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EUROPEAN CUSTODY
MARKET GUIDE

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The Investor Services Journal **European Sub Custody Market Guide** aims to provide insight into the securities services market on the Continent.

In this Guide, we highlight the developments of the sub custody landscape and provide an insight into what lies ahead.

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Caught in the Custody Net?



Welcome to the fourth in our series of service provider guides, following our Data Services and Hedge Fund Services Market Guides.

In the *European Sub-Custody Market Guide* we examine the market of services for data management at a time when data is under scrutiny by regulators.

For any investor, venturing into an unknown market can be quite a nervy experience. You may not be physically present but you still want to know that your assets are being properly cared for.

The potential of Europe's existing and emerging markets make them hard to ignore, especially when they have so much to offer.

Fortunately for wary investors, the European financial services landscape's erstwhile investment opportunities are backed by safety guarantees. The safety aspect is at the core of most investment policies and financial regulators continue to exert their influence to ensure investors' interests are protected. New and pending rules, such as Basel II and the Markets in Financial Instruments Directive (MiFID) place an onus on the investor services provider to have enough capital and the systems to report the details of every transaction.

While these regulatory developments may put investors off, it is worth knowing that the organisations most capable of meeting them are Europe's sub custodians. As the level of cross border investment continues to increase, custodians are required to have the scale and geographical reach to keep up with regulatory enhancements.

These requirements have allowed providers, with the scale to support on going systems enhancements on behalf of the client, to benefit from this competitive advantage. Owing to the scale requirement, the sub custody stage in Europe looks very different now, compared to several years ago. At the beginning of the century, this community faced the prospect of more regulatory intrusion and a heightened emphasis on scale. The Nordic region, which historically consisted of a range of different providers, has become smaller as investors increasingly perceive the Nordics as one country. This makes good sense for a single services provider, who is able to serve the entire Nordic market. The perception of the Nordics as one region has spurred the emergence of a handful of providers, which have spread their reach across the region or joined forces with other Nordic providers.

This form of integration has led to one of the most advanced custody networks in Europe, which can only be good for investors.

The development of the sub custody landscape continues apace and investors can rest assured they are dealing with providers who have the expertise, the local language and the systems to make investing into an unknown market an easier process. In its first European Sub-Custody Market Guide, Investor Services Journal presents the development of Europe's major markets and showcases the financial strength of the Continent's major providers.

As investment trends continue to diversify and the appeal of emerging markets gathers momentum, we present Europe's sub custody providers, which can help investors to focus on managing money while their assets are taken care of. Investors can be assured of top credit ratings and a range of core and value added services in each market.

Ready to Serve

Janet Du Chenne highlights the changing investment landscape in Europe and the ability of its sub-custodians to meet this evolution

Introduction to Sub-Custody

Buttonwood International Group provides meaning and scope to the word sub custody.

A subcustodian is an agent bank used by a global custodian for custody services in the designated country. A subcustodian is either “proprietary” (owned by the global custodian bank, such as a branch operation) or “non-proprietary” (e.g. a foreign bank relationship).

In some cases, a global custodian may select more than one subcustodian in a country to more effectively meet local processing requirements for specific business or simply, to provide a safety net in a local market.

The decision to add a country location to a global custody network relies heavily on an investor's decision to enter a foreign market.

A change in a planned investment strategy may affect the timing and decision about adding a new country location to a worldwide network.

Also, adding a new country location involves numerous activities, especially a comprehensive due diligence by both the global custodian and investor.

The lead time is normally in the range of three to six months, with more time being needed in some cases. In 2004, the expansion of subcustodian networks into new foreign countries came to a virtual standstill.

The average number of countries covered by a global custodian was slightly under 94 countries - the same number as a year earlier.

In 2005, only four global custodians plan very modest increases in market coverage, while six custodians planned no country additions.

Network Expansion Plans

The expansion of a worldwide network by each global custodian is an on-going activity and a substantial operational investment. Experienced Network Management teams embark on “due diligence” forays into local markets to choose the best agent for addition to their network.

At times, these assignments have been marked by perilous in-country experiences. Once an agent bank(s) is selected in a given country and folded into the global custodians network, Network Management continues to work with the entity to develop operational policies and procedures, to ensure compliance and to collect local market information.

The Ever Changing Network

The use of local agent banks in a global custodian's worldwide network is a common practice. The approach is a practical way to gain an

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understanding of local regulations, market practices and market participants.

In some markets, the global custodian may have a strong presence, thus, using one of its own branch operations to deal with local country issues.

The use of local agent banks in a global custodian's worldwide network is a common practice

Network Management Teams at global custodians are responsible for maintaining their worldwide networks. The Teams monitor the performance of local agents banks to ensure that the best possible services are used in each foreign country.

Also, the selection of an agent bank for a new foreign location is the responsibility of the Network Management Team.

As can be expected, network changes are inevitable and an on-going concern. A number of observations follow about the current state of worldwide networks:

- In some foreign countries, all "eggs are in one basket" with global custodians depending on a single agent bank to maintain custody assets.

Notable examples include Bahrain, Benin, Costa Rica, Ecuador, Ghana, Guinea-Bissau, Ivory Coast, Kazakhstan, Lebanon, Malawi, Mali, Malta, Mauritius, Niger, Oman, Palestine, Puerto, Rico, Qatar, Saudi Arabia, Senegal, Slovenia, Togo, Trinidad & Tobago, Tunisia, Uganda, United Arab Emirates and Uzbekistan.

- A handful of countries - which previously had only one agent - are now covered by more than one agent bank: Bermuda, Bulgaria and Cyprus.

- In 2004, other countries showed a decline in the number of agent banks covering the local

scene, i.e., Austria, Hungary.

- On the other hand, agent bank coverage increased in a handful of countries such as Australia, Cyprus and Latvia.

Sub custodians

In 1984, regulation SEC 17f-5 was drafted for the purpose of protecting U.S. investor assets in a foreign country. Although the rule applies to U.S. registered mutual funds, it is considered by the industry as a good regulatory standard for all investors. Most subcustodians meet the regulatory requirement, although in some cases the qualification is unmet or awaiting approval.

Foreign Depositories

In addition to a subcustodian network, global custodians have a relationship with a depository facility in a foreign country. The global custodian may access the facilities directly or through their local country agents for various securities processing activities such as securities settlement and safekeeping.

The use of a foreign depository in an emerging markets represents a wide range of possibilities. For example, some countries have no central depository while other countries may have multiple facilities.

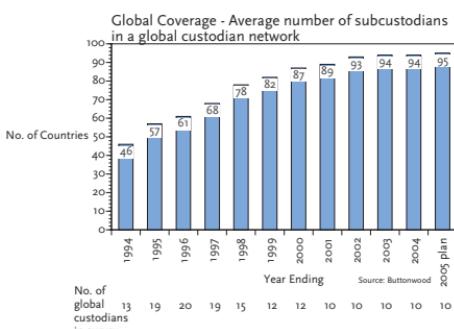
In addition, different depositories in a foreign country may be used depending on securities type such as stocks, bonds, government debt, commercial paper, etc.

Foreign depositories are required to meet regulation SEC 17f-7 which became effective in July, 2001. SEC 17f-7 is based on the principle that the risk associated with the use of a foreign depository should be considered, along with other factors, by a fund's board or investment adviser when the fund decides whether to invest in securities that trade in a particular country's markets.

The rule recognizes that foreign risk is a matter of degree, and that different funds are willing to accept different levels of risk, depending on their investment objectives.

In order that funds make their decisions on an informed basis, rule SEC 17f-7 relies on disclosure in the form of an analysis of the risk associated with the depository. The fund's custodian must provide this analysis, subject to a duty to exercise reasonable care.

Further information can be found by visiting the website www.buttonwood.com



Perfect Evolution

Is the sub-custody landscape in Europe on the verge of major change? Brian Bollen finds out

Depending upon which vested interest you talk to, the answer is, it seems, simultaneously yes, no, maybe, and even the occasional don't know. The arguments in each case sound very rational, even convincing.

"What will happen?" asks Paul Bodart, of The Bank of New York, Brussels branch, which is the global custody hub of the Bank. "Currently BoNY uses a sub-custodian in each European country. Euroclear is consolidating to one platform, from six, and once the Euroclear platform is in place I'll be connected to Euroclear for equities as well as bonds. We won't need sub-custodians for the local market if we can go direct to Euronext France, for instance. Fees will drop dramatically, as the sub-custodian is disintermediated. I hope and believe that the decline in revenue will be offset by automation and increasing volumes. You will see in continental Europe what we have already seen in the US and the UK, a massive consolidation of the business."

"The steps that are taking place to defragment CSDs in Europe prove there is a drive to reduce the number of players," he continues. "This will enable banks like ours, and investment banks, to hold their assets in one location rather than several. The efficiencies and cost savings that we can achieve by holding assets in one location are self-evidently a good thing, but it's bad news for sub-custodians. Merrill Lynch has already made public its decision to move its French equities business from BNP Paribas to Euroclear; I am convinced that more people will move."

There is no escaping the commercial argument in favour of change driven by the pursuit of greater efficiencies and reduced costs. Bodart cites figures showing that transaction fees and safekeeping fees have virtually halved since 1997, and there is no let-up in the downward trend. "Customer pressure means margins are becoming thinner and thinner," he says. This demands scale, which demands investment, which prompts smaller players to reconsider their place in the sub-custody universe. "How do you persuade top management to make

the necessary investment if the business is not important to the organisation?"

One can almost hear the sound of plugs being pulled as he speaks, and it is not difficult to visualise an extended game of Custody Musical Chairs, in which Europe replicates the UK market in the 1990s, player after player exiting every time the music stops. But while some market participants share Bodart's belief that a single Euroclear platform will virtually eliminate the sub-custodian from their own business plans, and will present enormous challenges to banks such as BNP Paribas and Citigroup who have large sub-custody networks, there are of course always at least two sides to every story. And nothing could be further from the truth, according to BNP Paribas.

Moving up the value chain will become more important than ever for banks with a large sub-custody element in their business. This is hardly a newly minted view.

Agreement is widespread, almost unanimous, that sub-custodians will be some of the biggest losers, although the largest will respond not by exiting the business but by changing the very nature of their business. "I'm convinced that the local local players will find it increasingly difficult to survive," argued Charles Cock, then Head of Sub-Custody and Clearing at BNP Paribas Securities Services, in mid-2005. "None of us has a crystal ball, but the institutions with a large pan-European presence will become bigger and stronger at their expense. If you don't already have a pan-European network it is too late to build one and add value. Fragmentation has been a bonanza for the bigger players but a further wave of consolidation is inevitable; the only question marks surround its pace and shape. We will see more stock exchanges being acquired and greater harmonisation of regulations and market practices."

Many of his arguments remain valid, but his successor in that specialist role paints a picture with a slightly different nuance. "The landscape is very very competitive, and evolving rapidly at least in terms of the number of providers in the market place," observes Steve Chew. Rather than shrinking into their home market and withering on the vine, a growing number of providers are looking to develop a regional service. "We've taken the multi-direct approach in recent years, and Citigroup have a similar strategy, but the likes of Kas, and Deutsche Bank, and Societe Generale are increasingly picking up market share wherever they can outside their domestic market," he says. "The purely local domestic providers will dwindle in numbers but the survivors will be very focused." In any event, the onward march of Euroclear into Western Europe's custody world will not bring about the elimination of the sub-custodian there.

"Of course we have a continuing role to play, providing sub-custody, clearing, outsourcing and

other related services around derivatives and execution to clients," he says. "If you need to do something, you can either do it yourself, or use a specialist. In our case here, to do it yourself you need an enormous infrastructure and expertise and an intimate knowledge of fine detail in the market to make sure you're properly positioned at all times. If you use a sub-custodian, you tap into their intimacy with and knowledge of the market in question." In any event, Euroclear's and Clearstream's market participation is much more geared to Financial Intermediaries than to end-investors, says Etienne Deniau, deputy head of Investor Services at SGSS.

"The landscape is very competitive, and evolving rapidly at least in terms of the number of providers in the market"

"The most successful firms in the custody and sub-custody markets will be those who have scale and experience, and are investing in technology that will help them keep pace with their clients' needs," says Mary Baker Balady, global head of Custody for JPMorgan Worldwide Securities. "Clients are looking for firms that can provide more than custody services, including a wide array of value added services and solutions such as securities lending and capabilities and expertise to support alternative investments. Most of all, those firms that are focused on making their clients successful will do well."

Not the least of the problems presenting themselves is the widespread disparity between different EU countries, exacerbated by the expansion to 25 countries. Until a United States of Europe comes into existence, with harmonised tax, legal, and regulatory systems, those differences will remain. Harmonisation looks a long, long way into the future, possibly stretching to infinity given the French and Dutch rejections of the proposed European constitution in May and June respectively last year. "Until that happens, sub-custodians have value to offer," says Steve Chew. A similar CSD consolidation process to that being witnessed in western Europe is under way in the Nordic countries, where the Swedish and Finnish CSDs are in the process of merging. "Here again we may consider whether The Bank of New York will be a direct member than use a local sub-custodian," says Paul Bodart.

While we wait with bated breath for CSD consolidation to transform the face of the industry, the European sub-custody market is booming both in terms of rising transaction volumes and the recovery that is taking place in the continent's equity markets, observes Ulf Noren, of SEB. He agrees,

though, that it is under severe threat from fee pressure in combination with ever increasing service level requirements. "Trends for regional supply are growing stronger by the year and we are seeing the growth of quasi-regional providers in the region," he says. "Competition is becoming severe as local suppliers deploy the only weapon they have to counteract the regionalisation trend (price), while European regionals expand their regional reach, often by playing the price and credit game. Utility-type competitors, meanwhile, are entering the sub-custodian space by expanding their utility offer into various commercial banking arenas." In other words, we live in interesting times. And most market participants would probably regard that as a curse, rather than a blessing.

"The regionalisation trend has always been a bit ahead of the consolidation in the market infrastructure," continues Ulf Noren. "In our own region, OMX has done a lot of good things in achieving a technology solution that is common for eight markets, having a full or partial ownership in six of the eight markets and striving for more. On the CSD side the two largest markets have merged and are working flat out to achieve more consolidation benefits while the other six are everywhere on the scale from very positive to outspokenly negative" (the eight markets to which Ulf Noren refers are: Denmark, Finland, Norway, Sweden, Latvia, Lithuania, Estonia and Germany).

Does the latest bid for the London Stock Exchange have any implications for sub-custody providers and their customers? ISJ asked Ulf Noren. Not directly, he replied, but he is not alone in seeing it as a catalyst for a further round of empire-building, market-exiting, and shape-shifting. "The bid itself, not really, but it fits well into the bigger picture, sure," he replied. "It focuses a lot on the value proposition offered by an Exchange and the effects that can be achieved by consolidation. The London debate has been interesting as national power interests, as well as personal power interests, have been so openly exposed. Maybe the most interesting characteristic of the London bid is that the debate has been more about clearing and settlement than it has been about trading! I believe that anyone who believes that a merger of London with any other exchange group will leave them unaffected must re-think. It will be a new trigger for a massive wave of additional mergers. I also cannot believe that the most important financial centre in Europe, and maybe in the world, will let this go by without securing at least as much influence over the value chain as it has today and probably more."

"I see a possibility that the NYSE bid could succeed, and we could see the creation of the NYLE, while talks between Deutsche Borse and Euronext could result in DEX," adds Jorgen Kragor, the

soon-to-retire in-house guru at DnBNor in Oslo. "This will represent a shift away from the Euroclear versus Deutsche Borse stand-off of recent years towards an Anglo-Saxon versus European debate. And competition is, of course, good."

While the drive towards consolidation in the European Union could accelerate if the European Commission forces individual countries to literally get their act together, no observer of the European Union would gamble the mortgage on that happening any time soon, or action unfolding rapidly if it does.

Jorgen Kragor agrees that there is change ahead, but is at pains to stress that it will not happen in the near future. There is a lot of ambition around, and a lot of talk being talked, he says. "The plans and the strategies are all in place but there remains a lot of hard and complicated work to harmonise rules and regulations across borders. "The merging process has already been underway for around 10 years, but even in regions such as the Nordic area where most of the neighbouring countries share so many similarities with each other, differences of language, culture, law and regulation still get in the way of progress."

"Anyone who believes that a merger of London with any other exchange group will leave them unaffected must re-think"

The clear consensus is, though, that there are too many custody providers and further consolidation is inevitable. It will be survival of the fittest, except for those cases where a bank has an exceptionally large local custody customer base. At the extreme end of the scale of views, sub-custodians will disappear from view, slowly, but as surely, as the famous Cheshire Cat. Albeit without the trademark grin to be left behind.

"Consolidation in the European sub-custody market is creating more competition that ever before," says Ed Neec, SVP, JPMorgan Network Management. "Global custodians are faced with several options such as using existing traditional sub-custodians, having a direct interface, a combination of both, or buying services ala carte. The question remains whether the current level of competition and options will remain once consolidation is completed."

Who will leave the business? "It's tough to mention names," says Jorgen Kragor. DnBNor will, of course, be one to survive, he predicts with a smile, but then his own bank is itself the result of a relatively recent merger. DnBNor is positioning itself to take advantage opportunities that might arise elsewhere, recently buying Monche Bank in Russia,

and establishing a new bank in the Baltics. DnBNor is 51 per cent owned by DnBNor, and 49 per cent owned by Norddeutschelanderbank. This expansion will enable the bank to establish custody operations in Russia and the Baltics, and provide local sub-custody services to Nordic and other investors, but there are currently no plans to do so.

There are clearly too many providers, he argues passionately. "This is, above all, a volume-driven business and without substantial volume additions combined with efficient operative solutions and the inclusion of more layers in the value chain, business will not be sustainable. Relying on one individual market's growth might save a niche provider or two but on a different scale than we see the single market providers have today. All across Europe, single market providers will go, regional providers will stay on and fight with other regional providers and CSDs/ICSDs."

DnBNor's own ambition is to be the best provider of Norwegian custody services to domestic and international investors. The message has recently been passed down from the CEO that Sweden is to be included in the bank's definition of its home turf, meaning that it will be looking to establish the same level of performance and service there as in Norway. We realised we are at present unable to establish the required processes in the other Nordic countries because of the cost and the time it takes to translate an idea into a market offering." The bank has in the meantime struck up what it calls a Nordic custody alliance with Swedbank (Sweden), OKOBank (Finland) and Amagerbank (Denmark). Jorgen Kragor belongs to the school of thought that although Euroclear is emerging as an alternative custody and sub-custody provider, it does not represent a clear and present danger to BNP Paribas and Citigroup. He does not believe that all clients will automatically move to Euroclear. "It's not sound for us if we face a monopoly," he elaborates. "Euroclear might be a quality provider but we see it as a European CSD, a huge and dominant European CSD. If they're to be a bank, a custodian and a CSD, I'm reluctant to see those roles mixed. I want competition; monopoly provision is not good for clients. I don't believe it will ever happen. It is undoubtedly in the process of growing, though, and it could be a signal to the rest of the community if giants such as Merrill Lynch successfully implements its decision to move assets to Euroclear."

He sees comparisons between what is happening in the Euronext zone and the experience of the Nordic countries. "Big players have hesitated to use the services of just one institution for the whole region. For quality and security they are instead using the dominant provider in each individual market, rather than putting all their eggs in one basket." Who could possibly argue with that?

The outlook is very different, though, beyond EU boundaries, and sub-custodians will continue to play a vital role in the wider world, enabling access to markets what would otherwise remain stubbornly out of bounds. ING Bank and BankAustria Creditanstalt Bankverein in its various guises, remain the major players in Central and Eastern Europe. But they, and Citigroup, have most recently been joined by RZB, and Deutsche Bank as it makes an intriguing new move to extend its sub-custody beyond its own borders, with the sale of

“Consolidation in the European sub-custody market is creating more competition than ever before”

its global custody business to State Street still fresh in the industry's mind. “It's unusual to see so many providers in one region, but it is a growing market,” observes Stephen Brown, regional head of network management at Northern Trust. “We've seen over 100% increase in assets over the past 12 months. Eastern Europe has firmly entered its next phase of development.” Switzerland, of course, is geographically part of Europe but keeps its distance from the European Union, and is one of the few countries with enough wealth for the sub-custody business of one its banks to make a living purely from the domestic market.

“Indigenous banks like to argue that they can offer the same levels of service, competitive pricing and infrastructure investment as the larger banks, and provide innovative solutions just as they do, but how can you compete with a smaller scale in a single market?” concludes Stephen Brown. “UBS, Northern Trust's Swiss subcustodian certainly can, but it is uncommon.”

European Custody Roundup

Do any of the emerging, or less developed markets, present particular difficulties that investors should be aware of and build into their decision-making?

In the emerging markets that fall under the Nordic influence (the Baltic states of Estonia, Latvia and Lithuania), liberalisation has taken place very quickly and few obstacles remain, argues Ulf Noren. “If we look at the Baltics after independence (where many banks went bust and depositors lost all savings) and compare that with today's legal framework and protective measures being taken, I am in very little doubt that we and other strong foreign entrants to the market have greatly con-

tributed to have this done quicker than would otherwise have been the case. In any new market for an investor, it is important to conduct thorough due diligence and to never take for granted that the markets are run just like the traditional hemisphere of mature markets. An investor should also be thorough in outlining expectations at agreement level. Don't underestimate the level of engagement required initially. Take a close look at how management is executed – is it a culture you know or a culture you do not know? Having done this and in a direct relationship, don't make the mistake of always thinking that the mature market representative is always a representative of the best industry practice.....

Could the more developed markets learn a lesson or two from any of the emerging, or less developed markets?

Yes, certainly. We see that what normally takes a year to do in any of our mature markets is normally done in three months in the Baltic markets. The work force is very well educated and motivated, and it has so far been relatively easy to recruit in line with our desired profile. We often face infrastructure and technological solutions that are more modern and less fragmented than the ones we find in the West. This naturally comes from the fact that the countries we are facing have made a giant leap from a central planning economy to state of the art in business. It is noticeable but is still often ignored or overlooked by mature market peers.

Postcard From Estonia

Hansbank Estonia's Head of Securities and Correspondent Banking Services Department Helen Poolake on recent developments in the Baltic region: There haven't been any major infrastructure changes in the Baltics in recent years except for the implementation of the SAXESS trading system on all three Baltic exchanges. Additional integration efforts at the exchange have related to harmonisation of rules and regulations and common marketing. Depositories have established mutual links for free of payment and stock exchange transactions. The ultimate goal is to have a common clearing and settlement solution and system. Given today's solution and the fact that the Lithuanian CSD is 60% owned by Bank of Lithuania, no significant changes are expected in the short term. As a custodian with a direct banking presence in all Baltic markets, we would like to see more efforts in developing the local market instead of some of the regional efforts creating limited value or resulting in the depository competing with local market providers. There is also insufficient opportunity to influence depository activities (since the Estonian and Latvian CSD's are exchange owned) and the

infrastructure does not always serve the interests of the market participants. At the end of the day we do, however, support the idea of a single Baltic market in line with developing the services provided to market participants in each of the markets.

'Top Tips' on selecting a custodian for customers who require sub-custody services

Top Tips: Dos

Look at the structure of the potential supplier, is it technology-wise fit to handle geographical expansion? What has driven the addition of more markets? Is it a growth plan or a survival strategy? What ideology does your potential supplier embrace; is it protectionist or expansionist? What is the value proposition [compared with your current supplier]? If there is no financial benefit, the resistance within your organisation to change will be obstructive. Is your supplier of choice today also your supplier of choice tomorrow? If not, act now. Examine very carefully the underlying case for investing in a new, unfamiliar geography

Top Tips: Don't

Don't do nothing. Don't put competition in the driver's seat by sticking to tradition and avoiding the additional work that follows from a sub-custodian change. It can be a pain but it can be worth it. Don't rely purely on the remote, impersonal RFP process in making your choice. The selection process must be hands-on, and interactive. You are buying a three- to five to 10-year relationship; you need to know who you're climbing into bed with. Don't worry about due diligence of the sub-custody provider; that is the custodian's responsibility.

Thoughts from Madrid

Sally Maddick, Head of International Sales and Relationship Management, RBC Dexia Investor Services Madrid of RBC Dexia Services views the market from the Spanish perspective. In terms of custody, fund administration and transfer agency, bundled services can be most helpful to the end user. Larger end-users look for integrated solutions in each local market or directly via a global network. Integrated solutions provide for additional synergies and increased efficiencies. In Europe there is a definite market for outsourcing and regulation is modifying the current landscape. Proximity remains an important criterion for smaller end-users and market harmonisation allows for increased transparency in processes as well as an extended geographical choice of custodians and sub-custodians. With increased market harmonisation, the need for strict compliance and increased system investments follow.

Directives such as MiFid, an extension of ISD, are important to take into account in the changing

investor services' environment. The belief that asset managers will become obliged to outsource their back office is widely held by many in the investor services industry. As investors' attitudes evolve, third party product distribution will also increase. Despite the current large amount of of investor services outsourcing propositions, a large number of asset managers still perform their own middle and back office functions. RBC Dexia Investor Services foresees great opportunities to help managers with some of these functions as well as banks, thanks to pending regulation. It is important to understand that current regulation protects the end investor; however, new regulation coming from the SEC in the US and the European authorities (CESR, ESC) will drive the de-concentration of the industry whereby certain functions will need to be taken care of by specialist providers. While speaking of funds, on 4 November 2005, the Spanish collective investment institutions regulation introduced for the first time in Spanish legislation, both hedge funds (free investment collective investment instruments) and fund of hedge funds, providing a regulatory framework that is expected to allow for the growth of hedge funds. This will mean that collective investment vehicles will be able to invest in new products to make their offer more attractive. The regulation allows the use of omnibus accounts by non-residents which will aid commercialisation. Are there too many providers? Are we likely to see further consolidation in the sector? In terms of competition, there is a definite market for outsourcing and regulation is driving the depolarisation of functions typically performed by asset managers. In order to be able to compete in the bundled service arena, the third-party service provider is required to maintain high standards in all areas of activity. This leads to a concentration of investor service providers who are top-notch all around.

Likewise, competition in the value-added services arena is increasing. As clients tend to look toward service providers for additional value added services such as data analytic tools and performance enhancement tools, those providers that are capable of efficiently servicing these needs and that are an expert in this domain, will also distinguish themselves from the competition. Iberclear, Spain's central depositary, is likely to harmonise the settlement platforms which are currently separated between equities and fixed income. This will undoubtedly change the settlement processes as they are known today. Iberclear has been instrumental in making moves to bring the market up to date and has implemented various measures to increase the efficiency of the Spanish market. The latest of these has been the implementation of the SUC pre-matching system.

STRENGTH in Depth

Cornelia Keth highlights the strengths of the German custody market



Cornelia Keth

The German custody market has undergone many changes in recent years and has thus been a frequent topic of discussions. It was not just the big deals that hit the headlines – such as the long-standing number one German custody provider Dresdner Bank selling its institutional sub-custody business to Deutsche Börse and the latter selling its global custody business to State Street – a wealth of regulatory changes also attracted a great deal of attention to the German custody market. The new German Investment Act, which now allows hedge funds to be sold in Germany, is just as important in this context as the boom in private retirement provisions following the introduction of the state-subsidised “Riester pension”. And nobody really expects the years of massive change to come to an end now that the grand coalition is in power...

The German securities market is built around the infrastructure of Deutsche Börse Group in

Frankfurt. Due to its vertical silo structure, which has often been subject to criticism at European level recently, Deutsche Börse AG is the operator of the Frankfurt stock exchange (FWB) with its electronic Xetra trading platform and at the same time the sole proprietor of the German CSD Clearstream Banking Frankfurt (CBF). Furthermore, Deutsche Börse is the owner of the ICSD Clearstream Banking Luxembourg (CBL) and holds 50% of the world's largest futures exchange Eurex. It remains to be seen whether this silo structure might be broken up in the near future under competition law. The German market participants appreciate the close link between trading and clearing and settlement as it simplifies processes and minimises infrastructure costs. Experience has furthermore shown that established structures in securities clearing and settlement tend to be maintained even if legal parameters change. For example, although Deutsche Börse opened up its structures at the beginning of 2004 to allow CSDs other than CBF to clear and settle transactions, no other market participant has applied for a licence to do so yet.

Even if the entire German securities market with its seven stock exchanges and the electronic Xetra trading platform might appear to have fallen victim to the German phenomenon of regional particularism, a closer look reveals that the Xetra trading platform, which was founded in 1997 and meanwhile holds a market share of 84%, has clearly prevailed over its regional competitors. If you include Frankfurt floor trading with a further 7%, the predominance of Deutsche Börse is indisputable. It is therefore hardly surprising that the Supervisory Board of Deutsche Börse has once again rekindled discussions about the regional stock exchanges merging to a “super-exchange” which - local patriotism notwithstanding - would clearly bring a number of economic benefits. However, the regional stock exchanges have their merits, too. Whilst Deutsche Börse primarily focuses on institutional trading, the Stuttgart stock exchange and its subsidiary Euwax renders outstanding services in warrant trading and the Munich stock exchange in terms of catering for private investors. Should the “super-exchange” come into being, the trading platforms will probably take less account of the requirements of private investors.

Another initiative aimed at harmonising the German stock exchange structures was taken by the federal government in 2003 in an effort to centralise the regional authorities supervising the stock exchanges in the German Federal Financial Supervisory Authority (BaFin). Although this topic was soon out of the news, it

In the last few years we have seen more and more German institutional investors looking for best of breed providers

has been taken up again in the current coalition agreement. This kind of merger would in any case make sense from an overall German perspective. In addition to concentrating know-how, it would also put an end to supervisory arbitrage between the regional states.

As far as post-trading activities are concerned, the German market, and clearing business in particular, has gone through fundamental change in recent years. Once the central counterparty (CCP) was introduced at Deutsche Börse in May 2003, the number of transactions cleared via Clearstream in 2003 fell from 82.1 million to 61.8 million. The number of transactions traded via Xetra rose in the same period from 60 million to 71.4 million. While only domestic papers held in collective custody profited from the new netting function in the early days of the CCP, the new system now also caters for foreign securities held in collective custody. With the export of the CCP concept to Ireland in December 2005, Eurex Clearing AG was officially recognised as one of the most important central counterparties.

The German custody market has also been quite dynamic in the past few years. A look at the number of foreign custody providers entering the German market in the recent past suggests that Germany still offers a great deal of business potential. State Street took over the global custody business of Deutsche Bank, BNP expanded by building up its own marketing and sales channels in Germany and The Bank of New York cooperates with BHF-BANK in their joint venture BHF BNY Securities GmbH. As the German banking market with its traditional three-pillar structure of private banks, state-

owned savings banks and cooperative institutes (according to the German central bank 2,149 institutions had a banking licence in Germany as at 16 January 2006) is very fragmented, transaction banks are a very promising business segment. dwpbank, which is already managing securities worth almost EUR 1 trillion, is one of the most prominent players in this segment. Its competitors in the transaction banking league include TxB Transaktionsbank and Xchanging. International Transaction Services GmbH, a joint venture founded by HSBC Trinkaus & Burkhardt and T-Systems in 2005 is a newcomer on the market.

The global custodians on the German market include the "usual suspects" that are looking to get a fair share in the German securities market worth EUR 4.6 trillion in total. In 2004, State Street won, for example, the mandates from the German airline Lufthansa and the insurance group VHV. BNP Paribas was able to profit from the transfer of Deutsche Bank's global custody business to State Street by acquiring a few of their clients.

KAS-Bank is successful as a regional custodian with top marks in the relevant surveys. The positive assessment was confirmed when they won the VW custody mandate worth EUR 75 million in October 2005.

The local custodians in Germany paint a rather ambivalent picture. On the one hand, Dresdner Bank, which had been the leading German sub-custodian for decades, decided to exit this business in 2003. On the other, BHF-BANK, which had withdrawn from this segment in 1995, rejoined the market in the same year. BHF-BANK has shown that even small fish can be very successful. The bank won the sub-custody mandate from The Bank of New York in the autumn of 2004. Acquiring Tradition as a new client also underlined BHF-BANK's standing as a very attractive clearing house.

So what is it that makes niche providers such as HVB, Commerzbank and BHF-BANK on the German market so attractive? The complexity of German tax law, the numerous regulations that vary in the different German states and the well-known German perfectionism in administrative processes all make it very difficult for foreign investors to operate in the German custody

market. This is where German custodians can offer market know-how and networks that can hardly be matched by a non-German provider.

A change in the perspective from the custody suppliers on the German market to those requiring this service, shows that historical

One of the most important changes was the introduction of the new Investment Act in Germany in 2004

structures are disintegrating. In the last few years we have seen more and more German institutional investors looking for best of breed providers instead of sticking with their house banks. It is, however, interesting to see that their market research does not always lead them to the global custodians as many press releases would suggest. Based on the results of their analyses, some decide to keep their network of depository banks or opt for a combination of local and global custodians. But whatever the outcome of these analyses, there will be many changes to come before the German custody market calms down, if it ever does.

The new trends are very evident in investment fund business. Whereas the investment company in a banking group would normally also assume the role of asset manager, there is now a clear trend towards separating the asset management and fund administration functions. This resulted in the new concept of a Master-KAG (master investment company). The activities of the different asset managers are pooled in a central fund administration unit which provides the investor with all the required information in an aggregated form. A master custodian bank can offer even more as it can provide consolidated reporting services for the entire securities portfolio. In addition to third-party assets (usually investment funds for institutional investors called special funds) managed by asset managers, this reporting service also includes the assets managed by the investor. In both cases, pooling the different depositories means that investors benefit from clearer and more concise information so that the best of breed strategy can be fully implemented.

But it is not just the market that is under-

going permanent changes, the legal parameters are changing as well. One of the most important changes was the introduction of the new Investment Act in Germany in 2004 with hedge funds being admitted to this market for the first time. The pace of reform is expected to accelerate further under the grand coalition: the introduction of REITs is to make headway, corporation tax is to be reformed and the corporate governance rules are to be adjusted to meet the international standards. There has also been a lot of talk in the specialist papers that the interest withholding tax, which is considered to be an advance income tax payment, might be replaced by a final tax on capital gains. On top of this, the federal government is busy dealing with a number of European regulations in projects on the MiFID and the Giovannini barriers. "Within the EU we are often like preachers in the desert," Jochen Sanio, president of the German Federal Financial Supervisory Authority, recently commented on his efforts to prevent the most excessive EU regulation.

Yet, irrespective of the legal parameters that are applied, the German custody market will grow further. The growing domestic demand for investments as part of the increasing interest in private retirement provisions and the low capital market interest rates are just two factors that will help to expand this market. Foreign investors have also rediscovered the German investment market, which has been strengthened by the crises of the last few years.

We are very keen to see what will happen on the German market in the near future. Who will be there and get what part of the market? Will there be new ingredients and new products? We cannot wait to see what happens next...

Cornelia Keth started her career at Dresdner Bank's securities settlement department. In 1991 she became head of marketing at BHF-BANK's Custodial Services department. Following BHF-BANK's leave from Custody Business she started working in 1997 as Sales and Relationship Manager for Deutsche's Global Securities Services division, where she witnessed the transfer to State Street in 2003. In 2004 Cornelia was appointed head of Custody Sales & Solutions at BHF-BANK, where she is now promoting German sub-custody and deposit banking business.

“There have been a lot of changes to the German market structure in recent years. Which provider will emerge victorious?”

BHF Bank

Moritz Ostwald BHF Bank



As the transfer from one custodian to another is connected with high efforts and costs, we understand that custody clients have to rely on long term business relations. This is why customers are very interested in a market player's future concept when talking to potential custody providers. We at BHF-BANK are pleased to provide potential customers with the statement that our custody services have just recently been confirmed as a strategic business segment.

It is quite natural that - especially when observing the German market, where several participants have sold their business, have committed themselves to custody while withdrawing within a glimpse of time - one gets concerned about its custody provider's future plans. From our point of view, many of the custodians seem to be obliged to present an ongoing flow of headlines in order to satisfy the information desire of the financial community. Private owners on the other hand have the time to see their seed bear fruits and are therefore more likely to presume long term strategies.

Regarding the future market structure, we observe a trend towards local sub-custodians. The volume of client assets in major markets like Germany is growing significantly in line with the service demands of these clients. Especially in the very complex German market e.g. with regards to taxes and corporate actions it is essential that custodians know their market well, have fast flexible processes and close and long standing contacts to the major authorities and market movers. This is what local custodians focussed on and what is their competitive advantage vis-à-vis regional and global custodians. This trend to

think local is supported by another trend. Cost saving seems to stop being the one and only goal of the demand side. Quality is part of the game again.

So its not only about having a long term strategy but also to present a unique selling proposition to the market. Although the shift in the German market has not yet come to an end, we see good chance for specialised local players with long term commitment to lead the market to a new era.

Moritz Ostwald started his career in custody business in 2000 at Deutsche's Global Securities Services division in Frankfurt, where he attended a one-year trainee programme for business analysts. After working as a project manager for custody – where he was inter alia responsible for the development and implementation of Deutsche's custody portal - he was promoted to the position of a product manager at State Street Bank GmbH in 2003. Since June 2004 he has been working for BHF-BANK's Custody & Derivatives Services as a Sales & Relationship Manager for custody.

“Which rules govern the Registration of Securities Accounts in Norway?”

DnB NOR



Bente Hoem DnB NOR

All Norwegian shares are held in fully dematerialised and registered in book-entry form in which ownership and transactions related to securities are recorded. There are no physical securities. All listed securities and limited companies must be registered at the VPS - The Norwegian Central Securities Depository. A majority of the most frequently traded, unlisted equities are also registered in the records of the VPS, whereof Limited Companies on a voluntary basis.

Shares cannot be held in Street Name in Norway. The Norwegian Companies Act requires all shares to be registered in the name of the beneficial owner.

However, according to the Norwegian Public Limited Companies Act, a foreign trustee or custodian can be registered as such in the VPS, and thereby represent a number of beneficial owners in the shareholder registers.

Such trustee/nominee registration is subject to an application being approved by the Financial Supervisory Authority of Norway (FSAN).

In accordance with the new regulation relating to registration of nominees in a securities fund register of unit holders, which came into force as per 01.01.04, a Norwegian or a foreign bank

may be granted permission to be listed as a nominee in the register of a unit holder.

A separate licence application to the FSAN must be made. In addition, the nominee must provide the issuing company or the authorities with the identity of the bene-

ficial owners upon request. This is one of the criteria to be accepted upon seeking a nominee licence.

A further consequence of such registration is that shares registered in nominee accounts are without voting rights. It is, however, possible to reinstate the voting rights by transferring the subject shares into a securities account, which reflects the real beneficial owner.

Transfer of the shares to sub-accounts must take place ahead of the general meeting and will be transferred back once voting has taken place.

Bente Iren Hoem is Head of Global Relations and Support at the leading Norwegian provider of securities services DnB NOR, a position she has held since December 2003. Prior to that she worked as a project leader in DnB within the securities services area. She has 15 years of experience within the custody business, from Christiania Bank og Kreditkasse, where she headed up International Securities Services and from SEB where she established and headed up its Norwegian securities operations.

"I am a prime broker and my client wants to set up a hedge fund in Germany. How can the custodian help us to promptly and successfully launch and service a hedge fund?"

Citigroup



Giulio di Cerbo Citigroup

The reorganisation of the German Investment Laws in 2004 has permitted the establishment of hedge funds (HF) for the first time and allowed institutional investors such as insurance companies and pension schemes to invest in this asset class. This has created a strong business potential for HF in Germany. Despite a slower than expected initial pickup of HF in Germany, we have recently started to see increased activity in this arena with market volume expected to double in 2006.

Prime brokers with a good track record are making headway in positioning themselves to service HF demand in Germany and capture a large share of an estimated EURO 60bn wallet potential. Germany has a unique model for HF where a separate legal entity (the KAG) is responsible for the launch and the servicing of the HF. It is the market's view that the easiest and fastest way to access the German market is to use an experienced third party Master KAG.

Given Citigroup's long standing experience in the German market and our service commitment to clients, we were among the first to establish Master KAG services in Germany. Today Citigroup is the natural local partner for prime brokers. We offer a unique, simple, turnkey solution in the German market covering all KAG and Depotbank services. Our service provides prompt entry to the German market and allows managers and prime brokers a fast and efficient time to market. Citigroup's unique solution includes: Launch of HF with the German regulator, production of prospectus, fund administration and custodian bank services in compliance with German laws, in addition to tax efficiency,

regulatory and risk control as well as reporting of HF performance.

Citigroup's Master KAG is recognized to be one of the largest in servicing several large single HF in Germany. Citigroup has established capabilities to also provide services to funds of HF as well as long funds.

Giulio di Cerbo Managing Director, EMEA, Head of Intermediaries, Banks and Broker-Dealers Citigroup Global Transaction Services Giulio di Cerbo is Managing Director, EMEA, Head of Intermediaries, Banks and Broker-Dealers for Citigroup Global Transaction Services. He is based in London. Prior to his appointment to his current role in 1993, Giulio served in various senior positions at Citigroup from treasury financial institutions to corporate and consumer banking in countries such as Italy, Belgium and Greece. Giulio is well-known within the financial industry, and is an active participant in forums, roundtable discussions, and conferences and seminars in the United Kingdom, Asia and Europe. He holds a BA degree in Finance.

How is safekeeping of Global Custodian clients' underlying assets performed?

International Moscow Bank



Vasilii Permyakov IM Bank

There is no Nominee Concept for foreign custodians currently according to Russian legislation. The Nominee Concept is in place only for Russian custodians. Foreign custodian will be recognized as a Beneficial Owner of securities held at the custody account. In that case foreign custodians should take into consideration the following aspects:

- taxes relevant to foreign custodian's tax domicile will apply irrespective to the foreign custodian clients' countries of incorporation.
- dividend and interest proceeds are being paid to the foreign custodian as to the beneficial owner of securities
- voting might be performed only by the foreign custodian (not by its underlying clients) and no split voting is possible
- disclosure requirements will apply to the total holding at the foreign custodian's account and disclosure reporting should be performed by the foreign custodian – account owner

Therefore, IMB has developed various account structures for its foreign custodian clients: 1. A foreign custodian opens accounts for each client in IMB nominee. The Custody agreement between IMB and each client of the foreign custodian is signed by the foreign custodian on the basis of the power of attorney received from each client. In this way each client will be recognized as beneficial owner of Russian securities and will be disclosed as such. Although submitting standard sets of documents (including Custody Agreement between IMB and each client of the foreign custodian) may be deemed as burdensome and inconvenient for the foreign custodian, it is the only way for the foreign custodian not to be recognized the beneficial owner according to the Russian legislation.

2. A foreign custodian opens a master account with IMB with sub-accounts allocated to each client of the foreign custodian. No documents are submitted for the clients of the foreign custodian. The foreign custodian will be recognized as beneficial owner of Russian securities kept on sub-accounts of each client. Clients will not be disclosed and thus the sub-accounts can be deemed to be opened only for convenience/reconciliation purposes. 3. A foreign custodian opens one omnibus account for all clients and is recognized as beneficial owner of Russian securities kept on this account as a foreign nominee concept is not recognized in Russia. There is no CSD currently in Russia. Safekeeping and registration of securities vary depending on their type.

How is the registration process performed?

Registration of shares is performed in most cases by registrars, which are professional market participants licensed by market regulator (Federal Services for Financial Markets), and act under an agreement with an issuer of shares. For joint stock companies with number of shareholders under 50 there is a possibility to keep register by their own. There is also a number of Settlement Depositories in Russia. The major are National Depository Centre (NDC), which provides safekeeping and settlement services for MICEX Stock Exchange, and Depository Clearing Centre (DCC) servicing RTS trading system. There is a possibility to use these Settlement Depositories for OTC settlements. In that case Settlement Depository becomes an additional entity in the registration chain. It is up to a foreign custodian to decide whether to use Settlement Depository for OTC settlements and shares safekeeping or not. It is required that foreign custodian instructs its local sub-custodian in Russia on the place of safekeeping: directly at registrar or at a Settlement Depository.

Corporate and Municipal Bonds. It is a market practice that corporate bonds are placed for centralised safekeeping with a Settlement Depository. Currently the majority of corporate bonds issues are at safekeeping at NDC.

RUB denominated Government Bonds.

Centralized safekeeping of these securities is performed by NDC. Bookkeeping of RUB denominated Government Bonds requires disclosure of the beneficial owner, according to the terms of the Russian Federation legislation. Only exchange trading is possible for RUB denominated Government Bonds.

MinFin Bonds.

MinFin bonds are USD denominated bearer securities, issued in individual certificates form. Custody safekeeping of these securities is not compulsory, but a market practice. Over 90% of MinFin bonds are dematerialized at Vneshtorgbank and Vnesheconombank, which are de-facto Clearing Depositories for them. Each MinFin bond certificate has a unique number. Records of each bond are kept in connection with its unique number and holder.

Vasilii Permyakov has worked in Custody Sales & Relationship management at International Moscow Bank since May 2005. Prior to joining IMB, Vasilii spent four years working for Vneshtorgbank Custody and being responsible for sales & business development.

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“Can banks continue to act as a local and global custodian for their clients in the years ahead?”



Titus van Heur ING

The above question has been raised by different participants in the market. On the one hand it seems very logical to provide these services both globally and locally and many banks are doing so. The reason behind this seems straightforward. Some universal banks are providing their global custody services purely for their internal business and are trying to generate additional revenues by providing these same services to third party clients. It is all about the law of large numbers, i.e. optimizing the cost structure of the bank's operations by allowing other clients to use its services. Sometimes it is used as a commercial argument, i.e. if you want to provide custody to your clients you can only be taken seriously if you can directly offer local custody in a selection of countries combined with a 'third party' global custody network.

Custody business has over the years expanded with all kinds of value added services. In an adult stage of the product-life cycle value added services can quite quickly be regarded as a commodity. Only in developing markets like for example Central and Eastern Europe profit margins are still relatively high due to all kind of market imperfections like differences in procedures, cultural elements and regulations.

What kind of developments can we see further?

The global world around us becomes smaller due to technical developments, more international cooperation by governments, performance issues that drive market-participants more internationally and so on. In an environment like this, large financial institutions tend to become larger and larger as empirical evidence shows these days.

What does this all mean for custody-providers in the future ahead of us given above developments? In a few years time assets under custody with global custody providers will be quoted in trillion of euros or dollars. Billions will not be sufficient in order to maintain the high

investments required. Value added products will have much shorter life cycles and require higher investments in the future. The time-to market becomes shorter year by year. Price erosion will continue and can only be compensated by growth in volume. The quality of service will need to increase too. Each provider needs to focus on that what he is either good at and or what he will be able to provide in the future given industry developments. Most banks, that are not part of the selective group of truly global custodians will need to make up their mind and decide to depart the arena of global custody or to form alliances or joint ventures with the Global Custodians in the world. The same focus will imply that local custody becomes a more important area for these banks that do accordingly. The true Global custodians will in the future only do business with true local custodians only. That is an inevitable trend of specialization in the market of custody in the years ahead of us. Obviously there are always exceptions like some global custodians that maintain a network that includes a number of their own affiliates but this always concerns the large global custodians. ING is considering changing its strategy given these future developments. Once that becomes effective ING intends to transfer its global assets to the alliance partner/global custodian and at the same time focus on local custody in a large number of European countries. The question that remains is not will there be other second tier providers who will follow this strategy but how quickly will they react to the changing environment in the interest of their clients and shareholders ?

Titus van Heur, Director Custody and Clearing, ING. Titus began his career at Euronext and has worked at Kas Bank. His expertise include sales and risk management within clearing and settlement. Van Heurs was Managing Director of a semi hedge fund firm before rejoining ING.

“What does the future map of custody look like in Europe?

RBC Dexia



Jim Harris RBC Dexia

On the face of it the current structure of Custodians in Europe looks as it has always done, a mixture of local domestic banks and foreign providers all vying to offer an increasingly similar level of service delivery. The pace of change in the custody map has been slow since the introduction of a single currency environment, through the Euro in 2001, deemed at the time to be one of the biggest barriers to cross border investment. People outside of the custody industry could be forgiven for thinking that nothing has changed in the last five years, but this is not the case. Perhaps the largest change has been through the expansion policies employed by Euroclear. The addition of the French, Dutch and Belgian depositories have clearly shown Euroclear's intent and drawn cries of foul play from custodians in these markets. Further expansion has been delayed while these concerns and the full impact of a Single Settlement Engine are both understood and addressed. At an industry level recommendations to standardise trading and minimise Operational and Financial Risk environments through Giovannini, G30, Basel II and CESAR are bringing both challenges and opportunities to organizations, truly testing their flexibility and willingness to change. Many of the changes noted above make considerable alterations in the way in which custodians in Europe will operate in the future. The result has been that a series of strategic partnerships and alliances have been announced through either full integration of businesses or agreements to partner in specific areas. The creation of RBC Dexia Investor Services is an excellent example of taking investor services to a new level by the combination of two businesses to create a premier provider of services beyond the realms of a core custody product, facing and servicing clients in Europe through its network of branches. The future map will therefore be one where the providers of domestic custody in a single mar-

ket will continue to feel marginalized, as continued pressure on revenue lines is balanced with the cost of additional investment to meet the new environment. Custodians who are unable to offer a solution in at least, the Euronext markets or provide a mini regional service (say 3-4 markets) will struggle against those who have a larger presence in the medium term. However, those offering a single regional solution through a Pan European offering will be in the best position. In conclusion, RBC Dexia Investor Services continues to monitor the changes in the structure in Europe, both in custody and beyond. As the European Union continues to expand the number of member countries and greater investment flows are seen it will be those providers who are able to offer standardized servicing across multi jurisdictional countries that are best equipped to continue to offer business in Europe.

Jim Harris is senior manager, Network Management for RBC Dexia Investor Services in the United Kingdom. Harris is responsible for the development of the global business strategy for markets and relationships within the Americas and Asia regions, and for our Global Market Information products. Jim also has responsibility for the custody and related services relationship with Euroclear. Jim joined RBC Dexia Investor Services' predecessor business, RBC Global Services, in 1994. Prior to his current role, he was responsible for the European markets within the Network Management team. Jim's career includes close to two decades with TSB Bank, now Lloyds TSB, in a variety of roles with the Securities Department and Internal Audit and Banking divisions. Mr. Harris is a member of the Association of Global Custodians Depository Information Gathering Project and has just completed his tenure as chair of this committee.

"How are corporate actions treated in Russia?"

Ros Bank



Stepan Tomlianovich Ros Bank

Corporate actions in Russia are traditionally understood (similar to the Anglo-Saxon securities market model) as actions of the issuer of securities, resulting in the change in structure and size of its shareholder capital, including the change in rights of shareholders and the distribution of earnings.

They were made possible by the improvement of realization and protection of shareholder rights, better disclosure of corporate information, higher level of corporate governance and improving of the legal environment.

Armed with a "toolbox" of corporate actions offered by mature markets, Russian companies are implementing them in practice, demonstrating a rapid pace of corporate transformation despite imperfect legislation and regulation, shortcomings in the securities market infrastructure, lack of expertise, automation and market-wide standards.

Some issuers are still unmotivated to pay attention to the requirements of their minority shareholders. Shareholder rights abuses still remain the most serious problem. Although the situation has markedly improved in the last years, techniques like capital dilution, stripping of strategic assets; abuse of pre-emptive right; manipulation of board and shareholders' decisions; forcing out of minority shareholders, are still common and have become even more sophisticated.

This requires close attention of a custodian to corporate actions involving securities from a "risk group" and makes monitoring of the general market situation for such cases a necessity. Nevertheless, the general market environment is developing in a positive direction.

Russian regulation protecting shareholder rights is quite adequate; although the problems with its enforcement still exist.

Competition among registrars and custodians provides for more efficient distribution of corporate information, while corporations increasing-

ly realize the importance of capital markets as a source of funding and change their attitude to investors respectively.

A new level of corporate governance of companies was achieved after the wide adoption of the Code of Corporate Conduct proposed by the Federal Securities Markets Commission in 2002. The remaining inefficiencies of the corporate actions infrastructure are caused by its fragmented state.

In these circumstances the leading domestic custodians play an important role of a "shock-absorber" for foreign and local investors, taking the responsibility for collection, verification and consolidation of data related to corporate events and their timely reporting to clients, as well as for proxy voting, income payment and tax withholding and reclaiming.

The sources of corporate events information range from specialized on-line databases to regional press to news releases of issuers. Further improvement of the shareholder rights protection infrastructure will become possible after the emerging of the Central Securities Depository (CSD) in Russia.

The fully-functional CSD will speed up disclosure of beneficial owners, unify communication channels used by registrars and custodians, possibly centralize income payments and act as a common source of reliable corporate actions information (at least for actively traded shares).

Stepan Tomlianovich currently holds the position of the Head of ROSBANK Custody Division. He joined ROSBANK in 1998 after over two years with UNEKIM Bank as the Head of Custody. Stepan is a member of the Board of Directors of The National Registry Company as well as a member of the committee for organizational and legal support of PARTAD.

What sets us apart from our competitors?

RZB



Jürgen Sattler RZB

RZB Group has a leading market position in the CEE as measured both by the geographic coverage of its subsidiaries as well as by our local market shares. RZB Group proofs a strong track record in CEE with a rock-solid future expansion strategy. Moreover, due to the ownership (cooperative) structure of RZB our organisation will never be a takeover candidate.

Being present in the various markets for a long time, RZB has the ability to combine local expertise with high quality service and efficiency standards of international financial institutions. This factor clearly differentiates us from both our local and regional competitors.

In terms of the current market share RZB Group in the global custodian and broker/dealer client segment we are small enough to grant our top tier clients a VIP status in areas such as tailor made products and services. Innovative products and specific reporting tools are implemented quickly due to the excellent co-operation of the regional custody team in Vienna and the local custody units in the various markets.

RZB Group's well trained, motivated workforce allows us to provide tailor made service for our customers and to operate efficiently.

Mr. Jürgen Sattler
Head of Sales and Relationship Management
Jürgen joined RZB as of January 2005 in order to position RZB as a leading custody player in CEE. He gained his experience and know-how at Bank Austria Creditanstalt's custody area building up the regional custody business in CEE over the last years.

A-Z of sub-custody

Amagerbanken



About the Company: Amagerbanken was established in 1903 as a local-based bank on the island of Amager. In 1981 the Bank established branches outside the island of Amager. Amagerbanken has developed into a regional bank providing services that make the Bank a full-service commercial bank and one of the larger banks in Denmark. Today, the Bank includes 26 branches, 13 on the island of Amager, 10 in the rest of Copenhagen, two in Aarhus and one in Odense.

Key Sub custody Services: Clearing and settlement

Value added sub custody services

Total sub custody assets (Europe): DKK 50bn

Names of markets in Europe where you provide sub custody services: Denmark, Sweden, Norway, Finland

Credit Rating: N.A.

Number of Sub custody Clients (Europe): 75

Global Custody Assets: DKK 68bn

Target clients: Banks

Arion Custody Services



About the Company: Arion Custody Services is a financial institute fully owned by Kaupthing Bank and operates under license of the Ministry of Industry and Commerce and is under supervision of the Financial Supervisory Authority.

Key Sub custody Services: Arion Custody Services is a Global Custodian offering full settlement and custody in all major markets and offers clearing, settlement and custody of all available Icelandic instruments, dematerialised and physical, to institutional clients. Opening an account with Arion gives investors access to all major global markets in a simple but at the same time multi-connected and secure manner

Value added sub custody services

Total sub custody assets (Europe): ISK 1.750.000 m

Names of markets in Europe where you provide sub custody services: Denmark, Sweden, Norway, Finland

Credit Rating: Arion Custody Services is not rated. Arion is part of the Kaupthing Group and the parent company Kaupthing Banki hf has received A from Fitch Rating and A1 from Moody's.

Number of Sub custody Clients (Europe): 20

Global Custody Assets:

Target clients: Global Custodians

Banca Intesa



About the Company: Banca Intesa is the major Italian Banking Group resulting from the merging (completed in 2003) of three important players in Italy's banking system: Banco Ambrosiano Veneto, Cariplò, Banca Commerciale Italiana.

Please find following relevant Financial Highlights:

- customers :11 million
- branches: 3, 681
- market capitalization: Euro 26 bn

Key Sub custody Services: Banca Intesa is one of Italy's leading custodian with more than Eur 600 billion in assets held under custody, for more than 500 Institutional Clients

Core services include:

- i. Clearing and Settlement
- ii. Automatic Securities Lending
- iii. Corporate Actions and Income
- iv. Proxy Voting
- v. Tax Services
- vi. Tailored account structures solutions
- vii. Targeted and customised Market News and Information
- viii. Value added services: sophisticated Internet tools, special reports on corporate events, income, companies meetings

Banca Intesa offers innovative, powerful and flexible solutions on the top of traditional custody products to foreign and domestic institutional customers.

Remote trading Banca Intesa is uniquely qualified in Italy to meet the needs of brokers/dealers worldwide, as a specialized provider of customized clearing solutions for remote traders accessing all the Italian equities, bonds and derivatives markets

Value added sub custody services - securities lending, tailored taxation solutions, market intelligence high level service

Banca Intesa has recently developed the following services: Coupon stripping, Bulk Trades, Tri - Party Agreement for remote trading

Total sub custody assets (Europe): EUR 250 billion

Names of markets in Europe where you provide sub custody services: At present, Banca Intesa offers sub - custody services to foreign institutional clients only cover the Italian market place. **Credit Rating:**

Fitch: LT: A-1; ST:F1

Moody's: LT: A1; ST: P-1

Standard & Poors: LT: A; ST: A -1

Number of Sub custody Clients (Europe): 200 non resident sub - custody clients

Global Custody Assets: Total assets in custody for Global Custody business: Euro 350 billions

Target clients: Global Custodians, Banks, Investment Banks, Broker/dealers, CSD, ISCDs, Mutual Funds, Pension Funds, Real Estate Funds, Asset Managers, Corporates

Citco

About the Company: Citco Bank is a recognized world leader in custody and fund trading for financial institutions and fund of funds, offering unrivalled expertise in the execution, settlement and custody of funds from strategic centres in The Netherlands, Switzerland, Curacao, Ireland, the Bahamas, Cayman Islands and Italy. Citco Bank provides an integrated service platform across banking and custody tailored to the needs of banks, financial institutions and funds of funds.



Key Sub custody Services: Citco Bank's custody services cover the entire trading, clearing, settlement and custody life-cycle: locating funds, placing subscriptions/redemptions, completing paperwork and registering funds, addressing corporate actions, providing monthly statements of holdings and NAVs and sending out all documents. More importantly, either directly or through its long-term relationships with major third party banks and prime brokers, Citco Bank can provide clients with all the bridge, margin or leverage credit they require.

Value added sub custody services

Total sub custody assets (Europe): USD \$ 150bn

Names of markets in Europe where you provide sub custody services: Strategic centres include The Netherlands, Switzerland, Ireland and Italy.

Credit Rating:

Number of Sub custody Clients (Europe): Over 25,000 funds.

Global Custody Assets:

Target clients: Financial institutions and fund of funds

Citigroup



About the Company: Citigroup Global Transaction Services provides corporations, financial institutions and public sector entities with access to Citigroup's full range of cash management, trade, securities and funds capabilities along with an on-the-ground presence and in-depth knowledge of more than 100 local markets.

Key Sub custody Services: Instruction repair and processing, pre-matching, alleged trade management, settlement and clearing, cash management, foreign exchange, detailed transaction reporting, corporate actions, income, tax reclamation and proxy voting

Value added sub custody services: Fails coverage, on-exchange services, general clearing member services, collateral management, collateralised financing, derivatives clearing, direct member services

Total sub custody assets (Europe): \$1.2 Trillion

Names of markets in Europe where you provide sub custody services: Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Portugal, Spain, Switzerland, UK, Ireland, Hungary, Czech Republic, Slovakia and Poland

Credit Rating: AA

Number of Sub custody Clients (Europe): 300+

Global Custody Assets: \$400bn

Target clients: Broker dealers, banks, fund managers, insurance companies, global custodians and infrastructures

DnB NOR



About the Company: DnB NOR is the largest domestic bank in Norway and the largest participant in the Norwegian financial market. DnB NOR Securities Services is the leading provider of Custody, Clearing and Remote membership Services in Norway and act as registrar for approximately 60% of Norwegian Companies registered at the Norwegian CSD (VPS). In addition, DnB NOR provides a wide range of value added services to both foreign and domestic clients.

Key Sub custody Services: Within the Securities Services area, DnB NOR Bank offers global custody services, remote brokerage services, securities lending, derivatives clearing, clearing and settlement of Nordic securities, and company registrar services.

Value added sub custody services: DnB NOR Bank also provides brokerage services for Nordic securities, FX and Money Market trading, Cash Account Services, and MIS reporting

Total sub custody assets (Europe): December 2005: NOK1.116 bn

Names of markets in Europe where you provide sub custody services: All Nordic markets through a Nordic Alliance with Swedbank in Sweden, OKO bank in Finland and Amagerbanken in Denmark

Credit Rating: Standard & Poors: Long Term Rating A+; Short Term Rating A-1. Moody's: Long Term Rating Aa3; Short Term Rating P-1

Number of Sub custody Clients (Europe): More than 220,000 domestic and foreign clients.

Target clients: Global Custodians, Universal banks, Investment Banks

Handelsbanken



About the Company: Handelsbanken (est 1871) is a universal bank that has provided institutional custody services in Sweden since 1983. Since then, Handelsbanken has developed a Nordic concept, which allows for the same high level of service throughout the Nordics.

Key Sub custody Services: Offers specialised and tailor-made custody services in Denmark, Finland, Norway and Sweden to institutional clients.

Key services: Clearing and settlement of equities, bonds and derivatives, clearing agent services for remote members, safekeeping of securities, trustee operations, Baltic custody via Finland also in EUR in Estonia, cross-border settlement via APK's E-link in Finland

Value added sub custody services: Value-added services: Complete corporate actions services, outstanding proxy voting services, securities lending - automatic and strategic borrowing, netting services, tax services, Nordic-i – Handelsbanken's new web tool, tri-party solutions, MIS reporting (and other tailor-made reporting). Handelsbanken uses the same systems and routines in all countries, though adapted to the local market practices. Reporting and communications are harmonised in one single format.

Total sub custody assets (Europe): \$1.2 Trillion

Names of markets in Europe where you provide sub custody services: Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Portugal, Spain, Switzerland, UK, Ireland, Hungary, Czech Republic, Slovakia and Poland

Credit Rating: AA

Number of Sub custody Clients (Europe): 300+

Global Custody Assets: \$400bn

Target clients: Broker dealers, banks, fund managers, insurance companies, global custodians and infrastructures

HSBC Securities Services



About the Company: HSBC Securities Services (HSS) provides a full range of securities services to clients worldwide. HSS is part of Global Transaction Banking, a division of the Corporate, Investment Banking and Markets business line of the HSBC Group. HSBC Holdings plc, the Group's holding company, is a public company listed in London, New York, Hong Kong, Paris and Bermuda. Serving over 125 million customers worldwide, the HSBC Group has more than 9,500 offices in 76 countries and territories. HSBC has been in the custody business for over 100 years and HSS achieved an AA rating from independent industry consultant group Thomas Murray in 2005. HSS continues to be the only custodian to agree to publicly reveal this rating.

Key Sub custody Services: Cash sweeping and repo facilities, clearing and netting, collateral management services, corporate actions administration, custody for futures and options, depository service for ADR and GDR programmes, derivatives clearing, direct access to local stock exchange(s), dividend/Income collection, fund administration, internet based proprietary system: HSBCnet, issuing and paying agency, nostro account services, outsourcing services, performance measurement, proxy voting services, SWIFT reporting, tax reclaim services, trade portfolio cash reporting, transaction cost management, transaction settlement, transfer agent/registrar services, transition management, trustee services

Value added sub custody services: Foreign exchange services, securities lending, treasury and cash management

Total sub custody assets (Europe): USD 246 billion as at 31 December 2005

Names of markets in Europe where you provide sub custody services: Germany, Greece, Malta, Turkey, UK. We arrange sub-custody via agents in other European markets, in accordance with customer demand.

Credit Rating: HSBC Holdings plc has long-term credit ratings of A+ (S&P), Aa2 (Moody's), AA (Fitch).

Number of Sub custody Clients (Europe): Not published

Global Custody Assets: USD3.2 trillion total assets under custody at 31 December 2005

Target clients: Financial institutions including (but not limited to) investment trusts, global custodians, overseas banks and UK banks.

ING Wholesale Banking



About the Company: ING Wholesale Banking - Securities Services

is part of ING Group and is specialised in asset related services such as Local and Regional custody and settlement. Other activities of ING Wholesale Banking - Securities Services are Paying Agency Services and web-based management of employee stock option & share plans. Under the brand ING/BNY Securities Services, a commercial global alliance with Bank of New York, global custody services is offered.

ING Wholesale Banking / Securities Services is the largest foreign provider in terms of assets and number of foreign clients in Central & Eastern Europe. ING has been long committed to the securities business, providing Custody Services in this region since 1994.

Key Sub custody Services: ING Wholesale Banking / Securities Services is specialised in asset related services such as Local and Regional custody and settlement.

Value added sub custody services: New value added services: E-Filing (Tax Reclaim), Web based securities reporting (only Belgium) Other services: Safekeeping of securities, clearing & Settlement, OTC settlements, dividend and coupon collection, corporate actions, order execution, forex transactions, cash management, customer reporting, proxy voting

Total sub custody assets (Europe): EURO 265 billion

Names of markets in Europe where you provide sub custody services: Belgium, Bulgaria, Czech Republic, Hungary, The Netherlands, Poland, Romania, Russia, Slovak Republic and Ukraine.

Credit Rating: ++A

Number of Sub custody Clients (Europe): ING services over a thousand foreign clients in Europe.

Target clients: • Financial Institutions including Global Custodians, commercial banks, broker dealers and hedge funds. • Institutional investors including pension funds, asset managers, insurance companies • corporates including listed companies and market makers • Finally ING is preferred Supplier for all ING Group entities.

International Moscow Bank



About the Company: International Moscow Bank (IMB) is one of the 10 largest banks in Russia offering a full range of services. It was founded in 1989 and used to be one of the first banks in Russia. IMB is owned by a number of well-known international financial institutions: HVB Group have 53% of voting shares, Nordea Bank Finland Plc – 26%, BCEN – Eurobank (Banque Commerciale pour l'Europe du Nord) – about 16% and European Bank for Reconstruction and Development – 5%. International Moscow Bank started providing custody services in 1996 to both foreign and domestic clients and for less than 10 years of perfect practice managed to take leading positions in the Russian market. International Moscow Bank is considered to be an integral part of Bank Austria Creditanstalt/HVB Custody network in Central and Eastern Europe.

Key Sub custody Services: IMB Custody provides all types of custodial services to both domestic and foreign clients: Safekeeping (including physical safekeeping of certificates), securities settlements both free of payment and DVP, corporate actions support and Income collection

Market information support and distribution among clients, proxy voting and custody servicing of pledge operations

Value added sub custody services: Taxation consultancy - assistance in documentation provision arrangements for taxation purposes. Participation in documentation arrangements under POA of a client with respect to corporate actions events

Total sub custody assets (Europe): USD 4bn as of December, 2005

Names of markets in Europe where you provide sub custody services: Russia. Projected - CIS countries (former USSR)

Credit Rating: Standard & Poor's: Long-term credit rating BB; Short-term partner rating and ADR rating B; Rating change forecast Positive

Number of Sub custody Clients (Europe): 267

Target clients: Foreign clients, Global custodians, Custodian banks, Broker/dealers, Asset managers, Commercial banks, Other institutional clients, Large corporate clients, Domestic clients, Global custodians, Custodian banks, Broker/dealers, Asset managers, Commercial banks, Other institutional clients, Large corporate clients, overseas banks and UK banks.

Nordea



About the Company: Nordea has a prominent presence in all the four Nordic markets: Denmark, Finland, Norway and Sweden. Nordea is the leading provider of custody services in the Nordic region by market share. **Key Sub custody Services:** Automated settlement (STP), Safekeeping, Corporate actions and income collection, Tax services, Proxy voting, Extensive reporting, Netting of on-exchange trades, Remote membership services, Dedicated client service teams, Comprehensive product sheets, Market information by: monthly newsletter, ad-hoc news-flashes, Custody Portal

Value added sub custody services: Broker-custody, Cash management, Issuer services, incl. paying agent services for warrant issuers, Prime brokerage, Securities borrowing & lending services

Total sub custody assets (Europe): January 2006: EUR 549,5bn under custody

Names of markets in Europe where you provide sub custody services: Denmark, Finland, Norway, Sweden and the Baltic countries.

Credit Rating: Moody's Short: P-1 Long: Aa3; Standard & Poor's Short: A-1+ Long: AA-;

Fitch Short: F1+ Long: AA-

Number of Sub custody Clients (Europe): Not disclosed

Global Custody Assets: December 2005: EUR168,3bn

Target clients: Global custodians, banks, broker dealers. In the recent years, Nordea has actively offered a Nordic sub custody service for clients wishing to use a regional provider.

RZB



About the Company: RZB-Austria (Raiffeisen Zentralbank Oesterreich AG) is the central institution of the Austrian Raiffeisen Banking Group (RBG). RBG represents approximately a quarter of all domestic banking business and comprises the country's largest banking network with nearly 2,300 offices and more than 23,000 employees. The Austrian Raiffeisen Banking Group consists of Raiffeisen Banks on the local level, Regional Raiffeisen Banks on the provincial level and RZB as central institution. RZB Austria is a wholesale bank and only serves institutional clients.

Our main services besides securities services business are: corporate finance, export and trade finance, cash management, asset management.

Key Sub custody Services: Custody services have been offered for more than 25 years to institutional clients for settlement and safekeeping of Austrian securities. The recent decision – 3 years ago – to set-up custody services within the CEE network and the investments in infrastructure, product development and staff performed over the last years underline our commitment to the custody business and its long-term nature. Today, RZB is offering regional custody in 18 markets in the Central and Eastern European Region. The market value of assets under custody as of 28th February 2006 amounts to EUR 207.7bn. RZB Group is offering an integrated & sophisticated custody solutions-package that includes cash management, treasury and foreign exchange, full range of safekeeping and settlement services, overall performance measurement and reporting with compliance, and a number of value-added services (e.g. contractual dividend, contractual tax reclamation, securities lending).

Value added sub custody services: Two years ago we introduced e.Custody, a state of the art internet reporting tool. Just recently we again set new standards and provide our clients with an additional value added: RZB implemented a new corporate action notification tool (CAN). The notification of a corporate action, which RZB receives from its sub custodians (MT 564 IN), is automatically processed into CAN. RZB's corporate actions department is editing this information (e.g. changing instruction deadlines). Within 15 minutes after the receipt of the notification all information is processed. e.Custody gives our clients the possibility of an online access to their custody accounts. This means that our clients receive a proactive and highly professional information tool, enabling them to trace their business more effectively.

Total sub custody assets (Europe): EUR 17,5 bn

Names of markets in Europe where you provide sub custody services: Austria, Poland, Hungary, Czech Republic, Slovakia, Russia, Belarus, Kazakhstan (via 3rd party sub-custodian), Ukraine, Romania, Bulgaria, Slovenia, Croatia, Serbia, Bosnia & Herzegovina (incl. Republic of Srpska) and the Baltics (via 3rd party sub-custodian)

Credit Rating: Standard & Poor's: Short Term A1. Moody's: Short term - P-1, Long Term - A1, Financial Strength - C+

Number of Sub custody Clients (Europe): +50

Global Custody Assets: EUR 207.7bn

Target clients: Given the fact that RZB Group is a very strong player on all domestic custody markets, we will continue to grow these business lines while increasing the focus on the international client side. Being a relatively small organisation, we see one of our strongest assets in growing our market share on the cross-border segment, by providing true tailor-made solutions for our international client base.



About the Company: The SEB Group is a North European financial group for 400,000 corporate customers and institutions, and 5 million private customers. SEB has local presence in the Nordic and Baltic countries, Germany, Poland and the Ukraine. Approximately half of SEB's customers use the internet for their banking transactions. On 31 December 2005, the Group's total assets amounted to SEK 1,890bn while its assets under management totalled SEK 1,118bn. The Group is represented in some 20 countries around the world and has a staff of about 20,000. Read more about SEB at <http://www.sebgroup.com>

Key Sub custody Services: Settlement & safekeeping, clearing service for remote members of Nordic Exchanges, corporate Action services, tax services, global securities lending

Value added sub custody services: Reporting and Market Information Services, like: monthly consolidated MIS report for all Nordic markets, real-time online services covering all four Nordic markets, threshold Alert Report, uninstructed Balance Report (Corp Actions), query tracking system and a number of client specific reports and services

Total sub custody assets (Europe): SEK 2,1 Trillion (USD 300 BN)

Names of markets in Europe where you provide sub custody services: Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Sweden, Ukraine

Credit Rating: Moody's Outlook Stable, Standard & Poor's Outlook positive, Fitch Outlook stable

Number of Sub custody Clients (Europe): 312

Global Custody Assets: SEK 2,4 trillion (USD 320 BN)

Target clients: Broker dealers, banks, global custodian, ICSD's and hedge funds

Societe Generale



About the Company: Société Générale Securities Services currently ranks 3rd among securities custodians in Europe, and 10th worldwide with EUR 2,000 billion* in assets held. Through its subsidiary Euro-VL, Société Générale Securities Services provides valuations for 4,184 funds* representing assets of EUR 380 billion*. Fimat, another Société Générale Securities Services subsidiary, acts as broker for 5.3% of the clearing of international listed derivatives transactions on the major markets for which Fimat is a member. Société Générale Securities Services ranks among the European leaders in stock option management, serving more than 480,000 beneficiaries.

Key Sub custody Services: Société Générale Securities Services offers a full range of securities services in: i. Execution, clearing, delivery and settlement ii. Securities back-office outsourcing services iii. custody, trustee, fund and portfolio administration iv. employee share plan management

Value added sub custody services: In order to facilitate the business of our clients, SGSS has implemented a wide set of value added services covering: integrated multi-instruments brokerage / custody services in partnership with Fimat, treasury and foreign exchange execution, ADRs – local depository agent services, securities lending and borrowing.

Total sub custody assets (Europe): Not disclosable

Names of markets in Europe where you provide sub custody services: France, Germany, Greece, Poland, Spain

Credit Rating: The group's financial strengths are recognised by rating Agencies (AA- by Standard & Poor's and Fitch, and Aa2 by Moody's. SGSS quality of service is recognised by Fitch : CU2+ in global custody and TR2+ for trustee and depository functions.

Number of Sub custody Clients (Europe): Not disclosable

Global Custody Assets: Including Unicredit (pro forma) EURO 2 000 billions

Target clients: Non resident financial intermediaries

Point of View

Moritz Ostwald shares his views on the state of the European sub custody market



Moritz Ostwald

What are the key developments and main drivers of growth for sub-custodians in Europe?

In Germany we currently experience a continuous rise in assets. On the one hand this is due to increased pension savings, on the other hand the disproportionate rise of the DAX in comparison to other European markets has contributed its part. Regarding the number of market participants, we expect further consolidation amongst sub-custodians as well as liaisons between domestic and international custody providers. Due to the complexity of the European custody market the current trend seems to favor local or regional custody providers over large global custodians.

How favorable are existing and pending European regulations towards the clients you serve and your business in general?

Regulations in Europe are about to experience a substantial change; just to name MiFID and Giovannini. Once MiFID will be implemented throughout Europe the situation for international investors will become much more transparent and we expect rising investments in Europe as a result. The same effect is expected regarding the removal of the 15 Giovannini barriers. In the end investors will gain more confidence in the European market. But of course it will be a long and rocky path towards the full technical implementation

of all the upcoming changes and it is doubtful whether all market participants are willing to take up the challenge.

Please comment on the level of STP among European sub custody providers and their clients. Are we any closer towards full automation?

When looking at the STP rates of our clients we can see a moderate increase in recent years. Due to the ever increasing complexity of products and processes it still seems a long way to reach full automation. Also the various current EU initiatives might not contribute significantly to rising STP rates.

How sophisticated are your clients in terms their attitude towards front, middle and back office outsourcing?

Especially when it comes to Depotbanking in the domestic business, we experience a trend towards a modular purchase of services. This development spans the whole range of institutional asset services such as fund administration, asset management, risk management or performance measurement. When looking at our international clientele no clear tendency towards outsourcing can be observed. From lift-offs, to classical outsourcing, from insourcing to keeping services inhouse everything is possible. Only outsourcing does not seem to be the one and only solution anymore. As our clients expect a first-class and one-stop-service, we ourselves have just recently confirmed our decision against the outsourcing of any part within custody business.

What are the key challenges for European sub custody providers in the years ahead?

As most of the European markets encounter a very tough competition between global, regional and domestic custody providers, sub-custodians must present a very clear strategy and a strong commitment to the business. They have to differentiate themselves against other competitors and should offer unique selling propositions to their clients. Besides that, its mainly the ongoing pressure on fees that forces sub-custodians to further reduce their cost base in order to stay profitable. I believe that further consolidation will take place as not all providers are willing to accept the necessary investments in order to keep up pace with the ever changing regulatory landscape due to projects such as MiFID or Giovannini. Pushing against this trend of ever reducing costs, there are also some first promising signs that the future will not only belong to the lowest cost providers but that also quality of services will play its role again.

ROS BANK



Stepan
Tomlianovich

STEPAN TOMLIANOVICH, HEAD OF ROSBANK CUSTODY DIVISION

STEPAN TOMLIANOVICH CURRENTLY HOLDS THE POSITION OF THE HEAD OF ROSBANK CUSTODY DIVISION. HE JOINED ROSBANK IN 1998 AFTER OVER TWO YEARS WITH UNEKIM BANK AS THE HEAD OF CUSTODY. STEPAN IS A MEMBER OF THE BOARD OF DIRECTORS OF THE NATIONAL REGISTRY COMPANY AS WELL AS A MEMBER OF THE COMMITTEE FOR ORGANIZATIONAL AND LEGAL SUPPORT OF PARTAD, A SELF-REGULATORY ORGANISATION OF REGISTRARS AND CUSTODIANS. MR. TOMLIANOVICH IS A WELL-KNOWN EXPERT OF THE RUSSIAN SECURITIES MARKET AND THE AUTHOR OF MANY PUBLICATIONS ON TOPICAL ISSUES RELATED TO DOMESTIC AND INTERNATIONAL DEVELOPMENTS. OVER LAST 10 YEARS STEPAN HAS BEEN ACTIVELY INVOLVED IN A NUMBER OF MARKET WIDE INITIATIVES.

Company Brief: Joint Stock Commercial Bank "ROSBANK" is one of the largest privately owned banks in Russia. It has consistently maintained its presence in the top 10 banks in Russia. The Banker ranks ROSBANK 19th among Central and Eastern Europe's banking companies and 785th globally in terms of shareholders' equity. ROSBANK's primary activities include retail and corporate banking, investment banking, treasury related operations, trade finance, asset management, private banking, custody and depositary services, international and domestic settlement services, credit card services. ROSBANK was rated by Moody's (Ba3), Standard & Poor's (B) and Fitch (B). ROSBANK Custody Division specializes in rendering complex custody and related services to resident and non-resident custodians, securities brokers & dealers, investment funds, corporations and private individuals. Custody Division is a major structural division of the Bank. It was created in 1998 in conformity with international requirements to custodians such as securities safety, a wide range of additional services, high-quality professional customized services.

Key Services: Σ

Free Custody Account Opening
Safekeeping of Dematerialized Securities
Full Corporate Actions Support, including AGMs/EGMs participation
Settlement of OTC Trades in Registrars
DCC, NDC and Gazprom Settlement
Safekeeping of Loans Collateral
Settlement on DVP or "near-DVP" basis
Custody Services for mutual and pension funds ("Specialized Depository")
Safekeeping of Securities Certificates
Customized Reporting
Tax Reclaims
Rosbank's Custody Division supports custody services for the following instruments:
Russian Government and MinFin Bonds, Municipal Bonds, Corporate Bonds, Equities, ADRs/GDRs, Promissory Notes and other "irregular" securities, Euroclear/Clearstream & DTC Settled Foreign Securities, CIS Securities (Kazakhstan, Uzbekistan, Azerbaijan)

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BHF BANK



Cornelia Keth

CORNELIA KETH STARTED HER CAREER AT DRESDNER BANK'S SECURITIES SETTLEMENT DEPARTMENT. IN 1991 SHE BECAME HEAD OF MARKETING AT BHF-BANK'S CUSTODIAL SERVICES DEPARTMENT. FOLLOWING BHF-BANK'S LEAVE FROM CUSTODY BUSINESS SHE STARTED WORKING IN 1997 AS SALES AND RELATIONSHIP MANAGER FOR DEUTSCHE'S GLOBAL SECURITIES SERVICES DIVISION, WHERE SHE WITNESSED THE TRANSFER TO STATE STREET IN 2003. IN 2004 CORNELIA WAS APPOINTED HEAD OF CUSTODY SALES & SOLUTIONS AT BHF-BANK, WHERE SHE IS NOW PROMOTING GERMAN SUB-CUSTODY AND DEPOTBANKING BUSINESS.

Company Brief: BHF-BANK is one of Germany's most prestigious private banks. Its roots date back to the year 1854. As an advisory, service and sales & trading bank, we offer our discerning clientele a comprehensive array of customised solutions. BHF-BANK combines the strengths of a private bank with a long track record of capital market competence. Trust, an individual approach and impartiality - these qualities are at the very heart of the long-term guidance and advice we provide for our discerning clients.

Our bank's activities are grouped within the divisions Asset Management & Financial Services, Financial Markets & Corporates and Private Banking.

Financial Services comprises the bank's custody services, investment company (depotbank) services and its securities and derivatives clearing business.

Key Services: BHF-BANK holds a strong position in
i Sub-custody services for German and CBL eligible securities

ii Depotbank (custodian bank) services for independent investment companies in Germany

iii Derivatives clearing services on the Eurex, the world's largest derivatives exchange.

These services are complemented by:

iv Brokerage

v Treasury

vii Clearing and settlement

viii Derivatives trading

ix Securities lending and repo

The bank's longstanding experience in the German securities services market goes hand in hand with a corporate culture that values prompt acknowledgements and short decision-making channels. BHF-BANK offers tailor-made custody services to meet its clients' particular requirements. Its reporting services include a comprehensive SWIFT reporting matrix as well as its Internet-based reporting tool cds@web.

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CUSTODY GLOSSARY

Agent bank

A custodian that provides custody services for securities traded and settled in the country in which it is located to trade counterparties and settlement intermediaries.

Beneficial ownership

Entitlement to receive some or all of the benefits of ownership of a security or financial instrument (e.g. income, voting rights, power to transfer). Beneficial ownership is usually distinguished from "legal ownership" of a security or financial instrument.

Book-entry system

An accounting system that permits the electronic transfer of securities without the movement of certificates.

Cash correspondents

Banks (or similar institutions) used to make or receive payments.

Cash deposit risk

The credit risk associated with the holding of funds with an intermediary for the purpose of settling securities transactions.

Central securities depository (or CSD)

An institution for holding securities which enables securities transactions to be processed by means of book entries. Physical securities may be immobilised by the depository or securities may be dematerialised (so that they exist only as electronic records).

Certificate

The document which evidences the undertakings of an issuer of a security or financial instrument.

Clearance

The term "clearance" has two meanings in the securities markets. It may mean the process of calculating the mutual obligations of market participants, usually on a net basis, for the exchange of securities and money. It may also signify the process of transferring securities on the settlement date, and in this sense the term "clearing system" is sometimes used to refer to securities settlement systems.

Clearing system

A mechanism for the calculation of mutual positions within a group of participants to facilitate the settlement of their obligations on a net basis.

Collateral

An asset or third-party commitment that is accepted by the collateral taker to secure an obligation of the collateral provider vis-à-vis the collateral taker.

Confirmation

The process by which a market participant notifies its customers of the details of a trade and allows the customer to positively affirm or question the trade.

Counterparty

One party to a trade.

Credit risk

The risk that a counterparty will not settle an obligation for full value, either when due or at any time thereafter. Credit risk includes replacement cost risk, principal risk and cash deposit risk.

Cross-border settlement

Settlement that takes place in a country other than the country in which one trade counterparty or both are located.

Custodian

An entity, often a bank, that safe-keeps and administers securities for its customers and that may provide various other services, including clearance and settlement, cash management, foreign exchange and securities lending.

Custody risk

The risk of loss of securities held in custody occasioned by the insolvency, negligence or fraudulent action of the custodian or of a sub-custodian.

Custody services

Processing securities trades, keeping financial assets safe and servicing the associated portfolios

Daylight credit

Credit extended for a period of less than one business day; in a credit transfer system with end-of-day final settlement, daylight credit is tacitly extended by a receiving participant which accepts and acts on a payment order, even though it will not receive final funds until the end of the business day.

Default

Failure to complete a funds or securities transfer according to its terms for reasons that are not technical or temporary, usually as a result of bankruptcy. Default is usually distinguished from a "failed transaction".

Delivery

Final transfer of a security or financial instrument.

Depository receipt

An instrument issued in one country that establishes an entitlement to a security held in custody in another country.

Domestic settlement

A settlement that takes place in the country in which both counterparties to the trade are located.

Domestic trade

A trade between counterparties located in the same country.

Failed transaction

A securities transaction that does not settle on the contractual settlement date, usually because of technical or temporary difficulties.

Finality risk

The risk that a provisional transfer of funds or securities will be rescinded.

Final transfer

An irrevocable and unconditional transfer which effects a discharge of the obligation to make the transfer.

Global custodian

A custodian that provides its customers with custody services in respect of securities traded and settled not only in the country in which the custodian is located but also in numerous other countries throughout the world.

Global custody

Processing cross-border securities trades, keeping financial assets safe and servicing the associated portfolios.

Gross settlement system

A transfer system in which the settlement of funds or securities transfer instructions occurs individually (on an instruction-by-instruction basis).

Haircut

The difference between the market value of a security and its collateral value. The haircut is intended to protect a lender of funds or securities from losses owing to declines in collateral values.

Internal settlement

A settlement that is effected through transfers of securities and funds on the books of a single intermediary. An internal settlement requires both counterparties to maintain their securities and funds accounts with the same intermediary.

International central securities depository

A central securities depository that settles trades in international securities and in various domestic securities, usually through direct or indirect (through local agents) links to local CSDs.

Irrevocable transfer

A transfer which cannot be revoked by the transferor.

Issuer

The entity that is obligated on a security or financial instrument.

Issuing agent

An institution that acts on behalf of the issuer of securities in distributing the securities and in realising the proceeds thereof for the benefit of the issuer.

Legal ownership

Recognition in law as the owner of a security or financial instrument.

Legal risk

The risk of loss because of the unexpected application of a law or regulation or because a contract or other right cannot be enforced.

Liquidity risk

The risk that a counterparty will not settle an obligation for full value when due, but on some unspecified date thereafter.

Local agent

A custodian that provides custody services for securities traded and settled in the country in which it is located to trade counterparties and settlement intermediaries located in other countries.

Local custodian

A custodian that provides custody services for securities traded and settled in the country in which the custodian is located. See global custodian.

Marking to market

The practice of revaluing securities and financial instruments using current market prices. In some cases unsettled contracts to purchase and sell securities are marked to market and the counterparty with an as yet unrealised loss on the contract is required to transfer funds or securities equal to the value of the loss to the other counterparty.

Matching

The process for comparing the trade or settlement details provided by counterparties to ensure that they agree with respect to the terms of the transaction. Settlement instructions that have been successfully matched between counterparties are referred to as matched settlement instructions. In some securities settlement systems, penalties may apply to participants that unilaterally revoke matched settlement instructions. In other systems, unilateral revocation of matched settlement instructions may not be possible.

Net settlement

A settlement in which a number of transactions between or among counterparties are settled on a net basis.

Netting

An agreed offsetting of mutual positions or obligations by trading partners or participants in a system. The netting reduces a large number of individual positions or obligations to a smaller number of positions. Netting may take several forms which have varying degrees of legal enforceability in the event of default of one of the parties.

Nominee

A person or entity named by another to act on his behalf. A nominee is commonly used in a securities transaction to obtain registration and legal ownership of a security.

Obligation

A duty imposed by contract or law. It is also used to describe a security or financial instrument, such as a bond or promissory note, which contains the issuer's undertaking to pay the owner.

Omnibus customer account

An account in which the securities held by a participant on behalf of all (or at least several) of its customers are kept.

Paying agent

An institution that, acting on behalf of an issuer, makes payments to holders of securities (e.g. payments of interest or principal).

Pre-matching process

Process for comparison of trade or settlement information between counterparties that occurs before other matching or comparison procedures.

Generally, pre-matching does not bind counterparties as matching can do.

Principal risk

The risk that the seller of a security delivers a security but does not receive payment or that the buyer of a security makes payment but does not receive delivery. In this event, the full principal value of the securities or funds transferred is at risk.

Real time

The processing of instructions on an individual basis at the time they are received rather than at some later time.

Registration

The listing of ownership of securities in the records of the issuer. This task is often performed by an official registrar/transfer agent.

Replacement cost risk

The risk that a counterparty to an outstanding transaction for completion at a future date will fail to perform on the settlement date. This failure may leave the solvent party with an unhedged or open market position or deny the solvent party unrealised gains on the position. The resulting exposure is the cost of replacing, at current market prices, the original transaction.

Repurchase agreement

A contract to sell and subsequently repurchase securities at a specified date and price. Also known as a Repo, an RP or a buyback agreement.

Rolling settlement

A situation in which settlement of securities transactions takes place each day, the settlement of an individual transaction taking place a given number of days after the deal has been struck. This is in contrast to a situation in which settlement takes place only on certain days - for example, once a week or once a month - and the settlement of an individual transaction takes place on the next settlement day (or sometimes the next but one settlement day) following the day the deal is struck.

Securities borrowing and lending programme

A facility whereby a loan of securities is made to facilitate timely fulfilment

of the borrower's settlement obligations.

Securities settlement system (or SSS)

A system in which the settlement of securities takes place. Often the SSS is a CSD.

Segregation

Optional or compulsory separation of the securities held by a participant on its own behalf from those held on behalf of its customers.

Settlement

The completion of a transaction, wherein the seller transfers securities or financial instruments to the buyer and the buyer transfers money to the seller.

Settlement date

The date on which the parties to a securities transaction agree that settlement is to take place. The intended date is sometimes referred to as the contractual settlement date.

Settlement interval

The amount of time that elapses between the trade date (T) and the settlement date (S). Typically measured relative to the trade date, e.g. if three days elapse, the settlement interval is T+3.1

Settlement risk

A general term used to designate the risk that settlement in a transfer system will not take place as expected. This risk may comprise both credit and liquidity risk.

Sub-custodian

Where one custodian (e.g. global custodian) holds its securities through another custodian (e.g. a local custodian), the latter is known as a sub-custodian.

Substitution

The process of amending a contract between two parties so that a third party is interposed as an intermediary creditor/debtor between the two parties and the original contract between the two parties is satisfied and discharged.

Systemic risk

The risk that the inability of one institution to meet its obligations when due will cause other institutions to be

unable to meet their obligations when due.

Trade date

The date on which a trade/bargain is executed.

Transfer

An act which transmits or creates an interest in a security, a financial instrument or money.

Unwind

A procedure followed in certain clearing and settlement systems in which transfers of securities and funds are settled on a net basis, at the end of the processing cycle, with all transfers provisional until all participants have discharged their settlement obligations. If a participant fails to settle, some or all of the provisional transfers involving that participant are deleted from the system and the settlement obligations from the remaining transfers are then recalculated. Such a procedure has the effect of allocating liquidity liquidity pressures and losses from the failure to settle to the counterparties of the participant that fails to settle. Unwinds can be distinguished from debits to securities accounts that do not imply the original transfer is rescinded (e.g. in cases where securities are discovered to be forged or stolen).

Variation margin

The amount which is paid by a counterparty to reduce replacement cost exposures resulting from changes in market prices, following the revaluation of securities or financial instruments that are the subject of unsettled trades.

Zero-hour rule

A provision in the insolvency law of some countries whereby a bankruptcy or similar procedure declared by a court during the day is considered to have been declared at 0.00 a.m. of the same day. This generally has the effect of retroactively rendering ineffective all transactions of the closed institution that have taken place after 0.00 a.m. on that date.

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