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UPCOMING EVENTS

April 29 – Derivatives Processing Roundtable

April 30 – Membership Event in Boston

May 21 – AMF Derivatives Workshop

May 22 – AMF Quarterly Meeting

June 12 – AMF Workshop with Broker Dealers

July 16 – AMF Project Management Workshop

August 14 – AMF Lunchtime Career Development Workshop

The Buy-Side and Sell-Side Come together to Discuss Splitting of A-Day Notification

The AMF and BMA met on Tuesday, April 8th to discuss the proposal of the BMA Mortgage Committee to split A-day notification. The meeting was called in order that the two industry groups could come together and share ideas that had been discussed separately by both groups over the last few weeks regarding the potential split. The original proposal, to split the notification based on whole and partial coupons, keeping settlement day as is, was first introduced to the AMF at the Quarterly meeting in February and has been looked at as a way to reduce the large volume of notifications being sent over EPN during the last hour of A-day. AMF member firms were informally polled on their initial response to the original proposal and reported informally to the BMA Mortgage Committee, where three new proposals were put on the table. Interested members of the AMF held a conference call to discuss reactions to each of the proposals and formulate a response in preparation for the call this week.

At the meeting the BMA and AMF each presented their ideas and concerns regarding each of the proposals and continued to discuss other possibilities for addressing the volume issue. It was a wide-open discussion which led each side to understand the other's issues more fully. And while no consensus was reached at the end of the 2-hour meeting, there were a couple new ideas put on the table that merit further discussion between the two groups. The Mortgage Committee and the AMF will be holding another conference call in the next couple weeks to address these ideas.

For further information or to participate in the AMF calls on this issue, please contact Ken Juster at kjuster@bondmarkets.com

AMF Compliance Committee at Work Addressing Industry Initiatives

The newly-formed AMF Compliance committee has been working hard this year to prepare responses to various industry initiatives and buy-side concerns. They are working to formulate a unified position letter in response to the AIMR request for comment on proposed standards for reporting performance for composites involving derivatives and/or leverage techniques. AIMR's proposal is notable because it addresses a large and complex type of risk which could explain differences in performance returns. In theory, enhancing composite return data by reporting additional measures of risk will enhance the returns of different managers. However, the scope of AIMR's proposal is very ambitious, as it attempts to address the types of risk introduced by every type of manager (equity, fixed income, etc.) and it would require all AIMR-compliant firms to adopt definitions of "leverage" and VaR which may not be relevant to all composites using derivatives.

In addition the committee is reviewing AIMR's newly approved "Trade Management Guidelines," which are recommended, but not required, for AIMR-compliant firms. Nevertheless these should be seriously evaluated by managers and considered as a benchmark by which to judge the quality of their trade execution processes, with Best Execution and fulfillment of fiduciary duties being the ultimate goals.

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The committee is considering formulating comments on these guidelines for AIMR's benefit as a medium-to-long-term committee objective.

Finally the committee is addressing current topics of interest to Risk and Compliance professionals. At their next call-in meeting, the Committee will address recent SEC action taken against managers for conducting "cross trades" of various kinds. These actions appear disturbing because of the wide definition of "cross trade" employed by the SEC, and because of the cost – with fines up to \$275,000 being levied on individual firms.

For more information on the Compliance Committee or to participate, please contact Ken Juster or Diane Trupia.

AMF Marketing Committee to Host Event in Boston

In an effort to attract new members, and spread the word about the AMF, the Marketing and Membership Committee is hosting a luncheon for potential new members in the Boston area. The event will take place on April 30th at the Algonquin Club in downtown Boston. Member firms of the AMF and Steering Committee Members will be in attendance along with prospective members from about 25 buy-side firms. The event will reflect the benefits of being a member and will include a short panel discussion and AMF member testimonial in addition to a presentation on the AMF, its committees and achievements.

The luncheon comes as a result of recognition by the Marketing and Membership Committee of the large asset manager pool based in the Boston Area and the desire of the industry group to reach out to members in various regions of the country. The Committee has been working hard this year to include new member firms in areas previously unexplored and sees this as an opportunity to give potential member firms the benefits of in-person contact with current members and replicate actual experience of being a full member.

For more information or to participate in the luncheon, please contact Ken Juster.

AMF Accounting Policies Committee Discusses Business Post-FIN 46

The AMF Accounting Policies Committee hosted a call last week to address accounting implementation issues

surfacing for asset managers and holders of variable interests with regard to CDOs since the finalization of the FASB rule changes. The changes make the consolidation of CDOs obligatory for any entity determined to be the primary beneficiary of a CDO. The call was a forum for firms to address common questions that have arisen as a result of the rule changes. Most questions revolved around the basic issue of determining the primary beneficiary in a CDO, as this is central in determining a firm's obligation to consolidate.

The committee will hold another call to continue to discuss these and other issues. Member firms with accounting policy concerns are encouraged to participate. The next call will be held on April 29 at 10:00 a.m. EST. The call in information is 888-254-5919, pass code 6487093.

AMF Steering Committee Update

The AMF Steering Committee met on the first Friday of this month. Items on the agenda included updates from the sub-committee chairs, addressing the splitting of A-day notification, and planning the event calendar for the new year.

Representatives from several of the committees called in to the meeting to provide the Steering Committee members with updates on the work of their committees so far this year. Kelly Swanson, chairperson of the Pricing Committee, outlined the committee's intentions to 1) finalize the auditor white paper the committee has been working on and 2) focus intently on one area of pricing. Vince Catalano of the Swaps Committee introduced their intention to meet with ISDA this month to discuss Derivatives processing. The Marketing and Membership Committee also presented their plans for hosting a luncheon for potential members in Boston at the end of this month (see article above). In addition, chairs from the Compliance Committee, Benchmarking Committee and STP Committee were also present.

Banks Seeking Compensation after Forex Clearing System Malfunctions

On April 4, Dow Jones News reported that several major banks will be seeking compensation after a computer failure at CLS Bank, the world's biggest foreign exchange clearing house, left some with heavy losses late last month. The breakdown prevented 25 banks from settling trades in the yen and Australian dollar. Twenty-two of the seventy-five thousand transactions handled by CLS on March 25th were affected. The

problem occurred when a maintenance program failed to clear the previous day's trades from the system, causing the database to overload. The problem was fixed by IBM, who supplies the technology, but the delay meant that central banks had to ask for a settlement extension. CLS was late seeking the extension and the central bank systems of the Asia-Pacific currencies had already shut down by the time settlement took place, causing banks with exposures to the two currencies to be unable to complete settlement until the following day.

CLS Bank, stated that the banks affected would be seeking compensation from their counterparties directly, not from CLS. CLS is a real-time payment system that links the central bank of the seven largest currencies, removing settlement risk from the market. It is supported by 65 institutions and has limited liability.

Business Continuity – What is the three-legged stool?

(Article #3 – for prior articles please see prior editions of this newsletter)

Aligning a Business Continuity Plan to a business' needs requires a recovery model designed to support the business during a crisis, not just the technology. During a crisis, technology, day-to-day business and Executive Management functions must all be supported by your recovery plan. These separate areas are often referred to as the three legs of a stool that support the business during a significant event. Each area must create procedures, list responsibilities, be tested and evaluated on a regular basis in order to prove that the plans work before a significant event occurs.

Why three areas?

Your recovery model must focus on reality. The Information Technology (IT) group isn't going to be speaking to the press or managing regulatory and legal issues. Nor are they concerned with protecting your market share and identifying your client expectations. The three legs of the stool are designed to match your separate business functions to their strengths.

What are your recovery objectives?

In the second article we visited this question and it is now worth a second glance. Recovering critical business functions must be a primary goal of your plan, but what is critical? Protecting your image, market share, assets, meeting client expectations, and legal and regulatory

issues are all part of what should be considered critical. Your recovery model must identify each areas role in supporting these issues.

If the CEO wants to send a message to all of your clients during a crisis, you better make sure the technology is in place and tested to support this. Systems supporting client relationships may have been identified as “non-critical” since they are not supporting regulatory or legal requirements. Forgetting to focus on your client and marketplace expectations can severely hamper recovery efforts.

Until now this series of articles have been loosely referring to recovery plans and business continuity plans interchangeably. By defining the roles of each leg of the stool, we will now define these with more clarity.

Leg #1 – Crisis Management (a.k.a. Event Management)

This leg is very political in nature and is staffed by Executive Management. The goal of this area is to manage the crisis. The location of this group is commonly referred to as the Emergency Operations Center or EOC. Media statements, client communications, identifying, managing and prioritizing of critical issues are all part of the tasks that this team undertakes. The two other legs of the stool are primarily designed to support this team. This team is designed to protect the business, managing internal and external issues.

Leg #2 – Day-to-day Operations (a.k.a. Individual BU Business Continuity Plans or BCP)

Each business area must have their own BCP that identifies the critical business functions that they support and the resources used to support those functions (Commonly referred to as a Business Impact Analysis). Each business process or function needs to be analyzed to identify its criticality. This is not an arbitrary process, but one that follows guidelines identified in the initial “Conceptual Phase” (see article #2) of the project. Each business area is responsible for supporting and testing this process to identify their readiness and any weaknesses in the plan.

Leg #3 – Technology Support (a.k.a. Disaster Recovery Plan)

The IT department doesn't manage your recovery plan, they support it. By identifying critical business functions and the resources used to support these processes, IT is given specific recovery objectives. The business must

identify what technical resources and facilities are required and when they are required, it is up to the Technology group to support those goals. The process to do this is complicated and time consuming. Don't expect your first attempt at this to succeed! This baby must learn to crawl before it can walk and eventually run.

Putting the parts together...

All of these plans combined are considered a firm's Business Continuity Plan. The tough part is making sure all of the parts work. The process of managing a workable BCP becomes ingrained into the day-to-day operations of a firm. Individuals and business areas must think as a team and not act as individual silos. This is a "process" that has guidelines to follow and must be exercised on a regular basis by all members involved.

Two years ago a pipe broke in the subbasement of a building in New York City early on a Saturday morning shutting down power and air conditioning throughout the facility. On Monday morning, one particular tenant that had a large trading operation located there was not ready to start trading.

Events that have the potential to impact your business must be evaluated by the BCP process and not by a lone individual. Does the event have the potential to impact your business? Is this risk acceptable or must actions be taken in order to mitigate its impact? You are now beginning to understand the scope of what BCP is all about.

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) 666-0828[New number!].

Save the Dates for These Upcoming AMF Events!

All of these events will be held at the Global Financial Markets Conference Center at 360 Madison Avenue, New York City. More information will be made available on the AMF website at www.theassetmanager.com.

MAY 21 – DERIVATIVES WORKSHOP – Topics to be addressed include:

- Why are derivatives traded? Hear from portfolio managers and traders.
- How are they processed? Operational risks and challenges.
- Industry groups – standardization and best practices
- Compliance – how are asset managers responding to the challenge of derivatives?
- What's on the horizon? New products

MAY 22 – AMF QUARTERLY MEETING

- Network with your buy-side, sell-side and custodian bank peers
- Panel presentations, break-out discussions and case studies
- Industry updates and benchmarking surveys
- Open to AMF members and invited guests

JUNE 12 – Workshop with Broker Dealers – topics to be determined

JULY 16 – PROJECT MANAGEMENT WORKSHOP – Topics include:

- Managing large scale initiatives with limited resources
- Strategic vs. tactical initiatives
- Staking your career on a project
- Project management from 50,000 feet – overseeing multiple projects
- The role of consultants
- How to avoid a project failure

AUGUST 14 – LUNCHTIME CAREER DEVELOPMENT WORKSHOP – How to be a Global Operations Manager

- Managing your travel schedule
- Work/life balance issues
- Strategies for dealing with jet lag, getting through airport security, and finding lost luggage

OCTOBER 22 – ACCOUNTING WORKSHOP

OCTOBER 23 – AMF QUARTERLY MEETING

Any questions about these events should be directed to Diane Trupia at dtrupia@bondmarkets.com.

AMF in the News

The AMF's comment letter to the SEC regarding the MSRB's request for authority to shut down the

municipal market in the event of a disaster was quoted in an April 1 article in the Bond Buyer. The AMF letter, which cited numerous operational and compliance issues raised by the MSRB proposal, is available on the AMF website in the "Downloads" area.

New AMF Member

The AMF would like to welcome its newest Associate Member. **Bond Technologies** is a financial services technology consulting firm with offices in New York, Chicago, and London. More information about this new member is available at <http://www.bond.com>.