

MOMENTUM

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Are we starting to see the light at the end of the tunnel? This is a difficult question to answer but I personally find that a certain number of key indicators such as market indices have become more encouraging since April 2009. Equity markets are certainly looking more colourful and this should have a positive impact on the securities services industry in an economic environment which seems to be stabilising.

The crisis has regrettably had cyclical and structural consequences for our industry. Firstly, the increase of risk brings to light the differences of responsibility between the various players within the value chain (global custodians, sub-

custodians, prime brokers and asset managers). Furthermore, the critical size of suppliers, as well as its financial strength and capacity to return assets to their owners in case of bankruptcy, becomes fundamental. Finally, global custodians are taking on greater responsibilities. As such, the French standard, which places new responsibilities on the custodian, is by far the most binding today (see Insight, page 3). This will inevitably, in the short term, create new distortions between member countries, which will surely hinder European financial harmonisation, which nevertheless appears as a major step in the fight against the crisis today.

Against this backdrop, it is more important

than ever for us to remain sensitive to your concerns. Our new advertising campaign, with a central theme that illustrates the positioning of the Group for 2009 – “We stand by you” – for me represents our commitment, the quality and resilience of our long-term relationships and our capacity to adapt solutions to your needs. We stand by you is more than a slogan, it’s a way of life.

**Alain Closier, Global Head
Société Générale
Securities Services**



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SNAPSHOT

FT MANDATE

SGSS Leaps Up League Table

The drive by SGSS to become one of the world’s leading custodians continues to pay dividends. In the most recent league table published by FT Mandate of the top 10 global custodians measured by assets under custody, SGSS rose to sixth place. Moreover, financial results for the first quarter of 2009 show that assets under custody rose further, to €2,762bn euros (\$3,676bn), due, notably, to the extension of SGSS co-operation with Euroclear in Belgium and the Netherlands.

 **SOCIETE GENERALE**
Securities Services

We stand by you

Outsourcing Set To Scale New Heights



We think that our clients – both existing and future – will outsource more core functions more quickly than we have seen them do in the past.

to change, possibly beyond all recognition. “We think that our clients – both existing and future – will outsource more core functions more quickly than we have seen them do in the past,” observes Sébastien Danloy, Head of Sales and Global Relationship Management at SGSS.

Regulatory decisions might also have a major part to play in deciding the direction, volume and nature of outsourcing projects, he adds, highlighting the risk involved in acting as a trustee. “Are all banks still willing to assume those risks in future? Will they be able to assume those risks in future? Won’t trustees re-examine the whole risk-reward equation?” Interesting times lie ahead as the industry addresses these questions in the coming months.

The arguments in favour of outsourcing grow stronger almost by the day. The current wave of change sweeping the financial services world is adding extra impetus to the movement in favour of transferring elements of the business process to a specialist external provider. Once markets return to a more normal pattern, financial institutions are certain to place even greater scrutiny than before on what functions need to be retained at their core, and

which can be safely assigned elsewhere. While outsourcing is at first glance a simple term and a simple practice – one word, one concept – on closer examination it can take many different forms in different markets. Say the word outsourcing in the UK and the middle office immediately springs to mind. In France, it is the trustee and custodian roles that seize most attention, while in Spain it mostly evokes fund accounting. But this broad picture is about

For more information

Contact sebastien.danloy@sgss.socgen.com

MAKEMONEY

German Seminars Highlight Emerging Market Strengths

Awareness is increasing about SGSS’ presence in a growing number of emerging market economies, enabling clients to take advantage of the investment opportunities they see there. In the latest phase of a long-term strategic move by SGSS that has been reported in previous issues of Momentum, representatives of SGSS’ offices in Russia, India, Egypt, Greece and Morocco travelled to Frankfurt and Munich to publicise the risks,

the potential rewards and the level of financial market infrastructure in those countries. Joining them for a mix of panel discussion and open question and answer sessions was Tim Reucroft, Director of Research at Thomas Murray, the specialist custody rating, risk management and research firm.

“Both seminars were well attended by asset managers, consultants and banks,” says

Juergen Scharfenorth, Chief Executive Officer of SGSS Deutschland. “Russia and India seemed to attract the most attention because of the possibilities presented by their existing and future infrastructure development, and hopes for investment performance.”

For more information

Contact juergen.scharfenorth@sgss.socgen.com

The Custodian's Role Post-Lehman



Bruno Prigent,
Deputy Head, Société Générale Securities Services

The collapse of LehmanBrothers in September last year highlighted the custodian's role and the differences in regulation from one country to another. It raises questions about the custodian's obligation to return securities held within a prime broker that has become insolvent.

Momentum talks to Bruno Prigent, Deputy Head of Société Générale Securities Services.

1. Are custodians obliged to return assets if an intermediary becomes insolvent?

Currently, the law provides that the custodian stands as guarantor in cases where it has delegated responsibility to third parties. So if a custodian selects a sub-custodian or an intermediary, it has to accept complete responsibility for the consequences of its actions. The main issue revolves around knowing whether this liability is a

best-endeavours obligation or an absolute obligation. This difference of interpretation, produced by different regulations in different countries, has significant consequences. In the case of an absolute obligation, the custodian must return all assets, even if the assets are only partially returned to it on completion of the insolvency proceedings of the third-party it chose. This is particularly the case in France, following the decision of the Paris Court of Appeal of 8 April 2009.*

2. Does such a requirement threaten to force custodians to work only in countries where the segregation of assets is effective and backed by law? In this case, what about the impact on the countries concerned where funds are not segregated?

Such an obligation makes it a practical necessity to work in countries where segregation is a local regulatory requirement

“ The main issue revolves around knowing whether this liability is a best endeavours obligation or an absolute obligation. **”**

because it protects us in the event of insolvency (no conflict of ownership between assets held for third parties and for own account). Because of this, some countries will have to be avoided, which will then limit the range of investments that it is possible for managers of diversified UCITS funds to make.

3. What are the risks for the custodian in the event of an immediate restitution of assets? Any immediate restitution which involves purchasing of securities for delivery to UCITS clients and restitution of these same securities after completion of the liquidation exposes the custodian to a market risk through differences in quoted prices. Furthermore, the custodian may only partially recover these assets. The question then arises as to whether the custodian is required to make up the difference. To avoid exposing the custodian to these risks, and to protect asset management companies and their clients, we recommend setting up “side pockets”*** for the assets involved awaiting the outcome of insolvency proceedings.

4. Is this situation specific to the French financial markets?

If we are to judge by the Madoff case, the Luxembourg and Irish custodians have not yet returned assets to the funds involved. Concerning the Lehman bankruptcy, hedge fund assets are still frozen. These are two good examples showing that the current obligation to return assets immediately is not in place in all European countries. As such, we would like to see custodians' responsibilities harmonised as soon as possible in Europe.

* This decision dealt with the liabilities of custodians in France in the case between RBC Dexia and SGSS at the AMF and three asset management companies (Lafitte Capital, Delta Alternative Management and Day Trade Asset Management).

** A “side pocket” means an account within the fund for grouping less liquid assets together.

For more information

Contact bruno.prigent@sgss.socgen.com



After hours

Stefano Tanzi,
Managing Partner at 21 Investimenti***,
established by Alessandro Benetton in 1992.

From Tee To Green

SGSS: How would you define yourself as a player?

Stefano Tanzi: Contrary to an ideal player, I am skilled, but not afraid to take risks.

SGSS: Which shot do you find most difficult?

ST: That's easy: the putt.

SGSS: What really upsets you on the course?

ST: Slow play. And I get upset when I see the 18th green and I realise I don't have the time to play another nine holes.

SGSS: Favourite golf courses?

ST: Molas in Sardinia, Bogogno in Italy and a number of courses in the US. And I'll never forget Richmond Park public golf course in London. It's open to all, for just a few pounds.

SGSS: Favourite golf player?

ST: Rory McIlroy of Northern Ireland, who despite becoming a champion at just 19, has kept his spirit of youthfulness.

SGSS: Is golf useful for sealing deals or is that a myth?

ST: It's certainly the greatest excuse to play without feeling guilty, but it quickly becomes a way for friends to share special moments, and for acquaintances to become friends. It is also an excellent guide to a person's character, as well as their approach to strategy, method, risk exposure, objective management and priorities. And yes, it can be a stepping stone to doing business.

***A holding company investing in medium private companies in Italy, who developed its activities in 1998 in France with the creation of 21 Centrale Partners in partnership with Gérard Pluvinet.

For more information

Contact sgss.com@sgss.socgen.com

Global village Onwards and Upwards



Anne-France Demarolle became Head of Liquidity Management Services, SGSS, and a member of the SGSS International Management Committee in mid March 2009.

Anne-France, a graduate of ESSEC and the Institute of Political Studies of Paris, joined Société Générale in 1992 as a Manager within the Risk department. She moved to London in 1999 to work on various projects from Treasury back office migration to the implementation of an FX e-trading platform. Between 2004 and 2007, she was successively Chief Operating Officer of the Debt Finance business in the USA, then Deputy Head of Strategy and Development for Fixed Income, based in Paris. Most recently, she was responsible for strategy and business development for Treasury, Repo & Arbitrage, in particular cash management at Société Générale Corporate Investment and Finance.

For more information

Contact anne-france.a.demarolle@sgss.socgen.com

Market watch: Hermes Turns To SGSS

BT Pension Fund has appointed SGSS to provide a range of specialist OTC derivatives valuation and collateral management services as part of its de-risking strategy; the fund is run by Hermes Investment Managers, which is implicitly acknowledging the unique position that SGSS holds in the market place. "We can bring something new and different to a fund which neatly complements the services delivered by

its existing provider," says Sébastien Danloy, Head of Sales and Global Relationship Management at SGSS. "This new important milestone is the first of its kind in the UK."

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Contact sgss.com@sgss.socgen.com