

Message from the ISSA Chairman

Governance update

- Future Governance Structure
- Changes in the Executive Board
- New Member

Drivers of change for the global Asset Management Industry

Personal reflections by Hani Kablawi on challenges and potentially successful strategies for this industry

ISSA Collaboration with the World Forum of Central Securities Depositories

Monica Singer informs on the WFC organization and its closer ties to ISSA

Working Groups update

- Shadow Banking
- Out of Network Assets
- Collateral Management Best Practices → see also **Video on ISSA website**

ISSA Marketing Activities

Selection of marketing measures approved by the Board at its recent meeting

We welcome your feedback

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

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Many thanks in advance!
The ISSA Secretariat



Message from the ISSA Chairman

Dear ISSA Members and interested parties,

First I am very pleased to inform you that since we have launched our new website in April 2013, the number of visitors has increased substantially. In October more than 8'000 visitors came to the site. We take this as a clear sign of interest to follow up on our information and news. Many thanks for your interest. We are happy to take your feedback on how we can upgrade the quality in order to meet your expectations best.

Let me now turn to the Newsletter at hand: In the first part, Hani Kablawi takes a follow-up view of Frederic Hannequart's thoughts presented in the October edition about «The Drivers of Change» with special focus on the global Asset Management Industry. With this kind of input we hope to give you some fruitful thoughts about key challenges in our industry. In the second part, Monica Singer elaborates on some ideas on how to make the voice of CSDs become more active and to ensure their input is reflected in the work ISSA has initiated. The Executive Committee of the World Forum of the CSDs (WFC) has a key interest in strengthening the cooperation with ISSA.

At the last ISSA Board meeting in London (November 7, 2013), we took some major decisions about the future ISSA Governance and about measures to increase the awareness of our activities in the industry. You will find a summary of these decisions in the relevant chapters «Governance updates» and «ISSA Marketing Activities». Furthermore we discussed a first draft agenda for our forthcoming Symposium (May 20 – 22, 2014, Wolfsberg, Switzerland). As at previous symposia, we want to use this platform as a tool to provide input of today's key challenges with a pragmatic view on what this will mean for all stakeholders of the securities industry. Our key theme will be on how we are able to respond to the regulatory challenges along the value chain. In addition we will offer two deep-dive sessions of current working group activities. Our ambition is to get advice and input where we still have open questions to be answered. A program committee is working on the final agenda and we will send out formal invitations to our members by the end of January 2014.

With the current year coming to an end it is my personal wish to thank you all – in the name of the Board and the Chairman's Office - for your great support given to ISSA. It has again been a great honour and pleasure working with so many individuals and I am pleased with what we have achieved over the last 12 months. Please accept my best wishes for a happy Christmas season and for a healthy and successful New Year.

With best personal regards,
Josef Landolt, ISSA Chairman

Governance update

Future Governance Structure

In accordance with good governance the ISSA Board decided at its last meeting of November 7, 2013 that in general the Chairman should be a representative of an ISSA sponsoring institute. The Board was very pleased that Stephen Lomas agreed to accept this role as Chairperson for a period of two years as from May 22, 2014. The date chosen coincides with the 17th Symposium and it gives the Board the opportunity to get the blessing from members of the changes needed to ISSA's Articles of Association.

With this step the Board decided as well to install a CEO and COO function for ISSA and mandated Josef Landolt as the CEO and Urs Stähli as the COO.

Changes in the Executive Board

- Conrad Kozak, Vice Chairman, Treasury & Securities Services, J.P.Morgan, New York, will take retirement soon. He therefore handed over his ISSA Board mandate to Nicholas D. Rudenstine, Managing Director, Head of Custody and Fund Accounting, Investor Services.
- Garth Barker-Goldie, Global Head of Wholesale Operations, Nomura International plc, London, handed over his mandate – in order to increase the regional strength – to a Nomura representative from APAC. Mervyn Chiu, Managing Director and Head AEJ Operations, Hong Kong, will succeed Garth as an ISSA Board member.

New Member

As of November 2013, AlfaSec Advisors Pte Ltd, Singapore, joined ISSA as new member.

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

Board of ISSA

Drivers of change for the global Asset Management Industry



Hani Kablawi, Executive Vice President, Head of EMEA Asset Servicing, BNY Mellon, London; Member of the ISSA Executive Board

In the October newsletter there was an interesting article considering drivers of change in the capital markets. Asset managers, or the buy-side, are impacted by many of these changes and so I think it would be helpful to set out some thoughts on drivers of change in the Asset Management Industry.

At the end of 2012 global Assets Under Management (AUM) stood at around \$60trn, finally passing the 2007 pre-crisis level of \$57trn. Developed markets represent 90% of the global AUM. North America reached approximately \$30trn, Europe \$17.5trn, Japan and Australia \$6,2trn. However, these impressive numbers hide some significant challenges for the industry.

Much of the growth in AUM was caused by a «rising tide» in market values driven by a sustained and unprecedented level of quantitative easing. Net new flows of investments represent only a small portion of the growth in AUM and much of this was concentrated with the largest players. In the US the top 10 players captured 90% of the net new asset flow. In Europe the top 10 captured 51%. In addition to this deterioration in net new flows, asset managers' revenues are under pressure due to challenges in retail distribution, traditionally a strong source of revenues and increasingly complex demands from institutional investors.

According to the Boston Consulting Group total revenues generated in the industry in 2012 were approx. \$215bn and 80% of the revenues, \$170bn, came from existing core assets. Profits climbed 7% to \$80bn but these are still below the 2007 peak of \$94bn. This suggests a need to improve the profit margin in asset managers, which in

the short term will come through cost disciplines.

However, as an industry we still live in the shadow of the credit crisis and the subsequent wave of regulations and market infrastructure changes. This is particularly true in Europe where the Euro crisis and the push towards a single market add another level of complexity to the wave of regulations. Complying with these regulations is the biggest driver of cost increases across the industry. Ernst and Young estimates that the cumulative cost of the regulations directly applicable to European fund managers lies within the range of \$300m - \$500m. This could translate into a 2-3% increase in the cost / income ratios for asset managers. Today the cost / income ratios vary between approx. 60% for the best performers to 80% for the worst.

Despite these challenges CEOs remain optimistic about the future. In the PwC 16th Annual Global CEO Survey, in Asset Management 85% of CEOs were confident they can raise their revenues in the coming year. They see the major challenges in uncertain economic growth, the fiscal deficit, the debt burden and the regulations. In the same survey 66% of CEOs said they would change their firm's strategy in the next 12 months. Cost reductions, new alliances or joint ventures and more outsourcing are the top three initiatives being planned.

There clearly seem to be some divergent views between the industry consultants and the CEOs of the asset managers. So what are some potentially successful strategies for the future:

- **Cost disciplines** – this does seem to be an area of consensus between the consultants and CEOs.
- **Focus** – on key markets and segments that will drive growth and on execution of change.
- **Alternatives** – investments into alternative assets appear to be growing faster than traditional assets and potentially offer a better return to investors.
- **Business models** – firms must work on building more scalable, flexible business models and these must support global reach.

- **Regulations** – embrace European regulations as an opportunity.

Despite these challenges I sit on the side of the optimists. We should not forget the long term demographic trends and need for people to save for their future and retirement. Hopefully the early signs of economic recovery we have seen in 2103 will continue through 2014 and beyond.

ISSA Collaboration with the World Forum of Central Securities Depositories



*Monica Singer, CEO of Strate;
Member of the ISSA Operating
Committee, representing WFC*

ISSA has long been an industry focal point to address issues that are of central importance to the securities services industry. With approximately 40% of its members consisting of Central Securities Depositories (CSDs), it is only natural that ISSA should collaborate and work closely with these important market infrastructures.

The World Forum of CSDs (WFC) represents the CSD industry, and it comprises five regional CSD associations from across the globe. The Forum aims to exchange information, examine and discuss issues of common interest, and increase the influence and engagement on cross-regional and global developments, as well as provide a common voice on issues relevant to the various associations and their members.

The WFC is represented by a Board of 10 members, being the Chairs and Vice-Chairs of each of the five regional associations (representing over 125 member CSDs internationally) as follows:

1. Asia-Pacific Central Securities Depository Group (ACG)
2. Americas' Central Securities Depositories Association (ACSDA)

3. Association of Eurasian Central Securities Depositories (AECSA)
4. Africa & Middle East Depositories Association (AMEDA)
5. European Central Securities Depositories Association (ECSDA)

While a number of the WFC member CSDs are long standing members of ISSA, recently there has been expanded collaboration through the WFC representation on the ISSA Operating Committee. Given the unique expertise of the CSD industry, ISSA has sought input from the WFC for its Working Group Reports. Valuable input has been obtained in relation to corporate actions and out of network assets, amongst other topics. The Operating Committee, the Working Groups, the reports and the biennial ISSA Symposia have proven to be important means for sharing knowledge and information between the parties.

Not only does the WFC represent the CSD community within ISSA, but it also provides input and an important linkage to other international forums, such as the Committee on Payment and Settlement Systems (CPSS), the International Organization of Securities Commissions (IOSCO), the World Bank, the Association of Global Custodians (AGC) and Thomas Murray.

Moving forward, ISSA and the WFC have both indicated their desire to continue to strengthen their ties and collaborate together, with ISSA being invited to attend the next WFC meeting which will be held in Zurich on 20 May 2014, prior to the 17th ISSA Symposium. The ISSA Chairman's Office is also a regular contributor at some of the CSD association meetings.

The next conference of the World's Central Securities Depositories (WFC 2015) will be held in Cancun, Mexico, from 19 – 22 May 2015. The 13th edition of this biennial event will be hosted by Indeval, the national depository of Mexico, in conjunction with ACSDA.

For further information please visit www.worldcsds.wordpress.com

Working Groups update



Neil Henderson, OC Chair

Having published an update on corporate actions in September 2013, the other three Working Groups are busy completing their reports. These reports will be published in the first quarter 2014.

A brief status is as follows:

Shadow Banking

Laurence Caron-Habib took over the leadership of this Working Group from her colleague, Florence Fontan of BNP Paribas. Final revisions are underway and the draft has just been distributed to Working Group members for comment. The topic continues to be of great interest since the actors in this space, despite their considerable market presence, continue to be lightly regulated. Many of the shadow banking products, such as money market funds and securities lending/repo, have been the subject of recent recommendations from both global and local regulators.

Out of Network Assets

This theme is led by Ed Neeck of J.P.Morgan. The topic is being pursued in collaboration with the Association of Global Custodians (AGC) and since the legal aspects of title are key to understanding the topic, ISSA and AGC jointly engaged Baker McKenzie to author the report. The combined team adopted a draft document already underway by the AGC, which described the form of such instruments and how ownership is recognized. With input from ISSA's market infrastructure members, the report will recognize the challenges encountered by custodians in verifying the transfer and ownership of assets typically not depository eligible, e.g. derivatives and syndicated loans. It will also recommend best practices for both custodians and their clients. The final draft will follow soon.

Collateral Management Best Practices

This Working Group is led by Angus Fletcher of Deutsche Bank. With recent regulations requiring the trading of most derivatives on exchange and centrally cleared and remaining OTC contracts to be collateralized, the topic is now center stage. Although there have been many excellent papers and best practices recommendations to date, none have focused exclusively on the needs of custodians, asset managers and asset owners. This paper provides background on collateral to include the types typically used and why and how it is held. The report deals also with the key issues of asset protection and the operational processes associated with default. Best practice recommendations for custodians and their clients will be offered and a glimpse at some future trends that might impact collateral management.

On the ISSA website a video on «Best Practices for Collateral Management» provides an insight into the upcoming report. It can be accessed under the following link: <http://www.issanet.org/e/>

- Promote ISSA at different financial centers through a series of thought leadership events, addressing hot topics of the industry and the particular geographic region. These events will last for a few hours and be open to ISSA members as well as local financial industry representatives and regulators. The first event will be held in Paris in the 4th quarter 2014.
- Furthermore, ISSA plans to make its new Working Group reports available to its members only, providing a synopsis in the generally accessible section of the website.

ISSA Marketing Activities

At its meeting of November 7, 2013, the ISSA Board approved various Marketing Activities proposed by a small group of marketing experts from three ISSA Sponsor Organizations and representatives of the Chairman's Office. The activities aim to support the proposed strategy of making ISSA, its mission and its work better known to a wider part of the securities services industry. Among others, the following activities were approved and are worth mentioning:

- Polish ISSA's Mission Statement in order to put emphasis on ISSA's role as a think tank and enabler for the financial industry. The updated version has already been posted on ISSA's website.
- Produce videos featuring interviews and statements with ISSA representatives to talk about ISSA's projects and achievements as well as key industry trends or challenges.