



Josef Landolt

Dear ISSA Members,

I am pleased to present to you the first newsletter 2013 and to report on our activities of the last three months. Our focus was driven by four major themes.

(1) We agreed on the expected results of the working group activities during 2013 and we have put special efforts to ensure a smooth start of the new topics chosen «Out of Network Assets» and «Collateral Management Best Practices». A short up-date is integrated in this edition.

(2) We were able to strengthen the governance structure at Board and Membership level according to the business plan.

(3) We initiated some work to refresh our ISSA website with the ambition to get it live soon. The new website will mirror the global interconnectedness of the Association and facilitate the access to all relevant information. It is also planned to maintain the page more actively in the future and to publish news and interesting contributions more frequently.

(4) ISSA was approached by Dominic Hobson, Independent Publishing Professional, to get involved in a new, three-year initiative called «A Financial Reformation». The main objective of this project is to agree on a future best practice business model for the banking industry. The Board discussed this project at its last Board call on March 26 and mandated the Chairman to clarify several open questions before any decision can be taken with respect to a

potential involvement of ISSA. I will give you an update in the next newsletter.

Josef Landolt, ISSA Chairman

Governance up-date

Vice Chairman's Message

As already communicated in the last newsletter, Stephen Lomas was elected as new Vice Chairman of ISSA. Here are some personal comments from Stephen:



Stephen Lomas

I have been involved with ISSA for almost a quarter of a century, half of that time as a Board member. We were already making significant contributions to the securities services industry two decades ago, but the momentum of the Association has increased significantly in recent years.

Impetus has come from the many new Board member institutions, and via the formation of the Operating Committee, which has done groundbreaking work on the «Impact of Regulatory Changes and Market Developments on the Securities Industry», «Hidden Risks in the Securities Services Industry» and «Communication Standards and Reference Data». We are now hopeful of significant further results in the fields of «Collateral Management Best Practices» and «Out of Network Assets».

And then we have seen a leap in the pace of recruitment of new members and Board

institutions, following the latest strategic plan, now being executed by Josef Landolt and Urs Stähli - here, the benefits of their focus on ISSA since formal retirement are clearly evident.

It is an honour to have been requested by my colleagues on the Board to assume the mantle of Vice Chairman of ISSA and I look forward to guiding the Association on a path of meaningful innovation in the years to come.

Stephen Lomas, ISSA Vice Chairman

New Board Member Institutions

We welcome two new Board member institutions:

- Bank of New York Mellon represented by Hani Kablawi, Executive Vice President and Head of EMEA Asset Servicing. This membership became effective January 23, 2013.
- SIX Securities Services represented by Thomas Zeeb, CEO SIX Securities Services, effective as of April 1, 2013.

Update Operating Committee

We welcome the following new member:

- John R. Siena, BNY Mellon London

Change in Membership

The following changes have recently occurred:

- Portigon Financial Services AG (fka WestLB) Düsseldorf has joined our Association as a new member.
- Itau Unibanco Sao Paulo has also joined ISSA as a new member.
- Broadridge Financial Solutions membership has been transferred from their Geneva office to their London location.
- NSD (National Settlement Depository) Moscow has assumed the ISSA membership of DCC (Depository Clearing Company) Moscow.
- DST Global Solutions Limited has transferred its membership to Shadwell Advisory, London.

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

Board of ISSA

Individual Board Member Statement

Our newsletter gives the Board members a platform to address their personal statements to our community.

In the following please take note of the personal note of Hani Kablawi who recently joined the ISSA Board:



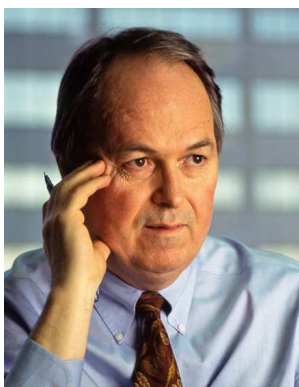
Hani Kablawi

The securities industry and the infrastructure to support it is highly interconnected, diverse and interdependent. At BNY Mellon we are fully committed to expanding our business with due regard to the highest standards of governance to better serve investors and our clients. It is a natural decision to become a member of the ISSA Board as the industry continues to work to enhance technology and develop solutions to address new paradigms.

ISSA plays a critical role in building out and strengthening best practice around risk as well as compliance and regulatory change. BNY Mellon was designated a global systemically important financial institution (GSIFI) by the financial stability board, which heightens the imperative of operating our business prudently and having the resources and wherewithal to maintain, develop and grow our operations and services through times of change and volatility. Our active membership in the Association of Global Custodians (AGC) has made clear the benefits of closer collaboration with ISSA. Personally, I hope to bring some of our insights to the Board and very much welcome our participation as full members.

Hani Kablawi, Bank of New York Mellon

Working Groups up-date



Neil Henderson

In our last newsletter we informed you how to go forward with the activities of the ISSA working groups. Work is currently underway with a target to release next reports this summer.

The individual status of the working groups is as follows:

Regulatory Impact including Shadow Banking

WG Leader: Florence Fontan (BNP Paribas)

This working group builds on the report on the «Impact of Regulation» presented to the ISSA Symposium in June 2012. The executive summary is being updated for more recent regulatory changes and their impact on the securities industry. In addition, a new chapter on Shadow Banking is being added with an emphasis on three issues: (1) repo and securities lending, (2) money market funds and (3) securitization. The report will describe the impact of regulatory changes and promote an ISSA view on any adverse impacts deemed severe.

Corporate Actions

WG Leader: John Kirkpatrick (Citigroup)

This working group builds on the previously issued ISSA recommendations for corporate actions and is collecting data from the major markets to evaluate their progress in the adoption of the ISSA recommendations and whether scalable solutions have been adopted in adherence to these standards.

Collateral Management Best Practices

WG Leader: Angus Fletcher (Deutsche Bank AG)

Recent regulations require the clearing of standardized OTC derivatives products.

Market participants are being required to post collateral for both cleared and uncleared derivative exposures, heightening the need for custodians to be expert in the handling of collateral. The working group is focusing on four areas: 1) asset protection, 2) default scenarios (principles and best practices that custodians should follow in default situations), 3) communication of collateral movements and 4) client reporting. The report will serve as a reference guide to custodians for collateral issues.

Out of Network Assets

WG Leader: Ed Neeck (J.P. Morgan)

This working group builds on the report on «The Hidden Risks of Custody», as presented to the ISSA Symposium in June 2012. The Symposium asked the working group to perform additional work on one chapter of the June 2012 report concerning assets held outside of a CSD environment.

Custodians are now being held to a higher standard of care with respect to assets under custody under recent European regulation (AIFMD) and by changes in client requirements. The Association of Global Custodians (AGC) had a similar working group covering this topic and we have recently agreed to work collaboratively with the AGC to produce one report. The paper will focus on several asset types of non-CSD eligible assets to include loans (syndicated and bi-lateral), OTC derivatives exposures and funds to include both mutual funds and the various types of non-exchange traded alternative fund products such as private equity, hedge funds, fund of funds and real estate funds. It will detail the challenges involved in the custody of these assets and make recommendations regarding risk mitigation

Communications Standards and Reference Data

WG Leader: Irene Mermigidis (Clearstream)

A follow-up recommendation for this working group was to approach vendors to discuss their receptiveness to implement a unified global ETC / matching market practice guide. After further consideration of the highly competitive nature of this space and the modest probability that vendors would adopt a standard operating model, the working group members decided to defer this approach and focus instead on the other ISSA working group initiatives.

Major activities in the 2nd quarter 2013

ISSA Board Meeting

June 4, New York City

Working Groups

Continue the work, discuss major findings with the ISSA Board and prepare reports available this summer.

Conferences

The Chairman's Office will attend the following industry events:

- ACSDA General Assembly, Guatemala, April 17 - 19, 2013
- ICMA Conference, Copenhagen, May 22 - 24, 2013
- CSD12 Conference, St. Petersburg, May 29 - 31, 2013
- NeMa Main Conference, Warsaw, June 19 - 20, 2013

ISSA will selectively hold presentations and will briefly inform on the take aways in the next newsletter.

We welcome your feedback

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