

---

Growth in Asia's Derivatives and Alternative Investments Markets:

The Custodian & Fund Administrators View

Matthew J. Brown  
Managing Director  
Asia Pacific Fund Services Head  
Global Transaction Services

ISSA Conference  
2 November 2007



---

Overview:

---

**Topics covered today**

[Trends](#) / [Challenges](#) / [Implications](#) / [Recommendations](#)

"The only constant is change." - Heraclitus of Ephesus (c.535 BC - 475 BC)

Trends - Globalisation and Innovation:



3

2nd November 2007



Trends - Changing Asset Allocations:

	End-2005	End- H1 2006	End-2006
<b>Assets (USD bln)</b>			
Japan	29	32	31
Emerging Asia	72	81	101
<b>Total</b>	<b>101</b>	<b>113</b>	<b>132</b>
<b>Number of Funds</b>			
Japan	217	229	241
Emerging Asia	630	685	782
<b>Total</b>	<b>847</b>	<b>914</b>	<b>1023</b>

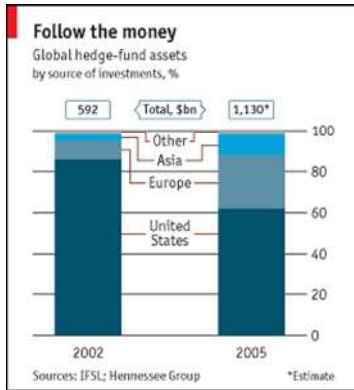
Source EurekaHedge

4

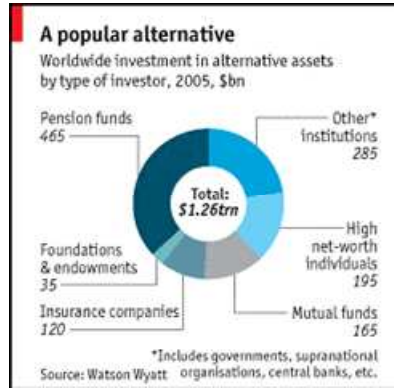
2nd November 2007



Trends - Changing Asset Allocations:



Source: The Economist, 2 September 2006



Source: The Economist, 14 September 2006

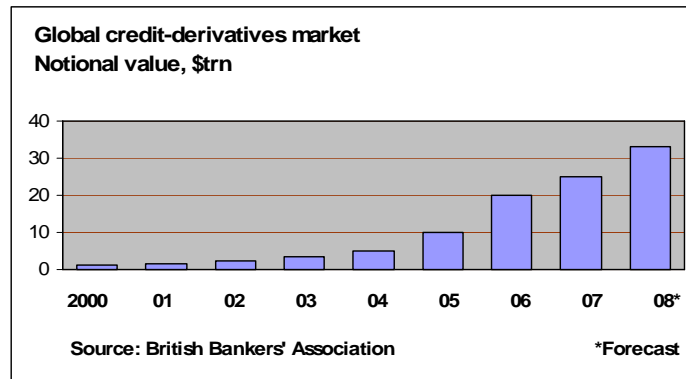
5

2nd November 2007



Trends:

- Growth of Derivative and Alternative Investments expected to hit 30% in 2007.



6

2nd November 2007



---

## Challenges:

---

- **Data:** Securing independent scaleable pricing sources continues to challenge industry
- **Technology:** Development of systems functionality supporting complex securities and valuation methodologies
- **Staffing:** “Training and retaining” factor
- **Risk Management:** Highly customised service offering – no “one size fits all”

7

2nd November 2007



---

## Challenges:

---

- **Risk Management:** No industry standard risk assessment approach
- **Education:** Inconsistent levels of education across both investors and non – investors
- **Regulation:** What should we regulate? Fund v Participants v Geography
- **Growth:** Annualised growth rates in excess of 30% ongoing – “multiplier effect”

8

2nd November 2007



---

## Implications on the Value Chain:

---

**“The output is the same but everything has changed”**

- Moving from administration to accounting
- More complex operating risks
- Complex security pricing is the norm
- More specialised product and pricing knowledge
- Evolving fiduciary obligations

9

2nd November 2007



---

## Recommendation – **one** two three four

---

### Industry Standards on Transparency:

- Full disclosure of valuation policy on offering documentations.
- Disclose responsibilities of all parties involved in pricing / valuation
- Define party responsible for official book of record
- Define investment policy, including any layering e.g. underlying investments in CDO2.

10

2nd November 2007



---

## Recommendation – one two three four

---

### Industry Standard Pricing Policy:

- Build on IOSCO guidelines and standards
- Pricing consistency
- Development of industry standard for security / portfolio pricing:
  - Defined approval / signoffs - board, trustees, partners
  - Defined escalation mechanisms for exceptions
  - Definition by investment type - Equity, Total Return Swap etc

11

2nd November 2007



---

## Recommendation – one two three four

---

### Development of Industry Standard Risk Management Framework:

- Focused on key risk areas:
  - KYC / AML
  - Mandate Risk
  - Investment Manager Risk
  - Balance Sheet Valuation Risk
  - Security Valuation Risk

12

2nd November 2007



---

Recommendation – **one two three four**

---

**Industry Wide Commitment to Constant Enhancement**

- Commitment to investment / investor education
- “Innovation in Automation”
- Sustained investment in core portfolio management/ support systems
- Leverage industry organisations - AIMA / IOSCO

13

2nd November 2007



© 2007 Citibank, N.A. All rights reserved. Citi and Arc Design is a service mark of Citigroup Inc., used and registered throughout the world.

\*\*\*