

ISSA 11 Opening Speech

Josef Landolt, ISSA Chairman

Video:

Joining forces - Communication - Opening up opportunities - Bringing people together - Cooperation - Elegance - Speed - Closing gaps - Changing direction - Maintaining balance - Tolerance - Solidarity - Achieving more together

This video was not commissioned by ISSA. It was used for an event that took place a few years ago. But, if I had to express the spirit of an ISSA symposium, using pictures and less than twenty-five words, I could hardly think of a better way.



Ladies and gentlemen, dear colleagues

Good afternoon. On behalf of the board, welcome to ISSA 11.

Over the next two days, we will discuss issues that are shaping the industry now and in the years to come.

Progress in those issues can be influenced to a good extent by yourselves, since you are the securities industry's major decision makers.

Counting in a few colleagues who will join us later tonight or tomorrow morning, we are 111 participants representing 35 countries. This is a record number of delegates and a record in terms of global coverage. Compared with previous years, this symposium has again attracted a greater number of senior management participants. This tells me that delegates of prior symposiums returned home with favourable comments. And it implies that your expectations are high. We will do our best to meet them. But, as is the case with all ISSA meetings, much of our success depends primarily on you.

I would like to particularly welcome the more than 50 delegates who have not experienced an ISSA symposium before. And today, two very large countries are represented here for the first time: China and Russia, through their Central Depository and Clearing houses. A special welcome to you, and thank you for having accepted our invitation.

I am convinced that, by Friday morning, you will agree with me that Wolfsberg is a unique place. The founders of Wolfsberg Center managed to preserve this historic estate, dating back to the 16th century,

and combine it with a modern, state of the art conference facility. A masterfully designed bridge uniting the past and the present. Wolfsberg, although owned by UBS, is not only a meeting place for bankers. This place is open to artists, politicians, business groups, to everyone seeking a first class retreat to advance their own ideas. The events that are hosted here have some common elements: they examine, they inform, they stimulate, they generate new ideas and concepts. In that respect, Wolfsberg also could be described as a bridgehead from which visitors envision the future.

Before we come to the program of our conference, allow me to spend a few more moments on the "bridges" theme.

If we recall some major events over the last two years that have had a profound impact on our immediate business interests, and beyond that on the global economy, and even the global community as a whole, we must conclude that the fault lines are many, and the need for bridges and whatever they may symbolise, is great.

Many of us work in an increasingly international environment. Take myself for a moment, wearing my UBS hat: until very recently, UBS was known as the largest Swiss bank. Well, it still is. But last year, for the first time in our bank's 140 year history, the number of employees domiciled abroad exceeded the number of staff employed in our home market. On a smaller scale, UBS Switzerland's securities services operation, which I am heading, is fully centralised in Zurich. We employ staff carrying passports from more than 30 nations. Certainly, other places can match that diversity: London, Paris, Luxembourg, New York, Singapore, Hong Kong, Sydney. But it is strong evidence that the world is growing together fast.

Each globally oriented company must rethink its own internal culture and its way of dealing with the outside world. Building its approach to business and good corporate citizenship on a sound set of universally accepted values is more important than ever. Opening up opportunities in a global market place will not be possible without giving this our fullest consideration. September 11 has demonstrated in a very tragic way what the lack of knowledge, tolerance and respect between different cultures can cause.

When I look at some global issues in our industry, I cannot help but wondering whether we, the market operators and users, still have sufficient time left to build the bridges that close the gaps and link the formerly national markets in an intelligent way. To an outside observer, the cross-border securities industry still does not seem to be very good at joining forces to achieve common goals to the benefit of ourselves and ultimately of those that pay our salaries, our clients.

As an example, take the single European central counter party proposed by the European Securities Forum. It had a valid idea, the support of at least two dozen international investment banks, and was off to an enthusiastic start. Yet, it failed to receive in the end the determined backing even of its own members. Of course, there are the well known legal, tax and other constraints the resolution of which lies outside the immediate control of the market. But isn't another reason for failure the fact that the global market players are too big to reconcile their interests within their own organisation, let alone when it comes to working towards a common goal across companies?

Another example: the global STP topic, a permanent subject of countless study groups, magazines, conferences, also a focal point of ISSA 10. Anyone reading the trends in global investment flows cannot deny that the asset servicing industry must take a bold quantum leap to manage tomorrow's cross-border transaction volumes. We are talking about the processing platform for the investment of our own retirement savings!

Two years after ISSA 10 hosted probably the industry's first "interoperability" discussion between GSTPA and Omgeo right in this room, the question remains if it was really a wise move to build two largely identical facilities, without either party yet having been able to demonstrate how that elusive interoperability - the bridge - is really going to be achieved. Especially the custodians to date had only additional burden but no benefit. One of the two, supposedly supported by a diverse multi-national community, has recently taken a mysterious "time-out" to change partners. It announced to be back and to be up and running in September. However, outsiders wonder whether its future users, who are

also its members and providers of financial and intellectual backing, have lost their sense of cooperation to carry it through the finish line, with just a little bit longer to go?

Closing gaps seems to have been the major occupation for much of the custody industry over the last few years, and new construction sites beyond an individual firm's control are opening up all the time: We had Y2K, the Euro, the sweeping US tax changes with a global impact. A European Union proposal on a new withholding tax on interest payments now threatens to match or probably even exceed the complexity of the US QI information reporting requirements. We have the transition to ISO 15022 and right on its heels the conversion of ISO 15022 to the XML standard. Some markets may or may not have anymore (it is a moving target) a regulatory mandate to adapt their processes to a T+1 settlement cycle. On the regulatory front, we have the Basel II capital adequacy requirements to deal with. Post September 11, we have tightening anti-money laundering and know-your-customer rules and reporting duties.

All of these third party-imposed projects affect almost everyone. They are absorbing vast amounts of money, management time and human resources. Ignoring them would mean going out of business, which is not an option. Tragically, if we manage all these changes perfectly, we achieve next to nothing in terms of differentiating our firms in the eyes of our clients. The large infrastructure projects tend to resemble icebergs. 90% of their dimension remains invisible to the casual observer. Why should we therefore not attempt to achieve more together through increased cross-border cooperation in the „under water“ world?

Cooperative ventures between utility structures in different markets can work well, but seemingly only where mentalities are similar. The Nordic region, the Baltic states, and the nucleus of Euronext in the three initial neighbour markets France, the Netherlands and Belgium have successes to show. Currently, we in Europe are following with interest how the integration of the Portuguese market into Euronext will evolve in practice. Bold and drastic changes in the European landscape have proven difficult to achieve to date. The aborted merger between Deutsche Börse and London Stock Exchange testifies to that. On the other hand, the Swiss-British virt-x structure with its settlement network linking SIS, Crest and Euroclear, proves that a lean, efficient, cross-border trade processing model can be implemented quickly, if like-minded people agree on joining their creative forces.

The European Union regulators and political leaders are determined to create a pan-European single market for financial services by 2005. A European Securities Commission does not exist yet, but it is under consideration. But let's not be mistaken: the highest level policy makers have the needs of capital savers and capital users foremost on their minds, followed by the vision of an even more enlarged single market, but certainly not the intricacies of cross-border clearing and settlement processes. For example, the European Commission has just mandated that, effective July 2003, banks will not be allowed to charge clients with higher money transfer fees for cross-border remittances within the Euro zone, than for purely domestic payments. Whether justified or not, the politicians tend to *assume* that the introduction of the common currency has already created a single underlying infrastructure.

The Euro zone capital market will at the very best be "virtually" unified by 2005. Do we have to expect mandated ceilings for settlement fees in cross-border securities trades in 2005? Do we want the regulators to dictate what the ultimate market infrastructure model for Europe should be, as the Chairman of the London Stock Exchange recently suggested? I would be concerned that we, the managers of our businesses, would run the risk of losing control over our own destiny. I bet that most of you would rather be pioneers than followers. Of course we have to accept regulatory rules and guidance. But it is important that the decision makers in business and those in public policy making, do not lose touch. In that respect, the European Securities Forum does have a valuable intermediary function for Europe. Communication and cooperation are keys.



Now let me come back to our symposium. We mixed our agenda as follows: Two core topics of general interest to the whole securities industry form the basic ingredients. We then added one issue that will determine at least part of ISSA's agenda over the next years. Finally, we scheduled a session the contents of which may affect many of you directly and personally, in your function as senior managers in your respective organisations. But let's quickly run through the agenda items one by one:

No official business tonight when you leave this room. Most of you have been travelling for many hours. We would like to give you time to get acquainted with the location, the facilities and - of course - with your fellow delegates during our welcome dinner.



Tomorrow morning will set the stage for the symposium. The discussion topics will be introduced from different angles, by the best experts you could ask for:

Bruno Gehrig, Vice Chairman of the Governing Board of the Swiss National Bank, will give his views on the overall global economic trends, and on their implications for our financial market infrastructures. Importantly, he will point out areas of concern to the oversight authorities and how regulators, focusing on systemic risk, may intervene with the future development of private market structures. This is very topical, given the BIS and IOSCO's growing interest and involvement in our business. Bruno Gehrig is not only a central banker, he is at the same time a distinguished professor of economics and finance, and he can look back to many years of hands-on market experience as a senior private sector banker.

ISSA Wednesday

Collective Investment Vehicles

Neil T. Henderson, JP Morgan
Mark Tennant, JP Morgan
Elizabeth Corley, Merrill Lynch Investment Managers
David Sachon, Threadneedle Investment Services
Fayez Akhras, Intl. Financial Services & Technology

We will then tackle the first special symposium topic: how to improve the messy world of mutual funds distribution, settlement and servicing in a cross-border market place. Mark Tennant, Elizabeth Corley and David Sachon will introduce the issues that half of you will discuss in more detail in the afternoon's workshop. Admittedly, this topic is of most immediate interest to service providers and competitors in the evolving European market place and this is why we assigned more European participants to this workshop. However, we trust that the discussions will be insightful to our colleagues from the American and the Asia Pacific regions as well.

ISSA Wednesday

Continuity of Infrastructures

Jill Considine, DTCC
Werner Seifert, Deutsche Börse

After the coffee break, we will change direction. Improving the continuity of securities market infrastructures end-to-end is the second workshop topic.

Today's date is June 11. Today nine months ago, the unthinkable became reality in New York and it shook the whole world. Having more or less recovered, at least as far as business operations are concerned, it is time for globally interlinked financial markets to take a long and serious look at business continuity. By that we do not just mean having a back-up computer facility across town. There is a much wider range of issues to be looked into. Maintaining our balance, maintaining the ability to carry on, is just one side of the coin. Seeking improvements to the safety and efficiency of basic infrastructures is the other. We need to identify and close the gaps in our process chains. We need to "protect and involve" the industry. Our discussion leaders will address both areas.

Jill Considine, CEO, President and Chairman of DTCC will do so from an American background. Werner Seifert, CEO of Deutsche Börse group, will deliver a European perspective. The afternoon workshop for that topic will be facilitated by Ray Parodi and John Gilchrist.



ISSA Wednesday

Group discussions - your challenge

Ray Parodi, John Gilchrist
Neil Henderson, Mark Tennant, Fayez Akhras

Our key note speakers and group coaches have put tremendous time and effort into setting the stage for the afternoon, which is your most active part. Please support them by helping to bring the discussions forward.

One of ISSA's most valuable assets is our tradition of providing a platform that enables competitors in daily life to meet for an open and direct exchange of views - free of commercial sales pitches and shielded from the media. We do hope that tomorrow afternoon will yield more than generalities. I encourage you to be open, active, creative and cooperative. The terms "tolerance" and "solidarity" shown in the video would apply here. The value and success of the session will depend on your personal contributions. There are no foregone conclusions.



ISSA Thursday

Working Group Findings

Group spokespersons

What you elaborate in your groups will be consolidated and then shared and put up for discussion in Thursday morning's plenary session.



ISSA Thursday

**Commercial Enterprises vs Utilities -
Where is the Border Line?**

Dominic Hobson, Global Custodian Magazine
Peter Mathias, Mathias & Co.
& all of us!

Thursday morning will also feature a highly interactive discussion in a format that has never been used before in an ISSA symposium - nor in any other securities conference we know of. The subject is "Where is the border line between the service offering of central market utilities and individual market competitors?"

An introduction will be given by Dominic Hobson. Dominic is not only the Executive Editor of Global Custodian Magazine which I am sure you all read. He has also been an impartial, critical, analytical and eloquent observer of the asset servicing industry for many years. I am convinced that his observations will be provocative and will make you want to state your own view. Dominic Hobson will then hand over to Peter Mathias, who has agreed to take the risk and facilitate this special session. Those of you who are not here for the first time will certainly recall Peter Mathias. He is an independent and very energetic person who understands to ask the right questions to drill down to the core of issues. You will experience him in a new role. I must admit the style of our session will be unconventional and somewhat experimental. But we like to do things a little bit differently here anyway.



ISSA Thursday

**G30 Update
ISSA Recommendations 2000
The Way Forward**

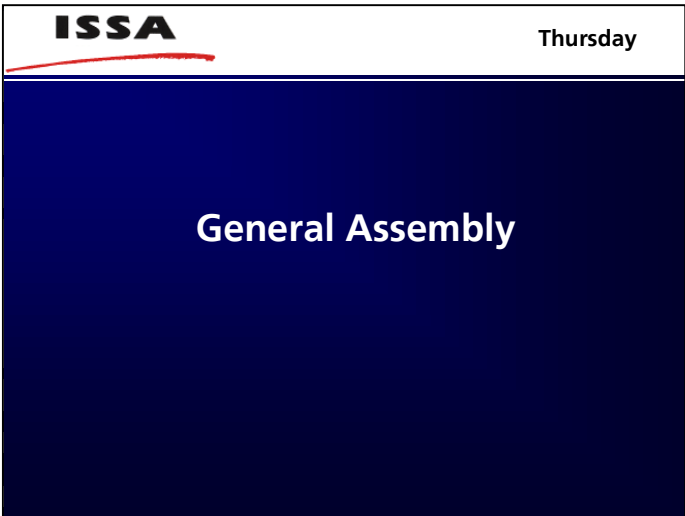
Sir Andrew Large
ISSA Board Members

Thursday afternoon will see a complete change of direction again. Exactly two years ago, in this room, the ISSA Recommendations 2000 were finalized and officially launched. At that time, we expressed our hope that they would gain a similar degree of market recognition as the nine G30 Recommendations of 1989 had achieved. You are aware that, last year, we conducted the first global status survey with regard to the new ISSA recommendations. The results were published two months ago, you should have received the report. This project was a major strain on the resources of the ISSA board working group that was tasked with leading the project, and on the ISSA Secretariat as well. But more importantly, it was you who provided invaluable support. Thank you again for having completed a lengthy and time consuming market questionnaire.

The Group of Thirty has meanwhile revisited the topic of global clearing and settlement systems. It is close to publishing its findings. Once they are out, we are somewhat concerned about the potential impact and burden on the market participants if two largely parallel fact finding initiatives competed for the market's attention.

We see an opportunity for building bridges and joining forces here as well. To be honest, G30 may have more clout, but ISSA definitely has the network and the expertise to provide the substance, and at very low cost due to the voluntary cooperation of our members. What could be more beneficial for us all, than to align parallel efforts and to share the scarce resources for such non-profit generating tasks, rather than always competing for them?

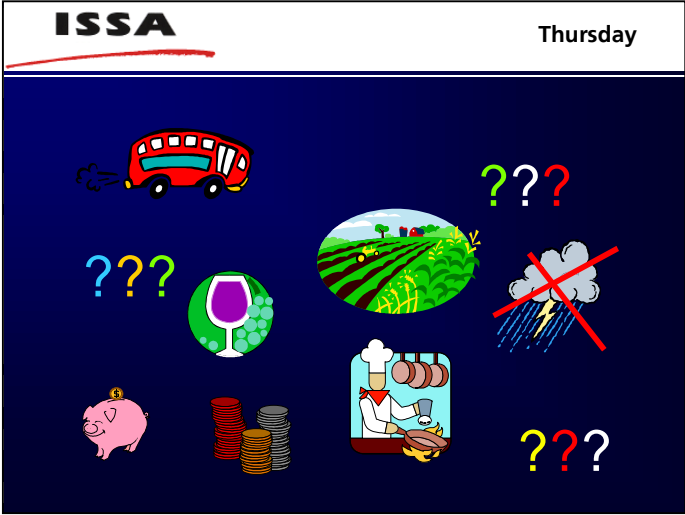
This is exactly what we want to explore. I am very happy indeed that we succeeded in gaining Sir Andrew Large, Chairman of the G30 Steering Committee, for a joint information and discussion session on Thursday.



The latter part of Thursday afternoon is set aside for ISSA housekeeping issues. Changes in the ISSA board and the regional meetings to be held in 2003 will be among the topics to be addressed.

That session will then conclude the official part of the symposium.

Does that look to you like a heavy agenda? Well, it sure is. After two intense days, we will all need - and hopefully deserve! - a break.



We will spend an evening together in a location far different from everyone's daily routine. Two years ago, we observed how much all of you enjoyed the trip by horse and wagon through our Swiss countryside, past farms and fields. I do not want to reveal too much at this moment, but we decided to expand on that theme. I can promise you a very lively and entertaining evening.....

Please come dressed casually and enjoy the evening in a completely relaxed and informal atmosphere. Many people - and certain other creatures as well - have been preparing long and hard for our enjoyment. The only thing we could not plan was the weather. Let's keep our fingers crossed that it won't rain.

For any questions - other than on Thursday night's exact destination, please! - do not hesitate to drop in anytime at the ISSA Secretariat. Its temporary office is located on the left hand side as you come down the stairs to this auditorium.

One last point with regard to housekeeping: breakfast is available from 7:00 o'clock in the same room we are going to have dinner tonight, and the symposium sessions will start at 8 o'clock sharp in this auditorium.



Well, so much for our outlook on the next two days. I am personally convinced that they will be demanding, but hopefully interesting and inspiring. The old hands know it well: The ISSA symposium is not an ordinary conference to simply sit through, as one invitee believed who decided not to come. We know of no other industry event that places so much emphasis on personal contribution, the absence of commercial sales pitches, the promotion of a cooperative spirit, and the development of personal contacts. In short, on achieving more together.

Ladies and gentlemen, colleagues, thank you in advance for sharing these values. I wish all of us a successful symposium.