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**IN THIS ISSUE**

<b>AMF Hosts Quarterly Meeting on May 21st</b>	<b>1</b>
<b>IBT Sponsors AMF Marketing Event in Boston</b>	<b>1</b>
<b>Educational Series: STP and the Lifecycle of a Trade</b>	<b>2</b>
<b>New AMF Website Launched</b>	<b>3</b>
<b>AMF STP Committee Update</b>	<b>3</b>
<b>AMF Swaps Committee Update</b>	<b>3</b>
<b>TBMA and SIA Conduct BCP Tabletop Exercise</b>	<b>3</b>
<b>Second Annual AMF Golf Outing</b>	<b>3</b>
<b>TBMA to Host "Compliance and Ethics Issues for Municipal and Corporate Operations Professionals" Seminar</b>	<b>4</b>
<b>Ask the AMF</b>	<b>4</b>

**AMF Hosts Quarterly Meeting on May 21st**

On May 21, 2004, some 50 AMF members gathered at the Global Financial Markets Conference Center in New York for the AMF Quarterly Meeting, which was moderated by Julia Warren of New York Life Investment Management. At this meeting, participants received an overview of the Forum's comment letter to the SEC on side-by-side management. In this presentation, members of the AMF COO Group provided insights into the buy-side's comment letter, which identifies possible unintended consequences of prohibiting side-by-side management. In its comment letter, the AMF COO Group stated its support for the SEC's disclosure approach in addressing the side-by-side management issue.

Also, members at the meeting had the opportunity to interact in a panel discussion on sell-side, buy-side and vendor perspectives relating to the SEC's STP Concept Release. During panel, the AMF call for a phased-in, best practices approach in helping to facilitate STP.

In anticipation of a future workshop relating to operational risk, there was a presentation on operational risk management in which members raised questions on mitigating such risks. The presentation offered a framework on governance, policies and procedures, risk identification and assessment and risk event tracking.

Further, DTCC presented an overview of its automated trade confirmation service (Deriv/SERV) for credit default swaps. DTCC outlined Deriv/SERV's current capabilities and spoke to proposed enhancements to the service.

I-Deal Prospectus and Deloitte & Touche also offered respective presentations. I-Deal Prospectus, which produces and delivers electronic and printed copies of prospectuses for securities offerings, spoke to the benefits of electronic prospectus delivery. Deloitte offered members an overview of AIMR's "Gold" GIPS (Global Investment Performance Standards) Proposal, which are voluntary ethical standards by which firms can calculate and report their investment returns.

At the meeting, the AMF Benchmarking Committee, Pricing Committee and Swaps Committee met to discuss "next steps". For more information on the work of these committees, visit the AMF website at [www.theassetmanager.com](http://www.theassetmanager.com).

Overall, the May 21 AMF Quarterly Meeting provided members with an opportunity to discuss emerging industry initiatives and products, learn more about on-going AMF projects and hear AMF Committee and regulatory updates.

As a note, AMF Quarterly Meetings are organized and arranged by the AMF Steering Committee and the Technology, Operations and Asset Manager Relations Department, which provides the professional staff support for the work of the Forum.

**IBT Sponsors AMF Marketing Event in Boston**

On April 29<sup>th</sup>, the AMF Marketing Committee together with Investors Bank and Trust, an AMF associate member, held a networking reception at the Bay Tower in Boston. The highly successful event brought together current AMF members in the Boston area as well as prospective members who have expressed an interest in joining the AMF. Former Chairperson and Marketing Committee chair Mike Wyne offered a few minutes of opening remarks to the group in attendance on behalf of the AMF. Steering Committee and Marketing Committee members were on hand as well to answer questions on sub-committees, the quarterly meeting, and recent AMF initiatives. The staff of the AMF were also in attendance and had set up laptop computers, demonstrating the new AMF website.

This was the first in a series of member and prospective member events that the AMF Marketing committee is planning to hold this year. The next event will be held in New York City on Wednesday, June 23, 2004.

For more information or to participate on the committee, please contact Diane Trupia at [dtrupia@bondmarkets.com](mailto:dtrupia@bondmarkets.com).

**UPCOMING EVENTS**

- **June 3rd**  
TBMA "Compliance and Ethics Issues for Municipal and Corporate Operations Professionals" seminar
- **August 3rd**  
AMF Golf Outing

## Educational Series: STP and the Lifecycle of a Trade

A common topic of discussion among AMF members is that of tradeflow. Regular discussion includes, of course, not only the traditional lifecycle of a trade but, more specifically, what should firms be taking into account when developing a system that enables trades to be straight-through-processed. Equity firms, for example, have had STP processes in place for many years, and in fact much of the functionality for fixed income has been developed based on these equity concepts. Many fixed-income firms have their own versions of “electronic trade processing,” which often includes the manual or automatic faxing of trade information to counterparties and custodians, a step which hardly reduces operational risk within the tradeflow process.

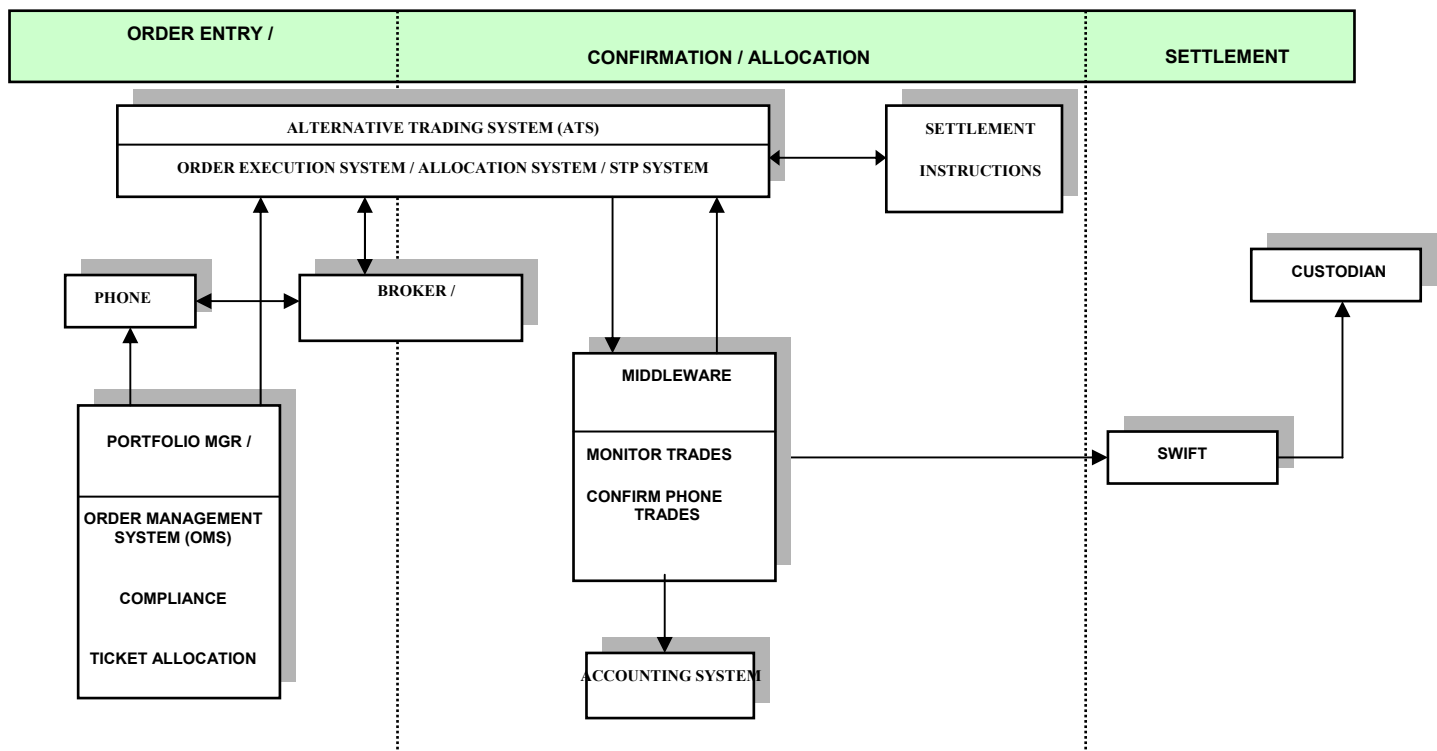
Over the next several newsletters, these pages will provide a series of articles devoted to the lifecycle of a trade and the *ideal* steps a firm could take to successfully implement a fixed-income **Straight-Through-Processing (STP) system**. The benefits of such a system are nearly immeasurable, as risk is decreased through the reduction in manual intervention, automatic compliance checking, and a reduction of fails. In addition, cost can be significantly diminished through a decrease in necessary resources, fails, and general operating costs. As the industry and now regulators move toward shorter settlement cycles, even for fixed income transactions, it is becoming more and more imperative that firms take steps to automate their tradeflow process in order to remain competitive.

A successful STP tradeflow process begins with the execution of the trade and entry into a firm’s **Order Management System (OMS)**. Trade execution can take place via an **Alternative Trading System (ATS)** or over the phone. A portfolio manager executing a trade using an ATS will enter the trade onto the system, receive bids from counterparties, and accept the bid. An order executed over the phone still enables the counterparty to post the trade on the ATS to be “picked up” by the manager. After an order has been executed, the allocation of the trade is entered into the ATS and communicated to the counterparty.

Once the trade allocation is entered electronically, the STP system communicates with a **standardized settlement instruction database**, which uses specific data to attach correct settlement instructions to the executed trade.

The **Middleware system** enables the manager to monitor executed trades and facilitates the confirmation/affirmation process. Individual buys and sells flow through this system and are formatted in a way that enables the trade information to be sent via **SWIFT** to the custodian. Trade data is also sent directly to the **accounting system**.

Below is a diagram which follows this trade-flow process. As this series of articles continues, focus will be on the steps of this diagram and will outline all aspects of challenges and benefits of implementing and using these types of systems. Readers are encouraged to forward any questions on these articles to the AMF for consideration.



## AMF Launches New Website

At the Boston Networking reception on April 29th, The Asset Managers Forum officially launched its new website and presented it to members and prospective members who attended the event. The website, which was formed by staff members Lydia Mann, Diane Trupia and Douglas Taggart, includes information and current news relating to the Forum's nine committees. Also, the website now contains a COO Group section that describes the activities of the AMF's newest addition, a regulatory section that outlines possible reforms and a communications section that offers access to the Forum's Weekly Reports and monthly Newsletters. To view the new site, please click on the following link: [www.theassetmanager.com](http://www.theassetmanager.com).

## AMF STP Committee Update

STP Committee Chair, Christine Sumner of Pacific Life Insurance Company participated in a panel moderated by Joseph Sack of The Bond Market Association. The panel was composed of buy-side, sell-side and vendors who advocated that the industry adopt voluntary best practices to help facilitate STP. John Burchenal of TradeWeb and Gary Altiero of Bear Stearns joined Ms. Sumner on the panel. The AMF STP Committee has met frequently to discuss the buy-side's approach in responding to the SEC STP Concept Release. Currently the buy-side, through the AMF, is working in coordination with The Bond Market Association in agreeing to develop best practices.

The AMF will submit a comment letter to the SEC in mid-June to advocate the buy-side's views concerning STP. For more information regarding the AMF STP initiative, please contact Douglas Taggart, Staff Advisor to the AMF STP Committee, at [dtaggart@bondmarkets.com](mailto:dtaggart@bondmarkets.com).

## AMF Swaps Committee Update

The AMF Swaps Committee met at TBMA on Thursday, May 13th and Friday, May 21st. Attendees included representatives from buy-side firms, custodians, broker dealers, and system vendors. The working group discussed taking a macro view of swaps starting with a review across the industry at the various entities involved in the flow that could benefit from automation.

The working group discussed taking a macro view of swaps starting with a review across the industry at the various entities involved in the flow that could benefit from automation. The committee has agreed to break the flow into 5 stages. The goal is to allocate responsibility of each stage to a group leader who in turn will research and lead discussions with other interested participants. The main objective is to better understand vendor automation opportunities, discuss best practices, and influence the industry to improve the flow of information for all interested parties.

A meeting will be held in early June to appoint owners of the 5 phases and agree next steps and administrative coordination.

For more information about attending the meeting in person or via phone, please see the AMF website or contact Joe Sack, Staff Advisor to the Swaps Committee, at (646)637-9265.

## TBMA and SIA Conduct BCP Tabletop Exercise

The Bond Market Association and the Securities Industry Association conducted a BCP Tabletop Exercise at the New York offices of The Bond Market Association on May 18, 2004.

Participants in the exercise included Bank of America, Bear Stearns, Bank of New York, Citibank, Credit Suisse First Boston, Deutsche Bank, Edward Jones, Goldman Sachs, J.P. Morgan, Lehman Brothers, Merrill Lynch, Morgan Stanley, and UBS. The Securities and Exchange Commission, the New York Stock Exchange and Nasdaq Stock Market, data providers, industry utilities, utility providers, and government agencies were also in attendance.

The teams were presented with a multi-stage scenario that began with an isolated explosion in midtown Manhattan, which then escalated to a second explosion in the financial district, damaging facilities, disrupting transportation, and temporarily closing the markets. At each stage, the participants determined which elements of their firm's business continuity plan they would activate, including communication to employees and the public, evacuation of offices and data centers, and activation of back-up sites. They were also able to evaluate how well their response was coordinated with the industrywide efforts. After the third and final stage, each group presented a status report indicating its level of preparedness for the market opening the next day.

The participants also discussed communication procedures to ensure that information from the Office of Emergency Management is disseminated to the firms, and that all firms are aware of the procedures for an unexpected market close and that these procedures are followed.

The Bond Market Association's Business Continuity Management Council and the SIA's Business Continuity Planning Committee plan to follow up with additional tabletop exercises later in the year.

Additional information on TBMA business continuity efforts is available at <http://www.bondmarkets.com/eCommerce/BCP.shtml>.

## Second Annual AMF Golf Outing

The Asset Managers Forum is hosting its Second Annual Golf Outing to be held on Tuesday, August 3, 2004 at The Ardsley Country Club in Ardsley-on-Hudson, NY. For more information or to register for this event please visit the AMF website at [www.theassetmanager.com](http://www.theassetmanager.com). Space is limited, so register today.

## TBMA to Host “Compliance and Ethics Issues for Municipal and Corporate Operations Professionals” Seminar

The Bond Market Association will host a seminar on Thursday, June 3rd to explore “Compliance and Ethics Issues for Municipal and Corporate Operations Professionals”.

Featured guest speakers will include representatives from regulatory bodies including Harold Johnson, MSRB, Deputy General Counsel; Malcolm Northan, NASD, Director of Fixed Income Securities; Steve Joachim NASD, Senior Vice President; and Jon Soderlund, NASD, Assistant Director, Market Regulation. Additional guest speakers include senior compliance professionals Tracy Lowery Whille, Director of Fixed Income Compliance at Lehman Brothers Inc., and Rose-Ann Richter, Executive Director of Fixed Income Compliance at Morgan Stanley.

Panel discussions will focus on regulatory, ethics, and compliance considerations for operations professionals and will include topics such as price transparency, real-time trade reporting, unauthorized/unusual trading activities, operational risk management and Sarbanes-Oxley to name a few.

This event will take place at the Global Financial Markets Conference Center at 360 Madison Avenue on the 17th floor from 4:00pm to 6:30pm. A cocktail reception will follow. For additional information on this event, please contact Diane Trupia.

## ASK THE AMF

*Dear Ask the AMF,*

*I hear a lot about the use of Swift for managers to send trades to custodians. What about the flow in the other direction? Do custodians generally send cash and holdings information to the managers?*

Are you trying to provoke a controversy? Nice try, but the fact is that managers and custodians are working hard to improve the electronic flow of information to the buy-side. Historically, most managers received the information for daily cash and monthly holdings reconciliations in hard copy and had to perform manual reconciliations. There have been Swift messages for the transmission of trades and holdings for many years, but for a variety of reasons they were not widely used for detailed reconciliations. In the past 10 years the custodians have adopted enriched Swift messages, and it has become easier for managers to utilize them. At the same time, the proliferation of bank web sites has led to more data extraction by the managers for reconciliation purposes. The existence of two alternatives has stimulated buy-side interest in automated reconciliations, and has improved the data flow in the industry. There are still many asset managers who perform manual reconciliations, but increased availability of electronic data and improved reconciliation tools has boosted interest in this area. Stay tuned for more details on custodian data availability in upcoming AMF newsletters as our contributors address this important area.

Special thanks to the following people for their contribution to this months AMF Newsletter

Joan Cheney, FFTW  
Mike Wyne, FFTW  
Joseph W. Sack, TBMA  
Douglas Taggart, TBMA  
Christine Sumner, Pacific Life  
George Hall, Goldman Sachs & Co.

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

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