Message from the ISSA Chairman

Dear ISSA Members,

In the last newsletter, I informed you that ISSA had been approached by Dominic Hobson, Independant Publishing Professional, to get involved in a new, three-year initiative with the main goal to agree on a future best practice business model for the banking industry. In its meeting of June 3/4, the ISSA Board discussed in-depth whether and if yes how far ISSA should contribute to such an ambitious project. The Board's conclusion was that ISSA should focus its limited capacities primarily on issues that can directly facilitate the optimization of the Securities Services Industry's processes - thus responding to the core objectives of the Association. However, in order to adequately consider the intellectual thoughts with regard to «The Future of the Industry», a part of the ISSA 17 Symposium will be devoted to this topic.

In line with the Association's objectives the Board meeting focused heavily on the presentations of the ongoing Working Groups' results. Short progress reports are included in this newsletter. ISSA intends to publish the final results to the industry soon. And in this respect, the Board developed the following clear ambition: ISSA's results and activities have to be marketed in a more professional and intensive way to make sure that they are recognized within the industry and that they finally prompt concrete actions. Therefore, the Chairman's Office, supported by marketing specialists of some sponsoring institutions, will work on a concrete marketing action plan to be presented to the Board.

In order to visualize and to market ISSA's contribution to the industry more effectively, some marketing activities have already been initiated by the Chairman's Office: The new ISSA website was launched http://www.issanet.org/ and offers an easier access to more updated information. Furthermore, the Chairman's Office contributed at various industry events in the 2nd quarter. Please take note of the event summaries in this report.

The Board is convinced that the activities mentioned in this newsletter will finally help to attract more institutions to join ISSA and to enlarge and foster the Association's reputation and relevance within the industry.

I'm looking forward to all these challenges and I wish you a nice summer holiday season.

Josef Landolt, ISSA Chairman
Governance up-date

Change of Board Members
- Jeffrey Tessler, Chief Executive Officer, Clearstream International SA, handed over his ISSA Board Mandate to Philip J. Brown, Member of the Executive Board, Clearstream Banking.
- Simon Haggerty, Head of Securities Group Operations, left UBS AG. His successor as ISSA Board Member will be nominated soon.

Change in the Operating Committee
SIX Securities Services has nominated the following member:
- Robert Charles Almanas, Head International Services.

Change in Membership
We welcome the following new members:
- Privredna Banka Zagreb, Croatia.
- ASX Limited, Sydney, Australia.

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

Board of ISSA

Individual Board Member Statement

In the following please take note of the personal address of Thomas Zeeb who recently joined the ISSA Board:

Thomas Zeeb

Any observer of the capital markets and in particular the post-trade businesses both in Europe and globally, cannot escape the feeling of change and discontinuity currently shaping our businesses and industry. While each of us and our member institutions provide services and contribute to moving our businesses forward, we also cannot escape the fact that there is a fundamental paradigm shift occurring in our industry as a whole. Perhaps now, more than ever, such shift requires cooperation and collaboration among the different stakeholders to help shape our industry in the future and meet the challenges occasioned by regulatory, structural and operational changes, blurring of roles within the traditional value chain(s), and liquidity constraints.

I have been attending the ISSA Symposia for many years, and have been privileged to be able to participate in many of the debates around the direction our industry is taking, and how best we can collectively respond and prosper within it. I am delighted to join the ISSA Board representing SIX, which is an integrated but open infrastructure service provider, covering the entire value chain from trading through to settlement and safekeeping, along with numerous ancillary services. Our role is one which can and should augment the activities of other stakeholders in the post-trade area, and provide a solid base as part of a network of infrastructure providers. The challenges we and our clients face are significant, and the need for innovative solutions, ideally developed in partnership with our clients and competition, has never been greater. ISSA has from its earliest activities sought to bring together practitioners from across the industry to discuss the core issues and crucially, to propose standards and solutions which everyone can apply. This approach is more critical than ever as we look forward to the challenges facing us, and I look forward to contributing to that dialogue to propose approaches and solutions which we can all apply.

Working Groups up-date

Neil Henderson, OC Chair

In late 2012, the ISSA Operating Committee Working Groups (WGs) commenced work on four topics. Their reports will be delivered in the third quarter 2013. A brief status of these initiatives is as follows:
Regulatory Impact including Shadow Banking
*(WG leader: Florence Fontan)*

The objective of this report is to update the Executive Summary of the regulatory report delivered to the ISSA Symposium in June 2012 for more recent regulatory developments and trends. In addition, a new chapter on «shadow banking» will be added, which reviews the issues at an international level (FSB, IOSCO) impacting all regions. Two of the five streams identified by the FSB that are most significant for the ISSA community will be subject to in-depth reviews:

1. Securities lending and repo: We will review the 13 November 2012 FSB policy recommendations and their impact on the markets to include reduced flexibility in collateral practices and added complexity.
2. Money Market Funds (MMFs): We will review the October 2012 IOSCO and November 2012 Financial Stability Oversight Council recommendations and subsequent developments. The topic includes whether MMFs should adopt a floating net asset value and/or liquidity buffers and withdrawal restrictions in times of market stress.

The paper is intended to provide ISSA members a summary of the issues and their likely impact.

Corporate Actions
*(WG leader: John Kirkpatrick)*

Since the issuance of ISSA’s Global Corporate Actions Principles in May 2010, progress in their adaptation has been frustratingly slow. Issuers and their agents, lacking any incentive to change current practices, have made little progress in issuing announcements in machine readable format such as XBRL. However, some market infrastructures have made strides in providing this information to their participants in the recommended ISO 20022 format.

The report reviews the obstacles to digitization at source and as a follow-up will provide input to issuers and their agents on how to implement the process. As a further follow-up, the WG will consider whether regulation is necessary to drive implementation of the ISSA Principles and if so, how best to convince regulators of the importance of this issue.

We wish to thank the 33 ISSA CSDs that participated in the survey of how they distribute corporate actions information to their participants and the challenges they face. The survey noted an improved usage of ISO 20022 messaging but much work still needs to be done to move away from proprietary format reports and other media.

Out of Network Assets
*(WG leader: Ed Neeck)*

In light of the exceptional challenges and potential liability issues in providing custodial and related services for asset classes such as derivatives, collective investment schemes, bank loans, real estate etc. held outside CSDs, the June 2012 ISSA Symposium recommended this topic for a follow-up report. The subject was also under review by the Association of Global Custodians (AGC) and it was decided to join forces to produce a joint report.

The report will analyze the legal nature of these instruments, what determines ownership thereof and whether the various products now available via market infrastructures provide adequate solutions. The report will highlight how these services are best leveraged to confirm ownership, reconcile positions held, lever valuations (where available) and track account activity. We will focus on the more commonly held instruments: derivatives, collective investment schemes and bank loans.

Collateral Management Best Practices
*(WG leader: Angus Fletcher)*

Recent regulatory changes highlight the need for robust collateral management practices. Various industry groups including ISDA have authored best practice guides for the industry at large. The ISSA report on collateral will lever the considerable industry work done to date on the topic to recommend best practices to be applied by custodians, fund administrators and investment managers.

The report now under preparation will explain the typical types of collateral in use, why collateral is required, how it should be held and specific issues such as re-hypothecation. It will provide the ISSA community with a single source document on the subject to include references to the various regulations that apply. There will also be a chapter on default management, which will detail best practices to be followed by custodians, fund administrators and investment managers before, during and after a default event. In addition it will provide best practice recommendations on client communications and reporting.
Chairman's Office attendance of Industry Conferences

The Chairman's office was present at various industry events in the 2nd quarter. ISSA's presence is of crucial importance because such events are the platform to present the Association's thoughts to the respective communities. Please take note of the summaries below.

ACSDA 15
The Americas' Central Securities Depositories Association held its 15th General Assembly in Antigua, Guatemala, from April 17 - 19, 2013. Some 70 invitees discussed issues of global and regional challenges as they affect the Central Securities Depository community within the region as well as the opportunities offered by regulatory developments. The representation from other regions and users of market infrastructures enabled an active exchange of ideas and solution possibilities. Traditionally, ISSA was invited to the ACSDA Conference and given the opportunity to inform the constituency about the latest developments and activities. ISSA will now follow up with various exponents with a view to broaden membership among representatives within the Americas region. The next ACSDA General Assembly will be held in Santiago de Chile in 2014. 

ICMA Meeting
The International Capital Markets Association held its 45th Annual General Meeting and Conference in Copenhagen from May 22 - 24, 2013. The conference was well attended with some 700 financial market participants. Representatives from European institutions and other capital market experts informed on many of the current issues affecting global markets including in particular the proposed Financial Transaction Tax, as well as prospects for the European Banking Union (i.e. Single Supervisory Mechanism; Single Resolution Mechanism; Common System of Investor Protection Scheme), the challenges facing the asset management industry and regulatory developments which will impact the secondary OTC markets. This year marks the 50th anniversary of the creation of the Eurobond Market. An educational session provided a comprehensive and entertaining recapitulation of the rationale for its creation and the major milestones in developing this significant market, which has not lost of its importance since. It also demonstrated the potentially damaging nature of financial transaction taxes. The prospects for the primary market have been judged very promising, as an ever increasingly favored alternative to direct lending by banks. In addition, the bond market may see a push from "Bail-In" bond issues. A panel on collateral agreed that there is sufficient collateral available, which however, is not being well exploited. An expansion of asset classes as eligible collateral is foreseen. Next year's ICMA General Meeting will be held in Berlin. http://www.icmagroup.org/events/icma-annual-general-meeting-and-conference-2013/

CSD12
The CSDs of this world held their 12th biennial Conference in St. Petersburg from May 29 - 31, 2013. Some 230 delegates from over 70 countries attended this very interesting and well-organized gathering. In numerous panels, today's challenges of the Central Securities Depository world were discussed. Even though the priorities and focal points differ among the 5 CSD world regions, there are also common challenges. Whereas particularly in Europe and the USA the regulatory developments are dictating the agenda, other regions put heavy emphasis on inter-regional cooperation among the CSDs. Diversification of CSD revenue sources beyond their core securities services are considered key and various examples for new CSD business opportunities were presented and elaborated upon. In this respect it is worth mentioning that proponents respectively providers of direct holding / beneficial owner markets seem to be more apt to broaden their product scope into different central infrastructure service areas. A panel on CSD Risk Management revealed that whenever there is weak securities legislation in a particular country, there are rather strong account segregation requirements in place.

CSDs, as many other financial intermediaries, increasingly become tax collectors. Resolution and Recovery Plans for FMIs (Financial Market Infrastructures) will be jointly assessed by IMF and the Worldbank under the FSAP (Financial Sector Assessment Program). The audience was also informed about the CSD Disclosure Report project, attempting to harmonize the reporting
requirements of CPSS/IOSCO, AGC and Thomas Murray. The ISSA Secretary was given the opportunity to chair a panel on «Benefits of Harmonization to CSDs», during which a representative from the European Central Bank gave the audience an in-depth view on the rationale of a major global custodian deciding to create its own CSD because of T2S and other regulatory developments in Europe. In general it is foreseen that there will be an increasingly high level of corporation among CSDs, whereas still a lot of countries will want to maintain their own infrastructure. Interoperability and networks of CSDs will abound. Rather than reinventing the wheel, CSDs will more and more make use of outsourcing parts of their services, particularly when moving up the value chain. Regulatory impacts should be taken as opportunities not threats.

The next global CSD conference will be held as WFC2015 (World Forum of CSDs) in Cancun, Mexico, from May 20 - 23, 2015. http://csd12.net/en/conference/

In addition please note that the World Forum of CSDs has launched its new website: http://worldcsds.wordpress.com/

13th NeMa
The 13th Network Management Conference in Europe was held in Warsaw from June 19 - 21, 2013. 420 attendees exchanged views on the challenges facing the securities services industry. The significant amount of regulatory initiatives leading to more complexity and inherent risk will mean that traditional Network Managers increasingly have to become "Global Risk Managers". Lively discussions were held around the topic of who will ultimately bear the cost of regulatory compliance. The end clients may be less willing to foot the bill even though they may benefit most from these regulatory initiatives. Some argue that the industry will have to continuously innovate in order to improve efficiency rather than have end investors pay more. The banking community still needs to work hard to regain trust in order to have its voice heard when questioning regulatory initiatives. Hence, the various industry associations are well advised to do more in a coordinated fashion rather than through single motions.

Various sessions focussed on Target2 Securities (T2S) and its impact on the post execution space. An increased blurring of the lines between the various providers (Sub-Custodians, Regional/Global Custodians, Central Depositories) is projected, whereas Global Custodians and ICSDs are seen as the largest beneficiaries of the developments taking place in Europe. There is widespread agreement that T2S will be implemented, albeit not yielding all the originally perceived benefits. The advantages should not just be reduced to low cost cross-border settlement. Harmonisation benefits, liquidity optimisation and market integration are likewise savings to be derived from T2S in the longer run. There was a clear appeal to the audience to move towards readiness for T2S with slightly more vigor.

Various examples were given for increased partnerships among securities services stakeholders, e.g. in a client / provider mode. Demonstrated long-term commitment will be as important as ever. Industrialisation and mutualisation will be key, whereas market utilities are not necessarily seen as the predestined provider of insourcing services. The 14th annual NeMa Conference will take place in June 2014, venue to be announced. http://www.nema-event.com/

Major activities in the 3rd quarter 2013

ISSA Board Call
September 10

Working Groups
Finalization and publication of reports.

Conferences
The Chairman's Office will attend SIBOS in Dubai from September 16 - 19, 2013.

Miscellaneous Activities of the Chairman's Office

- to support the working groups to finalize their reports
- to work on a new marketing concept
- to detail the thoughts with respect to our Symposium 2014
- and most important to use every opportunity to be in contact with our members.