



Ladies and gentlemen, dear colleagues,

Good morning and welcome to our European ISSA meeting!

This is the first of two main ISSA events we are offering to our members and guests this year.

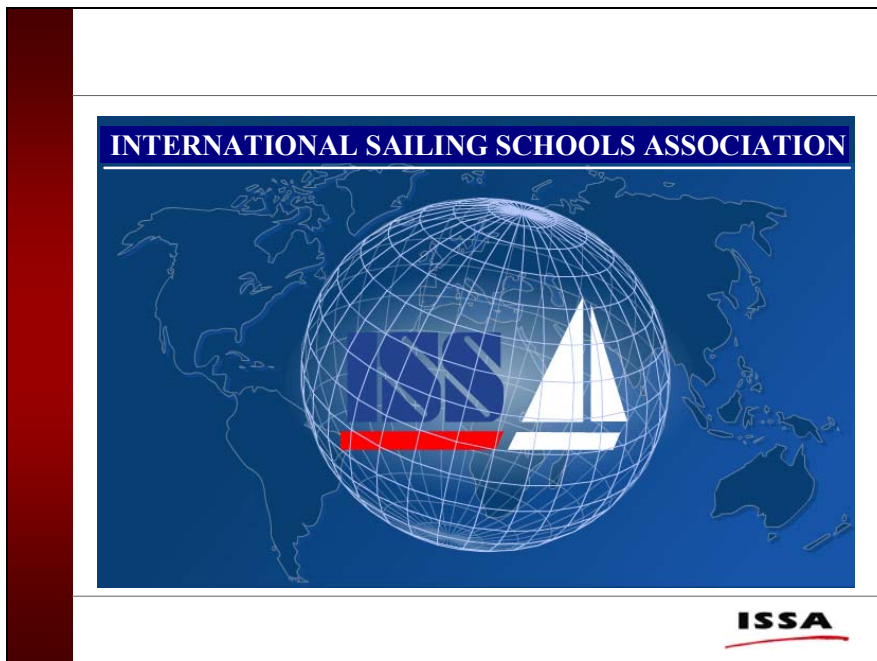
The second, our Asia-Pacific meeting, will take place in November in Tokyo. For the first time ever in ISSA's history, we will meet in Japan, and we are looking forward to it.

Personal contacts with most of our members in the Americas were renewed through our contribution to the ACSDA General Assembly in Mexico City in March.

You certainly noticed it already last night: We are a smaller group than in previous years. And you may wonder why we chose Monte Carlo as our venue for today, since our member count here is zero. Indeed, there are places more convenient to reach in Europe, especially if you are coming from as far away as Stockholm, Oslo, Copenhagen, Vilnius, Warsaw, Moscow or Istanbul.

But those members having the longest way to travel, are often those who have demonstrated an extraordinary commitment to ISSA over many years, and we are very grateful for that. So once again welcome to everyone, and thank you for joining us today!

Our decision for Monaco was not influenced by the glamour of the Riviera, nor the famous casino. Neither did we look for the proximity of the attractive harbor. A different ISSA already feels at home there, as we happened to discover:



The main reason is that Europe's largest annual event of the asset management industry, the Fund Forum, takes place here in town from tomorrow through Thursday.

The Fund Forum is the event for all firms in our value chain who design, create and distribute the increasingly complex fund products which then land in the custody accounts of most of our members. Or we provide custody and asset services for the portfolios underlying the fund managers' complex products.

Complex investments, hedge funds or alternative investments, as some prefer to call this broadly diversified asset class, are increasingly popular. They pose challenges to regulators, to custodians, to data providers, to SWIFT, to the investors too. And in a different way sometimes to their investment targets, if you think of the role some hedge funds have been playing lately as shareholders of Deutsche Börse and Euronext.

Alternative investments are a side of the capital market many of us in securities operations know little about, sometimes too little. But we can no longer ignore them.

Derivatives and structured products typically belong to the category of "exception handling required" as soon as it comes to the custodian. Streamlined settlement involving STP processes and message standards, or daily valuation from established data vendors, are not the norm.

We felt the need this year to look beyond the usual ISSA topics, which tend to focus on the traditional instruments.

A large segment of ISSA's members are custodian banks or CSDs. From their perspective, a fund manager can be a custody client, an issuer of a security, or an interested party in the communication triangle between fund manager, broker and custodian. Sometimes, the fund manager acts as all of the above.

This is the reason why we chose the immediate neighborhood of the Fund Forum, and why today's agenda has two distinct parts:

Agenda (1)

Alternative Investments



- **Markus Ruetimann, Schroder Investment Management**
- **Bill Thum, Morgan Stanley**
- **Jon Lloyd, JP Morgan**
- **Jimmy Gambill, Franklin Templeton Investments**

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The morning session is structured around the handling of alternative investments. We invited experts from the three key parties involved with the institutional fund management business to explain their side of the coin:

What is most important to them in order to achieve operational efficiency and risk reduction?

What do they expect from their service providers, in order to serve their own clients well?

What are their recommendations to their suppliers and business counterparties?

Our speakers are

- Markus Ruetimann, representing the fund manager view
- Bill Thum, representing the broker view, and
- Jon Lloyd, representing the custodian bank and fund administrator's view.

Markus Ruetimann will first give an overall introduction to the topic. After the presentation part, the three speakers will form a discussion panel moderated by Jimmy Gambill. The panelists are looking forward to taking your questions.

This morning will be packed with information and it is my hope that you will use the panel session for a lively and truly interactive discussion.

Agenda (2)

**MiFID
Market in Financial
Instruments Directive**



**"Most
Institutions
Find It
Difficult"**

▪ **Xavier Lucas, Autorité des Marchés Financiers**

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After lunch, we will shift our focus slightly: From fully international to the current and unavoidable hot topics in Europe.

Our first afternoon session has a connection to the morning.

MiFID is on everyone's radar, and affects more parties and business lines than many assumed a year ago. MiFID is a prime example to show how new regulation in financial services absorbs resources for extended time periods, in all areas of a financial services company: from operations to IT, to marketing, to staff training, to compliance and controlling.

The four months left until its effective date are ticking away fast. Giving a basic introduction to MiFID at this time made little sense.

As always in the forefront of important new regulation, there are armies of consultants eager to use conferences to promote their services to help the industry cope, and software vendors equally eager to promote their IT solution.

It was our goal to find a speaker who is deeply involved, yet has nothing to sell. I am very delighted that an expert from the French market regulator, L'Autorité des Marchés Financiers, has agreed to contribute.

Our speaker, Xavier Lucas, is a Senior Executive Officer in the Asset Management Department, International Affairs Division with the AMF. He will join us later in the morning. He will shed light on a particularly delicate issue, namely what MiFID means to the European funds distribution and asset management landscape.

Almost exactly one year ago, the debate on the pros and cons of a European directive on securities clearing and settlement was at its peak. There was the industry on one side, mainly opposed to more regulation, and the public sector on the other side, mainly in favor. But in both camps, dissenting opinions were present as well.

We had this ambiguous situation reflected perfectly in our ISSA Symposium last year, where Dr Alberto Giovannini shared his personal views. Mr Giovannini certainly does not have the mentality of your typical regulator. In his private life, he is the CEO of an asset management company which manages hedge funds. Yet, he decidedly called for regulatory intervention. He thought that, for the further integration of the European clearing and settlement infrastructure, only regulation would provide clarity and allocate clear responsibility.

Then just after the symposium, the discussion took a remarkable turn:

Charlie McCreevy announced that the European Commission had put its work on the planned directive on hold. Instead, he issued a call on the market infrastructures to go for self-regulation, and to jointly draft and implement the Code of Conduct on Clearing and Settlement. As we know, the code was drafted and signed in record time. Implementation is making progress with the first of three pillars, price transparency, delivered on time. The second and third pillars are in the works, more or less on schedule. A next phase may involve the extension of the code to instruments other than equities.

Agenda (3)

TARGET2 Securities



- Jean-Michel Godeffroy, European Central Bank
- Frederic Hannequart, Euroclear
- Katja Rosenkranz, Clearstream
- JP Marson, BNP Paribas Securities Services
- Ruud Sleenhoff, ABN AMRO Bank



Almost in parallel with the Commission's call for the Code of Conduct, the European Central Bank announced its intention to build TARGET2 Securities. The concept was immediately supported by the European Commission.

So we see a two-pronged approach: While the Code of Conduct bets on self-regulation, T2S could be described as a form of regulatory intervention, however with as much stakeholder participation as one could possibly expect. Still, the public sector apparently sees a market failure which it is determined to correct.

Both prongs are elements to achieve a common goal, namely to eliminate the notion of "cross-border" for trades between counterparties anywhere in the European Union.

There has been doubt whether the European Central Bank has the legal basis at all, to make the use of T2S mandatory. If the experts find that it doesn't and the project still continues, then the proposed solution must be convincingly better, than today's environment.

We are talking of an implementation time of six or seven years. In the meantime, the project may trigger a new round of innovation among the private sector competitors who are not keen on a central solution. In any case, momentum for change in the European market infrastructure has picked up again.

And of course – not directly related but it cannot go unmentioned – there is the US factor, with the recent merger between Euronext and the New York Stock Exchange, the likely takeover of the OMX Group by NASDAQ, and DTCC's role as the European clearing house for the new Turquoise trading platform.

I believe that no European ISSA member can afford not to follow the T2S project closely, whether or not we like the concept.

I am looking forward to a very lively T2S session this afternoon. We are lucky to have the key stakeholders with us today:

- Jean-Michel Godeffroy, Director General for Payment Systems and Market Infrastructure of the European Central Bank, as the project sponsor;

and representatives of the most directly affected stakeholders, namely:

- Frederic Hannequart from Euroclear, and
- Katja Rosenkranz from Clearstream.


The custodian banks are represented by:


- Jacques-Philippe Marson from BNP Paribas Securities Services, and
- Ruud Sleenhoff from ABN AMRO Bank.

And in addition, quite a few members of various T2S project working parties are in this room today.

As with the MiFID session, the emphasis is not on the introduction to the T2S project as such, but on the interactive discussion. We asked the presenters to keep their part brief and to the point, highlighting just the major challenges and concerns as they see it. Then it is up to you, as senior executives of the potential future T2S "affiliates" so to say, to pick up the dialogue.

A Glimpse into the Crystal Ball


Today				Tomorrow?
Equity	Bonds	Funds	Deriv.	
Trading	Trading	Trading	Trading	
Clearing	Clearing	Clearing	Clearing	
Settle-ment	Settle-ment	Settle-ment	Settle-ment	
Product-specific streams by function and market				
Source: Key note address Boston Consulting Group / ISSA Symposium 2006				



My next slide is a simplified version of a picture used by Antonio Riera of Boston Consulting in his key note speech during last year's ISSA Symposium. His subject was the changing global capital market landscape, with a five to ten years time horizon in mind.

Our Landscape Changes!

Today				Tomorrow			
Equity	Bonds	Funds	Deriv.	Equity	Bonds	Funds	Deriv.
Trading	Trading	Trading	Trading	Transaction Processing Trading, Clearing, Settlement, Custody			
Clearing	Clearing	Clearing	Clearing	Risk Management			
Settle-ment	Settle-ment	Settle-ment	Settle-ment	Data Management			
Product-specific streams by function and market				Integrated processing and risk management, across products			
Source: Key note address Boston Consulting Group / ISSA Symposium 2006				Source: Key note address Boston Consulting Group / ISSA Symposium 2006			



Antonio Riera predicted that the traditional view of vertical processing silos by product, country and market will soon give way to a horizontal view. This view is instrument insensitive and is organized along three layers:

- Transaction processing – across all asset classes
- Risk management – again across all asset classes and in real-time
- Data management – which assumes an ever more important role and is also done across all asset classes and in real time.

In the future, there will be a more distinct polarization between asset gatherers and asset managers on one side, and service providers to them on the other side. The trend towards increased retirement savings, and the need to professionally manage those accumulating asset pools, is a major catalyst.

At the same time, the various service providers are increasingly exposed to price pressure, because there is more international competition. Hence, there is intense pressure to reduce cost bases, particularly in Europe.

In addition, it is crucial to understand not only on-exchange, but also Over-the-Counter capital flows. The latter category is showing very strong growth. Those competitors who are able to integrate and optimize risk and collateral management across all asset classes, will emerge as winners.

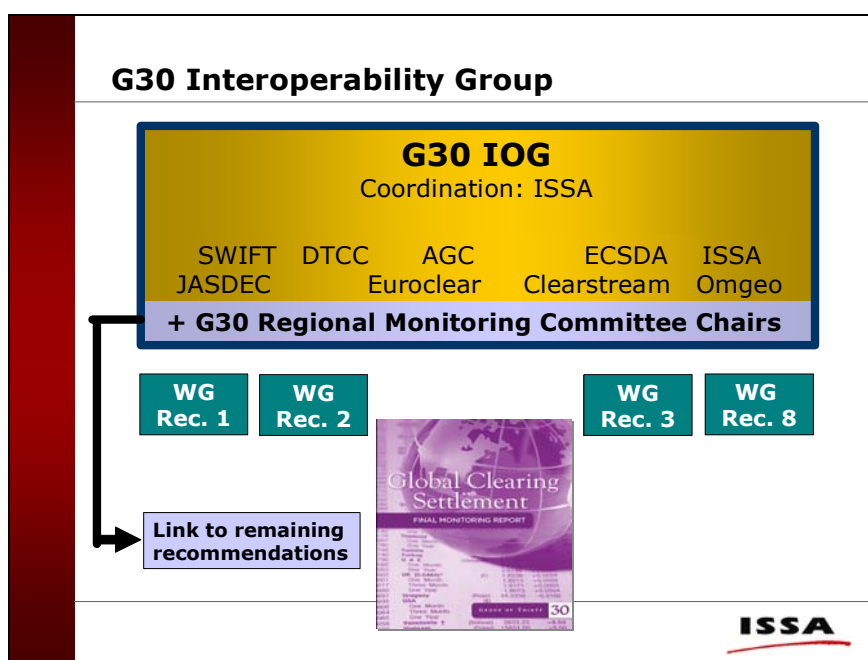
I believe that all topics on today's agenda follow up on Antonio Riera's glimpse into the crystal ball:

There is a need to better understand the complex instruments, their risk features, their associated capital flows and their operational implications. Our morning session is designed to make this more tangible.

Consolidation, interoperability competition between our clearing and settlement platforms across instruments and across national borders, is the topic of our afternoon session.

Pending ISSA projects

If you attended last year's symposium, you know that ISSA has unfinished business in two areas. I have to admit that it is still unfinished. But I want to use the opportunity to give you brief updates:



In our symposium, our members supported a push to advance those G30 Recommendations which have become known as the "interoperability recommendations" – numbers 1, 2, 3, and 8. ISSA offered, and was mandated, to take the role of a facilitator amongst a group of major stakeholders who had indicated an interest to work together.

Our secretariat then drafted a proposal for a coordinated way forward. All group members were invited to state what they viewed as the most critical issues, and what their suggested contribution to the group effort was. The intention was to use that inventory of ideas as the basis for a mutually agreed action plan.

However, feedback came in very slowly. And it was of a nature that made it quite clear that almost all global players' first priorities are on European harmonization initiatives. The Giovannini Barriers, the Code of Conduct, TARGET2 Securities, MiFID and the ESCB-CESR Standards now absorb everyone's resources. The G30 Recommendations lag far behind on the priority list. As a consequence, we still have no agreed action plan yet, and we sense no appetite in the industry to change this with any urgency.

The ISSA board will assess the situation tomorrow and decide what our next steps should be.

It is clear that many goals aimed at by the G30 recommendations are of a very long-term nature. They can only be achieved if the world's key infrastructure operators work on this construction site hand in hand. And ISSA can only contribute to progress in the industry, if its members help to actually convert intentions into action.

ISSA Funds Working Group



Align funds processing to equity settlements



The second construction site is the Funds Working Group. It has the mandate to make recommendations for an improved processing environment for cross-border mutual funds transactions.

We brought all relevant stakeholders to the table, and they met several times in 2006 to define obstacles to efficient processing. The discussions became difficult very soon, because the perception of an obstacle changes greatly, depending on which side of the barrier a stakeholder stands. What one party sees as an obstacle, is another party's indispensable requirement to do its job properly.

The challenge to agree on meaningful recommendations to resolve those issues is still before us. At the same time, care must be taken to avoid overlaps and conflicts with valuable work driven on the technical level by the European Fund and Asset Management Association, and others. ISSA engaged in a fruitful dialogue with EFAMA some time ago and we want to continue this as we go on.

Our Fund Working Group lost momentum in a critical phase and needs to be revived. We have a promising concept to that effect on the table, proposed by one of our board firms. This will also be reviewed by our full board tomorrow.



Today's documentation

 www.issanet.org

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My last remark: All slides you see today, will be made available electronically on the ISSA website within the next few days. We will also provide a summary of the key points of all presentations and discussions. Participant feedback from previous meetings tells us that this is the preferred way, rather than to carry paper back home.

Ladies and gentlemen, I now hand you to Markus Ruetimann to guide you through this morning's program.

Today's success depends not only on our speakers, but on your active participation as well. Please do use the opportunities to ask questions, and do not hesitate to make your opinion heard.

I am looking forward to an exciting day.
