LAUNCH OF A UNIQUE SERVICE MODEL

Societe Generale Securities Services (SGSS) announces the strategic launch of a brand new service and business at SIBOS 2014.

By Jason Nabi, SGSS Head of Global Broker-Dealer Services.

Global Broker-Dealer Services is a **new solution** dedicated to the evolving needs of institutional broker-dealers and investment banks, who value a global partnership with a single provider to minimise the impact of regulatory headwinds and market infrastructure initiatives.

The multi-asset class solution will offer an integrated range of electronic execution services as well as a full securities post-trade solution, covering maintenance of books and records, liquidity support, and clearing, settlement and custody services on a global basis.

This **unique service model** will enable our clients to focus on their core trading activities and grow the relationship with their clients.

KEY BENEFITS:

- Enabling business growth; enhances your speed-to-market and agility in supporting your institutional clients.
- Better use of capital; reduces your capital and internal liquidity requirements and achieve significant cost-of-capital savings by leveraging our financial strength.
- Reduced overhead; minimises your investment in operational support functions as your financial control and compliance overhead is reduced.
- Operational efficiency; removes fixed costs and reduces the expenses associated with managing your books and records and trade processing infrastructure, whilst retaining operational oversight and control.
- Powering a global business; servicing the requirements of your separate broker-dealer entities in New York, London and Hong Kong on a single best-of-breed operating platform.

A major initiative for Societe Generale

Global Broker-Dealer Services is a major new initiative for Societe Generale.

It brings together core competencies and services from across the Global Banking & Investor Solutions (GBIS) division into a dedicated service specifically for our clients. Global Broker-Dealer Services also offer a range of banking services including forex dealing, electronic dealing and securities lending from our Corporate & Investment Bank business lines.

As a new and dedicated service, SGSS combines a new global service that includes middle-office services, back-office processing and post-trade services designed specifically for the needs of institutional brokers, mid-tier banks and broker-dealers. It is not limited by outdated and legacy systems, or dated service models, it is new and has been designed in partnership with our target clients, our service partners and industry partners to ensure it is not only **the best model available but fit-for-brokers today and in the future**.

7 integrated service components

The Global Broker-Dealer Services solution has 7 service components that are integrated and will be delivered globally across New York, London (Europe) and Hong Kong on a single operating platform.

These are:

1. Dedicated client inventory management tools and reporting
2. Global execution services
3. Global and dedicated client services team
4. Global clearing
5. Liquidity support services
6. Settlement and custody services
7. Maintenance of books and records

Partnerships and Client Service

Global Broker-Dealer Services leverages the relationships and investments GBIS has with major world leading service partners such as Accenture Post-Trade Processing (APTP). Indeed our partnership with APTP brings significant operational capabilities of this dedicated specialist service provider for core securities processing and asset servicing. This ensures ongoing investment in the platform, functionality and service delivery as well as provides SGSS clients with the most efficient cost model. SGSS has made a long-term commitment to APTP and believes that this type of partnering is the best way of delivering clients the most relevant and most efficient solutions. Drawing on core partners competencies and strengths and packaging these into a client-aligned solution in a way that makes good sense for all parties is the best route to long term success for all, the providers, the clients and the wider industry.

> "Times are challenging for the all participants in the market and we recognize at SGSS that we play a key role in the servicing and partnering of our clients in areas where we are ideally positioned. With our partners, and with you as clients, we are excited by this new launch and look forward to building a highly successful business in the coming years that serves to make the industry more efficient and in some ways better..."

Tom Syrett, APTP - *"APTP is a major provider of post-trade processing to banks and have a leading service capability based on the Broadridge and Smartstream systems. We are proud to be partners of SGSS as they launch this unique and exciting service. The industry is moving to an outsource model and for many mid-tier brokers this requires a bank-backed service that incorporates liquidity and capital support. SGSS is well placed to do this and the SGSS team led by Jason NABI has a solid track record. With APTP delivering a best-of-breed solution for core securities processing they have a very appealing proposition."*

Further more, SGSS has partnered with a single and strategic global provider of settlement services in markets where Societe Generale is not present ensuring a truly **global multi-direct set up in all the major markets and over 90 markets worldwide** ensuring the highest degree of local market expertise and responsiveness, a key requirement for any broker. SGSS will manage this global network and ensure performance, pricing and market knowledge are all benefiting our clients.

The client services team (CST) effectively becomes an extension of our clients operational and finance function, with the benefit that we staff it, run it and ensure its performance. Further more it will be replicated and connected across New York, London and Hong Kong with a single access into the same underlying systems and processing. This team will be a dedicated and experienced team led by an 'ex-COO' from the institutional brokerage community. The CST will work 'as part of the client team' in managing the entire post-trade set of processes, from compliance, settlement, credit to managing the settlement and delivery.SGSS will offer clients a range of settlement terms in line with local market practice that will deliver the best client solution wherever your business takes place.

- Model A Settlement and/or Model B Settlement in the UK and **tri-party settlement agency (TSA)** in Europe
- Correspondent clearing and cross-border settlement in the USA
- Third Party Clearing in Hong Kong

For majority of brokers and broker-dealers, the historical preference to **maintain 'model A' and/or 'self-clearing' is now less relevant**, indeed just as many brokers now don't use their own memberships to execute on the market but trade via DMA providers for cost reasons, the direction is clear in regards to moving to global Model B settlement and 'untying capital' and it is gathering momentum. The true cost of capital has significantly increased since 2008 and the availability of capital to develop growth is now more restricted than ever. By outsourcing your full post-trade processes and counterparty obligations clients not only **become much more agile** in terms of costs and set-up but they can leverage Societe Generale's strong balance sheet. This unlocks our clients business and enables them to **reduce and redeploy capital** so that they can focus on growth and end-clients growing needs. Further more will contract clients in their own jurisdiction (New York, London or Hong Kong) so that clients will be able to access all markets via our unique and global platform and dedicated expertise with the comfort of your own legal environment.

Further more, if the broker's business is global with offices across New York, London and Hong Kong, SGSS can deliver integrated and reconciled processes and systems that are unique when compared to other providers. Collateral and margin support, credit support and liquidity services can also be applied on a global 'netted basis' that will deliver additional cost and delivery efficiencies.

User-based approach

Partnering with our clients extends to SGSS establishing a user-based approach to ongoing development and monitoring of the service. We want our clients to really have a stake in our business and share for example in setting the priorities for items on the development program.

SGSS is in this business for the long-term and along with the significant investments we are making across our business, this new business launch is one of the highest priorities for SGSS. As we launch the business we are also building an industry leading team, more announcements on this will follow as well as news of the first clients of the service.

Times are challenging for the all participants in the market and we recognize at SGSS that we play a key role in the servicing and partnering of our clients in areas where we are ideally positioned. With our partners, and with you as clients, we are excited by this new launch and look forward to building a highly successful business in the coming years that serves to make the industry more efficient and in some ways better.

CREATING A SURE FOOTED PARTNER TO THE WEALTH MANAGEMENT INDUSTRY IN THE UK

The wealth management industry in the UK has been subject to an unprecedented level of change over the last 5 years.

With increasing regulatory change such as RDR (Retail Distribution Review), FATCA and a heightened focus from the regulators on Suitability and Client Assets, it is sensible to expect there to be some significant changes to the way that wealth managers do business now and in the future. The increased regulatory pressure is forcing managers to reform their front office processes, segment their client base and more significantly, it has given rise to a need for more efficient business operations to support different levels of client service and to implement better controls.

It is easy to view these challenges as a negative cost and burden on the wealth industry but the truth is the wealth management segment is fast growing; vis-à-vis some long only managers have experienced decreasing assets under management, while wealth and institutional managers have been the net winners.

Investor needs are changing fundamentally, driven on the retail front by the looming retirement of the biggest demographic wave in history, and on the institutional side by a combination of worsening pension deficits and a significantly different approach to evaluating and paying for performance.
This is taking place amid an uncertain market environment that is breeding enormous levels of anxiety among investors.

The new way in which money is managed has altered significantly, aligned with the new definition of "performance" that incorporates risk management, income generation, and alpha/beta separation, increasingly retail investors are becoming much more institutionalised.

Those investment managers that expand the definition of ''asset class" by marketing specific outcomes, such as target retirement dates, tax minimisation and income generation will become tomorrow's winners. Average annual growth rates among "outcome-oriented funds" have been twice that of traditional long only funds in recent years.
The structures these managers utilise are not that different to ordinary long only funds however one specific alteration is the use of pooled vehicles to amass client investment, typical types of investors are pensions, charities, trusts, foundations, as well as private HNW individuals and family offices.

These managers utilise fund and non-fund structures, however increasingly the underlying end-investor records are required to be held in the form of segregated or managed account structures.

Societe Generale Securities Services has recently introduced a new execution to custody solution incorporating the latest technology. This solution offers a modular straight through process from execution to middle office, clearing and settlement. Offering a white labelled web front-end and including portfolio rebalancing and performance measurement, the solution allows the manager to focus on their core role in managing and offering advisory management services.

> "With increasing regulatory change such as RDR (Retail Distribution Review), FATCA and a heightened focus from the regulators on Suitability and Client Assets, it is sensible to expect there to be some significant changes to the way that wealth managers do business now and in the future..."

Combine the platform capabilities with the securities services and fund services capabilities globally, Societe Generale Securities Services are delivering a solution that will allow managers to adapt their operations to cope with scale through future proofing their operating and front office, while minimising their cost base throughout their middle and back office functions.

Michael Le Garignon,
SGSS Head of Business Development Sales and Relationship Management UK

BY DOMINIC HOBSON

TIME TO RE-THINK OUTSOURCING

Outsourcing relationships between fund managers and custodians are becoming unstable, because the burgeoning operational and regulatory risks are hard to manage within the current organisational structure. Dominic Hobson looks at options for change.

> "Outsourcing by fund managers to custodian banks is near-perfect example of how economic theory rarely survives prolonged contact with reality..."

It is curious that fund managers are so ready to outsource their back and middle office operations to custodians. Operations are less glamorous than portfolio management, but the risks are more troubling. Revenues depend on management and performance fees being calculated and charged correctly. New product launches rely for success on adequate operational support. A missed corporate action can cost a nine figure sum. Compensation for a miscalculated net asset value (NAV) can be higher still.

Regulatory fines for operational errors are non-trivial too. In the last year, one fund manager was fined £7.2 million by the Financial Conduct Authority (FCA) for failing to segregate client money from its own. The same regulator fined a second manager £18.6 million for a variety of operational shortcomings. The fines do not include the costs of subsequent internal restructuring, or the hidden costs of reputational damage, incurred even if the deficiencies arise at a service provider.

Unlike portfolio management, losses of this kind can never be recouped by good performance. Operational risk, as one consultant observes, is always risk without reward. So it is not frivolous to ask if the main reason fund management houses are content to outsource the management of these potentially existential risks is that their management is unaware of them. Fund management tends to be run by fund managers, who know little of operations except that they are boring and rarely spawn a CEO.

What fund management CEOs do know, however, is a little business economics, and outsourcing is backed by impeccable business logic. Its benefits are analogous to those of free trade, by which specialisation leads to a better allocation of resources, and consequent economies of scale, with unit costs falling as output increases. In other words, if fund managers stick to managing assets and custodians to servicing assets, both will make more money because more assets will be managed and serviced at lower cost.

Unhappily, this is not how outsourcing works in practice, as opposed to theory. In fact, outsourcing by fund managers to custodian banks is near-perfect example of how economic theory rarely survives prolonged contact with reality. An initial decision, on which bank to appoint and what price to pay, soon gives way to a succession of everyday business problems. Those problems impose a continuous toll on any outsourcing relationship, in the form of persistent frictional costs.

Take reconciliation. To reconcile data with a custodian, a fund manager has to duplicate it, maintain systems to hold it, and then retain staff to comb through both sets for breaks. All exchanges of information with custodians as safekeepers, fund accountants or transfer agents are rich in scope for error. With settlement deadlines tightening to T+2 in both Europe and the United States, the time available to eliminate errors is shrinking, and making obsolescent overnight file transfers.

Errors are bound to increase, and their effects cannot be confined to the back office. Position breaks have major impacts on portfolio managers, who need to know settled trades, cash positions and collateral required at all times, across multiple asset classes, or it is impossible for them to seize opportunities, hedge positions, meet margin calls, and buy and sell assets on behalf of investors.

The same portfolio managers are dismayed by the lavish margin for error built by custodians into instruction deadlines for corporate actions. It does not help that the notifications sent by custodians are often inaccurate and always hard to automate. But asset servicing is a model of efficiency by comparison with the frictions which characterise the relationship between fund managers and custodians in their role as fund accountant and transfer agent.

There is no standard method of communication between transfer agents and fund distributors. Every time an investor subscribes to a new fund, it sparks a fresh KYC and AML investigation. Payments to distributors remain bespoke, manual, and utterly unstandardised. Recording changes of ownership takes weeks. The securities and fund settlement cycles are unsynchronised, leading to mismatches between subscriptions and redemptions in funds and purchases and sales of the underlying assets. The gap has to be funded.

Above all, outsourcing creates dependencies. It strips fund managers of operational expertise, increasing the risk of error, and making it impossible to re-assume control of a function once it is outsourced. To this, outsourcing adds systems dependencies. In fact, custodians have deliberately designed their technologies to make it difficult for fund managers to switch provider. One transition, about to close, has taken two years to complete.

Frictions of that magnitude have attracted the attention of regulators, who are concerned that the transactions of investors will not be settled, and their assets will be incorrectly valued or even lost. Yet the response of both sides of the outsourcing industry to regulatory interest in their level of preparedness for the failure of a custodian bank was complacent. It was a promise to document and manage their relationships more intensively.

It is hard to see how smothering a relationship already plastered with SLAs and KPIs with more management and documentation (including an exit plan) changes anything. It is time to re-think the entire outsourcing model.

One option is to transform outsourcing into co-sourcing. In this model, the relationship between the manager and the custodian would cease to be purely contractual, and become a partnership based on a division of labour. Instead of a process being fully outsourced, and monitored by a cadre of staff at the manager, different aspects of it would be shared between staff employed by the two organisations. It would give the manager more control, and the custodian a closer relationship with the client.

However, the likeliest outcome is an acceleration of the steady transfer of responsibility from custodians to utilities. These are already in place in clearing (CCPs), settlement (CSDs), payments (RTGSs and ACHs) and regulatory reporting (TRs), and their scope is expanding across asset classes. Mutual fund settlement, for example, will almost certainly pass to CSDs for settlement in central bank money. Further utilities are being built or proposed for reference data, corporate actions and KYC, AML and sanctions screening data, where the lack of reliable sources of information is a major source of operational cost and inefficiency for fund managers.

The most ambitious utility project of all is the provision of a full outsourcing back-up service akin to the rescue service provided by SWIFT to RTGS payment systems. Because its viability depends on the standardisation of communications and operational processes, its construction necessitates the extinction of bespoke outsourcing arrangements, and the unbundling of fees.

Unchallenged, the back-up plan will eventually displace the custodians. Any custodian tempted to doubt that this is their possible future would be wise to ponder what is happening to their cousins in payments.

There, utilities are draining the profit even from retail transactions, forcing banks to invent entirely new services to stay in the payments business at all. If they want to escape a similar fate, custodians have to reinvent how they do outsourcing.

By Robert Kay*

PERCEPTION IS REALITY

‘Perception is reality’ is an aphorism often mistakenly attributed to Einstein. Everyone understands that while the phrase is not strictly true, it does, like all aphorisms, succinctly summarise something important and relevant. Many publications and market research consultants produce surveys that seek to assess and represent perceptions of services being provided, whether by banks or others, to their clients. They do so because they believe that perceptions of service are important for providers in helping to win new business as well as being an integral part of maintaining high quality relationships with existing clients.

Client perceptions are even more important in the area of financial administration and custody, precisely because client decisions to change providers occur rarely. These are not industries where one gets to try the service before you buy, or where change is easy. A decision to move from one provider to another is therefore complex, expensive and almost irrevocable. Without access to objective experience of the services offered by a new provider, the relevance of existing client perceptions and references dramatically increases.
Quality of services over time inevitably fluctuates, even in the very best managed of organisations. Because provider changes are so infrequent, it is particularly important that clients have an outlet to communicate concerns to providers beyond a face-to-face dialogue. Particularly at a junior level there may be a natural reluctance to directly criticise an individual or process that one may have to work with for years into the future. Physical distance between providers and users can also be a barrier to frequent direct meetings. Technology, process and management discipline can all help alleviate these problems but will not eliminate them. Client perception surveys offer another valuable way to communicate praise and concerns.

To be effective client perception surveys must first and foremost be credible to both providers of services and their clients, the respondents. There must be an appropriate balance between the level of detail of questions asked and the burden of completion placed on the respondents. Respondents need to feel that providers are paying attention to the survey in question. Likewise providers need to feel that respondents are generating thoughtful responses, ideally based on objective evaluation over a period of time, not a simple reaction to the most recent ‘event’, whether positive or negative. Achieving this level of commitment and respect on all sides requires that the survey is thoughtfully designed and that efforts are made to ensure that all parties receive something useful from it.
Perceptions change quite slowly in financial markets. It takes time for the continuous work by providers to take effect. So, while questions must evolve to take account of new services or changes in the landscape, they should be incorporated into categories that cover the largely unchanging core components of service. Consistency is important if a survey is to be useful.

Not all surveys carry the same credibility and it is hard to evolve while remaining consistent; but those are the two key challenges that surveys must meet if they are to stay relevant over the long term.

*Surveys Consultant, Global Custodian Magazine

Global Custodian

http://www.globalcustodian.com

SGSS GLOBAL CUSTODIAN LAST AWARDS AND RATINGS

Awards for EXCELLENCE GC 25TH

Global Custodian
Global Custody Survey 2013

Roll of Honour
- Settlement & Operations
- Cash Management
- Foreign Exchange

Global Custodian

Global Custodian
Agent Banks in Emerging Market Survey 2013

- “Domestic Top Rated” and “Cross-Border/Non-Affiliated Top Rated” in Croatia
- “Domestic Top Rated” and “Cross-Border/Non-Affiliated Commended” in Czech Republic
- “Domestic Top Rated” in Roumania and Russia
- “Outperformer of the Survey” in Croatia and in Czech Republic

Global Custodian

Global Custodian
Agent Banks in Major Markets Survey 2013

- “Domestic Top Rated” and “Cross-Border/Non-Affiliated Top Rated” in Italy
- “Leading Client Commended” in Italy and South Africa
- “Cross-Border/Non-Affiliated Commended” in South Africa and France
- “Domestic Commended” in South Africa and France

SOCIETE GENERALE SECURITIES SERVICES EXPERTENFORUM 2014 IN GERMANY

True to Societe Generale’s motto "Building team spirit together", 120 experts from the financial industry met on 13th May in Frankfurt and on 19th May in Munich at the annual “SGSS Expertenforum” to discuss and exchange ideas on the preservation of value.
The half-day event featured speakers from the Asset Management-world, financial communications specialists and a world famous, former Formula One Driver. A round table discussion on how to handle challenges in the securities services landscape, focusing on Collateral Management, included experts from Societe Générale Investment Bank. Truly a diverse program with ample time for an exchange on solutions for value preservation and networking.

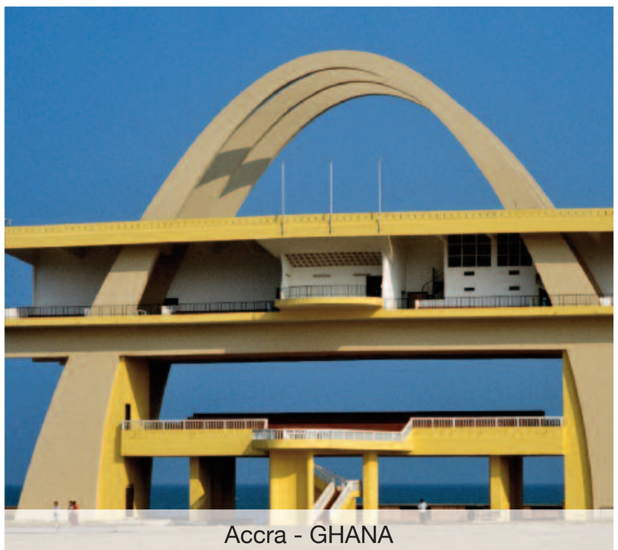
EMERGING MARKETS VISION

It has been a year of healthy expansion for Societe Generale Securities Services' (SGSS) international sub-custody network, Andrew Duffin, SGSS Head of Sales for Emerging Markets, tells Momentum. Within the past 12 months, SGSS has launched sub-custody operations in five new markets, notably Bulgaria, Ghana, Mauritius, Tunisia and the West Africa Economic and Monetary Union (WAEMU).

This activity represents the latest step in a long-term programme designed to extend the bank's securities services coverage in emerging markets. Six years ago, SGSS announced plans to introduce sub-custody and clearing activities in a series of new locations in Central and Eastern Europe and Africa. In a number of cases, SGSS has taken opportunity to extend a securities services offering into markets in which Societe Generale already had an established banking presence supporting retail and business customers. This was the case in Bulgaria and Tunisia, for example, where Societe Generale already had a banking licence and an IT platform in place and it has capitalised on these foundations in order to establish its sub-custody and clearing service.

With a presence in more than 60 countries around the world, and with more than 100,000 employees supporting its retail and consumer credit network, Societe Generale is monitoring further opportunities to extend its securities services coverage out to new locations in which it already has a banking footprint. But its horizons are not limited to markets where it has an on-the-ground presence. Instead, SGSS has explored a range of innovative strategies in order to bring a leading-edge international securities services solution to new emerging markets.

In June 2013, for example, SGSS launched a sub-custody and clearing service in Ghana, providing custody for Ghanaian government bonds, listed equities, along with a comprehensive foreign exchange and cash management service. This service is supported by SG-Ghana, its Ghanaian subsidiary, which is linked directly to Societe Generale's pan-African services hub in Johannesburg.



Accra - GHANA

"In opening five new markets over the past 12 months and in attracting a number of important mandate wins, we are delivering on a business plan that has been mapped out over a five or six year period..."

So too in Mauritius, where SGSS has recently launched a securities services offering with remote access from SGSS' Johannesburg hub. In establishing this presence, SGSS has worked closely with CDS Mauritius, the central securities depositary, and with local policy makers in order to push through legislative changes that will allow remote access to the local CSD for a foreign CSD participant. This, since June 2014, has allowed SGSS Johannesburg to link directly to CDS Mauritius as a remote member. Through this arrangement – and with essential support from CDS Mauritius – SGSS has brought a flexible and efficient securities services offering to its client, while minimising the investment needed to establish local operations and IT

Port-Louis - MAURITIUS

capability. Several brokers-dealers are currently in the process of opening accounts with SGSS.

In Tunisia, SGSS has been attracting significant interest from both cross-border and domestic clients as the only international bank that is currently offering sub-custody and clearing in the market. In Côte d'Ivoire, SGSS has released a sub-custody and clearing offer delivered by SGBCI, a Societe Generale subsidiary. This provides securities services coverage out of Abijan to support Côte d'Ivoire and the broader WAEMU area.

Tunis - TUNISIA

More broadly, SGSS also supports client activity in a wider range of markets in SSA (including Botswana, Zambia and Nigeria, Tanzania) through its global custody network and it is continuously looking at innovative opportunities to extend its coverage across the region.

In Central and Eastern Europe (CEE), SGSS released its custody and trustee services offer in Bulgaria in Sept 2013.

Sofia - BULGARIA

This builds on the retail and commercial banking presence that Societe Generale already had in Sofia through Societe Generale Expressbank, its subsidiary. With this development, SGSS has now extended its coverage in the CEE region to eight markets. In Romania, SGSS has won a number of significant mandates from important domestic clients and its local team continues to monitor growth opportunities as the local capital market gains maturity and momentum. In particular, international observers watch with interest on the progress of Romania's potential inclusion in the MSCI Emerging Markets Index. Romania hosted two IPOs of formerly state-owned enterprises during 2013 and there is optimism that, with further IPO activity, Romania may fulfil MSCI criteria relating to capitalisation, free float and other requirements that must be met in order to gain promotion from MSCI Frontier Market to Emerging Market status.

On balance, SGSS continues to extend the emerging markets coverage offered by its sub-custody and clearing network and to attract interest from both domestic and international clients. "In opening five new markets over the past 12 months and in attracting a number of important mandate wins, we are delivering on a business plan that has been mapped out over a five or six year period," says Andrew Duffin. "Through our innovative vision for extending market coverage, we continue to explore opportunities to

Bucharest - ROMANIA

support client activity both in locations where we already have a banking presence but also, in some cases, in markets where we do not. This underpins our long-term strategy of delivering an integrated chain of high-quality services, tailored to the needs of the client, across multiple locations worldwide."

Andrew Duffin,
SGSS Head of Sales, Emerging Markets

"Through our innovative vision for extending market coverage, we continue to explore opportunities to support client activity both in locations where we already have a banking presence but also, in some cases, in markets where we do not. This underpins our long-term strategy of delivering an integrated chain of high-quality services, tailored to the needs of the client, across multiple locations worldwide..."

SGSS GALLERY

A few months after launching **SGSS GALLERY** the time has come to take stock.
SGSS GALLERY is the result of a profound transformation of the SGSS Custody and Fund Admin sites carried out in early 2014. The development of a single and secure access for all users to the new site went according to plan while minimizing transition-related difficulties for customers.

In addition to the single access and a new homepage enhanced with the Thomas Murray site's custody information that will be up and running at the end of the year, **SGSS GALLERY** now enables easy navigation between the Custody and Fund Admin modules. New features such as the ability to put in place custom report subscriptions in a totally autonomous way (statements, transaction notices...) as well as online report viewing and customization features enable users to "design" their reports in accordance with their use or system integration requirements. Users have control over their data to shape and format this data exactly as they wish and distribute it to the recipients they choose at the frequency they decide.

Users satisfied with the migration and new features

For the first time, users of the SGSS site were interviewed to find out how they viewed **SGSS GALLERY**, to see if they were satisfied with the way the migration went and to gather their input and suggestions for future improvements.

Nearly 15% of all users answered the 2 June online questionnaire. We thank them!

Below are the key findings of the study:

- **SGSS GALLERY** is used intensively, it's seen that 3 out of 4 users log on at least once a week.
- **SGSS GALLERY** is particularly appreciated for the overall look of the site, information quality and menu clarity.
- Unsurprisingly our users expect a high level of site performance (speed, availability) and this must be given top priority. This is a prerequisite that determines the level of satisfaction and 80% of respondents considered **SGSS GALLERY** as equivalent or superior to the competition in this regard.
- Migration to **SGSS GALLERY** was generally well received with a satisfaction rate of about 80%. The main difficulty was the first logon with the need to select a new secure password.
- Among all the new features implemented, the ability to export in the exact format defined by the user and subscription capabilities are cited by 80% of users. Ergonomic features for report handling (sorting and customizing content) come next.
- Finally, many suggestions received during the survey are under analysis, such as the development of an information retrieval tool (funds, accounts ...) or the provision of even more detailed information as well as numerous ease of use points suggested by frequent and legitimately demanding users.

A big thank you to all participants. This first experience will be repeated in order to zoom in on certain features and specify requirements.

YOUR SGSS GALLERY WEBPORTAL GIVES YOU ONLINE STEERING OF YOUR BUSINESS

On the site you have a global view of your business and this helps you avoid any mishaps. You have precise control over your information enabling you to better manage your business and information exchanges with SGSS. SGSS GALLERY is designed to give you a summary or detailed intuitive access to your information through modules adapted to your needs.

On the website you can customize the display of your key reports, initiate transactions, validate actions and look up at historical data.

1. Easy access to post-trade information

- A secure single sign on
- Useful information on securities custody and fund management
- Access to market information (December 2014)
- A high level of customer satisfaction

2. Pilot your information

- Access to all your data wherever you are
- Customize the layout of your information
- 24 X 7 access to your reports
- On your PC, laptop or tablet

3. Drive your business

- Download your custom reports
- Integrate data directly into your information system
- Transactional features
- Event alerts
- Online validations
- Total tracking of all your securities transactions

4. A team in the pits to support you

- Relevant online assistance
- Tutorials
- A support team at your disposal
- Assistance to help you carry out your regulatory obligations
- On all SGSS markets

Now, more than ever, whatever activities you are working on with SGSS, you have precise control over your information. It is available online, or can be custom sent to your servers or the recipients of your choice. You can perform a wide range of banking transactions, validations and instructions.

ORCHESTRA STRIKES THE RIGHT NOTE IN A NEW WORLD

Understanding the challenges the shifting regulatory environment poses to clients, Societe Generale has launched a new, fully integrated service to support clearing and processing of OTC derivatives.

Entitled Orchestra, this global solution brings together the clearing capability provided by Newedge (the prime clearing services division of Societe Generale) with the comprehensive post-trade derivatives processing and reporting services offered by Societe Generale Securities Services (SGSS). Completing the proposition is the range of swap dealer and execution services offered by Societe Generale Corporate and Investment Bank (SG CIB).

New regulation requires new arrangements

This novel solution comes at an opportune time for asset owner, buy-side and corporate clients that make significant use of OTC derivatives in their investment and trading strategies, along with financial institutions that support the use of privately-traded derivatives.

In the aftermath of the global financial crisis, G20 leaders agreed a comprehensive package of reforms applicable to OTC derivative markets to improve transparency, mitigate systemic risk and protect against market abuse. In the U.S., the core content of this reform agenda has been implemented through the Dodd Frank Act, which requires that sufficiently liquid and standardised interest rate swaps (IRS) and credit default swaps (CDS) are traded on new electronic trading platforms known as Swap Execution Facilities (SEFs) and cleared via a CCP. All OTC derivatives contracts, whether cleared or non-cleared, must be reported to a licensed trade repository.

In the European Union, European Market Infrastructure Regulation (EMIR) is the parallel reform programme. Although some of its technical requirements are still being defined, the clearing obligation for eligible OTC derivative transactions is being rolled out via a staged migration:

- Financial counterparties that are currently clearing members are expected to meet this requirement within six months of the regulatory technical standards coming into force, most likely by June 2015
- Other financial counterparties will potentially need to be compliant by June 2016
- For non-cleared trades, the requirement for bilateral counterparties to exchange variation margin will apply for all contracts entered into after 1 December 2015
- The requirement to exchange two-way initial margin on non-centrally cleared contracts will be phased in between 1 December 2015 and 1 December 2019.

François Bouclier, Institutional Sales Manager at Newedge in charge of OTC Clearing for Continental Europe, believes that economic factors will drive many banks to begin clearing OTC derivatives as early as possible.

"Banks have a strong incentive to clear before the EMIR obligation actually comes into force. Why? Because they can reduce their Credit Valuation Adjustment (CVA) requirements and obtain better execution prices," Bouclier explains. "Cleared transactions will benefit from CVA exemption, leading to lower capital costs, which will potentially translate into a lower execution price, not to mention standardising and simplifying most internal processes."

Against the backcloth of regulatory change, Tier 2 and Tier 3 banks will need to evaluate their clearing strategies and decide whether to be a direct clearing member and develop in-house clearing capabilities, or employ a clearing broker. Given the cost and complexity involved in adapting to new regulation, some firms may find significant benefit in outsourcing elements of these OTC derivatives clearing and lifecycle management functions.

" Orchestra combines the OTC clearing capability extended by Newedge with the comprehensive post-trade derivatives processing and reporting services offered by SGSS..."

Indeed, it should be noted that the mandatory central clearing requirement will not be applicable to all OTC derivatives. As a result, firms that choose to manage these activities internally will need to support multiple systems, maintaining one set of operational and legal arrangements for centrally cleared OTC derivatives, and a parallel set to handle any non-cleared OTC derivative transactions. Such replication may bring unwelcome organisational complexity and higher costs to maintain technology and manage legal requirements.

In tune with clients' needs

A strength of the Orchestra solution notes Clément Phelipeau, Product Manager, Derivatives & Collateral Management Services at SGSS, is that it offers an integrated OTC derivatives solution – from clearing through the full post-trade lifecycle – regardless of whether the trade is cleared or non-cleared. "For clients that elect to outsource this activity to Societe Generale, Orchestra will remove the need to manage technology and systems upgrades and, subsequently, to maintain parallel silos for their cleared and uncleared OTC derivatives activity," explains Phelipeau.

He adds: "Selecting Orchestra gives clients choice and flexibility. Connectivity between Newedge and SGSS is well established, which minimises the need for clients to adapt their interfaces to clearing brokers, affirmation platforms, and other third-party service providers. Additionally, customers can choose to employ a full outsource package, or source elements on a modular basis."

Newedge is renowned for its deep expertise in derivatives clearing, especially for listed derivatives. Building on this capability, it has developed comprehensive OTC clearing capabilities and is a clearing member on all the major CCPs in the U.S. and in Europe for clearing listed and OTC derivatives.

Additionally, recognising that capital is a scarce resource, Newedge offers cross-margining capabilities, enabling clients to reduce their overall margin costs by netting across asset classes. Clients can also benefit from pre-trade IMR simulation through the "What if" margin computation tool, which enables customers to evaluate their initial margin requirement across various CCPs on a pre-execution basis. Using this ex-ante margin cost analysis, clients can select the best CCP to clear a new transaction and monitor their aggregate cost of trading and ongoing initial margin commitments on a near real-time basis.

Complementing Newedge's capabilities, SGSS offers a global approach to collateral management, enabling clients to optimise margin management across all types of OTC derivatives product and across their full range of clearing brokers, CCPs and bilateral counterparties.

"SGSS will track any excess margin at counterparty and CCP level and will initiate immediate recall of this collateral, thereby preventing overcollateralization and minimising potential fragmentation of liquidity," says Clément Phelipeau. SGSS offers a range of reporting options, providing clients with a clear overview of their transaction portfolios and highlighting any outstanding exposures that require collateralisation. Phelipeau continues: "Our solution is built on an open architecture model, dictating that we can process OTC transactions and related collateralisation movements regardless of which clearing broker the client has selected, and whether or not the relevant collateral is sitting on our books as custodian."

Orchestra – the coda

Orchestra combines the OTC clearing capability extended by Newedge with the comprehensive post-trade derivatives processing and reporting services offered by SGSS. The outcome is a fully integrated solution that covers position-keeping, full management of lifecycle events, and collateral management for OTC derivative trades. Alongside this, SGSS offers market-leading valuation services for a range of OTC derivatives and structured products, providing the potential to challenge counterparty valuations and to accelerate dispute resolution when this may be required. "Such efficient dispute management plays a key role in the collateral management process. It's a service our clients appreciate and – as such – distinguishes us in the market," says Phelipeau. "Also, SGSS offers a Trade Repository reporting service that delivers integrated reporting of clients' OTC derivative transaction data, current valuations, and collateral coverage to the DTCC Derivatives Repository Ltd (DDRL), the DTCC's multi-asset class derivatives repository in Europe."

"Societe Generale has a track record of innovation," concludes François Bouclier. "Integrating Newedge is the next chapter in that history, a step driven by the age old maxim: remain relevant to clients. In SGCIB, Newedge and SGSS, we have advanced solutions, which evolved independently, to establish themselves as industry leaders. Now that the world has changed, we've responded with a new approach. Successfully mutualising our capabilities means that we are more than the sum of our parts: better placed to invest, to improve our service, and to deliver relevant solutions for clients."

Note: In May 2014, Societe Generale finalised the acquisition of the 50 per cent share of Newedge that it did not already own, thus taking its ownership to 100 per cent. This acquisition brings together the strengths of a major international banking group with those of a leading derivatives broker; namely, leading prime brokerage and clearing services, agency execution, and access to more than 85 exchanges globally.

BY YOUR SIDE, TODAY, TOMOROW, T2S

With 9 months left to go before the first wave of markets migrate to T2S the question of "how to adapt" remains at the forefront of industry dialogue. Today, however, this question is not particularly related to making an operational success of the first migration wave. Indeed, at SGSS thanks to careful upfront planning and tight supervision of project progress, our readiness status is fully "on track". In fact, the question relates more to the longer term objectives as well as the vision of the fundamentals that T2S will change in terms of the relationships between the actors in the post-market space and the business models that will enable us to remain or to emerge in 5 years time in a winning position. Indeed, the upcoming migration waves are the start - and not the end - of the T2S story.

The "us" in the preceding phrase is to be underlined as it represents the philosophy of SGSS that looks not just to be a business partner but to act as a team member helping drive forward our clients' objectives, our common goals.

Our belief is that there is no "one size fits all" in terms of the "product" that responds to the individual and unique requirements of our clients. There are, however, a number of underlying questions relative to the expected benefits of T2S that are widely shared, albeit to varying degrees within each organisation, and to which relevant responses are sought after. These include:

- How does T2S enable me to rationalize my links to the markets?
- In what manner will T2S facilitate an optimization of my liquidity needs and collateral usage?
- Can T2S be a lever for streamlining operations teams and systems?

These interrogations are of course linked to an underlying requirement to identify areas in which post-trade costs can be reduced... without compromising service levels or risk.

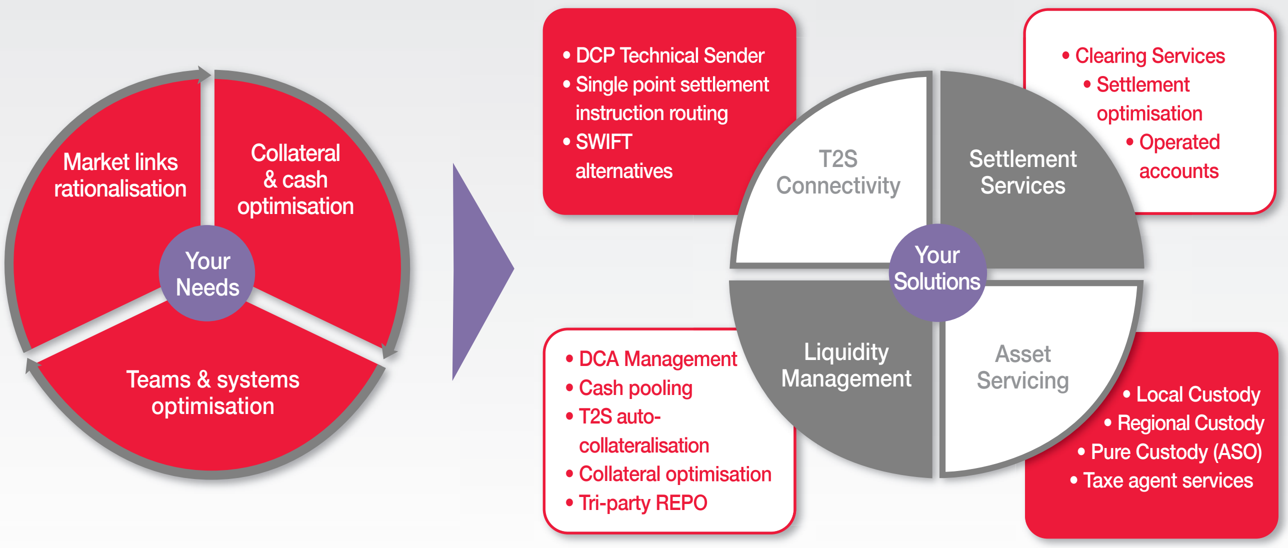
Our conviction is that T2S can bring real benefits to actors with a significant pan-European franchise. Global custodians, investment banks and brokers as well as top-tier asset owners / asset managers with significant volumes across the participating markets have something to gain from T2S and, going forward, need to understand the potential benefits of T2S and how SGSS can help deliver them.

SGSS is adapting its operational model to optimise our market access for settlement as a directly connected participant in T2S; SGSS is developing and extending geographically its liquidity management services to harness the benefits of cash pooling and collateral mobilisation; SGSS is building on its long standing experience in the provision of Asset Servicing Only to deliver a global ASO solution. Our long term holistic vision of Europe as a single market strengthens our position as a key contender and our understanding of how we can benefit from T2S is something we would be delighted to share, passing on the benefits to our clients.

We are confident that our wide European footprint, acclaimed clearing & custodial services, our track record in delivering bespoke solutions and our deep involvement in defining and supporting the T2S project since its inception can bring value to the table in answering your questions as to how this new paradigm can bring benefits to your business.

T2S will soon be "on-line": let's work together to determine the best way for you to get connected!

Hugh Palmer, SGSS Product Development - Financial Institutions & Brokers



To derive a response SGSS is putting on the table for discussion a series of solutions that are split into 4 streams that together cover the spectrum of clearing & custody servicing requirements in the T2S world and for which the potential combinations of their assembly - bundled or unbundled - can respond to a multitude of strategies. These 4 streams are:

- T2S connectivity solutions
- Settlement services
- Liquidity Management
- Asset Servicing