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April 10-11 – TBMA Annual Meeting

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 Ken Juster, Executive Director, at 646.637.9269.

AMF Steering Committee Announces Goals and Objectives of the New Year

At the first Quarterly meeting of 2003, AMF Chairman Steve Mellas outlined the Goals and Objectives for the year, as compiled by the members of the Steering Committee. The presentation circled around four key themes and five focus points including Membership, Advocacy, Industry Relationships, Administration, and Subcommittees as well as offering preliminary steps for achieving goals in each of these areas.

Central to the theme of the Goals and Objectives of the AMF are the nine subcommittees. Historically, the subcommittees have proven to be one of the strongest points in helping the AMF achieve its goals of acting as an industry advocate for the buy-side by addressing relevant issues and concerns, educating the membership as these issues arise, and working together with the sell-side through interaction with the BMA and SIA. The subcommittees will continue to be central in helping the AMF achieve the specific objectives for the year. *(See article following on Subcommittee Goals and Objectives)* The Steering Committee will be working with the subcommittees to help achieve the goal of increased membership participation in the AMF.

The Steering Committee also intends to focus on building relationships with those organizations and firms that are not buy-side firms. Subcommittees, Quarterly Meetings, and seminars offer a plethora of opportunities for AMF members to work together with Custodians, Broker-Dealers, and Vendors to achieve its goals and address advocacy initiatives. In addition, the facility with which the AMF works together with the BMA, and the BMA's continued focus on looking to the AMF for perspective on buy-side concerns, offers the opportunity for support and insight into the realization of solutions for AMF initiatives.

The Steering Committee is also putting energy and focus into the maintenance and increase of membership, reaching out to previously unexplored areas of membership. In addition, the AMF intends to foster its relationships with the press and media to increase the profile of the AMF and its accomplishments as the "voice of the buy-side."

In addition, the Steering Committee announced that the AMF is currently already ahead of its membership goals and ahead of budget for the first time in several years. Three additional Quarterly Seminars and two Quarterly meetings are planned for this year, in addition to periodic lunchtime seminars.

The AMF administration is working on making the goals and objectives available online. More information to follow.

AMF Subcommittees Outline their Goals and Objectives for the Year

Following the lead of the AMF Steering Committee, AMF Subcommittee Chairs and members were asked to compile the Goals and Objectives of each respective subcommittee. In addition, it was announced that beginning this year, each committee chair will have a liaison to the Steering Committee to assist the

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(continued from page 1) committee in achieving its goals and to have direct access to the Steering Committee for any particular issues that arise or administrative support that is needed. Below is a short outline of the general objectives of each committee.

Accounting Policies – after responding in both writing and in person to the FASB on the issue of CDO's, the committee is focused on addressing accounting issues as they arise and responding on behalf of the buy-side.

Benchmarking – the committee intends to focus on providing members with a view of their relative post-trade execution operational performance to compare activities and best practices within the industry. In addition, they intend to create a cooperative environment among members and to leverage the knowledge and expertise of the AMF membership.

Compliance – formed this year, this committee intendeds to unify the voice of the buy-side compliance community and to work closely with all areas of the industry (sell-side, banks, regulators, vendors) on areas of mutual concern.

Corporate Actions – with the focus of the communication of corporate actions at the center of the committee's objectives, the committee will address issues such as risk reduction and the improvement of the efficiency and process of communication.

Membership and Marketing – this committee is focusing on two main issues – how to increase and maintain membership by addressing the needs of current and potential members and increasing the profile of the AMF through relationships with the media and the AMF Newsletter.

Performance – the intentions of this committee include bringing together performance professionals on monthly conference calls to address industry issues and the needs of AMF members. This committee hopes to utilize the knowledge and expertise of the committee members to facilitate the sharing of practices across organizations.

Pricing – this committee will address permeating issues such as tolerances and bond transparency in addition to continuing to work with vendors to improve the quality of information provided to fixed income.

Straight-Through-Processing (STP) – this committee will continue to solicit member comment on the STP White Paper and work towards the completion of a final draft. The committee also will continue to work with other industry associations, including the BMA, and act

as the representative voice of the buy-side on STP issues.

Swaps – with three committee chairs including one representative from the buy-side, one sell-side and one custodian, this committee will continue to focus on the discussion and evaluation of industry proposals to documentation risk and facilitate the straight-through-processing of swaps transactions.

For more information on these committees, please contact the AMF or visit the website. The goals and objectives of each committee will be made available on the AMF website.

FIX, Set to Release New Version, Still Looking for More Extensive Fixed Income Participation

A panel was held at the AMF Quarterly Meeting last week to discuss the new version of FIX expected to be released shortly. Panelists included *Eric Vos* of Wells Fargo as moderator, *Stephen Alepa*, EVP of Networks and e-markets at MacGregor, *George Kledaras*, President and Founder of Kledaras Inc., and *Steven Donovan*, Chief Investment Technology Officer at MFS. FIX is a messaging service designed to provide real-time electronic exchange of securities transactions. The current version is now primarily being used by equities firms, with 75-80% of trades now being done through FIX, but the organization is working to encourage more fixed income shops to join the ranks as well.

The panel outlined the benefits of using the FIX protocol for fixed income asset managers, including providing seamless connectivity to multiple counterparties and enabling accurate real-time updating of portfolio and trading management systems. Despite these expected benefits, however, FIX has been slow to catch on in fixed income, and it is going to take a critical mass adopting the technology in order to make it successful.

According to the vendor panelist who has assisted many of his clients in implementing FIX, there are several things a firm needs to take into consideration when and if they decide to use the system:

1. Poll your counterparties and see if they are using FIX
2. Decide how far you want take it
3. Are you going to build or buy the system?
4. Where will you be connecting to?
5. How are you going to integrate it into your current work flow?

For more information on FIX and the new version being released please visit their website at www.fixprotocol.org

Swaps Vendors Expecting to Issue Automation Products

The focus of the AMF Swaps Committee has been to work together with custodians and dealers to create a confirmation message that would be used to confirm swaps trades and allocations between these groups. Swift currently has a confirmation message that at this time is being used only by the dealers. Swapswire, another vendor, has created a confirmation platform to compete against this message, abandoning earlier plans to create an electronic swaps trading platform.

Despite the strong concerns of many vendors which have also abandoned the idea of etrading platforms for swaps, Swapstream is expecting to go live with their version in May. The complexity of swaps from both operational and technological perspectives, in addition to the concern of the time involved in entering swaps trades electronically have caused other groups to abandon their swaps etrading hopes.

Concerns Expressed in Washington Over BCP Planning

In a report released at a hearing of the House Subcommittee on the Capital Markets, the U.S. General Accounting Office (GAO) stated that sufficient steps have not been taken by Wall Street to bolster physical and electronic security in the event of an emergency similar to 9/11. There were also concerns over the development of goals, strategies, and sound practices by regulators to improve the resiliency of trading activities should an emergency occur. The study focused on a wide range of organizations, including stock exchanges, clearing firms, and others.

Following the report, congressional investigators called on the SEC to set trading resumption benchmarks to restart the market following emergencies, and to consider rulemaking that would mandate compliance with the agency's Automation Review Policy program, indicating concern that Wall Street needs to improve its business continuity planning. The House Financial Services Committee announced also that it would introduce the Emergency Securities Response Act of

2003 – a bill that would give the SEC additional authority to respond to emergency situations.

Davi M. D'Agostino, GAO's director of financial markets and community investment told congress, "Our review indicated that most of the 15 organizations did not adequately address how they would recover if large portions of their critical staff were incapacitated...[and] were also at greater risk of operations disruption ...either because they lacked backup facilities or because these facilities were located within a few miles of their primary sites."

What's the Big Deal with "STP"??

Over the last two issues, the AMF newsletter has featured a series of basic questions and answers based around the issue of straight-through-processing ("STP"). Below is the last in the series of answers to your most fundamental questions on this hot topic in the industry

Is outsourcing operations a reasonable solution to the challenge of STP?

Outsourcing operations solely to achieve STP is an approach that some money managers have selected in recent years. The rationale is that if a firm has multiple systems that need to be modified or replaced in order to achieve STP and there is a vendor that has already invested in the technology, it may be easier to outsource. Systems projects of this magnitude are very large and have a risk of failure if not managed correctly. However, if a money manager has reasonably streamlined operations, a degree of automation in the trade capture process and competent operations professionals, the case may not be so clear. An outsourcing vendor will have standardized systems that may not match the needs of the client, and will charge a fee that gives them at least a 20% profit margin. The vendor has to be at least 20% more efficient after taking into account the built in challenges of working with a third party to process trades. Again, the efficiency of the manager's own operations and its ability to adapt to STP are keys to whether to outsource instead of solving the STP challenges.

How does a firm get started with STP?

The first step would be to get involved with industry groups that are educating managers and plan sponsors on STP. The Securities Industry Association and the Asset Managers Forum in the US, ISITC in Europe and GIMC in Japan are good places to start. The next step would be

to review the systems that are currently available assessing whether they contribute to STP or inhibit it. From there it's time to make decisions and start working.

Proposal on the Table for Mortgage Notification Day

Many things came out of the Quarterly Meeting last week, not the least of which was a dynamic discussion and panel on MBS processing. A hot topic of interest to the members present, Nick Botta of Morgan Stanley outlined a proposal being discussed among the dealers regarding mortgage notification day. Due to the very high volume of messages being sent over the EPN network, it has been suggested that the "A" notification day (most FNMA's and FHLMC's) be split. Whole coupon notifications would be sent on the first day and partial coupon notifications would be sent on the second day. The mortgage settlement date would continue to remain the same, which means that partial coupon securities would settle the day after notification. While on the whole, the response among AMF members at the meeting was positive, there was some concern over the impact on buy-side firms and custodian banks. However, the membership did discuss drafting a letter in support of the proposal.

In addition, another item of discussion was the processing of TBA pairoffs and the importance of finding a way to standardize TBA pairoff wires and centralize the payment. Alan Sky of FFTW was noted as saying that "this type of centralization would greatly improve the operational efficiency of the firm." As this has been a subject in discussion for many years, the panel stressed the importance of informing the MBSCC of the buy-side's continuing interest in the issue. Mike Wyne further emphasized the importance of the influence of buy-side firms to the MBSCC commenting that "the MBSCC sees the buy-side as their growth area."

Deloitte Consulting Speaks on Sarbanes-Oxley

Adam Schneider of Deloitte Consulting shared insights into the Sarbanes-Oxley act, recently passed by the SEC in response to the corporate scandals that have plagued the industry over the last couple years that have decreased confidence in public companies. The act will require that upper management sign off on public financial statements and be held responsible for the

regulation and disclosure of internal control – that they will be held responsible for their employees' efforts to maintain internal control. As senior management typically has limited visibility into the effectiveness of controls, the act is expected to promote the communication of control effectiveness throughout corporations. Regulators expect that the implementation of this act will enhance oversight capabilities, align corporate governance to strategy, increase value-added management perspective, and establish brand and reputation security.

Business Continuity - Conceptual Phase: Does your plan make sense?

(Article #2 – for prior articles please visit the News section of the AMF website and download previous newsletters.)

Designing a plan begins by first understanding the business and what is critical to it. This task is not easily accomplished due to the complexity and fluid nature of the business environment. In order to be able to analyze a business, from a business recovery or disaster recovery point of view, two issues must be clearly defined. What are the recovery objectives and what is considered to be critical? Without these definitions an analysis of the business will reveal a wide range of definitions for these terms and not give the plan a clear and concise path to follow.

In order to keep the recovery objectives aligned with business needs it is imperative that these definitions are made in business terms and that Executive Management has reviewed and approved of them. Many businesses have skipped this phase of creating a valid BCP since their original recovery objectives were focused purely on internal systems and not on the business model. Often the Information Technology (IT) group has decided what is critical to the business.

FAQ: Why isn't this an IT issue?

Pitfall #1 - Your IT department may be the best in the world, but during a crisis are they the ones who are going to be running the business? A well-designed recovery program consists of several unique independent components: technology recovery, business recovery, and management of the emergency or crisis. This trio is often referred to as three-legs of a stool that supports the business and will be the focus of the next article.

Defining a recovery objective:

An example of a recovery objective is, "The restoration of 20% of critical systems within 24 hours". *Pitfall #2* - First of all, the recovery objective should be stated in business terms not in technical terms. "Critical systems" are a tool that you use not a business-oriented objective. Replace the term with "critical business functions". *Pitfall #3* - Stating a specific percent must be strongly questioned. Are you planning to tell 80% of your clients that you don't care about them?

Defining what is critical:

You cannot begin your Business Impact Analysis (to be discussed in a later article), the process used to identify critical business functions, without defining what is critical. Protecting a firm's image, assets and making sure it meets its legal, regulatory and fiduciary responsibilities must each be addressed. How long can you go without answering your phones? What percent of business can be delayed and for how long? Define clearly what is critical to the firm and the time tolerance for recovering each item. Failure to meet your client expectations during a crisis often results with a dire impact upon the business or even the demise of the company.

Once the recovery goals and criticalities are defined you are almost ready to begin your business impact analysis, but first the recovery responsibilities and tasks must be identified and assigned to the appropriate people or groups. This will be the focus of the next article.

About the author: Jeff Davis is a certified BCP professional and consultant with over twenty years experience in technology. Questions, feedback and suggestions for future articles are always welcomed. You can contact him at: davisj2@yahoo.com or at (914) 666-0782.