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MOMENTUM

REGULATE, REACT, SUCCEED

Bruno Prigent,
Global Head of Societe Generale Securities Services

Editorial

Markets around the world continue to adjust to the dramatically changed economic circumstances of recent years. In Europe and the U.S., the imminence of new regulation is the focus of much attention.

We make no apology for returning to the subject in Momentum. Our Insight feature (page 3) thus highlights the need for investors to begin serious consideration of how they will react to the requirement to centrally clear certain derivative transactions when the Dodd-Franck Act and European Market Infrastructure Regulation finally come into force.

This issue's Market Watch (page 4) in turn is devoted to the Alternative Investment Fund Managers Directive and continues a story started in 2006 and accelerated by the collapse of Lehman Brothers.

These regulatory changes to the financial markets also require that service providers meet with new requirements in terms of quality. In keeping with this, our processes and internal controls were certified according to the new ISAE 3402 international standard (Snapshot to the right).

We have also mentioned in the past our global commercial alliances and our partnership with U.S. Bancorp. Strengthened by the synergies of our combined expertise, we were mandated last April for an Irish UCITS U.S. small companies fund which you can read more about on page 2.

SNAPSHOT

DELOITTE/EY CONFIRM SGSS QUALITY

SGSS is pleased to report the completion of the annual ISAE 3402 Type II certification process. This provides formal independent verification of the quality of internal processes and controls throughout custody, settlement, depositary, trustee, fund administration, transfer agent and transaction processing operations in France, Luxembourg, Germany and Italy. Deloitte and Ernst & Young carried out the audit.

SOCIETE GENERALE SECURITIES SERVICES/ U.S. BANCORP
ENTER NEW PHASE

GLOBAL SECURITIES SERVICES **ALLIANCE**™

The relationship between Societe Generale Securities Services (SGSS) and U.S. Bancorp Fund Services, LLC (USBFS) has entered a new phase. Intrepid Capital Management, of Jacksonville Beach, Florida, took advantage of the Global Securities Services Alliance TM (GSSA) agreed between the two institutions in June 2010 to launch an Irish UCITS U.S. small companies fund in early April this year.

> "The GSSA combines both companies' service models for investment managers seeking a single source for servicing global products."

"We've done a number of smaller deals, but this is the first fund using our model from start to finish," says Walter Koller, who heads North American Business Development for SGSS. "SGSS in Ireland was very instrumental in the launch and will continue to work closely with USBFS on a day-to-day basis."

The GSSA combines both companies' service models to offer global administration, shareholder servicing, distribution support, product development, securities lending, trustee services, and middle office solutions. Investment managers seeking a single source for servicing global products are able to receive 24-hour global support.

The goal was to leverage each organisation's geographical and product expertise to provide comprehensive fund services for all U.S.- and European-domiciled funds with complete securities services and broader global support. Each of the two brings significant industry tenure and best-in-class reputations within their respective local markets. "Our innovative alliance with SGSS delivers specialized expertise for clients looking to expand their product offerings on a global scale," said Christine Waldron, senior vice president of alternative investments for U.S. Bancorp Fund Services. "Our organizations continue to leverage industry-leading solutions to provide comprehensive support, insights and guidance to solve the challenges of our clients." The European expertise and presence of SGSS, both in their product offerings and in the countries where they are distributed, will provide U.S. Bancorp clients with strong regulatory support, distribution services, and global access to investor market trends across Europe.

U.S. Bancorp is the parent company of U.S. Bank, the fifth-largest commercial bank in the United States. Since 1969, U.S. Bancorp Fund Services has supported investment managers, banks, and broker-dealer firms sponsoring mutual funds. Established exclusively to serve the unique needs of registered and unregistered products, it is headquartered in Milwaukee, Wisconsin.

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MAKEMONEY

STAYING AHEAD OF UCITS IV

Investment managers and fund promoters who are concerned about their ability to stay ahead of the looming requirements for UCITS IV funds can rely on SGSS to help them save time and money. The latest addition to the range of services offered by SGSS has been developed to meet the needs of fund promoters who do not want to implement their own complex structure in Luxembourg.

"Within Luxembourg, SGSS is available to help investment fund managers that do not fulfil the legal requirements (in terms of structure, capital, human and technical resources) to set up their own management company," says Olivier Renault, SGSS Country Manager in Luxembourg.

"We advise clients on the most appropriate structures across a full range of fund categories, take care of all documentation and manage relationships with local authorities, adding to the services we already provide for master-feeder fund structures, fund passporting, key investor information documents, risk analysis and performance measurement. SGSS offers a true UCITS IV one-stop shop."

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OTC CLEARING: DECISION TIME APPROACHES

Investment market participants who have not yet decided how to approach the centralised clearing of over-the-counter derivative transactions really must begin to do so soon. Both the buy-side and the sell-side of the industry will be significantly affected when the regulatory changes mandated by the G20 countries back in 2009 finally come into force. This is expected to happen in the USA (where the changes come under the Dodd-Frank Act) by end 2012. In Europe, which is expected to follow somewhere around the middle of 2013, the changes will be implemented as part of EMIR (European Market Infrastructure Regulation).

The changes will affect mandatory collateral levels in ways that will have clear implications for clients. Firstly, collateral levels will be set higher than previously, to reflect the perception that the instruments are higher risk. The increase is related to the fact that OTC contracts have a longer lifecycle than most of the current cleared products. They are measured in years or decades rather than days, which increases the risk of a counterparty default and hence margin requirements. Secondly, costs will also be higher for those transactions that will continue to be cleared bilaterally rather than clear centrally (only interest rate swaps and credit default swaps will be cleared initially) and capital requirements will be higher. Thirdly, the processing of collateral will become more complicated, more sophisticated and possibly more fragmented as the number of potential service providers grows.

“Clients have two clear choices as they prepare for the new environment,” says Alex Buffet, in charge of asset services relating to OTC derivatives at SGSS. “One, they can do it themselves. Two, they can appoint a specialist provider. The first route will almost certainly be more expensive and operationally difficult even for those institutions which possess the necessary expertise in-house. We believe, therefore, that all but the largest players will surely appoint an external provider. We see more and more demand for such services. They are being included in more and more requests for proposal. As clients become more educated in the detail of the proposed new regulations, demand will grow still further.”

The volume and value of collateral being moved around the system will rise dramatically from the current estimated $2 trillion annually, suggests Alex Buffet. “We expect that it will double to around $4 trillion,” he says. That estimate does not take into account any possible growth that might take place in underlying derivatives transactions if they become more standardised and easier to use.

“Clients will need collateral in the form of cash and stocks, and we will see important moves in this area as clients react to the need to reposition collateral and adjust margins in a cost-effective and efficient manner several times a day,” he continues.

> “Clients have two clear choices as they prepare for the new environment.”

SGSS already offers a full suite of services for collateral management and brings value to cash and securities assets, he adds, and is further developing its ability to offer these once the new OTC clearing regulations become operational. “We offer basic administration but also value added services such as the transformation and optimisation of collateral. Cross-margining is a good example of optimisation: as we have a global vision of our client portfolio we can for example measure the risk associated between two positions (one on a cleared instrument and the other one on non-cleared) and decide when the risk of the two positions matches, so cutting our client’s collateral requirements.”

Collateral comprises initial margin (at the start of a trade) and variation margin (adjusted daily as the value of the instrument changes). Premium quality securities can be used for initial margins but when it comes to variation margins clearing houses (CCP) will only accept cash. Most clients, however, simply do not have enough cash or premium securities available for collateral. In that case, SGSS can provide transformation by helping them to turn less liquid securities into eligible collateral.

“If we have responsibility for all of a client’s transactions we can keep costs to a minimum and save them a good deal of money,” says Alex Buffet. “At the same time, if a client prefers not to use our own nominated clearer, Newedge, we will be able to accommodate that preference.”

For those clients which might feel they face a bewildering, impossible choice, Alex Buffet has some familiar words of reassurance, even comfort. “A number of different players are scrambling to position themselves to offer post-OTC regulation change services to clients. But we believe custodians have an advantage because of the relationships they already enjoy with clients, enabling clients to have all the services they need under one roof rather than go to several providers.”

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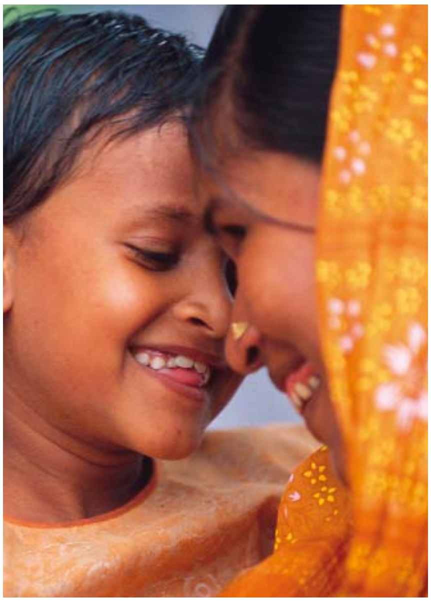
AFTERHOURS

HELPING CARE CARE



For the fourth consecutive year, SGSS has made a €15,000 donation to a well known charitable organisation, in line with its commitment to corporate social responsibility. Each year SGSS matches the value of its end-of-year organic wine client gift by making a donation of the total gift value to a charitable organisation. This year, the chosen beneficiary is anti-poverty charity CARE.

Founded in 1945, and today one of the world's leading humanitarian organisations, CARE is non-partisan, and non-sectarian. In 2011 it worked in 84 countries and reached 122M people around the world. CARE seeks to fight underlying causes of poverty and places special focus on working alongside poor girls and women.

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GLOBALVILLAGE

DUVOUX SUCCESSION PROVIDES ITALY CONTINUITY

SGSS has appointed Jeanne Duvoux as CEO and Managing Director of SGSS in Italy (SGSS S.p.A). The Board of Directors approved her appointment as successor to Massimo Cotella, who joined the SGSS Executive Committee, on 19 January 2012. The move is thought to make her the first female CEO of a bank in Italy. "If that is true I am very proud, but the important issue here for clients is the continuity of strategy and service demonstrated by my appointment after several years as deputy to Massimo," she says.

Jeanne Duvoux will actively pursue the development of SGSS' activities in Italy, where it is already a market leader. In Global Custodian magazine's 2011 Agent Banks in Major Markets survey, SGSS S.p.A. was Top Rated in the Cross-border/non-affiliated and Domestic categories, and Leading Top Rated in the Client category.

Jeanne Duvoux,
CEO and Managing Director of SGSS in Italy

MARKETWATCH:

KEEPING UP WITH AIFMD

The publication of the definitive version of the Alternative Investment Fund Managers Directive (AIFMD) continues a story about the responsibilities of the custodian trustee that started in 2006 and which was accelerated by the collapse of Lehman Brothers in September 2008. It is a story that underlines an important advantage enjoyed by SGSS, which has built up a wealth of experience in recent years in meeting existing French regulatory requirements which are more stringent than those imposed in other countries.

"Greater legal liability is being placed on custodians in their trustee role," says Etienne Deniau, Head of Custody and Trustee Services at SGSS. "They will be made to provide better levels of protection to investors; only the strongest institutions will be able to cope."

This significant tightening of the rules also places heightened attention on sub-custody networks. "Custodians and their clients will need to select and appoint sub-custodians even more carefully post-AIFMD than in the past, to ensure they are 100% capable of returning assets as required," adds Etienne Deniau. "Those of us who already have a strong sub-custody network will have an additional inherent advantage over other would-be providers."

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