

IN THIS ISSUE

STP Agenda for 2005 with Sights on Best Practices	1
Operational Risk Management Workshop	1
Quarterly Meeting	2
Outsourcing – A Modular Approach	3
Ask the AMF	4
Special Recognitions	6

STP Agenda for 2005 with Sights on Best Practices

Working together with The Bond Market Association Technology Committee and STP Steering Committee, the AMF STP Committee will address several common industry problems that exist both in an electronic and manual trading environment. Some of these issues relate to decimal rounding, identifying proper legal entities and places of settlement and timing for allocations and confirmations. These issues, which were originally raised by **John Burchenal** and **Tom Garley** of Thomson TradeWeb, were presented to The Asset Managers Forum STP Committee at the February 9th meeting. During this meeting, the AMF agreed that the issues that were raised are relevant for the buy-side and that the Committee would begin to develop recommended best practices as it also relates to the SEC Concept Release on Securities Transactions Settlement. The AMF and TBMA agreed that best practices or common standards are among the possible solutions that are needed to mitigate operational risk.

In defining the items that need to be addressed in order to enhance STP, the AMF STP Committee has divided the items into four major categories: Securities Data, Data Collection, Confirmation/Matching and Performance Measurement. The items within these categories will be addressed within a special committee working group. Furthermore, a separate working group will be formed to address items relating to Mortgage-Backed Securities processing. Working with FICC, the Committee is examining the possibility of standardizing and streamlining the labor-intensive MBS post-trade process. The key agenda items include addressing pair-offs, comparison and netting. In addition, the AMF STP Committee will offer further industry education on the latest developments and availability of FIX protocols and the SWIFT network.

Christian Barsanti of Prudential Investment Management and **Christopher Palmer** of Goldman Sachs Asset Management are co-chairs of the AMF STP Committee. **Frank DiMarco** of Merrill Lynch serves as chairman of The Bond Market Association's STP Steering Committee.

Operational Risk Management Workshop

Over 100 industry professionals gathered on February 8th in New York City and Newport Beach, California for an educational workshop on managing operational risk sponsored by MarketAxess. At the workshop, **Jon Ambros** of Citigroup Asset Management (pictured right) delivered the keynote address. His remarks provided insights which relate to Straight Through Processing as it exists in 2005 and the future of STP. In his presentation, Jon answered questions on the goals of STP, STP in the current regulatory environment and how STP can ultimately improve controls to mitigate operational risk.



In the effort of improving and validating controls, Sarbanes-Oxley 404 requires that asset managers attest to the effectiveness of their firm's controls. During a Workshop panel moderated by **Julie Warren** of New York Life Investment Management, asset managers, accounting professionals and custodians explained how to ensure that the controls that firms design and implement are working as intended. In addition, there was a panel presentation moderated by **David Skrodanes** of General Motors Asset Management on managing the risks associated with outsourced services such as custodian bank services, investment technology, research and consulting services.

(continued on page 2)

UPCOMING EVENTS

- **April 20th TBMA Annual Meeting**

Operational Risk Management Workshop

(continued from page 1)

Another area that is often associated with operational risk is Corporate Actions. In a discussion led by **Lisa Ilaria** of Prudential Investment Management, a panel of industry constituents shared their views on recent developments relating to Corporate Actions and how risks are analyzed and how the marketplace is addressing those risks. In working to mitigate risk, Janet Wynn and her colleagues at DTCC provided an overview of the DTCC Operational Risk Program that was initiated in 2002. **Janet Wynn** explained that operational risk is not simply limited to the processing-type of risks generally associated with back office operations, but also involves reputational risk and other external factors.

The Workshop also included a panel on best practices for hedge fund administrator oversight that was moderated by **Chris Coleman** of Investors Bank and Trust. The panel discussed some of the top operational challenges for hedge fund administrators and how those challenges are being met, especially with the advent of increased hedge fund adviser oversight by the SEC.

Larry Barnett of Appix led the closing Workshop panel on controls over wires. During this discussion, panelists discussed the main purposes for non-DVP wire usage, i.e. private placements, collateral management and round robins. Discussion topics also included analyzing controls, risks and challenges associated with the non-DVP wire process and the need for automation within the process.

The AMF Steering Committee and professional staff are working together to prepare for future workshop presentations and educational sessions.

Quarterly Meeting



(Pictured above l. to r., **Michael Wyne** (FFTW), **Paul Martin** (MSIM), **Nigel Hill** (GSAM) and **Jason Jesner**, (CSAM) discuss managing a global operations staff.)

At the AMF Quarterly Business Meeting on February 9th, the STP and Swaps Committees met in break out sessions and discussed items that relate to their respective initiatives. The AMF STP Committee, Co-Chaired by **Christian Barsanti** of Prudential Investment Management and **Christopher Palmer** of Goldman Sachs Asset Management, responded to issues that were raised recently by The Bond Market Association Technology Committee (see page 1 article). During its breakout session, the AMF Swaps Committee (Chaired by **George Hall** of Goldman Sachs Asset Management), participated in a discussion with **Stephanie Davis** of the Data Standards Working Group on FpML matters.

Steve Chittenden of Loomis Sayles offered a presentation on SAS 70 Best Practices. In his remarks, Steve discussed the variations of scope and cost and emerging regulatory guidance on SAS 70. The Senior Executives Group is currently working on an initiative to develop a standard SAS 70 for asset managers.

Masood Aziz of State Street/IMS West provided an overview on the three pillar structure of Basel II and how Basel II defines operational risk. Masood also addressed how firms that are affected by Basel II can manage operational risk by improving internal controls and ensuring that an effective governance framework is established.

In following the Basel II presentation, the AMF Swaps Committee leadership discussed some of its initial recommendations for improving the processing for swap transactions. Committee Chairman, **George Hall** of Goldman Sachs Asset Management, explained that the aim of the AMF Swaps Best Practices Initiative is to build confidence in the market and to effect change in the industry. In addition to George Hall, **Marcia Clark** and **Tracey Jordal** of PIMCO, **Jason Jesner** of Credit Suisse Asset Management and **Jean Ebbott** of Morgan Stanley Investment Management presented a few of their subcommittee's best practices. To view video highlights of the event, visit the AMF web site at www.theassetmanager.com.

(continued on page 5)

Become Part of the STP Solution:

Join the AMF/TBMA initiative to develop STP Best Practices.
Contact the Technology, Operations and Asset Manager Relations
Department for more information.

Call 646.637.9266

Outsourcing – A Modular Approach

By Steve Basker, Managing Director, Investors Bank & Trust

Until recently, much of the talk about middle and back office outsourcing results has focused on the industry's large lift-out deals. Indeed, successful outcomes from some of these deals have infused new momentum into outsourcing, as evidenced by the latest round of agreements signed over the past year.

Notwithstanding all the high-profile deals, outsourcing need not be an all or nothing proposition. A modular approach has been gaining favor within the industry for those investment managers who have lingering concerns about loss of control and want a low-risk way of testing the waters. As indicated in the diagram below, asset managers have many configurable outsourcing options, based largely on the expanded middle and back office services now offered by leading service providers.

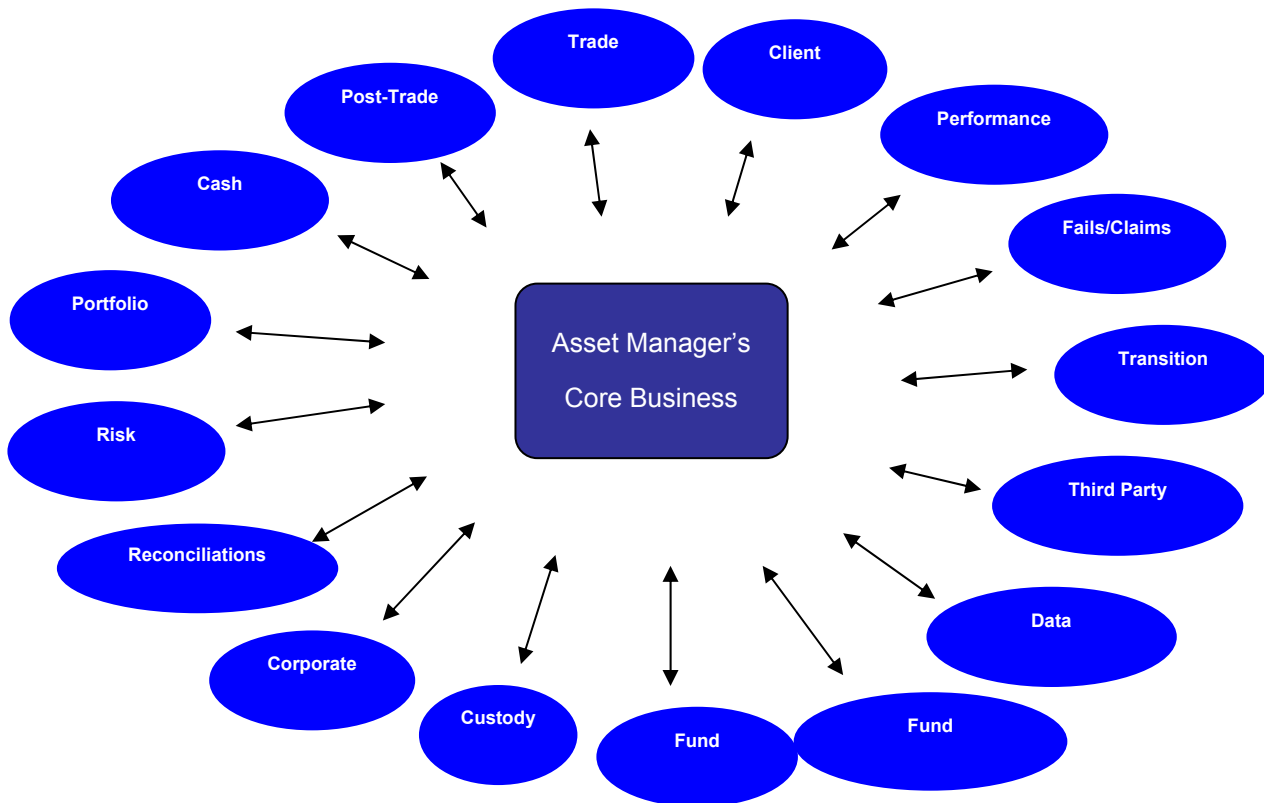
Trade processing is a good example of a service that easily lends itself to modular outsourcing.

Many service providers have established proven and scaleable platforms that can provide modular services such as trade processing functions for those clients who may have fund accounting and/or custody performed by third parties. For example, Investors Bank has designed all core services to be available to clients in either a modular form or as a bundled package that is fully integrated within the primary custody and accounting services.

The reconciliation process is another prime candidate for modular outsourcing. Many global custodians have built more advanced reconciliation systems and implemented more rigorous processes than those typically maintained in-house by investment firms. By outsourcing the reconciliation process, asset managers can have their outsourcing partner act as an intermediary between their portfolio management/trading platform or data warehouse and third party accounting and custodian service providers.

(continued on page 5)

Modular Outsourcing Approach



Through modular outsourcing, asset managers can select a customized subset of services to meet their specific needs.

Ask the AMF

Dear AMF,

At the bi-coastal AMF Quarterly meeting in February, I heard that you had a lively discussion on an effort underway to develop standards to help asset managers reconcile swaps trades with counterparties. I also heard that one of the AMF Swaps Committee's initial recommendations is to reconcile swaps with counterparties on a daily basis. I am intrigued by the idea of getting a file with the swap trade attributes on a regular basis. How does this tie in with the efforts by the AMF Swaps Committee?

A. You are referring to the presentation made by Stephanie Davis of Citadel representing the hedge funds that are working with the broker/dealers on this project. The presentation was excellent and the AMF has established a good working relationship with the Data Standards Working Group. This is a good example of how the AMF has continued to provide valuable industry education.

To take a step back, the Data Standards Working Group is considering an FpML file format which includes a large number of fields that a dealer would supply to the client. If desired, the client could accept the file on a daily basis and capture any fields necessary. It

is meant to be a broad format which allows for the sharing of holdings information on swaps to prevent position differences on these assets.

This initiative is consistent with the AMF Swaps Committee's efforts to reduce the operational burden of swaps and allow buy-side firms to trade them without operational constraints (since the traders are likely to trade without constraints anyway). If you look at the history of cooperation between the AMF and other industry groups involved in swaps, you will see that this is just another avenue to minimize the risk and effort involved in swaps processing and control.

Is your Operations Department facing

MBS Pair-off Challenges?

The AMF and TBMA plan to address these challenges and help ease the reconciliation process. To learn more, contact the Technology, Operations and Asset Manager Relations Department.

Call: 646.637.9265

The Bond Market Association's ANNUAL MEETING 05

20 APRIL : WALDORF-ASTORIA, NYC

The global fixed-income markets' most important annual gathering.

On April 20, The Bond Market Association will host its Annual Meeting. At this meeting, key policy makers from the U.S. and Europe, legislators and regulators, international and domestic business leaders and industry professionals will share their views and offer insight into the issues facing the global fixed-income markets today. For more information and to register, visit the Association's web site at www.bondmarkets.com

Featured Speakers Include:



The Honorable John W. Snow
Secretary of the
U.S. Treasury



George Tenet
U.S. Director of Central
Intelligence (CIA)
1997-2004

Outsourcing – A Modular Approach*(continued from page 3)***Greater Flexibility**

Through modular outsourcing, investment managers could have greater latitude in selling their services. Managers can take on separately managed accounts where their clients retain their own custodians. Global custodians can offer a flexible outsourcing solution under this scenario.

Service providers, for example, can manage their clients' third party custody relationships, providing the managers with a single point of contact relating to all custody matters. This includes reconciling cash and holdings with third party custodians, following up on failed trades and managing all corporate action events on behalf of clients. In addition, today's leading service providers can also provide full service fund accounting for those relationships, which would include daily cash projections, holdings reports and performance and attribution reporting, just to name a few.

Modular outsourcing is also convenient for asset managers with offices in multiple locations. Many of these managers have structured their businesses to handle various aspects of their trading, portfolio management and client reporting at each location. Through a modular approach to outsourcing services, global custodians can facilitate a seamless flow of data and create a highly efficient process flow for asset managers.

The views expressed in this article do not necessarily reflect the views of the AMF or its members.

Quarterly Meeting*(continued from page 2)*

The AMF Quarterly Meeting also included a panel moderated by **Jason Jesner** of Credit Suisse Asset Management on managing a global staff during which global managers discussed how they handle cultural and cross-border challenges. In closing the meeting, **Michael Wyne** of Fischer Francis Trees and Watts conducted a well-received case study on mortgage securities processing and settlement. The objective of the exercise was to demonstrate that mortgage netting can be more efficient than pool settlement.

2005 – The Year of BCP

In 2005, the entire securities industry will step up the testing of its Business Continuity Plans. Testing will involve sellside, buy-side, custodians, utilities and regulatory entities among others. Be prepared and look for future BCP announcements in upcoming issues of the AMF Newsletter.

Call 646.637.9273 for more information

Special thanks to the following people for
their contribution to this month's
AMF Newsletter

Steve Basker, IBT

Mike Wyne, FFTW

Douglas Taggart, TBMA/AMF

Elisa Nuottajarvi, TBMA

Joseph Sack, TBMA

If you have submissions for the next AMF
newsletter, please e-mail Diane Trupia

JOIN THE AMF!

The AMF is now accepting applications
for membership from asset managers,
custodian banks and vendors.

For more information on joining the Forum,
please contact Diane Trupia

ASSET MANAGERS FORUM

www.theassetmanager.com

The Bond Market Association
360 Madison Avenue
New York, NY

AMF Administrator

Diane Trupia

646-637-9270

dtrupia@bondmarkets.com

**Technology Operations and Asset
Manager Relations Department**

Joseph W. Sack

Elisa Nuottajarvi

Douglas D. Taggart

Diane Trupia

Toni Mollo

Bi-Coastal Event Industry Coordinators



Julie Warren
New York Life Investment Management
Chair of The Asset Managers Forum
West Coast Coordinator



Jason Jesner
Credit Suisse Asset Management
Co-Vice Chair of The Asset Managers Forum
East Coast Coordinator

The Forum would like to recognize and thank the following individuals for their participation in the
AMF Bi-Coastal Events on February 8 and February 9:

Jon Ambros, Citigroup Asset Management	Lisa Ilaria, Prudential Investment Corporation
Masood Aziz, State Street / IMS-West	Ekko Jennings, Morgan Stanley Investment Management
Larry Barnett, Appix	Jason Jesner, Credit Suisse Asset Management
Steve Basker, Investors Bank and Trust	Tracy Jordal, PIMCO
Mark Bobseine, Cutter Associates	John Kehoe, Xcitek
Joan Cheney, Fisher Francis Trees & Watts	Bruce Marcus, Deloitte & Touche
Steve Chittenden, Loomis Sayles	Paul Martin, Morgan Stanley Investment Management
Marcia Clark, PIMCO	Deborah Mercer-Miller, Citigroup
Chris Coleman, Investors Bank and Trust	Janis Meola, DTCC
Brian Conway, Prudential Investment Corporation	Len Monteleone, Chapdelaine
Matt Daly, State Street	Lorraine Morrison, DTCC
Jean Ebbott, Morgan Stanley Investment Management	Chris Porzelt, The Bank of New York
Ila Eckhoff, BlackRock	Eileen Robbins, DTCC
Chris Farias, Investors Bank and Trust	Alicia Rose, Deloitte & Touche
Paul Fehre, New York Life Investment Management	David Skrodanes, General Motors Asset Management
Tom Garley, Thomson TradeWeb	Christine Sumner, Pacific Life Insurance Company
Shannon Goode, SS&C	Julie Warren, New York Life Investment Management
Steve Haley, Citigroup Alternative Investments	Michael Wyne, Fisher Francis Trees & Watts
George Hall, Goldman Sachs Asset Management	Janet Wynn, DTCC
Nigel Hill, Goldman Sachs Asset Management	
