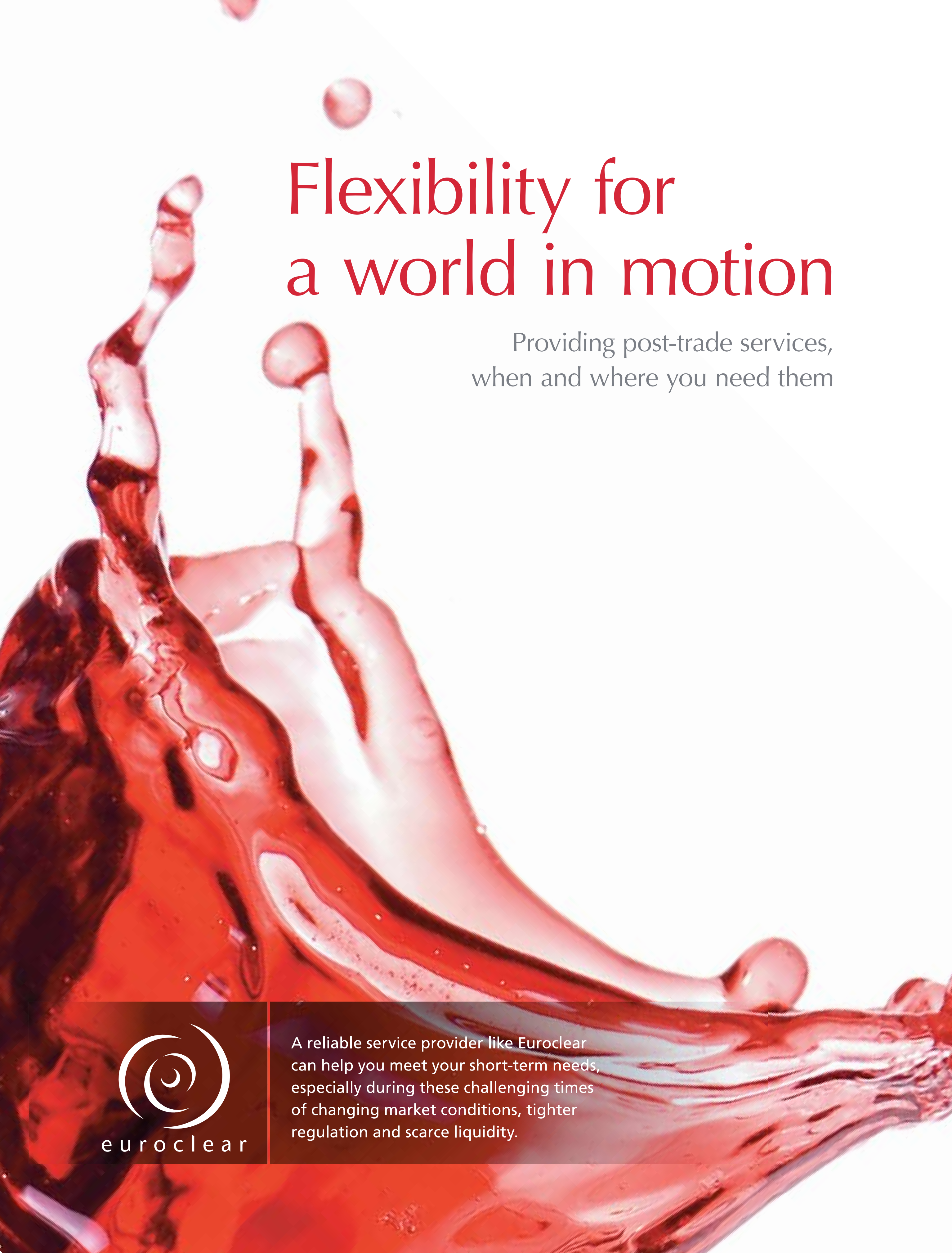
Flexibility for a world in motion

Providing post-trade services, when and where you need them



euroclear

A reliable service provider like Euroclear can help you meet your short-term needs, especially during these challenging times of changing market conditions, tighter regulation and scarce liquidity.

Paladyne launches all-in-one solution for start ups

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Today, Paladyne's reference data management products are used by over 90 clients worldwide, including many of the world's largest banks, hedge funds, and asset management firms.

Major new features in Paladyne's reference data management suite include:

Custom Interface Designer – users may customise the user interface to support client specific data and workflow requirements.

Investment Type Designer – users may dynamically create new security type definitions including custom fields and schedules, corporate actions, issuer relationships, etc.

Validation Manager – users may create client specific validation rules for saving and posting securities to support custom workflows.

Field Level Record Locking – users may lock data fields from updates and manage how updates are distributed.

Web-based dashboards and custom reporting tools for data monitoring and firm-wide reference data management.

Enhanced Daily Tasks Manager – users may monitor and process all corporate actions and portfolio events (eg, swap resets, expirations, payments, etc.) from a centralised dashboard.

Curve Manager – users may create and manage curves (e.g., Credit, Yield, Forward, etc.), to support security valuation and risk requirements.

Security Group Manager – rules-based engine for defining and dynamically maintaining security classifications and custom groupings for trading, risk, research and compliance needs.

Certified product adapters to latest releases of many other technology interfaces

"It is very satisfying to know that the Paladyne reference data management suite has become the accepted standard throughout the financial services industry," said Sameer Shalaby, CEO of Paladyne Systems. "This latest version builds on our suite's already comprehensive functionality and focuses on ensuring that the entire data management process is as automated and efficient as possible."

J.P. Morgan wins FHLBank Atlanta mandate

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FHLBank Atlanta is one of 12 regional banks in the Federal Home Loan Bank System which was established by Congress in 1932. Its products, services and programmes help member financial institutions manage daily liquidity, fund mortgages originated for sale in the secondary market, fund loans and investments held in portfolio, and improve their asset and liability management.

"We selected J.P. Morgan because of the financial strength of the firm, its advanced technology platforms, and for its reputation for quality and client service. By working with J.P. Morgan, we will achieve operational efficiencies that will allow us to better serve the member financial institutions we work with to make affordable home mortgages and provide economic development assistance to neighborhoods and communities," said Leigh Chapple, first vice president of financial operations management at the bank.

Robert Caporale, head of new business development - Americas at J.P. Morgan Worldwide Securities Services, said: "J.P. Morgan is proud to provide custody and securities services to FHLBank Atlanta, an important client of our firm. Our proven experience, comprehensive products and quality service will help FHLBank Atlanta meet its own business needs while satisfying the safekeeping requirements of its members."

Societe Generale launches turnkey UCITS Funds Solution

Societe Generale has launched a UCITS Fund Solution for fund managers setting up or redomiciling funds under UCITS regulations. The new service provides a one-stop solution combining the custody, trustee, administration, execution and finance tools required to set up UCITS compliant funds, along with the core services required to operate them.

This new solution has been developed by teams from Societe Generale Securities Services and Societe Generale Corporate & Investment Banking and offers asset managers the following benefits:

– A competitively-priced alternative to using a UCITS platform;

– Access to independent assistance on corporate and operational infrastructure;

– Societe Generale Securities Services' comprehensive global custody, trustee and administration services, including liquidity management, collateral management and OTC derivative pricing;

– Synthetic shorting via Societe Generale Corporate & Investment Banking's Dynamic Portfolio Swap Platform;

– Extensive execution solutions from the Corporate & Investment Bank, with one of the largest liquidity pools in Global Equities, providing access to 70 equity cash and derivatives markets;

– Access to the Corporate & Investment Bank's ranked research services, earning top position in the Thomson Reuters Extel Europe 2010 Survey for Pan-European Economist / Strategist.

BBH mandated by XACT Fonder

BBH has been selected to provide global custody, accounting, administration and primary market transfer agency for the newly launched XACT ETFs.

The XACT ETF platform is an open-ended collective investment company (SICAV) established under the laws of the Grand-Duchy of Luxembourg with an umbrella structure comprising of different sub-funds and classes. Each sub-fund is an ETF and is listed for trading on NasdaqOMX Stockholm. Shares of each ETF are bought and sold in the secondary market in the same manner as ordinary shares of a listed trading company.

"BBH enjoys a longstanding relationship with Handelsbanken (XACT's parent company) and we are thrilled to be partnering with XACT to support this important Luxembourg ETF platform," said Shawn McNinch, global head of ETF Services at BBH. "These ETFs represent a close collaboration between BBH and XACT from product inception to successful launch."

"I am delighted to work together with BBH on our new ETF structure in Luxembourg. This will enable us to maintain our position as the leading Nordic ETF provider," said Henrik Norén, managing director, XACT.

J.P. Morgan Selected by True North Management Group

J.P. Morgan Worldwide Securities Services has been appointed by True North Management Group LLC to provide real estate fund administration services for its True North High Yield Investment Fund II which closed in April 2010 with $330 million of equity commitments and is expected to finish with $500-$600 million of equity commitments.

Desmond McGowan, CFO of True North, said: "When we decided to outsource the administration for our real estate fund, we searched for a provider with an offering specifically designed for real estate managers. J.P. Morgan's unique services will provide strong administrative controls, ensure investor confidence and provide effective transparency, enabling us to focus on our investment activities."

Robert Caporale, head of new business development -- Americas, J.P. Morgan Worldwide Securities Services, said: "Our innovative outsourced real estate and infrastructure solutions leverage our extensive expertise, powerful technology and proven processes. Recognising the call for greater transparency in reporting, we are pleased to offer True North our market-leading service for real estate fund sponsors."

BNY Mellon Appointed by new Blackstone Fund

BNY Mellon has been appointed dividend agent, transfer agent, custodian and service provider for other related services for the Blackstone / GSO Senior Floating Rate Term Fund, a new closed-end fund that trades on the New York Stock Exchange under the symbol "BSL."

In its role, BNY Mellon will provide a variety of services, including the safekeeping of the assets held in the fund, helping to calculate and process dividends, and produce records for shareholder reports. ALPS Fund Services,Inc. serves as administrator to the Fund and is responsible for calculating the net asset value of the common shares and generally managing the administrative affairs of the fund.

"This mandate highlights our company's ability to meet all of the diversified servicing needs of the fund management industry, regardless of the type, size or structure of the funds we service," said Debra A. Baker, managing director and head of collateral debt obligations at BNY Mellon Corporate Trust. "Given our longstanding relationship with GSO Capital Partners, we are pleased to have worked with Blackstone / GSO on the launch of this new fund and look forward to working with them moving forward."

SunGard launches Adaptiv Riskbox

SunGard has launched Adaptiv Riskbox, a new market and credit risk solution that employs a results-centric approach to risk to help banks analyse, share and explain risk results quickly and accurately. Adaptiv Riskbox uses proven risk analytics embedded in a task-oriented solution to help firms streamline the daily risk production process. The solution's turn-key design offers rapid implementation and helps lower total cost of ownership.

Juerg Hunziker, president of SunGard's Adaptiv and Front Arena business units, said: "Banks need to be able to credibly demonstrate they are in control of risk, yet they are spending a significant amount of their time preparing, checking and correcting risk numbers. This leaves precious little time to act upon them. Adaptiv Riskbox helps banks produce actionable risk results quickly and reliably. It's designed to handle the reality of a typical bank environment, with late feeds and incorrect data. The focus on the risk production process is what sets this solution apart from more fragile systems. In addition, its drill-down capabilities helps give users greater insight into the drivers of risk. Now the risk manager can explain the risk position to the business, and act as a partner rather than an adversary."

PPF to allow securities lending and repo

The UK's Pension Protection Fund (PPF) has updated its statement of investment principles, which will allow it to carry out securities lending and repo transactions.

The PPF's main purpose is to provide compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover the Pension Protection Fund level of compensation.

The PPF has emphasised that it will continue to maintain a low-risk approach to investments.

Northern Trust selected by Premier

Northern Trust has been appointed by Premier Asset Management to provide custody, transfer agency and fund accounting services to its latest range of OEIC (open ended investment company) funds, valued at US$1.4 billion (GB£906 million). This latest appointment adds to an existing US$1.6 billion (GB£980 billion) custody and fund administration mandate held by Northern Trust for a number of years.

Premier, a privately owned, dynamic and progressive asset management company with US$4 billion (GB£2.5 billion) in assets under management, designs and distributes innovative investments predominantly through financial advisers. Premier appointed Northern Trust following a comprehensive review of its existing operating model and in line with a requirement to consolidate its arrangements across the different fund ranges.

"We were looking for a provider who could support our ambitious growth plans," said Mark Friend, managing director, operations at Premier. "Northern Trust is able to provide Premier with a high level of automation, the ability to outsource more functionality and in doing so eliminate duplicated processes. This has resulted in significant cost savings and removed the potential barriers for future expansion associated with our old model."

"We are delighted to continue to build on our relationship with Premier and look forward to supporting them as they continue to expand," said Toby Glaysher, head of Global Fund Services for Ireland, Luxembourg and the UK at Northern Trust – the part of the business which provides services to fund managers.

Eurex Clearing revises clearing price model

Eurex Clearing will introduce a revised clearing price model for cash market transactions effective 1 December 2010. The transaction fees will be noticeably reduced compared to the current price model. This is the result of a 50 per cent reduction in the fixed clearing fee and an expansion of the discount models for Xetra transactions. On average, Frankfurt Stock Exchange (FWB) participants will benefit from around 11 per cent lower total clearing costs based on Q3/2010 volumes. Moreover, clearing fees for transactions on the Irish Stock Exchange will also be reduced by 40 per cent.

"With the new pricing model, we are positioning ourselves for further growth in the European cash equity clearing business and are stimulating trading on the cash markets cleared by Eurex Clearing," said Frank Gerstenschläger, Deutsche Börse AG Executive Board member responsible for the Xetra cash market segment.

Specifically, the fixed transaction fee for Xetra transactions is to be cut by 50 percent, from 0.06 to 0.03 euro cent. Additionally, existing discounts are to be increased by as much as 100 percent, thus the fixed transaction fee can be as low as 0 cent. The variable transaction fee for Xetra transactions will be reduced by up to 50 per cent via a new discount model. At the same time, the fee for delivering net positions after offsetting (delivery management fee) will be raised from €0.40 to €0.60 to cover the corresponding settlement cost, although this fee remains significantly lower than that of other clearing houses.

Due to the stimulation in trading and clearing activity as a result of the new pricing model, Deutsche Börse expects a largely neutral effect on total turnover from the Xetra segment.

Oberbank AG selects SimCorp

Austrian Oberbank AG has successfully implemented SimCorp's fund accounting solution and is now in production with all administered funds on SimCorp Dimension. Oberbank uses SimCorp Dimension as the strategic investment management platform, for depositary banking, fund administration, IFRS and compliance. The bank's former platform, Sungard V3, has now been discontinued.

"The successful implementation confirms our decision to use SimCorp Dimension, which is now our central platform for the entire investment management process," says Florian Hagenauer, director and deputy member of the executive management team, who is responsible for IT operations at Oberbank. "We are already experiencing vast improvements. Relevant key figures for complex financial instruments are calculated consistently in SimCorp Dimension. Due to the rich functionality and flexibility of SimCorp Dimension, we are able to handle increased requirements and we are prepared for future demands. In addition, we have also achieved better quality through lower error rates and shortened processing time. We are especially pleased with the straight through processing capabilities for funds, Fund STP, in SimCorp Dimension, and we expect even further reduced processing time, improved visibility of status per fund as well as more flexibility within fund administration."

State Street gets Altrinsic UCITS Compliant Fund mandate

State Street Corporation has been appointed by Altrinsic Global Advisors, LLC, a Greenwich, Connecticut-based investment manager, to service its new Irish domiciled UCITS compliant fund. State Street's operation in Dublin will provide the Altrinsic Global Equity Fund with custody and fund administration services.

Altrinsic, founded by chief investment officer John Hock in 2000, follows a fundamental value approach in which the team seeks out undervalued companies worldwide. The employee-owned firm has an established client base in Europe, North America, and the Pacific Rim, including Australia and New Zealand. The fund will provide Sterling, Euro, Yen, Canadian Dollar, and US Dollar share class options.

"As a firm serving institutional investors around the world, we are excited about the launch of our UCITS Fund," said Hock. "We are continuously looking for ways to better serve our clients. Our UCITS Fund will provide a regulated vehicle for investors to access our global equity strategy."

"We are delighted to have been appointed by Altrinsic Global Advisors to service this new product," said Gavin Nangle, head of business development for State Street in Ireland. "As one of the market leaders, we look forward to working closely with them as they continue to expand their business outside the U.S. State Street continues to work closely with US managers in the regulated funds space and is pleased to be able to have a premier firm like Altrinsic join our client list."

SGSS launches KII Service

Societe Generale Securities Services (SGSS) is launching a new services offering, aimed at asset managers, which will take charge on their behalf of the regulatory measures involved in replacing the Simplified Prospectus for UCITS by the Key Investor Information (KII) document.

This offering allows SGSS' clients to meet the new regulatory requirements by delegating responsibility to SGSS, not only for the main regulatory changes and administrative requirements, but also for the calculation of the various indicators required by the KII, such as the risk / return indicator. Asset managers will thus be able to focus on preparing information about the objectives and investment policies of their funds, which is also covered by the KII, whilst allowing SGSS to manage the remaining procedures in their place.

The UCITS IV Directive and its applicative texts foresee the replacement of the Simplified Prospectus by the KII from 1 July 2011. This document, written in the language of the country of sale, will give investors access to standardised and summarised information about the main characteristics of UCITS funds.

Eagle selects J.P. Morgan

J.P. Morgan Worldwide Securities Services has been mandated for the fund administration, custody and related securities services for Eagle Mutual Funds, the mutual fund complex of Eagle Asset Management. Eagle Asset Management manages over $3 billion in mutual fund assets with approximately 642,000 total shareholder accounts.

J.P. Morgan will provide a range of services including global custody, fund accounting, fund administration and transfer agency to provide a back-office solution for Eagle Funds. The integrated services will allow Eagle to further its strategy of focusing efforts on value-added asset management, while allowing the fund shareholders to benefit from the scale, efficiency and risk management of an industry leader in the fund administration services arena.

"We selected J.P. Morgan as our partner because of its strong reputation, ability to deliver quality services and in-depth industry expertise," said Richard Rossi, president and co-chief operating officer of Eagle Asset Management, Inc. "We are excited about the opportunity to realise operational efficiencies that will allow us to better serve our shareholders."

Chris Lynch, head of sales and relationship management - Americas for J.P. Morgan Worldwide Securities Services said: "At J.P. Morgan, we provide securities services for nearly 25 per cent of the 40 Act-governed mutual funds in the US, and are proud to add Eagle as a new client to our strong franchise. We will be providing them with a superior set of transfer agency, fund accounting, administration, and custody services delivered by our experienced and seasoned team with our robust, award-winning technology."

Citi Introduces Private Equity Custody Services

Citi's Global Transaction Services has introduced a comprehensive portfolio of custody services in the US, specifically for private equity funds.

The services have been introduced in part because of the Securities and Exchange Commission regulations affecting custody of customer assets by registered investment advisers and the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act, which places stricter regulatory requirements on private equity firms. This legislation -- and the regulations to follow -- will impact unregistered investment advisers of private equity funds as most of them will now be required to become registered with the Securities and Exchange Commission and will be subject to the full spectrum of regulations under the Investment Advisers Act.

"These private equity custody services align perfectly with our overall strategy of developing and delivering the full range of accounting, administrative, and custody solutions," said Chandresh Iyer, global head of custody and investment Services at Citi. "They demonstrate that, among the comprehensive services we provide, we closely monitor the regulatory environment and quickly create innovative offerings that benefit our clients."

Quintillion sign up

Ireland-based fund administration company Quintillion has gone live with a new version (7.0) of a reference data management suite from Paladyne Systems. Paladyne is announcing the release of its latest reference data management suite today.

Quintillion was among the first clients to upgrade to the latest version of Paladyne's reference data management suite. "The recent enhancements of Paladyne's reference data management suite has allowed us to considerably improve the efficiency and effectiveness of our pricing and data management process, eliminate manual intervention, and reach daily deadlines much earlier than was previously possible," said Joan Kehoe, Chief Executive Officer of Quintillion. "We have been very impressed by this major release and the speed at which we were able to implement it."


06:00
CHICAGO
12:00
DUBLIN
GUERNSEY
13:00
LUXEMBOURG
AMSTERDAM MALTA
19:00
SINGAPORE

The new breed

With a reorganisation and a rebrand, Maples Fund Services is ready to support clients through the challenges of the next phase of the economic cycle

INTERVIEW

Last month, Maples Fund Services restructured and rebranded its fund administration offering, previously known as Maples Finance. The administrator has a base in six jurisdictions, and recently opened an office in New York. While it's a standalone business, it is part of a larger group that includes the Maples and Calder law practice and Maples Fiduciary Services. Asset Servicing Times spoke to Scott Somerville, CEO of MaplesFS, about the rebrand and the challenges facing the industry.

AST: What was the thinking behind the new brand and how are you looking to position yourselves?

Somerville: The reasoning behind the brand change is that we wanted to reposition our business. In the last two or three years we have grown both organically and through acquisition, but recently we have made a number of changes to our technology and corporate infrastructure, as well as changing the executive team. We were born out of the Maples and Calder law firm and we want to grow from there.

Our technology is a global platform, hosted in one location.

AST: You have operations in six jurisdictions, as well as a recently-opened office in New York. Does this give you global coverage and access to all markets?

Somerville: Our offices are there to meet the needs of every client. They are aligned to the types of business in the different jurisdictions, so for example in Dubai there's more of a focus on private equity. We do see regional nuances and that's why we have specialists in different locations. We also aim to 'follow the sun' so that there is an office available in all the time zones.

AST: What are your targets for the business?

Somerville: We've spent a lot of time revamping our technology, to make sure we are a real outsource provider. The regulatory changes we have seen over the past couple of years and will see in the future mean that service operators will have to change going forward. They will have to have the technology alongside the infrastructure if they want to compete on a mid and back office level. And with our technology [supplied by Paladyne] we can also operate in a front office capacity if that's required by clients.

AST: How have the regulatory changes affected your business and service offering?

Somerville: The new regulations are presenting challenges, but with those challenges come opportunities. We're very focused on this - our corporate group, which combines the fiduciary business, the fund administration business and the law firm can leverage this.

With the likes of Dodd Frank you have to be very guarded in how you change your business model, but we knew the changes we wanted to implement.

AST: How much competition is there in the market? Are clients expecting you to offer a full suite of middle and back office services?

Somerville: Competition in the industry has become intense. In the past, funds of a smaller size wouldn't be of interest to many providers who didn't feel they were big enough to generate enough income. But that has changed.

You do see funds wanting the whole package of services from the same provider, and that is often dealt with through acquisition. Ultimately, one of the testaments to our business is that there is no conflict between doing fund administration, or offering fund administration and custody together.

AST: Have recent events in Ireland affected your plans for the business in that jurisdiction?

Somerville: Ireland will always be successful in many different ways - it's part of the European time zone and it has the expertise in supporting offshore funds. We're still watching how it will impact those funds, but we have a large presence in Ireland and it's far too early to say what will happen.

AST: How has the industry changed in the past two or three years?

Somerville: The industry is in a very interesting position. We've seen a difficult few years, with the impact of the global economy on funds. What is very noticeable is how institutional investors are driving more of the process. There has been an extreme change in the due diligence process is run. There's a much greater focus on understanding what we can bring to the table. We've seen a lot more people doing operational due diligence on us, seeing exactly what we do.

It's a benefit to us because we're very focused on risk management. We have both internal and external auditors.

AST: How optimistic are you about the future?

Somerville: We're starting to see traction in the markets. There are more new funds and more capital is flowing in. The pipeline is certainly more protracted though that's partly down to attracting capital and partly down to the increased focus on due diligence.

Because there is more competition, there is a greater need to differentiate. The rebrand has allowed us to get traction. We've managed to leverage off that and go into markets - ie, for institutional investors with managed accounting platforms, we have built proprietary technology with enhanced functionality.

We are continuing to speak to public plans who have a lot of allocation challenges. There are a lot of issues over unfunded liabilities and their challenge is to generate that income to match those liabilities. **AST**

Scott Somerville
CEO
MaplesFS


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UK

The UK's custody industry has made good use of the economic downturn and is now stronger than ever

BEN WILKIE

It's the most advanced market in Europe, and probably the most competitive. But the travails of the UK's financial markets have left parts of the UK's financial services industry battered and bruised. With funds having to work harder to get returns, and less money in the market, the UK's custody providers have had to up their games to gain value and remain established within the market.

"There's no such thing as a custody provider any more," says fund manager Gerry Hooley. "It's not about the safekeeping of assets and if any provider just did that they would be out of business within weeks. Today's custodians need to offer far more than they ever had in the past - it's always about the value added services, which we don't even consider value-added now. They're just standard."

Pretty much every global custodian is represented in the UK, with the largest players - the BNY Mellons, State Streets and Northern Trusts - all having large market share. There's not a lot of room for the minnows.

And that's even more true now. While the old adage about custodians doing well in both good financial times and bad still has an element of truth, the new financial environment means that there are far more demands placed upon them.

Clients now have far greater focus on risk management and this is filtering down into the due diligence they place on firms. Although the downfall of Lehman wasn't related to its custodial business, the collapse sent a shockwave through the industry and firms want to ensure their provider is financially secure and has the ability to invest in its systems and infrastructure.

"Custody used to be thought of as something you needed, not something you thought much about," says Hooley. "We just looked at the price. If we could shave a couple of points off the cost, then we'd switch. But we now need to look at the provider itself. We often need to go in there and see how they work. We need to meet the people who are going to be looking after us and we need to get assessments of their processes, technology and management. These are all big global corporations so we know that in 99.99 per cent of cases everything is going to be fine, but we need to be seen to be doing it. Our compliance officers, our investors, our regulators all want us to have evidence that we have done the due diligence as thoroughly as we could have."

So while much of the financial sector has been retreating in the face of the global recession, many custodians have taken the opportunity to invest in their technology and streamline the processes, ensuring that they offer the basic services at the lowest costs and the more valued services of the highest quality.

There's also an increased need to gain the most value from the assets. Many of the UK's large defined benefit company pension schemes have shortfalls running into billions of pounds. These funds - which are generally run for employees of privatised companies or those that are not commercially owned, such as the BBC and the Royal Mail - have long run deficits, but the low growth rates over the past couple of years have put the problems into the headlines. This means that services such as securities lending are increasingly being used to add much-needed revenue.

There's more emphasis on research, execution and post-trade services, as well as advice and support on managing the rapidly-changing regulatory environment

This is leading to the emergence of prime custody, where the providers work much more closely with their clients. In addition to providing the traditional services associated with the back office, there's more emphasis on research, execution and post-trade services, as well as advice and support on managing the rapidly-changing regulatory environment. This in many circumstances means that the custodians now outsource many of their offerings themselves, with prime brokers reaping some of the dividends.

Roger Braybrooks, head of UK consulting at consultants Investance says: "[This suggests] that broker-dealers of all types should remain open-minded to best practices from across the industry. Newer niche companies should be looking to emulate the strengths of traditional banks, including their powerful brands and scalable processes. Traditional banks, meanwhile, should be looking to build up and demonstrate the capabilities in newer investment strategies and to increase their ability to react quickly to market changes and opportunities."

Bonus culture

But there is one potential spanner in the works. The UK's position as the leading financial services centre in Europe - if not the world - is unlikely to be under threat in the near future, but there is an issue that has some bankers concerned. There are mutterings about a cap on bonuses in the banking sector, and already an added 'banker's tax' on bonuses, which have already led to some firms complaining that they are unable to attract the highest calibre of staff.

And while the back office is not known as the highest-earning part of any bank, there are concerns that the higher echelon of management may not want to move to London - or work for a British bank - for financial reasons. "Nothing's happening yet, but we're not talking salaries in the multi-millions here," says one insider. "But someone on a good six-figure salary is going to notice when a big wedge suddenly gets removed. London is not the cheapest place in the world to live or do business anyway, and if they're going to get their incomes hammered too, they're going to want to go to Frankfurt or Paris."

The potential increase in taxation isn't limited to outsource providers. Asset managers are also rethinking their investment strategies and many have said they are looking for offshore routes - the Channel Islands and Switzerland seemingly the most likely options - for managers to base their teams.

"We're not going to see a huge exodus," continues the insider. "The UK will remain a strong centre for investment because that's where the investment opportunities are. There are also legal restrictions on some fund types that prevent them from going offshore. But where funds can choose their domicile, it's unlikely that the UK will be at the top of the list. And custody banks aren't deciding the market; they follow the funds, so I can see more outsource providers increasing their presence there rather than here."

Not everyone is so downbeat. State Street's chief executive Jay Hooley is looking for further acquisitions in Europe after already snapping up the businesses of Bank of Ireland and Intesa Sanpaolo in Italy. With its European headquarters in London, and having recently won the custody and fund administration mandate from the government-run National Employment Savings Trust - a fund expected to be worth £100 billion within 30 years - Hooley says that there is plenty of opportunity.

"Most growth is tied to GDP growth and economic growth," explains Hooley. "We'd like that, but we are also interested in the evolution of asset pools. As asset pools move from government to company sponsored pension plans... there are more things we can do."

Hooley added that although the financial picture at the moment isn't great, State Street is focusing on the long term, where increasing funds will see more opportunities for custodians. Margins here are slightly higher than in the US, making it a "more exciting" opportunity.

Regulation

Final agreement has been reached on the European Union's controversial proposed alternative investment regulations.

A week after France and the UK struck a deal of their own on the directive, paving the way for its approval by the EU's 27 member states, those states and the European Parliament have reached a deal that assures its passage by the latter. Approval by both bodies is required for the proposal to become law, which it is now expected to do early next year.

The European Commission's agreement with the parliament contains a few changes from the draft approved by EU governments. But those are relatively minor; the real heavy-lifting on the compromise was accomplished last week by EU finance ministers after an increasingly isolated France agreed to drop its opposition to granting access to all EU markets to foreign hedge funds.

The directive will impose strict new reporting and custody requirements on hedge funds and private equity funds, as well as placing them under the authority of the new European Securities and Markets Authority. Private equity funds will also face new asset-stripping rules.

The controversial passport will not come into effect for EU firms until 2013, and foreign funds will not be eligible until 2015. Until then, the current regime that allows each EU country to decide which funds will have access to their markets remains in place.

There's no doubt that custody banks did suffer during the downturn, but the new slimmed-down providers have ensured their costs are at a minimum while their technologies are leading edge

The future

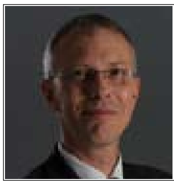
So as money starts to return to the markets, the support services are well-placed to offer the highest standards of service. There's no doubt that custody banks did suffer during the downturn, but the new slimmed-down providers have ensured their costs are at a minimum while their technologies are leading edge.

It would be extremely difficult for a new entrant to gain much traction in the UK; the market is pretty much sewn up by players who are already offering a good quality service at a relatively low cost. Perhaps this is why there are constant rumours of further consolidation - HSBC recently denied that Northern Trust was a target - as it seems that anyone who wants a piece of the UK will have to buy in. **AST**

View from the top

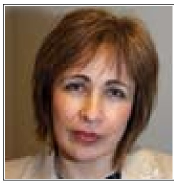
As Asset Servicing Times launches, we ask the leading industry players about the state of the asset servicing market and ask for their predictions for the future

Ben Wilkie, editor



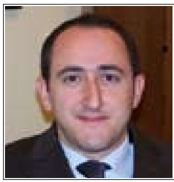
Pierre Cimino
CACEIS Investor Services
Managing director CACEIS Bank Luxembourg

Charles Cock
BNP Paribas Securities Services
Head of client development



Lilla Juranyi
ING Commercial Banking Securities Services
Global head investor services

Ulf Norén
SEB
Global Head of sub-custody



Philippe Rozental
Societe Generale Securities Services
Head of asset servicing

Rob Wright
RBC Dexia Investor Services
Global head of products and client segments

Steve Smit
State Street
EVP, head of global services, UK, Middle East & Africa

Meeting you....
We look forward to meeting many of you at the Global Custody Forum
Justin Lawson, publisher

AST: How has the asset servicing industry fared during the financial crisis?

Pierre Cimino: The asset servicing industry is very closely linked to the fortunes of the asset management industry, and suffered a heavy impact during the crisis. Asset servicing providers had to support the same fixed costs whilst receiving reduced revenues from a shrunken pool of assets. However, the recovery will hopefully come relatively quickly for the asset management industry and this should lead the asset servicing industry back to its previous levels of profitability. This profitability is key to product and service R&D, which in turn ensures enhanced services for the asset management industry.

Ulf Noren: The obvious answer to this is that the industry travelled into a landscape that was gloomy, cold and unfriendly with lowered transaction levels (that to some extent has picked up again), with lower assets under custody (that to some extent has came back) and with no interest net to support the weakened business picture (and whether THAT ever returns remains to be seen). This is what I normally answer, looks a bit spaniel sad and then jumps into the need for this industry to consolidate etc, etc.

Still true, but I would like to respond from another angle: The global financial markets have been hit by their worst crisis for several decades and, to my knowledge, in no single case has the post trade industry been pointed at as a contributor to the crisis. Rather the opposite, it has withstood the pressure, made sure that rights have been protected and managed enormous workload with a high degree of transparency where transparency was called for and integrity where integrity was needed. So, my analysis from that angle is that the industry stood up very well and has a lot of things to be proud of and praised for in that respect. That is also true for our five markets in the CEE particularly badly hit by the crisis.

The industry still needs to consolidate though.

Philippe Rozental: The asset servicing industry suffered from the decrease of assets value and higher pressure on costs from its clients. However in this difficult period, we also take the opportunity to strengthen our operational model through projects to optimise our internal process and clients service levels.

Charles Cock: Asset servicing tends to lag the rest of the investment industry cycle. Whilst the value of assets declined during the financial crisis, the volume of transactions was volatile, which helped keep fee-generation relatively high, at least for a time. On the other hand, rock-bottom interest rates means net interest earnings (NIE) have been negatively affected. There has been less appetite amongst asset owners for securities lending, although this is picking up now.

An inevitable consequence of all this is that margins, and overall profitability, have been squeezed and industry consolidation is rife.

As investor confidence was being dented, custodians with strong balance sheets and higher credit ratings tended to perform better.

Rob Wright: The asset servicing industry has fared better than many other parts of the financial industry during the financial crisis, owing to its lack of reliance on capital markets activity and debt financing. It also focused the minds of clients who realised they needed to focus on their core activities and outsource back office functions to specialist providers. However, nobody escaped unscathed. Falling asset values had a clear impact on custody revenues based on market prices and this has led the industry to reconsider the business model to some extent, in terms of diversifying revenue streams and offering more value-added middle and even front office services to clients.

> Cock: As investor confidence was being dented, custodians with strong balance sheets and higher credit ratings tended to perform better.

Steve Smit: Like every sector of the financial services industry, asset servicing has felt the impact of the financial crisis. However, the events of the past two years are also creating opportunities. Post crisis, there has been an inevitable increase in regulation and greater demands for transparency. These issues are combining with secular trends, such as the challenges around long-term savings, to cause significant upheaval, and investors need their service providers to support them through a radically different competitive environment. The asset servicing industry has a major opportunity to generate value, whether by helping asset managers to streamline and "future proof" their businesses through outsourcing solutions, or by enabling pension funds to gain greater insights into performance through advanced analytics tools — to name just two examples.

AST: What lessons need to be learned and what changes need to be made, if any, to the current custodial business model?

Rozental: The custodians had to adapt their cost structure to face this more challenging environment but also develop some new added value services to help their clients in this context. For example, the need for independent valuation on OTC and Structured products has become a must for a large part of our client database. It's also interesting to note that some fund managers decided to diversify their providers given the fact that their existing custodians were not able to provide such services.

Noren: Most European sub-custodians find themselves in a position where they need to re-engineer considerably. The rules for the custody product are now:

- It has to be geographically and product wise diverse in a much clearer way than today

- It has to demonstrate increased focus on asset servicing and willingness for reliable transaction processing and investment also in the interim leading up to T2S

- It has to show ability to service and an understanding for, transactional banking products to a greater extent than just custody.

- It has to meet competition from traditional utility providers and in some of those cases fight off commercial monopolies. Or make sure that they are not entering the commercial banking playing field.

- It must be sustainable also in scenarios where the securities settlement revenue curve is only marginally higher than the cost curve.

- It must have built in robust, complicated and efficient functionality for collateral management

Cock: The crisis highlighted the need for a custodian's underlying financial stability and the need for it to ensure asset safety.

Clients have become more risk-sensitive, which is a good thing. Pre-crisis, banks and investors had perhaps become too complacent in terms of allowing where cash collateral could be re-invested.

There is now a political desire to mitigate systemic risk in the light of Lehman Brothers' bankruptcy, and that is why we are seeing such a tsunami of new regulation – to provide greater transparency and investor protection.

Following the Madoff fraud (and Lehman's collapse), we are seeing pressure to increase the burden of liability on depositories, as proposed in the alternative investment fund manager (AIFM) directive.

Those custodians who did not continue to invest in technology and geographical presence during the crisis will struggle to demonstrate long-term commitment to the industry. We have also learnt that having a broad client base, a wide product range and geographical diversity helps to even out variations in business activity

Wright: The industry was already aware of the fact that offering middle office services needed to augment existing custodial revenue streams and the financial crisis just reinforced this notion. We are not looking at fundamental changes to the custodian business model. Rather, we are looking at the evolution of the industry. How can we move from being pure providers of outsourcing services to a true partner with clients where we become instrumental in the development and implementation of their product strategy? This is what drives us to move forward with the ideas we have for distribution support, risk and investment analytics and enhanced market products and services.

Lilla Juranyi: All financial institutions have put a great deal of effort into analysing the reasons for and the consequences of the crisis internally. However, the new wave of regulatory changes is actually the main driver for our industry and will remain so in the coming years.
Asset protection is a priority.

In the Netherlands the regulator has already launched a special procedure to be applied by each custodian to comply with asset segregation and protection regulations. It is the creation of a separate entity - a special purpose vehicle (SPV), with the single task of keeping clients' assets. Such SPVs cannot perform any other activity, thus eliminating any risk-taking operations. ING has successfully completed a project with all of its CEE branches whereby we have reviewed and implemented the highest level of asset protection for the benefit to our clients. We are now rolling this project out to the other countries where ING is operating through its subsidiaries.

Smit: The business model does not need to change — rather, the priority must be to restore confidence across the industry. There are a number of aspects to achieving this goal. Improved transparency around the safekeeping and performance of assets is critical. A sustained, industry-wide focus on risk management, including investment in additional people, technology and capabilities, is necessary to ensure that it remains a high priority. There is also an educational aspect. Innovation is a huge driver of progress across the industry and, with the emergence of complex products, there is a shared responsibility on the part of the industry and investors to improve understanding. It's important that, while the industry focuses on developing products that most effectively achieve investors' goals, there's sufficient clarity around any risks involved.

> Wright: The industry was already aware of the fact that offering middle office services needed to augment existing custodial revenue streams and the financial crisis just reinforced this

Cimino: The crisis served to highlight the differences in interpretation by member states of European law concerning depositary liability and the duty of restitution of assets. The fact that such differences arose will kick-start the process of designing new European legislation covering the role of the depositary which is more precise and less open to differences of interpretation. Such actions will promote a more level playing field for Europe's depositary banks, wherever they are located, hence providing a major advantage for the larger players.

AST: What will be the key added value services being pushed in 2011?

Cock: The appetite for securities financing is now returning, as is demand for automated foreign exchange for currency hedging.

As clients' demand for alternative investments to boost performance has returned, it will be important to provide the more specialist services required by managers of hedge funds, fund-of-hedge funds, private equity and real estate.

The European Market Infrastructures Regulation (EMIR) is herding OTC derivatives towards centralised clearing, so asset-servicing providers are adapting their offer here, along with related collateral management outsourcing.

There will be greater emphasis on risk mitigation, and risk and performance measurement tools

Wright: In the coming year, we see the opportunity for service providers to act as the glue between manufacturers and promoters as an increasingly important component of investor services. By this, we mean that service providers need to enhance their ability to facilitate the distribution of funds. The support they provide at present needs to evolve to meet increasingly complex client needs. In combination with the geographic and product expansion of risk and investment analytics and further development of derivatives processing, I think it is clear that the value lies in services directly aligned with the focus of clients in the present environment.

Juranyi: The question of value-added services depends on the particular market and on the type of client. A few elements that are understood as value-added services are:

- market advocacy;
- proactive risk monitoring;
- liquidity management; and
- performance reporting.

These elements are gaining more attention and recognition. Just a short explanation about market advocacy: it is the more complex approach of providing clients with clear and comprehensive market information and changes in a timely manner with a careful impact analysis. The impact should be measured differently according to the different types of end-investors. More clients expect various tutorial documents and it is clearly stated by the professional clients that the professional market advocacy can be a clear differentiator.

Smit: We are seeing increased interest in enhanced collateral management, risk analytics and over-the-counter (OTC) derivatives processing. These are set to continue to be significant trends next year. The common theme is transparency and governance — investors are looking for increased oversight of their investments, and more structure around how they are managed.

Rozental: The collateral management support services appear to be the one that will be the most demanded service next year. This includes CSA management, margin calculation but also the capacity to value all positions, including OTC, on an independent basis and to manage disputes with counterparties. The new UCITS regulation may also lead to an increase in demand for risk services to provide KID to asset managers.

> Wright: The industry was already aware of the fact that offering middle office services needed to augment existing custodial revenue streams and the financial crisis just reinforced this

Cimino: The three main services where we have experienced a strong demand are:

Outsourcing - mostly of middle office services. Rising operational costs coupled with the current difficult economic market conditions, have pushed many investment managers to look at outsourcing expensive in-house functions. Efficient middle-office services allow managers to switch from fixed costs to a variable fee structure, and enable them to cope with additional demand without additional investment in staff and technology.

Risk management tools and analysis - The crisis dragged risk management to the top of the agenda and many companies will want to demonstrate a rigorous risk management process to their investors. With complex instruments such as derivatives now even used by UCITS to diversify portfolios and improve returns, firms are exposed to new risks, which call for a thorough review of their current risk management systems.

Depository controls - Further to the consultation phase that took place in 2009 in Europe with regards to better defining the scope of the depositary role within UCITS, the industry moves toward controlling the depositary activities. Furthermore, similarly to a trend already experienced in 2009, investment managers, especially offshore, now face transparency requests from investors which have strengthened requirements in their due diligence processes and increasingly value or even require the intervention of a third party fund administrator and of a third party custodian bank.

Noren: We are not really pushing anything and the discussion should rather, in my opinion focus on what is value added as it is so frequently phrased by custodians. Is it there to differentiate fee levels or can it even be counterproductive (by either indicating that the rest of your offering is not adding any value or by the assumption that it is so special that it is something strictly not needed to get by). The traditional thinking has been to put settlements, the actual safekeeping, income admin, some corporate action types and standard reporting as core. The same traditionalists have often put securities lending and borrowing, MIS, market information, tax services and voting as value added. There are a number of grey zone offerings: commodities, private equity products, remote access, Clearing services, compliance reporting, collateral management, asset class coverage, tax and risk management. And more. We believe that thought leadership importance will grow and that providers will be measured on how public they are with industry opinions, how much they encourage media debates, how much time they spend in intensive client dialogue and its ability to continue building trust in a complicated landscape.

We conclude that value added easily can be re-branded non-core and thereby deemed as non-essential. Value added branding can easily reduce other products to commodities. The combined service offering is the foundation of it all. Services can be unbundled but should never be sold on an exclusive basis. The regulatory landscape is challenging and a custodian bank must realise its role in being in the forefront and ensure advisory capability to keep clients compliant. I guess most clients can summarise this in the following statement:

''What is value added?'' Well: ''Anything that makes me operate more efficiently, cheaply, that supports my business model, reduces risk, keep me out of trouble and makes me sleep at night is value added. At least for a while.''

AST: Describe the current trends in custodian selection.

Rozental: Clients are looking for a global operating model able to serve global clients with cross-border capabilities and differentiating services at the best price.

Wright: While cost is always going to remain a primary consideration, it is also clear that the ability to service a client globally and with a comprehensive suite of services is also increasingly important in the custodian selection process. However, once you get beyond the initial box-ticking, what you find is that clients are now engaging far more with the relationship element of selection. They want to know that they are getting a partner who can help them realise their ambition and take them where they want to be.

Juranyi: As ING is a sub-custodian, I will refer to the agent bank selection by the global custodians. The process of selecting a sub-custodian has slightly changed during the post-crisis and the elements set forth below are now receiving more focus:

- commitment;
- risk management and
- market advocacy.

In the sub-custody selection the regional reviews have shifted to individual market reviews or groups of two or three countries. In this process the advantage of a multi-market or regional provider is obvious over a single market provider and this trend will be strengthened in the coming years.

Smit: Investors are seeking greater cross-border and global coverage, particularly with the advent of UCITS IV. Increasingly, they need their investment servicing providers to combine global strength and consistency with local resources and expertise. Scale is important, as competitive pressures drive a search for cost efficiencies. Investors are also scrutinising the financial strength of counterparties more closely than ever. They are looking to do business with firms that are strongly capitalised, as underscored by the flight to quality during the financial crisis, when investors rallied toward providers with strong balance sheets and capital ratios.

Cimino: Today most asset managers or institutional clients are looking for a full service provider in order to avoid having to deal with separate asset servicing companies for custody, fund administration and transfer agency needs. Today it is only the largest providers that are able to offer, and continuously enhance, such an extensive service range.

Cimino: There is constant downward pressure on fees, both from new and existing clients. This is driven both by clients looking to improve their returns and reduce their TER in a highly competitive marketplace

Another increasingly important selection criterion is the levels of shareholder equity that asset servicing providers hold. Companies are clearly taking a risk when outsourcing even non-core activities and a high level of financial stability reflected in a strong tier one shareholder equity figure of a publicly listed company is today a key decision factor. Privately-held, limited liability providers are unable to offer such solid assurances for clients and as such have more difficulty attracting risk aware clients.

Noren: The same complex and information riche questionnaires are still used and the risk and prudency sections are expanded. This is a good thing and demonstrates the buyers' need for a solid coverage of client protection and regulatory compliance environment. Apart from this, the selection process ends up with a decision and the past five to seven years we have seen the following list of priority being dominating the decisions:

1. Reciprocity. Still highest on the list and we can continue to try to masquerade it under other names but it's there.
2. Fees
3. Quality

Following the crisis and the increased speed with which EU consolidates, we have seen two more aspects coming into the equation:

a) Thought leadership: How and with how much focus does the agent bank work to visualise the need of the cross border client community, how are they influencing local and regional decision making and how much are they engaging in the public debate? Are they willing to set half a day aside for individual clients in order to absorb individual client feedback and let that influence its general profile.

b) Survival. Let's call it that instead of sustainability. Will the agent bank be there also tomorrow? A nightmare for many service buyers is to wake up to a message saying that the sub-custodian has decided to refocus on core business areas where custody is not one of them and be given a three to six months notice period to find someone else. Or maybe even worse, activities have been sold off, maybe to a competitor of the client.

In a peer publication of yours a recently published survey showed that network managers rank the following five as the important factors:

1) Service capabilities
2) Committment to business
3) Credit worthiness
4) Risk management
5) Technology.

Cock: There is continued demand for asset safety, for example, assiduous due diligence over custodian networks. Proprietary networks are now considered safer by the regulators. Stable, financially strong partners are being favoured.

Outsourcing of middle- and back- office functions continues, especially from small- and medium-sized broker-dealers and asset managers: to providers who have scale and expertise. This trend is being accelerated by the need for independent valuation. At the same time, there is increased pressure for greater price transparency.

We are seeing stricter regulations in response to the crisis: Basel III relating to liquidity; EMIR, which is being fast-tracked into legislation; a new, wider role of the European Securities and Markets Authority (ESMA) which is replacing CESR in January

There are also regulations designed to improve European fund industry competitiveness and investor protection, eg, Ucits IV will be transposed into national law by July 2011

Rozental: The fees structure has not radically changed over the past three years. There have been more requests on the market for custodians to provide more transparency on the pricing schedule and adapt their fee structure more adequately to the evolution of the assets.

AST: How have the custodial fees changed over the past three years and what has been the driver?

Juranyi: The tendency has not changed: while the fees are being pushed lower, there are still higher expectations for excellent service delivery. How far the fees can be pushed? In my opinion there is no more room for further discounts without compromising higher service delivery or the support required for the clients' risk management process. It is expected that sooner or later some fees shall increase or separate fee elements will be added for additional service requirements. The big question is when it will happen and who will be the first to do this in a very competitive market. However, the debate about bundled or unbundled fees has not significantly changed since the crisis.

Cimino: There is constant downward pressure on fees, both from new and existing clients. This is driven both by clients looking to improve their returns and reduce their TER in a highly competitive marketplace. Fees are also lowered in response to competition pressures from other asset servicing companies. Asset servicing companies have some leeway to reduce custody fees if they are able to generate greater profits through more profitable additional "added value" services, but such fees can only reach a certain level before they start to have an impact on a company's product development plans.

Noren: They have gone down, down and down. The reason for this has been an ever sharpening competition for volume and it has been most evident in the transaction charge part. At the same time, we have seen pressure on the value base fees but not as strong as in the transaction field. The reason for this is fairly obvious and relating to the large focus on transaction harmonisation in Europe where the commercial value of a securities settlement will be reduced with the introduction of T2S and the increased European transparency. On the other hand, we are not there yet and the industry must become much

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better in visualising what it is doing in terms of risk mitigating and in some cases also risk taking, in bridging inefficiencies both in underlying infrastructures and in clients' on processing.

In the CEE markets outside of the EU, fee levels have resisted this drive better and the reasons are related to volume and risk exposure that are much more obvious to see there than they are in the EU/EEA-zone.

Cock: During the bull run, custodians could afford to be aggressive with their pricing. More business and new clients, combined with organic growth projected over several years, was off set by any loss in business (churn) and 'repricing'. The crisis has produced a new reality: negative growth, shrinking asset value and a lowering in numbers of funds, all of which has created downward pressure on pricing. (This makes for an uncomfortable situation as the custodian's cost structure is more or less constant.)

This means there is also client pressure for more cost transparency and unbundling, aiming for more accurate pricing.

Clients are seeking more asset protection but they should to be prepared for the greater charges associated with this.

Wright: Clearly there has been a compression of custodian fees over the past three years, particularly for commoditised products and services. However, this is driving the march of the custodian into the middle office and beyond, where more value-added services offer clients with a more compelling proposition for which they are prepared to pay. The key is go beyond the core services and to track or ideally anticipate the direction of your clients and the asset management industry as a whole.

AST: Where do you see the industry headed in 2011?

Smit: The strength of the overall economy is critically important to the health and prosperity of markets generally, and the action being taken by governments around the world to put their economies on a sounder footing should provide a solid platform for next year. Improving investor confidence will help to promote a sustained rise in equity markets, which will push up asset values and have significant associated benefits for our industry. The financial crisis will have long-lasting implications for the market environment — not least in terms of regulation — and the industry must adapt to changing investor priorities. Staying close to your clients and understanding their evolving needs is more important than ever.

Cimino: Economies of scale and the ongoing trend for engaging a full service provider favour the larger players. There has been much consolidation in the industry over the past few years and we see more to come in the future. Currently, there are five or six European players all of which are aiming to grow. Fortunately, CACEIS is considered as a possible consolidator in Europe. We intend to play an active role of consolidation in Europe, possibly by building a partnership with one of the other European players.

Noren: I do see the consolidation of provider-wave continuing. Providers must show maximum proactivity in developing their operational models and driving underlying costs down, ensuring minimum capital spending.

I would like to see the industry going in the direction of further break-up of vertical silos in the post trade environment, further consolidation of CSDs and CCPs and also seeing that space make a return to basics of being utility rather than commercial players. I would also like to see a further dismantling of national barriers with a much stronger industry involvement.

Finally, I would like to see real evidence of the more and more outspoken opinions that pricing models need to change in this industry with more unbundling and a clearer reflection of risk premiums and liquidity supply roles performed by sub-custodians. As we do believe that the number of sub-custodians in Europe will be slashed the next few years, we also would like to express a wish for an increased level of innovative investments - can this happen when such a big part of every enitities investment budget is consumed by mandatory regulatory and politically driven changes. That is the million dollar question I guess.

> Juranyi: Analysts predict that the market will recover in the second part of 2011

In the CEE part of the world, I hope that we can continue the drive towards simplification of many market features, achieve an even greater influence level, reduce risk elements, coming closer to market infrastructure consolidation and generally pave the ground for a deserved volume growth.

Cock: Our industry is becoming more complex and competitive as buy-side and sell-side interests converge, long-only and alternative strategies cohabit (eg 'Newcits'), and institutional and retail investor interests align. Against a background of sluggish economic growth and volatile financial markets, there is more pressure to both perform and reduce costs, whilst remaining stable.

Custodians must respond by investing in industry-wide platforms, as well as company systems to improve rationalisation, reduce cost and risk.

Working hard to understand and defend clients' interests by shaping regulation is also essential, as is creating and advising on solutions adapted to the new legislative landscape (eg KIID-compliance for Ucits IV)

Some legislation relating to compliance and fraud will prove rather restrictive and expensive to many custodians, especially smaller and local ones

Global reach will become more significant, to serve the growing number of clients with international ambition

Wright: Next year is a real opportunity for the industry to show its strength as the demands of new regulation and the new avenues fund managers are exploring challenge us to continue ensuring the smooth running of the back office. We can also expect further consolidation as the smaller, local administrative players find it increasingly difficult to compete in a globalised market.

The challenge for all providers will be to provide a globalised service but with a highly developed client focus, that feels more bespoke than off-the-peg. That is certainly our goal.

Rozental: The industry will face new challenges due largely to the evolution of regulation. For example, this will concern connectivity to CCPs for major commoditised OTC products and the production of new risk indicators to provide new reporting.

Juranyi: Analysts predict that the market will recover in the second part of 2011.

Simple and transparent service offerings will be requested by the professional clients with sophisticated performance reporting. Further system developments, more efficient joint market lobbying and concrete results from the working committees of the various Market Practice Groups will feature strongly in 2011.

In providing a few examples from CEE where ING is a prominent provider: in Poland the final clarification about short selling and the omnibus account should result in implementing the omnibus account structure at the beginning of 2012 at the latest. Russia and Ukraine have announced that a CSD is expected to become a reality and be launched in 2011. In Hungary the big question mark is the recently announced change of the pension scheme and its impact on the capital market in the longer term.

In other parts of Europe we expect more clarification about T2S and the impact of the split service offering for settlement and other post trade services. Settlement through T2S will happen: there are some questions but, at the same time, no doubts. Accordingly, the operations of local agent banks will have increased importance in connection with the asset servicing.

If a custodian has a clear strategy with strong commitment, if it is communicated to its clients in a transparent way and the custodian delivers operational excellence, then 2011 will be a successful year. **AST**

A New Frontier

Finadium's Josh Galper explains how liquidity risk management has become of prime importance for asset managers, hedge funds, plan sponsors and their vendors

EXCLUSIVE

Liquidity management has entered the lexicon of important topics for discussion at asset managers and plan sponsors. Prior to 2008, market liquidity was largely taken for granted, except when holding small capitalisation stocks or other unusual situations. This is emphatically no longer the case, as a wave of regulation, technology and client demand can attest.

In Europe and the US, regulators have taken an active role in requiring asset managers to provide consistent reporting on liquidity. The United Kingdom's introduction of liquidity reporting rules for banks has impacted bank subsidiaries who are asset managers; these firms must now produce liquidity risk management data as part of their parent companies' reporting requirements. Solvency II, a European-wide set of capital rules for insurance companies, has played a similar role for asset manager subsidiaries of insurance companies. While asset managers were not directly targeted with these regulations, the fact that so many large managers are affiliated with banks and insurance companies means that they have been implicitly captured by liquidity risk reporting mandates.

The US Securities and Exchange Commission (SEC) announced earlier this year new rules for money market funds. Along with specific liquidity buckets for 2a-7 regulated funds, money managers must now publish a shadow Net Asset Value (NAV) that shows the liquidation value of a portfolio; saying that funds have a US$1 NAV no longer is enough, even though the buy-in and redemption price remains US$1. The SEC is now also allowing variable NAV (vNAV) funds, which offer substantial benefits in liquidity management for both money managers and their clients alike. Like any new product introduction however, it will take some time before these vNAV funds become understood and adopted in the marketplace. To date, other types of US asset managers have not been asked by regulators to report liquidity data, but that does not mean that they are ignoring the topic.

For plan sponsors, while no regulation yet exists to push them towards liquidity risk management, their experiences in 2008 has shown them that careful monitoring of liquidity can only be to their benefit. The inability to meet funding obligations in a timely manner combined with concerns about credit markets freezing or money market funds breaking the buck should be enough to make any plan sponsor nervous. Liquidity risk management is a clear step towards effectively monitoring for potential trouble.

The technology for asset managers and plan sponsors to evaluate liquidity risk is evolving rapidly. While bank Asset Liability Management risk packages are widely available, the unique needs of asset holders are giving rise to new vendors and offshoots of risk management systems specifically for this market.

These technology firms have found that going after asset holders as risk management clients is not the same thing as targeting the banking industry. As market participants have gotten more comfortable with the notion of liquidity risk, a bifurcation has developed between the needs of banks, insurance companies and asset holders. Over the last year, the idea of liquidity funding risk has been more closely associated with the traditional bank and insurance company activity of Asset Liability Management (ALM), or the ability to pay the bills when the bills need paying versus what cash is on hand. On the other hand, liquidity market risk management has developed a life of its own for asset holders who want to be certain that they can exit investment portfolios on demand.

Clients and stakeholders also want to see how their asset managers are handling liquidity risk. While it is easy to show a client a nice report, this does not necessarily translate into using liquidity risk management, or any other kind of risk management, for portfolio decision-making. Linking risk reports to action steps is what makes the difference, and this is what smart investors are asking for. The first step is acquiring the ability to run analyses, whether from a custodian, as part of a risk reporting or performance attribution package, or whatever else is meaningful to the asset manager for decision-making. The second step is using the results to inform that decision-making.

Banks, brokers, technology vendors and investment consultants have a unique opportunity in the liquidity management market. From time to time, a regulatory development or market trend arises that forces a large segment of asset holders to look in a new direction all at once. This will be the case for liquidity risk management over the next year and a half. Firms with the most experience in managing their own or their clients' liquidity risk are very well positioned to provide tools and consulting help to the rest of the market. We expect that this need will ultimately cut across nearly every type of asset holder, including mutual funds, registered investment advisors, hedge funds, UCITS funds and pension plan sponsors.

While the largest firms will build or buy their own liquidity management tools, a broad segment of the asset holder marketplace does not have the same financial resources. Instead, these firms will seek out assistance from their prime brokers, custodians and investment consultants to generate liquidity risk management reports, creating an opportunity for service providers to capture additional outsourcing revenues.

However effective vendors are in delivering technology, a gap will still remain in translating liquidity risk management reports into actionable portfolio management. The importance of completing this step should not be underestimated; unless liquidity management reports are used in decision-making, they become nothing more than a tool to please regulators and investors. Alongside the provision of technology, banks, technology vendors and other service providers should emphasise the need for asset holders to create processes that make liquidity management data useful for real-time portfolio management. **AST**

About Finadium

Josh Galper is managing principal at Finadium, a research and consulting firm focused on financial markets. In its research practice, the firm assists asset holders, banks and technology firms with understanding the market for asset services and in maximising the effectiveness of their resources. Finadium research is available on a subscription basis. Finadium also conducts consulting assignments on vendor selection and evaluation, market research and product strategy. For more information, please visit our website at www.finadium.com.

The new service culture at Euroclear

Asset Servicing Times had an in-depth conversation with Euroclear executives about the most important goals for Euroclear during the period ahead

EXCLUSIVE

AST: How has Euroclear performed during the recent financial turmoil?

Euroclear is one of the most trusted service providers in the securities services business. It was most vividly evidenced in the role Euroclear and other market infrastructure service providers played during the recent financial crisis, where Euroclear's reputation as a 'safe haven' was accentuated by the rush of clients seeking a venue offering asset protection.

Moreover, Euroclear's regulators exempted Euroclear Bank, the international central securities depository (ICSD), from the recent round of stress tests, undoubtedly and largely due to its single-purpose bank status and sound risk-management practices. Euroclear Bank would have passed the test with flying colours, as it maintains regulatory capital ratios well above the minimum requirements. Conservative and prudent risk management is part of Euroclear's DNA.

AST: Attitudes to risk have changed, which means collateral management is an increasingly important part of a firm's role. How has this affected your service offering?

Euroclear's expertise in the area of collateral management is also helping its clients to manage their exposures to risk. As a consequence of the financial crisis, the market is moving from unsecured to secured transactions. This means that collateral is in greater demand and clients need to optimise their use of collateral in order to secure exposures arising from many different types of transactions, such as repos, loans, derivative transactions and more.

This is a role that Euroclear is already expanding as it manages more than 500 billion euros per day in collateral for its clients. Euroclear sees more growth possibilities for this business by collaborating with central counterparties and their clients in managing collateral required for clearing operations, including derivatives. Euroclear Bank already has agreements in place with LCH.Clearnet and ICE Clear Europe along these lines.

Helping clients gain access to liquidity through collateralised transactions is one of the important measures of Euroclear's value proposition. Offering ways to reduce risk is one dimension, but this is a goal that resonates across the entire service portfolio of the Euroclear group.

AST: Service providers are being pushed to offer more and more for their fees. Does this affect an organisation like Euroclear in the same way?

Euroclear's mission is to deliver strong products and services that clients need, when they need them. Even though Euroclear runs its business commercially, its philosophy is to put client and market interests first. Unlike Euroclear, similar service providers have public shareholder interests to consider. This is one of the reasons why Euroclear remains a low-cost service provider, yet invests heavily in protecting the infrastructure itself with developments that do not necessarily generate income for the company.

Euroclear clients will also see more agility and flexibility in how Euroclear moves forward on delivering the benefits of its "domestic market for Europe" programme. Delivering these benefits in a sequence that meets client needs when they need them most, is the new mantra.

Accordingly, Euroclear will complete the launch of a new Common Communications Interface (CCI) as quickly as possible. This will allow clients to use a single gateway of their choice to access all of the harmonised custody enhancements that Euroclear will be delivering in 2011 and to access the largest single pool of collateral available in Europe that is held across the Euroclear group international and national CSDs. The CCI will provide clients with the opportunity to rationalise their communications networks and benefit from the economies of scale that fewer interfaces entail.

Service will become the differentiating factor among post-trade 'service' providers in the future, which is why Euroclear is concentrating on building an even more client-focused service culture.

According to Euroclear, all of the various Euroclear entities have worked hard to earn the trust of their clients over decades, which is a formidable achievement. Many central securities depositories continue to look to Euroclear, first and foremost, as their preferred partner to attract foreign investors to invest in their local securities. For example, most recently, Euroclear Bank was the first ICSD to create links with the CSD of Korea.

While technology is a critical enabler for infrastructure service providers to automate and increase efficiency in the processing of various types of transactions, it's the quality and timeliness of the deliverables that sets service providers apart.

Clients will see Euroclear strike a new balance between the pursuit of new business opportunities and the risk of going after them in that Euroclear will become more agile and pragmatic in its approach.

In that regard, Euroclear believes its independence from being owned by a stock exchange group gives it a competitive edge. Today, CSDs comprising the Euroclear group work with more trading and clearing infrastructure partners than any other settlement infrastructure service provider. Thus, it should come as no surprise that great emphasis is placed on Euroclear's ability to provide a single point of access for clients to multiple markets, securities and counterparties.

AST: This single point of access must be a key driver for clients looking for depositary services?

Clients will save money and benefit from less complex processes to settle and safe-keep domestic and foreign securities as harmonised asset servicing becomes the norm at Euroclear. Furthermore, Euroclear clients will have a single entry point to the Euroclear group through the Euroclear ICSD or CSD of their choice.

This means that securities professionals choosing Euroclear will have easy access to about two-thirds of all blue-chip equities in Europe, about 50 per cent of all European domestic bonds and the majority of international securities through one relationship.

Those choosing to work with Euroclear Bank, the ICSD, will have access to domestic securities from more than 40 countries and will be able to settle transactions in any of more than 50 currencies.

There is general agreement that the traditional securities infrastructure (stock exchanges, central counterparties and CSDs) are effective for domestic transactions, but too expensive and complex for cross-border transactions. However, there is no common agreement, either from the market or the public authorities, as to whether competition or organised consolidation is the better way to achieve lower costs and risks.

One of the reasons was that, at trading level, there was an expectation that market forces and competitive pressures would lead to consolidation among European stock exchanges. Instead, the mergers have been trans-Atlantic and the endgame has probably not yet been reached. The popularity of multi-lateral trading facilities (MTFs) have made the future of Europe's trading venues even less certain, with some exchanges and MTFs likely to pair off together.

At the clearing level, a wide but not consensual view was that a single central counterparty (CCP) covering different markets and transaction types would be the most effective for Europe. This was referred to as the 'hour glass' model, with many trading and settlement providers working with a single CCP. The benefits of trade netting would be maximised with a single CCP.

But, clearing has become a very competitive business. MTFs have sought to leverage their lighter structures and business models by introducing new CCPs that compete with previously established CCPs. We are starting to see overtures towards CCP consolidation, but the path is far from linear and neither will it be smooth.

AST: Where do you think the market will go over the coming five to 10 years?

Taking a holistic view, the securities infrastructure bears little resemblance to what it was 10 years ago, especially in Europe. Five years from now, we will probably make the same observation compared with 2010.

There are two factors that may lead to a more coherent post-trade environment in Europe in the coming years: the emergence of Target2-Securities (T2S) and true open access so that competition can play its full role.

T2S will profoundly change the landscape in which CSDs operate, and equally so for securities intermediaries that offer services in Europe. The business models of each will need to change, which will lead to a blurring of boundaries between securities service providers.

Open access in a competitive environment will not come about as a result of moral suasion, and risk reduction objectives cannot be attained without clear standards and involvement from the public authorities. Change is on the agenda of Europe's regulatory community in their review of MiFID and the introduction of new legislation.

For all its successes to date, Euroclear will have to adapt to maintain its leading industry position, as the world in which it operates is changing. The main drivers include:

The aftermath of the financial crisis and the new regulatory framework that will emerge from it;
The fierce competition facing CSDs as a result of the need to redefine business models as settlement is commoditised across Europe through T2S; and

The impact of changes taking place in the trading and clearing domains where traditional exchanges and CCPs are under siege from new entrants and where mergers and acquisitions are apt to affect transaction flows.

Maintaining a low-risk profile and helping clients reduce their own risks will continue as Euroclear hallmarks. Connecting markets and customers across the world is also important to Euroclear's future. Euroclear is committed to making the post-trade market safer and more efficient.

AST: What challenges do you see approaching?

The trading and post-trading sectors have witnessed increased competition, but have simultaneously brought greater fragmentation and complexity to the capital markets. There is a particularly strong need to ensure than the risks and costs in this new environment are kept to a minimum. This dual objective creates considerable challenges.

While the next five to 10 years will be different than the past in many ways, it would be wise not to ignore history. Admittedly, the focus in coming years is likely to be more on clearing, particularly of derivatives transactions, than on settlement. At some point, a choice will need to be made between competition and consolidation. And, both market professionals and regulators will need to determine how to work on a trans-continental basis to avoid a future global financial crisis.

New standards and benchmarks are being designed and set regularly. However, in this new world where everyone competes with everyone else, Euroclear strongly believes that infrastructure service providers – no matter their name – must not compromise on their reliability, resilience or service quality in the process.

Nearly all providers of market infrastructure services are re-inventing themselves to varying degrees in order to respond to changes in their environment. Being able to facilitate change through technology integration and transform change into new services at lower costs will be key.

Euroclear sees itself as having an important role to play in connecting markets and clients across the world, and in this respect, intends to manage the risks, threats, opportunities and challenges ahead with safety and efficiency at the forefront. **AST**

The due diligence gap

As due diligence develops, hedge fund investors are finding it more and more difficult to get the answers they need, says Phillip Chapple at KB Associates

EXCLUSIVE

The due diligence processes used by hedge fund investors are developing on a continuous basis. We see increased development of due diligence standards not just from institutional investors, but also from fund of funds, family offices and high net worth individuals. It is difficult to find a part of the operational infrastructure around hedge funds which has not been restructured or suffered intense focus.

It is arguable that this is a positive development; the industry is becoming "safer" for investors and avoidable operational risks are being minimised, making the world a safer place for those who wish to obtain alpha.

It is also arguable that this is a more efficient and effective way of regulating an industry. Investors have sufficient size and experience to (hopefully) understand what they are investing in. A manager's failure to meet the ever growing due diligence standards will most likely prevent an investment and can also result in redemptions from existing investors. The vast majority of hedge fund investors wish to protect themselves, rather than relying on politicians in Brussels who appear to have mixed intents.

The real issue for the hedge fund industry is the lack of transparency created by fluctuating acceptable levels of due diligence and the resulting implications for hedge fund managers. When a potential investor performs a due diligence review, it is extremely rare that any feedback will be passed to the manager. The majority of investors believe that it is not their duty to point out any areas of concern, or "red flags" as they are known. Any prospective investment is measured against proprietary standards which investors are often reluctant to disclose.

The lack of transparency can often result in an Investor rejecting potential investment with a standard response along the lines of:

"We really like you and your investment opportunity. However, at this point in time you are not quite right for our investment strategy and we would therefore like to keep you under review for the next six to 12 months".

The fact that the fund may have failed a due diligence review is therefore lost on some managers.

Before the wholesale changes to the hedge fund market (from 2008 onwards), investors struggled to gain access to larger or successful funds and would often invest in smaller growing funds in case they grew and soft closed to new investors. Hedge fund of funds had inflows and needed to find funds to invest in, demand for alpha products appeared to exceed supply in many strategies.

In this environment, many "red flags" were forgiven or overruled, the investment teams of many hedge fund investors had more power than the due diligence teams and so an exciting performance or an uncorrelated return could receive investment even with an unsatisfactory due diligence review. Due to the pain felt by vestors through the fall of the Madoff empire, and following the collapse of Lehman Brothers, we have seen the balance of power change at the vast majority of hedge fund investors. It is not only at institutional investors that we see the due diligence teams carry the full power of veto on any investment. Fund of funds also have empowered their due diligence teams to provide comfort to their investors, with family offices and high net worth individuals also raising the levels of due diligence and the power of their due diligence teams.

> Many investors who pulled back from the hedge fund of funds model are now seeing the benefits of the diversity and analytical overlay available

Combined with this, investors are now spoilt for choice, very few funds are closed to new investment and many large, previously unattainable funds have opened their doors to replace the AUM lost to redemptions suffered in 2008/2009. Investors no longer need to invest to keep their options open on a fund; if they find a reason not to invest in a particular fund they usually have a choice of alternatives to pursue.

The net effect of this is a change in the balance of power; hedge fund investors, rather than the managers, hold more of the power and expect the managers to realise this, thus leaving some of the previously tolerated attributes behind. Historically, there were some managers who “believed their own press” and were overtly arrogant to their investor base, refusing any form of access to the decision makers and laughing off requests for transparency. For a manager to thrive in the current market, an understanding of their role as a fiduciary for their investors is critical, as is a polished investor relations veneer.

Not all managers have yet fully noticed the above core changes. There are still those who continue to show little respect or understanding of their investor’s requirements. There are some who have realised the tide has changed but have not yet adapted to meet the growing expectations of potential investors; such managers struggle to raise new capital and face one redemption after another. Many hide behind a current mantra of “investment is only going to the big funds with an AUM over $1 billion”. It is true that it appears there has been a flight to size, but in reality it has been a flight to safety. Funds under $1 billion AUM have received inflows, but only those which understand and meet the investor’s due diligence requirements.

We are now at a point where many hedge fund investors are actively looking for smaller funds to add to their portfolio as they accept that exciting returns can be made with smaller, more nimble managers and that there are many niche strategies which do not work in larger sizes. This is amplified by the flow of money from institutional investors increasing their allocations to alternative investments. Their dilemma is trying to find managers who deliver the alpha they desire while removing the avoidable operational risks they cannot tolerate. It is a prime opportunity for well-structured funds to obtain investment.

Another positive for smaller funds is the re-emergence of the hedge fund of funds model. Many investors who pulled back from the model are now seeing the benefits of the diversity and analytical overlay available through a good hedge fund of fund. They are also seen as an easier way of obtaining a diverse portfolio of smaller managers or niche strategies. This will drive additional investment funds down to the smaller and mid-sized funds.

The big issue remains that while some of the mid-sized and smaller managers have succeeded in keeping up to date with the investor due diligence process, the vast majority have not. There are few obvious conduits for hedge fund managers to discover the latest trends and processes of the hedge fund investor community.

The Hedge Fund Standards Board (HFSB) offers a good starting point for hedge fund managers. Its website (www.HFSB.org) contains a document listing its current standards which hedge fund managers can use to ensure compliance or to understand which areas require further work. Many investors see this as an advantage and regard it as a statement of standards that managers should meet as a minimum. Due to the nature of the industry, the HFSB standards can never be fully up-to-date with the latest trends and views; many investors see this as a good starting place but have internal requirements which exceed those stated by the HFSB.

Another important avenue for hedge fund managers is to continually engage their existing investors. A strong investor relations effort will help ensure an open relationship with their investors. This will give the manager an insight into what is important for its investor base and the chance to use this to keep up with the developing due diligence trends. It will also give the manager more warning and opportunity to put right anything over which an investor has concern It is a disaster if the first time you discover that an investor is not happy is upon receipt of a redemption request.

In my experience of helping managers to review themselves and to prepare for investor due diligence, I have found that the approach or mindset of the hedge fund manager to due diligence is also key to hedge fund investors. They wish to see a manager who views themselves as offering a service to the investor and who is proposing to manage their money on a fiduciary basis and to view the relationship as a partnership. Unfortunately many portfolio managers still shield themselves from investors and bridle at requests for transparency or ‘face time’ with investors. For many investors this is a large red flag and is no longer acceptable.

It is also important for hedge fund managers to keep an open dialogue with all their service providers. Service providers across the industry are modifying their products to meet investor demands and can therefore be a good source of information on investor concerns and focus areas.

> Investors are now spoilt for choice; very few funds are closed to new investment and many large, previously unattainable funds have opened their doors to replace the AUM lost to redemptions suffered in 2008/2009

In summary, the one thing a manager cannot afford to do is nothing. Failure to move with the flow means a reduction in the chance of investment into your fund and an increase in the likelihood of redemptions. If you are fortunate enough to have good returns, do not sabotage potential opportunities by not meeting investor requirements for due diligence. **AST**

If you have any due diligence queries or concerns, or would like to talk about how to prepare for investor due diligence, please contact Phillip Chapple at Phillip.chapple@kbassociates.co.uk

Phillip Chapple
Executive director
KB Associates

Compensation Class

Funds with the belief that corporate wrongdoing has affected their returns should not shy away from the courts, says Stephen Everard, managing director at GOAL Group

EXCLUSIVE

According to the latest research from Stanford Law School and Cornerstone Research, the number of US securities class action filings has fallen slightly compared with the same period last year. Yet does that mean that investors, fund managers and custodians can afford to pay less attention to participating in claims for financial market crisis losses in the US courts? Not at all. A further quick look at the same research report shows that the Disclosure Dollar Loss (the actual amount of money represented by losses covered in these lawsuits) has actually risen year-on-year. Moreover, GOAL Group's own research has shown that as many as 25 per cent of potential claimants are failing to participate in these class actions, and are therefore leaving their rightful claims on the table.

This non-participation is largely, we believe, caused by a number of false perceptions. First, many think that participation is difficult and complex, despite the fact that the process can now be largely automated through a number of service providers. Secondly, many investors are simply not aware that they have a valid claim. Thirdly, fund managers and custodians may in some cases not be making their clients aware of potential claims. At a time when investment funds large and small, private and commercial, are looking for every way of recovering their capitalisation, failing to participate in US class actions is certainly irresponsible, and may sometimes be negligent. This article reviews the situation for investors in Northern Europe, quantifying the scale of losses, and the cost of non-participation for investors with relevant US equities in their portfolio.

Class actions, where investors can collectively sue to recoup losses suffered as a result of fraudulent corporate behaviour or mismanagement, used to be a phenomenon solely restricted to the US. However, it is worth noting that there have also been historical cases in France, Italy and Finland in addition to current cases in other countries including Argentina, Australia, Belgium and Israel. Since the high-profile corporate governance scandals of the early 2000s such as Enron, class actions in the US courts have been brought to the attention and used by non-US shareholders to seek redress for their losses. While this is encouraging, some major corporate mismanagement cases, occurring around the millennium or before, give an indication of the timescale involved in finalising a class action case. The Enron Victim Trust is only expected to begin distributing to investor victims of the fraud in late December 2010 or early January next year.

Credit Crisis Cases

As these cases reach settlement, the mantle appears to be moving to cases born out of the recent international credit crisis. Those pension funds where equities represented a third or more of their total invested assets experienced colossal losses. In 2008, in Northern Europe, Irish pension funds were exposed to equities at 52 per cent of total assets, followed by the United Kingdom at 46 per cent and the Netherlands at a similarly high rate. Other pension funds, however, such as in Germany and France, benefited from having a larger proportion of their assets invested in bonds. This picture is mirrored in these countries' exposure to foreign assets, as a percentage of their total assets. Whilst the Netherlands and the United Kingdom both had high exposure, Germany (circa five per cent) remained relatively low.

In 2009/10, it appears pension funds are gradually making a recovery, boosted by sound equity returns. The losses experienced by investors in 2008, however, have been on such a large scale that only a fraction has so far been recouped. The Netherlands and Ireland both reported a five per cent return or less in the period up until June 2009. Clearly, a long road lies ahead for Northern European pension funds and there is an emerging duty of care for institutional investors and fund managers to register and monitor class action claims in order to recoup a proportion of these losses.

Furthermore, according to NERA Economic Consulting, the median settlement in the first half of 2010 was considerably higher than in any prior year. At $11.8 million, the median settlement exceeded 2009's value of $9 million by almost one-third, crossing the $10 million mark for the first time.

Northern Europe - Claims in the US

Germany

When it comes to applying as lead plaintiff in securities class actions cases, it appears that German asset managers are leading the charge. Commentators have also noted that German investors are keen to pursue losses in the US as it is less costly than taking legal action in Germany. In the US, fees only apply when a case is successful whilst in Germany, the financial risk is far greater with costs having to be laid out before proceedings. This may explain the abundance of cases such as Germany's Activest Investmentgesellschaft filing to be lead plaintiff in the case against General Motors – having alleged that false and misleading statements were issued to deceive investors as to the company's financial performance as far back as 2000.

Another high-profile case involves Frankfurt-based Union Investment, having been appointed lead plaintiff in the case against US computer manufacturer Dell. The German fund manager alleges that earning manipulations caused the stock to drop, with reports estimating losses to be around $20 million.

The Netherlands

A similarly high level of participation in US class actions is being experienced in the Netherlands. In July 2009, Dutch industry-wide pension fund Stichting Pensioenfonds Zorg en Welzijn (PfZW) was one of five pension funds (including some Swedish and American) to be granted the privileged status of lead plaintiff in the case against the Bank of America, alleging that key information had been withheld or distorted in relation to its acquisition of Merrill Lynch. Likewise, Dutch Pension Fund and Investment Manager MN Services, which manages around €56 billion for pension funds in the Netherlands, attempted to be represented in the consolidated class action against the Royal Bank of Scotland.

For Dutch pension fund PfZW, represented by PGGM Vermogensbeheer B.V., the national fund for healthcare and the social sector (and the second largest pension fund in Europe), using all available tools to uphold corporate governance is a well established concept. They describe participating in collective litigation in much the same way as German fund managers, as a suitable tool to fulfil "a duty to represent global investors' interests by striving for adequate loss recovery for all shareholders and essential corporate governance…".

United Kingdom

In the UK, West Midlands Pension Fund was one of the first funds to point out that participating in shareholder litigation, where appropriate, is key to best practice. As such, they are now one of a growing number of UK funds that have been proactive to ensure they are included in all possible cases, of various sizes, including those against AT&T. Wireless, Cable & Wireless, Federal Home Loan and Royal Ahold NV. Talking to GOAL Group, Tony Doyle, senior investment manager - equities & corporate governance, West Midlands Pension Fund, commented: "The fund supports good governance challenging companies that do not meet best practice, perceiving poor governance as a risk to its long-term financial interests. The Fund therefore submits class actions globally where it believes that it has suffered a financial loss through fraudulent or irresponsible corporate behaviour."

In March 2009, Merseyside and North Yorkshire pension funds filed a motion to become lead plaintiffs in a US securities class action against Royal Bank of Scotland (RBS). North Yorkshire pension fund had invested as much as £23 million in RBS and said it was keen to participate in the litigation process in order to "safeguard the value of the fund in the long term". A New York court recently ruled that only US investors would be able to pursue this action, but the UK pension funds involved are currently in discussions to see if the case could be pursued in the UK High Court.

France

40 European pension funds, including funds from France, Netherlands, UK, Germany, Sweden, Norway and other countries filed a suit against Royal Dutch Shell for alleged misreporting of oil reserves and its subsequent financial impact. This was then withdrawn from the US action, to be moved to an EU-located legal action, the first such class action case to be finalised in Europe. The action meant it was possible for Shell to be ordered to pay $450 million by the Amsterdam Court of Appeals in June 2009 to compensate for alleged misstatements over oil and gas reserves.

GOAL Group: Losses and Projected Recoveries, 2008

Northern Europe – Quantifying the Loss

A recent research report from Goal Group quantified the scale of losses suffered by Northern European pension funds, defined as Germany, UK, Ireland, France and the Netherlands - at the heights of the financial markets crisis in 2008, and the amounts likely to be left on the table through non-participation in US securities class action lawsuits. In order to calculate losses, and the sums likely to be left on the table through non-participation, Goal Group combined its historical records of registration and settlement claims, with a variety of other data sources.

The results were stark. Over €450 billion has been lost by Northern European pension funds in 2008. Over €60 billion of these losses were in their US investments. €3.9 billion of this total would be recoverable but with class action participation left at its current rate, over €1 billion is likely to be left on the table and distributed amongst only those who successfully filed a claim.

The Netherlands, the United Kingdom and Ireland (taking into account its smaller GDP) were found to be the countries with highest proportion of their investments in the US – and all with high equity exposure, resulting in large losses in these investments – €28 billion, €26 billion and €2.4 billion respectively. The amount invested in U.S. markets by Germany and France, however, was decidedly smaller, resulting in comparatively fewer losses by German funds of €485 million and French funds of €3.4 billion.

Based on historical trends, €1.8 billion is expected to be recovered by Dutch pension funds through class action participation, €1.7 billion by those in the U.K. and €156 million by those in Ireland. Due to Germany and France having fewer investments (and therefore losses) in the US, German pension funds are set to recover €31 million and French funds €216 million.

The focal point of these findings, however, is that a significant proportion of these funds will remain unclaimed, with a percentage of investors not participating in available class action cases. The Netherlands is expected to leave a vast €466 million worth of funds on the table, followed by the UK at €436 million, France at €56 million, Ireland at €40 million and Germany at €8 million.

As our research demonstrates, over €1 billion is likely to be left on the table by Northern European investors, highlighting the urgent need (and indeed, legal obligation) for institutional investors to make claims on behalf of their clients where a class action is involved. And since there are now low-cost specialist services which are already enabling many financial organisations to do so, there remains no excuse for ignoring their fiduciary duty to shareholders. **AST**

Stephen Everard
Managing director
GOAL Group

Industry Appointments

Sandra McAuliffe has been appointed business development manager at Abacus Financial Services, with a view to maximising the company's business potential in the funds industry. McAuliffe will be working closely with managing director, Paul Kneen to promote Abacus' current fund administration services as well as exploring new opportunities, both in the Isle of Man and in Malta.

Paul Kneen said: "I am delighted to be able to welcome Sandra to Abacus. Sandra has a wealth of experience in both establishing and operating investment fund structures and in the regulation of both the funds and their functionaries. I am positive that Sandra's strategic efforts, together with her expertise, will prove to be a valuable asset to Abacus and our efforts to maintain our position as a leading international fund services provider.

McAuliffe has worked in the investment funds sector in a wide range of locations over the last 25 years, including the Channel Islands, Luxembourg, Italy, the Netherlands and Germany.

Prior to joining Abacus, McAuliffe worked for the Financial Supervision Commission as a regulator and headed up the Fund Investments Services team. Commenting on her new appointment, she said: "It's an exciting time to join the Abacus team. The recent establishment of our Malta office has opened up a wide range of opportunities for us and will help us to maintain our competitive position at the forefront of the fund services sector. I am really looking forward to being part of such a proactive and dynamic company and working with Paul to continue to grow the business and meet our strategic objectives"

Paul Cutts, managing director of Northern Trust Company Australia and New Zealand, is to take on the role of chair for the Australian Custodial Services Association (ACSA).

Cutts will replace Bryan Gray, who has recently left the organisation.

Cutts said that the investment infrastructure in Australia will be a major focus for the organisation in the future.

"As a community of custodians, fund administrators and service providers we do provide collectively a great deal of infrastructure that supports the financial services industry in Australia," he added.

Societe Generale Securities Services (SGSS) has appointed Guillaume Heraud as head of clearing services. He reports to Alain Closier, global head of Societe Generale Securities Services and has joined the International Management Committee of SGSS.

Heraud will be responsible for pursuing the growth of SGSS' equities clearing offering on regulated markets or Multilateral Trading Facilities and any other asset types authorised for clearance on these markets.

Jeanne Duvoux is appointed deputy CEO of Societe Generale Securities Services S.p.A. and legal representative for SGSS in Italy, reporting to Massimo Cotella, CEO of SGSS S.p.A.

Working alongside Massimo Cotella, one of Jeanne Duvoux's main responsibilities will be to manage projects intended to optimise SGSS S.p.A.'s service offering, adapting them as necessary to regulatory changes, and, in particular, to help acquire new clients.

Margaret McCarthy has been appointed head of fund solutions at Brown Brothers Harriman. McCarthy, who is already a senior vice president at the bank, will report to Gert Rautenberg, managing director for transfer agency and fund solutions. Currently based in Tokyo, she will relocate to Luxembourg shortly.

In her new role, McCarthy will be responsible for the fund solutions product suite, which supports the distribution activities of BBH's asset manager clients. She will also look after the sourcing of investment funds for BBH clients.

McCarthy has been at BBH since 2005. Before that, she was a director of operations in SunGard's asset management division.

Rikard Josefson has been appointed head of Global Transaction Services at SEB. He will take up the role at the start of 2011.

Josefson is currently head of region East and deputy head of retail banking in Sweden. His successor will be announced at a later date.

GTS consists of three business units; GTS Corporates, GTS Banks and GTS Financial Institutions. To these client segments, GTS offers products in the areas of cash management, leasing, factoring, trade finance, and custody.

Donald McCree has been appointed CEO of J.P. Morgan Treasury Services. McCree, based in New York, most recently serving as an executive vice president in JPMorgan Chase's Finance group, focusing on treasury, corporate Finance and Corporate M&A. Prior to that he was head of the Investment Bank's Global Credit business, and over his career he held a number of other senior positions across JPMorgan Chase's Investment Banking and Risk groups, both in the United States and in London.

Claudia Slacik has been appointed CEO of TSS in Europe, Middle East and Africa, and, as previously announced, Tom DuCharme is now CEO of TSS in the Asia Pacific region.

XSP has announced that Adam Brill has joined the company as business analyst. Based in New York, Brill will be responsible for supporting the growing client base for the XSP Corporate Actions software platform. This appointment is in response to XSP's expanding Professional Services offering and the increase in client implementations and upgrades, including the Standards Release mandated changes for SWIFT ISO clients.

Brill joins XSP from Broadridge Financial Solutions where he was a client services representative responsible for supporting over 8,000 users for Impact, an integrated online securities transaction processing system. As a member of the Client Assessment team, he was responsible for analysing client usage to ensure that they gained the most out of the Impact functionality for their fixed-income trading and processing requirements.