Message from the ISSA CEO

Dear ISSA Members and interested parties,

Last month you received a special Newsletter informing you in detail about the topics we addressed at our 17th Symposium. We promised to provide you with an up-date by the end of July on the topics to be selected for further assessment and pursuit in working groups.

There is broad agreement that further progress on «Compliance and Transparency along the Securities Services Chain» has to be achieved. Key decision makers do confirm that this is seen as a key challenge for our industry and therefore it should deserve ISSA’s focused attention to work on best practice standards. In this context we also envisage to commission a study which should elaborate on the «Relevant costs and benefits of different holding structures» and how different models can achieve regulatory compliance. Currently we are setting the stage for the scope, deliverables and the resources needed to be discussed and approved by the Operating Committee and the ISSA Board. Our ambition is to inform our community in more detail about first steps achieved towards the end of September using also the SIBOS platform.

As the ISSA Chairman mentions in his address overleaf, we will additionally continue our work on traditional topics such as Corporate Actions and Collateral and Risk Management. We are in the process to lay out next steps with the working group leaders and we will inform you about the way forward after the summer holiday season. We are mindful of the importance to keep many representatives of our community involved as working group participants as we have done in the past. We thank all contributors for the granted support.

Furthermore the Newsletter contains major conclusions taken from two industry events. The ISSA Secretary participated at the recent Network Management Conference in Vienna and at an event of the Federation of European Securities Exchanges in Zurich.

As you can notice in the box «Governance up-date» on the next page, Irene Mermigidis will take over the Operating Committee Chairperson role from Neil Henderson at the end of July. Neil has influenced and supported the operational working group activities of ISSA during his three year tenure in an exceptional way. He deserves a special thank you from all of us and the Board wishes him all the best in his new role within DTCC / Omgeo. I am sure he will keep close ties with ISSA in a different form.

I wish you all an enjoyable holiday season and I remain with my best personal regards.

Josef Landolt, CEO ISSA
Message from the ISSA Chairman

Dear Colleagues,

At the May 2014 Symposium, I was inducted as the new Chairman of ISSA, and Tom Zeeb is now Vice Chairman of the Association. We are honoured to be following in the footsteps of Josef Landolt, who held the office of ISSA Chairman for a quarter of a century.

Josef, who now assumes the role of Chief Executive Officer, and Urs Staehli, who remains as ISSA Secretary (a position he has occupied for 20 years), will supply valuable continuity at a time when your Board looks to address new and topical challenges, particularly in the areas of Regulatory Compliance and KYC. In parallel, we will however maintain our traditional focus on Collateral Management, Corporate Actions and Risk Management as we map out the year ahead. We are excited to be able to devote resources to addressing (and, we trust, also resolving) some of the most challenging current industry issues - for the benefit of our membership, and the wider securities services sector.

We are convinced that ISSA can remain relevant for its members by concentrating on such topics of mutual interest, and would invite you to contribute your thinking on future priorities for the Association at any time.

Tom and I, and all our colleagues on the ISSA Board, are delighted that Josef and Urs have committed to continue their engagement in the Association. As most of you will know, they have been instrumental in leading the way on all substantial ISSA initiatives in recent times and we are confident that their dedication, combined with the involvement of many of our members, will ensure our continued success throughout the period of my Chairmanship until the next Symposium in May 2016.

Governance up-date

Next to the update in the governance structure communicated by Stephen Lomas we would like to inform our community about the latest changes in the composition of the Board and the Operating Committee as follows:

Change of Board Members

- As from August 1, Vicky Kyproglou, Head Network Management / Investment Administration, replaces Paresh Sodha as ISSA Board Member representing UBS AG.
- As from September 1, José Placido, Global Head of Sales and Relationship Management will succeed Alain Pochet as ISSA Board Member representing BNP Paribas Securities Services.

Change in the Operating Committee

- With immediate effect, Irene Mermigidis, EVP and Head of Network Management Clearstream Banking Luxembourg, takes over the mandate as Chair of the ISSA Operating Committee from Neil Henderson, Depository Trust & Clearing Corporation (DTCC). DTCC nominated William Hodash, Managing Director, Business Development, as its new representative in the ISSA Operating Committee.
- Also with immediate effect, Angus Fletcher, Director, Head of Market Advocacy, succeeds Thibaud de Maintenant as the representative of Deutsche Bank AG in the ISSA Operating Committee.

Change in Membership

Furthermore ISSA welcomes the following new member institution:
- Notenstein Privatbank AG, St. Gallen, Switzerland.

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

Board of ISSA
CEO’s Office Attendance at Industry Conferences

In June this year, the CEO’s Office took the opportunity to attend two industry events in order to keep ISSA informed on latest industry developments, to provide information on certain of our activities and to maintain individual dialogues with delegates. Please take note of the following summaries:

14th NeMa

The 14th European Network Management Conference took place in Vienna from June 10 to 12, 2014. More than 450 participants gathered to exchange views and discuss the challenges the securities services industry is faced with.

Regulatory Challenges
As heavily debated at last year's NeMa in Warsaw, the regulatory agenda and the increased diversity of investments continue to have a significant impact on the day-to-day activities of a Network Manager. Transparency in the Network Management decision process is nowadays required more than ever. Banks apply more stringent cross-border rules. Network Management will be expected to anticipate regulatory developments. Network Managers have become much more consultants to Relationship Managers and other business lines.

Given all the special requirements a Network Manager is faced with, some have «dubbed» the recent development as «Resurgence» or even «Resurrection» of Network Management. Reengineering the due diligence process has become necessary in view of the audit and control activities. The number of client visits to Global Custodians has increased, the number of due diligence questionnaires has literally exploded. A need to hire extra qualified Network Management staff has become prevalent.

Out-of Network Assets
As already experienced at this year's ISSA Symposium, the topic of «Out-of Network Assets», which formed the basis of a joint Report published by the Association of Global Custodians and ISSA in April 2014, has met with interest by a relatively small number of industry participants so far, namely Global Custodians and so-called Depositary Banks.

Various speakers at NeMa, including ISSA's Secretary who presented the essence of this Report, drew the audience's attention to the risks inherent in those asset classes and related best practices.

Asset Safety – Nominee versus fully Segregated Accounts

A panel composed of a Global Custodian and three Institutional Investment Managers intensively discussed the key considerations around asset safety and the various options to address this issue. In this respect, particular attention is drawn to the ISSA CEO's editorial on today's front page making reference to ISSA's planned activities on «Compliance and Transparency along the Securities Services Chain». This topic has become of great relevance for our industry and is attracting increased attention. Some statements from the NeMa panel:

- On Sub-Accounts: Fund Managers do not necessarily want the holding chain to know that this is «their» property.
- Emergency preparations have become key for situations in which a provider exits a particular market.
- Investment Managers are increasingly talking directly to local providers, i.e. to Sub-custodians rather than Global Custodians respectively to Market Infrastructures rather than Sub-Custodians.
- Asset Managers like White Papers from Global Custodians or other parties in order to assist in digesting the vast amount of information that is around.
- Global Custodians have different interpretations of the impacts of regulatory initiatives, this being a challenge for Investment Managers.

ISSA will periodically inform the community about the progress achieved in developing best practices.

Target2 Securities
By the time the 15th NeMa Conference will be held in June 2015, the European Central Bank's project T2S is planned to go live. Hence, this project was touched upon in various panels and speeches at this year's NeMa. A polling survey revealed that the majority of the audience was convinced that T2S will definitely go live, albeit with certain limitations and despite the fact that the testing period will be increasingly compressed towards the end of the project phase. The ECB is positive that there is no
price increase to be foreseen. As per industry participants, cost savings of T2S for the industry have been grossly underestimated, as this is not just a fee issue but provides various other advantages (e.g. catalyst for harmonization).

**Other Topics**
The custody providers in the audience were divided on the development of absolute revenues over the next five years, whereas the Network Management part of the audience was of the clear opinion that the Sub-Custodian fees would be decreasing. In general it has to be seen that the cost of risks is not adequately covered in the fees.

The venue of the 15th NeMa Conference will be announced shortly under: [http://www.nema-event.com/](http://www.nema-event.com/)

**FESE Convention 2014**

This year's Federation of European Securities Exchanges (FESE) Convention was held in Zurich on June 19, 2014, preceded by an IPO Roundtable. Some 240 participants from all over Europe and mainly representing trading-related disciplines attended the event.

**IPO Roundtable**

Three leading EU associations with members active in the capital markets have come together to initiate the European IPO Task Force. FESE, the European Private Equity and Venture Capital Association (EVCA) and EuropeanIssuers will offer the next European Commission and Parliament solutions to Europe's long-term IPO challenges. Over the coming months, some 20 industry experts appointed to the IPO Task Force will be preparing recommendations for the industry and for the policy makers to improve the conditions for IPO markets in Europe. One of the aspects to be addressed will be the facilitation of proper communication between investors and IPO issuers. In this respect there was repeated call for transparency along the investment chain.

**FESE Blueprint Agenda to Boost European Growth**

At last year's FESE Convention, regulators from the EU shared their concerns and priorities by focusing on completing the implementation of the G20 recommendations into EU Law. Since then, the capacity of Europe's banks to fund European companies has been impacted by new bank regulation seeking to address systemic risks. Europe's capital market remains comparatively small and inefficient in financing the economy. In view of this situation, FESE published their Blueprint to address concrete remedies to a variety of identified shortcomings. Various aspects of this agenda were debated during the conference. The easy to read Blueprint Summary can be accessed under [http://www.fese.eu/en/?inc=cat&id=6](http://www.fese.eu/en/?inc=cat&id=6).