

## Message from the ISSA Chairman

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- Approaches to close the gaps in the safekeeping and supervision of these asset classes

### Spotlight Video

Watch Ed Neeck and Neil Henderson discussing the rationale for the Report and the inherent risks and challenges posed by these Out-of-Network Assets.

### Chairman's Office take-aways from ACSDA 16

Read the feedback from the ISSA Chairman and Secretary having attended this year's ACSDA General Assembly in Santiago de Chile.



## Message from the ISSA Chairman

Dear ISSA Members and interested parties,

First let me thank you for the feedbacks we received on our Newsletters. We are very happy that we can meet your expectations and we kindly ask you for future feedbacks and proposals how we can improve its content.

Today we would like to up-date you on the following subjects: Our Working Groups completed their Reports during the first quarter 2014. The ISSA Report on «Shadow Banking», focusing on initiatives affecting Securities Lending and Repo Transactions as well as Money Market Funds, was published in February. One month later, the ISSA Report on «Collateral Management» was released where you can find proposals for a fair number of best practices relating to the use of assets transferred as collateral. Both Reports were announced on our Homepage with a Special Newsletter and a related Spotlight Video. Today we provide you with some key thoughts of the latest Working Group Report. It is a joint venture with the Association of Global Custodians (AGC) and addresses many challenges encountered by custodians in verifying the transfer and ownership of assets typically not depository eligible. The industry term for these assets is known as «Out-of-Network Assets».

Next month (May 20-23) we will hold our biennial ISSA Symposium at Wolfsberg Conference Centre in Switzerland. We are very happy that more than 80 senior leaders of the Securities Industry will take part. The topic chosen is of big relevance to our industry. We will discuss the implications of the regulatory challenges and we have the ambition to agree on relevant best practice recommendations. In addition, the Board also offers some deep-dive sessions to get further answers in the areas of Collateral Management and Out-of-Network Assets. We will make available the key conclusions of the Symposium on our Homepage in June 2014.

Now we are looking forward to welcoming some of you as participants at our Symposium next month. We are keen to hearing your thoughts and recommendations on how to respond best to today's industry challenges.

With best personal regards,  
Josef Landolt, ISSA Chairman

## Governance update

### Changes in the Executive Board

- In December 2013, Paresh Sodha, Group Managing Director and CFO of Global Asset Management UBS AG, joined the Executive Board of ISSA. He replaced Simon Haggerty who left UBS AG.
- In February 2014, Frédéric Hannequart, Euroclear Bank SA/NV, handed over his ISSA Board Mandate to Pierre Yves Goemans, Executive Director and Head of the Commercial Division.

### Change in the Operating Committee

Bank of New York Mellon has nominated James Greig, Associate General Counsel, into the ISSA Operating Committee. He succeeds John Siena in this role.

### New Members

Between January and March 2014, ISSA could welcome the following new members:

- Incentage AG, Fehraltorf, Switzerland
- Julius Baer & Co. Ltd., Zurich, Switzerland
- Globe Tax Services, Inc., New York

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

*Board of ISSA*

## AGC / ISSA Joint Report on Out-of-Network Assets

### Challenges in Safekeeping and Supervisory Services for Out-of-Network Assets

The Association of Global Custodians (AGC) and ISSA have just published a Joint Report, addressing challenges in safekeeping and supervisory services for so-called «Out-of-Network Assets». The report can be accessed under [this link](#).

The Joint Report is the result of efforts by a Working Group of experts drawn from participating member institutions and firms

of the AGC and ISSA. The Working Group was under the lead of Ed Neeck, JPMorgan. The Report is targeted towards market intermediaries such as custodian banks, brokers, asset managers, issuers, industry associations / groups, market infrastructures and regulators.

### Introduction

Global custodians face exceptional challenges and risks in providing custodial services with respect to Out-of-Network asset classes, i.e. asset classes which, by their nature, are not held through traditional network structures involving depository banks and central securities depositories. These challenges and risks are the result of a combination of factors. On the one hand, global custodians have less control over Out-of-Network Assets than over traditional asset classes, which limits the ability of custodians to provide safekeeping and supervisory services. On the other hand, evolving regulations are dramatically increasing the responsibilities of depositories and other market participants, including global custodians, with respect to the assets they are deemed to hold in custody.

The purpose of this Report is to provide a legal and practice framework to discharge those responsibilities. The AGC and ISSA have collaborated to generate this Report by analyzing various legal / procedural points and focusing on five typical classes of Out-of-Network Assets. The Report also identifies best practice efforts undertaken by other associations in the financial services industry.

### Scope of the AGC / ISSA Joint Report on Out-of-Network Assets

The Report's chapter «Introduction» provides a general description of the issues and the challenges as well as regulatory developments.

Chapters I to III form the core of the Report, dealing with various issues pertaining to these classes of Out-of-Network Assets:

- Third-party Time Deposits
- Interests in Funds / Collective Investment Schemes and Private Equity Funds
- Bank Loans
- Derivatives
- Precious Metals

The legal nature and determination of ownership of these asset classes are discussed in chapter I, referring to US, French and UK law. Chapter II informs on the party having possession or control over a particular asset as well as having possession or control over information related to the identification, ownership, valuation and income of each of these asset classes. It also refers to infrastructure solutions in place that enable the bridging of certain asset custody gaps. Chapter III entitled «Collateralized Assets» sets forth how collateral interests can be created and perfected in case of those Out-of-Network Assets. It also discusses different arrangements of title transfer.

Chapter IV lists various approaches in place and to be considered to close the gaps in the safekeeping and supervision of these Out-of-Network Assets. It lists relevant best practices and legal references. Two distinct annexures (A and B) represent practice reports for Third-party Time Deposits and Bank Loans. They incorporate best practice standards and references produced by other associations and market participants.

### **ISSA Spotlight Video**

In order to inform about the rationale for this Report and the inherent challenges and risks posed by these asset classes, Ed Neeck of JPMorgan and Leader of the ACG / ISSA Joint Working Group discusses the major aspects with Neil Henderson of DTCC and Head of ISSA's Operating Committee.

Follow their dialogue in the video posted under [this link](#).

## **Chairman's Office Attendance at ACSDA 16**

As has become a well-beloved tradition, the ISSA Chairman's Office was invited as guest to the General Assembly of The Americas' Central Securities Depositories Association. ACSDA held its 16<sup>th</sup> annual event in Santiago de Chile from April 2 – 4, 2014. Close to 80 delegates and guests gathered to hear about and discuss issues of global and regional relevance, with a focus on topics affecting market infrastructures and financial intermediaries alike.

In his introductory speech, the ACSDA Chair informed about the ACSDA member market profiles whose diversity was demonstrated by the scope of instruments (securities and other assets) and services (beyond traditional settlement and asset servicing functions) as well as the numerous challenges caused by regulatory initiatives. It became also evident that the ACSDA markets increasingly obtain access to international links and enter into cross-border joint ventures.

ISSA was given the opportunity to inform the audience about the latest developments and Working Group activities and to provide information on the upcoming ISSA Symposium. Some 20 representatives from ACSDA members and financial intermediaries domiciled in the ACSDA region will take part in this year's Symposium.

The ISSA Chairman was invited to be part of a panel of international executives to discuss a range of issues impacting the CSD business, such as new regulation, T2S, collateral, globalization, competition, vertical and horizontal integration. About the future of CSDs there was consensus that those who proactively develop services to their participants will have a good chance to survive, although we will see a smaller number of CSDs as time goes on.

ACSDA will hold its 17<sup>th</sup> General Assembly on May 19, 2015 in Cancun, Mexico, immediately preceding WFC 2015, which will be held in the same location from May 19 to May 22, 2015.

[Summary of ACSDA's 16<sup>th</sup> General Assembly](#)

[Upcoming events of the World Forum of CSDs](#)