



Josef Landolt

Dear ISSA Members,

It is my pleasure to present to you the newest edition of the ISSA Newsletter which will be published on a quarterly basis from now on.

2012 was a year with many challenges for the securities services industry, but also for ISSA as an institution. The Board started already in 2011 to thoroughly discuss the added value of ISSA and the changes to be initiated in order to be able to address the needs of the industry. At our 16th ISSA symposium at Wolfsberg in June 2012, we received from our members fruitful feedback of their expectations. This was the final input for the Board to take decisions on our way forward. In our Special Update for members in November 2012 we informed you on the main contents of ISSA's Business Plan 2012 - 2014.

In this Newsletter we will give you an up-date on changes at Board level, we present to you the main take away from SIBOS which includes some quotes from ISSA Board and OC members and we inform you on our decisions how to pursue further activities of the existing 4 working groups (Regulatory Impacts, Hidden Risks, Communication Standards and Reference Data, Corporate Actions) and the 2 working groups newly initiated (Collateral Management and Out of Network Assets). The Board and the Operating Committee have sanctioned the proposed way forward and we are convinced that we will be able to present concrete results in the area of these important industry topics in due time.

The Board is very pleased to note that for all activities initiated there is broad support and

interest from our members to be engaged with best qualified subject matter experts.

At year end it is my personal desire to thank you all for your support which has empowered us to run the various activities at ISSA. A special thank you goes to my fellow Board members, the chair of the Operating Committee and its members and the Chairman's office which includes the administrative support. It was a great honour and pleasure working with so many individuals and I am very pleased on the results achieved. I wish you and yours a very happy Christmas season and a successful start into the New Year. I am looking forward to working with you in 2013.

With best personal regards
Josef Landolt, ISSA Chairman

Governance up-date

Please take note of these recent changes:

Board

- We are happy that Stephen Lomas, Managing Director of Deutsche Bank, accepted his election as Vice Chairman of ISSA with immediate effect at the last Board Call of December 4.
- We welcome as new Board member Institution Standard Chartered Bank, represented by Alan Naughton, Managing Director and Global Head of Product Management Securities Services. This membership becomes effective January 1, 2013.
- As of October 1, 2012, Simon Haggerty, Managing Director and Head of Securities Group Operations, replaced Josef Landolt as Board member representative for UBS AG.

New Members

We welcome the following new members:

- UniCredit represented by Tomasz Grajewski, Global Head of Global Securities Services, Bank Pekao SA, Warsaw
- PT Bank CIMB Niaga Tbk, Jakarta, represented by Agus Susanto, Head of Securities Services

Operating Committee

We welcome to the Operating Committee the following new members:

- Monica Singer, CEO Strate Ltd
- Simon Cleary, Global Product Head Custody Services, Standard Chartered Bank
- Brian Crabtree, Director of Market Practice, Standard and Swift, Global Transaction Services, Citi
- Marcus Müntener, Head Client Service Management, UBS AG

We thank all for their commitment to serve ISSA and we wish them all the best in their new roles.

Board of ISSA

SIBOS 2012 - Take away

This year's SIBOS showed a record turnout of attendees in the Far Eastern part of the globe. The challenges imposed by regulations and compliance continued to receive prominent coverage. Particular focus was put on the Asian growth opportunities as well as the increased strategic importance of transaction banking and opportunities in white-labelling. Unlike previous years, the unresolved issues surrounding Corporate Actions received less attention. A number of ISSA Board and Operating Committee members acted as panellists in securities services related sessions dealing with topics that had also been addressed lately by various ISSA Working Groups.

Collateral and Collateral Management

Collateral was the topic of various sessions. There were diverging views on whether there will be sufficient collateral going forward, yet collateral management is considered to be a key market infrastructure requirement. Collateral management will become more complex. Buy-side firms will enter the organised market place, clearing will ask for more discipline in terms of margin calls, some collateral will have to be segregated and more reporting will have to be provided. Alain Pochet, ISSA Board member, and Jo Van de Velde, member of the Operating Committee, were speaking in the session on «Collateral Management Insourcing - the next frontier». See what our colleagues had to say:



Alain Pochet

«Collateral is certainly not a new topic. What is new is the level required to be active on the financial markets after the crisis and following the new regulations which are here to implement a safer environment. The need for collateral will lead market players and their providers to first work on optimising usage (between different kinds of usage) and then find the appropriate collateral to cover their need for all instruments in all markets».



Jo Van de Velde

«Like electricity, collateral will be vital for financial institutions to do business. You will need access to it at all times. Outsourcing of collateral management does not mean the outsourcing of risk management. Collateral mitigates risk, it does not eliminate it. Moreover, as an industry, we need to be careful not to become over-reliant on collateral».

Trade Matching

Simon Haggerty, ISSA Board member, and Thibaud de Maintenant, member of the Operating Committee, were speaking on the panel about «ETC and Trade Matching: From nice-to-have to necessity».

The panel agreed that the industry has been working on automating ETCs for more than two decades but progress remains mixed because of the diverse priorities and preferences of the players involved. In the absence of a mandatory matching process, institutions need to find other ways of putting pressure on counterparts to improve their matching rates. The panel also discussed that in trade confirmation, the progress of OTC asset class

processing (via regulatory targets) has actually outstripped progress in securities.



Simon Haggerty

«Electronic trade confirmation & affirmation continues to rise, but approximately 50% of our clients and trade volume continues to operate outside ETC. Most market participants accept and understand the need for Trade Date affirmation of trades in all asset classes, but especially for vanilla or 'flow' products. What we lack is a catalyst to prioritize the changes needed to fundamentally change and improve the front to back securities process».



Thibaud de Maintenant

«There are many areas in which improvements in matching rates are required. Securities lending and money markets are ripe for attention. A lot of regulation is putting a massive pressure on the back office. Some responsibility could and should be shifted back to the front office».

Trade Repositories

SWIFT for example is collaborating with other market infrastructure providers to facilitate compliance with the new OTC derivatives regulations. The aim is to allow reuse of existing investment and standardised / common access to multiple infrastructures. Examples include the use of FpML over SWIFT for DTCC's global trade repository, use of MT3xx messages for the Regis-TR trade repository and use of MT300 messages to support NDF clearing via MarkitServ. Similar initiatives are being planned with other local infrastructures in Chile, Hong Kong and Poland. Joe Halberstadt, member of the ISSA

Working Group on Communication Standards and Reference Data, spoke on the panel dealing with «Trade Repositories - Tackling new regulatory requirements for OTC Derivatives».



Joe Halberstadt

«The main work on trade repositories will need to be done by the largest 20-30 derivatives dealers, but reporting will affect all types of market participants and the differences between the rules across jurisdictions need to be looked at. Swaps traders, clearing houses, trade repositories and trading venues will all require a complex network of connections to each other. Communicating with numerous CCPs without taking advantage of standardised messaging formats and existing industry standard connectivity solutions could lead to higher levels of complexity.»

ISSA Press Coverage

The ISSA organisation was mentioned in two SIBOS ISSUES, with Josef Landolt and Urs Staehli being interviewed on the changes within ISSA and with select ISSA Board members being pictured and quoted on ISSA's endeavours to boost the diversity of its membership and its geographic focus.

Working Groups up-date

At their phone conferences of December 4 and 13, the ISSA Board and the Operating Committee respectively decided on the following work items to be pursued:

Working Group 1 - Regulatory Impact

As suggested during the ISSA symposium, the working group headed by Florence Fontan will expand respectively update the executive summary of the existing report. The group decided against revising the entire report as this would be too onerous and the data would quickly be outdated. Regulatory changes and their impacts are still much as contained in the report and it is only the timing of implementation that has changed. In addition, the working group will do some work on «shadow banking», which will include impacts on custodians as well as market infrastructures.

Working Group 2 - Hidden Risks

As became already evident during the symposium in June, the risks involved with so-called «Out of Network Assets» will be further looked at by a new working group under the lead of Ed Neeck. The remaining risks originally identified in the working group report will not be pursued any further.

Working Group 3 - Communication Standards and Reference Data

In their report, the working group had originally suggested three concrete follow-up items with regard to a unified global ETC / matching market practice guide, transparency on Same Day Affirmation rates and a survey on STP for fixed income trades. On ETC, Irene Mermigidis, leader of this working group, will approach various vendors to find out if any ISSA best practice report would be adopted by them. The other two topics are being considered of lesser importance and will not be addressed for the time being.

Working Group 4 - Corporate Actions

In line with the working group's latest recommendations, further work under the ad-interim leadership of John Kirkpatrick will expand recent compliance surveys undertaken for selected markets to a global coverage. In this respect, the enlargement of the Operating Committee by the representation of the World Forum of CSDs and Standard and Chartered Bank will provide valuable gateways to information sources from all CSDs and the Asian geography. The Operating Committee also discussed the idea of a utility for corporate actions but quickly concluded that the liability issue made such an undertaking very unlikely.

Working Group 5 - Collateral Best Practices

This new working group will be initiated in January 2013 under the lead of Angus Fletcher from Deutsche Bank. The ISSA symposium revealed quite some aspects that could be dealt with under the topic of collateral and collateral management. At a recent meeting of a sub-group consisting of subject matter experts on collateral, the group felt that any effort should focus on the ISSA community and recommended a single working group to address «Best Practices for custodians, fund managers and fund administrators with respect to collateral posted to support cleared and un-cleared collateralized transactions».

The following report chapters may be considered:

- Asset Protection (Segregation of Collateral, Excess Collateral, Portability)
- Default Scenarios (e.g. Checklist in case of counterparty default)
- Communication of Collateral Movements
- Client Reporting

The document, however, will neither seek to answer broader industry-wide policy or structure issues nor address topics that arise from different national regulatory or legal frameworks. Furthermore, it will not deal with the valuation of derivative instruments as originally envisaged.

The working group will hold close contact to various working parties of the ISDA Collateral Steering Committee. The group will hold its inaugural meeting in the second week of January 2013.

Working Group 6 - Out of Network Asset Standards

This new working group under the lead of Ed Neeck will proceed in partnership with the Association of Global Custodians. The AGC had produced already a draft report, which could serve as a basis and will have to be enlarged by valuable input to be solicited from the CSDs.

Work on the approved topics will commence in January and should be completed by mid to late April. Progress will be reported in the next ISSA Newsletter, due by March 2013.

We welcome your feedback

As Josef has mentioned, the ISSA Newsletter will be published on a quarterly basis going forward. The next edition will appear in a new format which will be aligned with the ISSA homepage being presently re-designed.

We would very much welcome your comments whether the contents of this newsletter suit your requirements. issa@issanet.org

Many thanks in advance!
The ISSA Secretariat