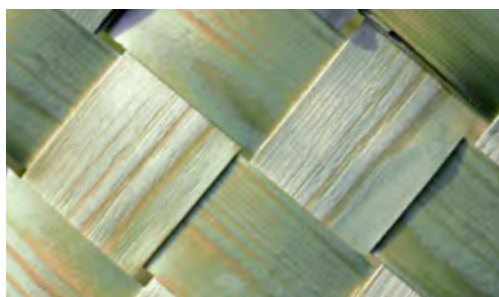


# Redefining Collaboration: From Custodian to Asset Servicing Provider

CIBC MELLON



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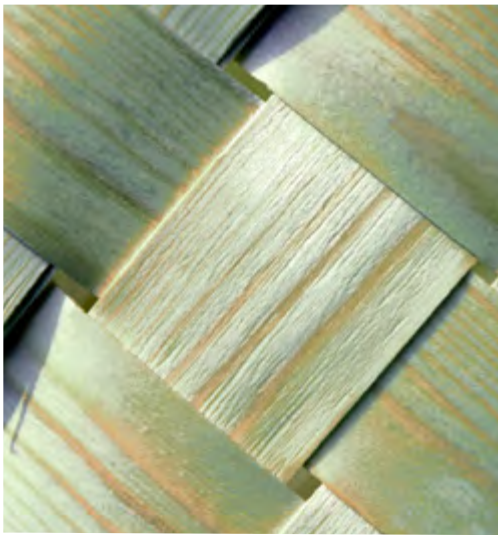
With the looming possibility of a double-dip recession and the lingering lessons of the financial crisis, institutional investors are actively seeking ways to boost performance while managing significantly increased reporting and accountability requirements. Though creating returns for investors while appropriately managing risk remains the central focus, institutional investors are seeing more and more of their time taken up in reporting to regulators, governments and their own internal stakeholders. Risk management, transparency and good governance are no longer mere buzz-words, but are now requirements for participating in the global capital marketplace.

These new demands are putting significant pressure on institutional investors around the world; in the aftermath of the financial crisis and the subsequent global outcry for tougher regulations, they are seeing their time and effort consumed with administrative activities. As institutional investors manage more stringent levels of accountability, they are focusing more on middle- and back-office activities. As they do so, they are finding that over the last number of years their reliable custodian has moved away from solely focusing on the back-office and now has products and services that can assist them in meeting their new requirements.

## A new level of performance and collaboration

A recent Bernstein Research article<sup>1</sup> described the typical front-, middle- and back-office functions as they relate to the lifecycle of a trade:

- The front-office focuses on the institutional investor's clients, analysis of the markets, and the management and execution of the portfolio's investment strategy. Front-offices construct new investment vehicles and securities, and make decisions about where and how to invest.
- The middle-office manages post-execution trading, with core focus areas on trade matching, settlement and reconciliation, performance and risk analytics, and a wide range of reporting capabilities.
- The back-office centers on custody, which entails the safekeeping, accounting and administration of securities within an investment portfolio.



In the past, institutional investors saw custodians as focusing squarely on the back-office. With a solid platform of reconciliation and physical security safekeeping, these functions are a well-defined cornerstone of the capital markets system. For many years, custodians have delivered strong value to clients by processing and managing vast amounts of time-sensitive information associated with trading activities.

However, the modernization of global depositories and exchanges, physical safekeeping of securities, though still important, began to play a less significant role. Custodians have seized this opportunity to develop powerful information-delivery platforms and to deliver integrated services across the entire lifecycle of a trade. Today, custodians have evolved and expanded their capabilities to include not only back-office, but also middle-office capabilities. With the deployment of rich new reporting and information management systems, custodians have repositioned themselves as asset servicing providers.

## What is an asset servicing provider?

With an expanded view beyond the back-office, asset servicing providers are supporting institutional investors in a number of ways, particularly by leveraging sophisticated technology and information systems to design and deliver powerful tools:

- Reliable and timely access to accurate information is critical to maintaining transparency and compliance. Robust reporting is therefore among the most important focus areas of an asset servicing provider, providing clients with a clear, real-time view of trade status, positions in the market and detailed performance and risk information. Asset servicing providers are framing this essential information appropriately, and adding additional detail and analysis to support the portfolio management process.
- In addition to information-reporting capabilities, asset servicing providers are able to support institutional investors in seeking new opportunities to generate returns. Through a global securities lending program, institutional investors can realize incremental income on assets in their portfolios by lending their securities to qualified borrowers. As well as increasing the total return of the portfolio, this strategy can help offset the new administrative costs resulting from the more stringent reporting requirements, all without affecting trading activity.
- Performance measurement, risk monitoring and fund analysis have also emerged as key components in the asset servicing space. Institutional investors are challenging their asset servicing providers to deliver deep and broad-reaching insights into the latest trends and movements in the market. This detailed information helps them assess the impact that strategic investment shifts or new investment vehicles may have on their portfolios. The market insights available through asset servicing providers not only strengthen decision-making processes, but also provide a new level of regulatory accountability by giving institutional investors access to comparative universes, fund analytics, compliance-monitoring tools and other resources.



# Outsourcing

A further example of the shift from custodian to asset servicing provider can be seen in the rise of “outsourcing” or “lift-out” solutions occurring in the U.S. and Canada. These types of services are quickly becoming a popular solution for institutional investors wanting to once more focus on their fundamental portfolio management mission. Indeed, an emerging trend in the market is the demand for asset servicing providers to take on entire reporting and information-management functions within the back- and middle-office.

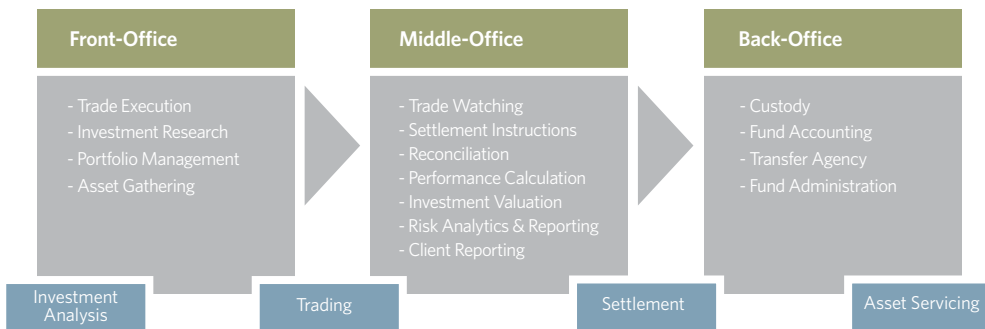
There are two types of outsourcing offers, “bundled” and “component,” and Cognizant, a leading provider of information technology, consulting, and business process outsourcing services describes them as follows. In a bundled outsourcing service, the provider takes on the entire execution of a process from start to finish, whereas component services see only portions of a given process moved to a provider.<sup>2</sup>

BNY Mellon, the world’s largest asset servicing provider, recently launched OnCore<sup>SM</sup> and Derivatives360<sup>SM</sup> in direct response to this new requirement for outsourcing. These two solutions were specifically designed to simplify the outsourcing process. OnCore is an example of a bundled solution; it supports the entire back-office process from accounting services to compliance reporting. Derivatives360 is a component outsourcing service, focused exclusively on supporting the execution and management of derivatives transactions.

## Ongoing demands

Demands from regulators and governments will continue to put pressure on institutional investors. Asset servicing providers must in turn continue to demonstrate their firm grasp over today’s information and reporting needs, position themselves to react appropriately to market changes and continue to support the trade lifecycle. The collaborative and changing nature of the relationship between institutional investors and their asset servicing providers demands that both expand their views beyond the status quo. Asset servicing providers must be ready to provide the solutions that institutional investors need as they look to outsource more of their middle-office.

### Lifecycle of a trade



Source: Trust Banks: An Investor’s Guide to Middle Office Outsourcing. Bernstein Research. May 19, 2011.

# CIBC Mellon: Canada's leading asset servicing provider

As Canada's leader in the asset servicing marketplace, CIBC Mellon takes pride in delivering services that extend well beyond traditional custodian operations, including exceptional reporting, outsourcing, and capital markets products and services. CIBC Mellon links more than 1,100 of the largest institutional investors with Workbench, a real-time information delivery platform that gives clients access to current trade status details, corporate action updates, and performance and risk data. Workbench's reporting capabilities span the spectrum from Board-level summaries to detailed investment performance analysis. CIBC Mellon's outsourcing capabilities range from supporting pension benefit payment processing to a complete lift-out of accounting functions. Our capital markets team offers comprehensive securities lending, access to two of the world's leading foreign exchange service providers, CIBC and BNY Mellon, and access to commission recapture, transition management and the full suite of capital markets offerings available at CIBC and BNY Mellon. As a joint venture between Canadian Imperial Bank of Commerce (CIBC) and BNY Mellon, CIBC Mellon offers the Canadian-focused leadership of CIBC and the global capabilities of BNY Mellon.

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<sup>1</sup> Hintz, Brad, Luke Montgomery and Vincent M. Curotto. Trust Banks: An Investor's Guide to Middle Office Outsourcing. Bernstein Research. May 19, 2011.

<sup>2</sup> Chandramouli, Anand. Custody Business in the New Normal — Advantage: Custodians. Cognizant 20-20 insights. December 2010.

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## About CIBC Mellon

CIBC Mellon currently services approximately 33 per cent of investable Canadian assets. Our client base is comprised of approximately 1,100 relationships representing 1,000 domestic clients and 100 foreign financial institutions; total assets under administration were approximately CA\$1.1 trillion, as at March 31, 2011.

Our clients include Canadian pension funds, investment funds, corporations, government, insurance companies, foreign insurance trusts, foundations and foreign financial institutions whose clients invest in Canada. We work in partnership with our clients to increase operational efficiencies, manage risk, and increase performance.

Built on the strengths and traditions of our two parent companies, Canadian Imperial Bank of Commerce (CIBC) and The Bank of New York Mellon Corporation (BNY Mellon), CIBC Mellon strives to design and deliver reliable investment servicing solutions to institutional investors operating in Canada. We first began offering asset services to institutional investors in 1996, when CIBC joined forces with Mellon Financial Corporation (Mellon) to form a 50/50 joint venture – CIBC Mellon Global Securities Services Company. On July 1, 2007, Mellon Bank – our U.S. parent company – merged with The Bank of New York Company Inc. to form the 11th-largest financial services company in the world. As a result of this merger, BNY Mellon is now the global leader in investment servicing, with more than US\$25 trillion in assets under custody and administration.

For further information about CIBC Mellon, please visit [cibcmellon.com](http://cibcmellon.com).



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