

MOMENTUM

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Identify, Measure, Mitigate

The phrase 'green shoots' has become almost as much a cliché in discussions on the economy over the past year as 'Holy Grail' has been for many years in the pursuit of straight-through processing in the financial services industry, as well as in many other areas of activity. The debate over whether they are real or imaginary will continue until economic recovery is fully in place, reflecting the changes that have taken place since the annual Sibos gathering of a year ago.

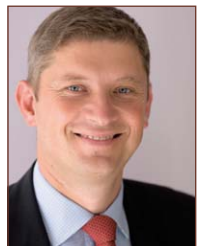
The investment mindset has altered, almost out of all recognition; the impact of financial events since July 2007 will be felt for some time, most notably in the reassessment of client attitudes to risk, in its many forms. We

examine this critical topic in more detail in this issue's Smarter Services advisory column (page 2; Risk & Reward: Solving The New Equations). Identify your risk. Manage your risk. Mitigate your risk. That is very much the message of the moment.

We have been forcibly reminded in recent times that large financial institutions in well developed markets can and do go out of business. In this much changed investment world, many old certainties are dead, and new ones are taking their place. Risk information advice on everything from counterparty risk to operational risk has already assumed new importance, and SGSS firmly intends to build upon the progress made over recent years in

establishing itself as one of the world's most prominent pan-regional players. This will enable a growing number of clients to invest confidently in new markets, taking advantage of our risk information advisory services and practical everyday assistance in mitigating myriad forms of risk. After all, when the means are readily available to avoid it, why expose yourself to unnecessary risk?

Sebastien Danloy,
Global Head of Sales
and Relationship
Management, SGSS.



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SNAPSHOT

New Mandates

SGSS has won two new securities services mandates from internationally respected names. Firstly, STMicroelectronics — Europe's largest chipmaker — has appointed SGSS as global custodian of its long-term investments worldwide, worth some €1bn. Secondly, following a call for tenders, EDF retained SGSS as the provider of custody and valuation services to its FCPE perco (collective retirement savings plan).

For more information
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Risk & Reward: Solving The New Equations



A more proactive approach to risk mitigation and asset protection has become essential.

responsibility for the return of assets in the event of a sub-custodian's bankruptcy? The good news for investors is that continued investment in information-gathering, collating and distribution systems makes such valuable risk information advice even more readily available today from well connected providers than ever before.

If anything beneficial has emerged from the crises, it is that investors have been starkly reminded of the key role that providers of securities services play in mitigating risk. Value-added products such as value at risk, co-variance analysis, beneficial ownership registration and detailed market infrastructure reports have been available to clients for a number of years; they are certain to be used more frequently by astute investors to try to mitigate investment risk.

We believe the future of our industry is clear. It will lie with those who adapt best to the new realities.

The various financial crises of the past two years have redefined the financial services landscape. One of the most obvious effects has been in the field of risk. Risk analysis, risk measurement and risk management have been thrust into the spotlight again, after a prolonged spell in the shadows, when they seemed almost to have gone out of fashion.

There are clear signs that investors have begun to appreciate the true value of services that they have perhaps previously taken for granted. They understand that a

more proactive approach to risk mitigation and asset protection has become essential. In this environment, services such as performance measurement, risk measurement and depository evaluation begin to demonstrate their true worth.

Key questions need to be asked. Who is your counterparty? What is its legal status? Are you dealing with a fully listed company or a subsidiary? Do you have the guarantee of the parent company? Is your securities services provider truly committed to the industry? Who takes

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MAKEMONEY

South Africa: New Opportunities

International investor interest in taking advantage of the opportunities presented by South Africa's well established Black Economic Empowerment (BEE) programme has been muted until now, but that could be about to change. BEE is designed to redress the balance caused by decades of social and economic apartheid in the country; the transfer of shareholdings in many companies in many industries into independent trusts on

a commercial basis has a key role to play in the process. SGSS acts as the administrator to a small number of trusts, the largest and most complex of which comprises shares in First Rand Bank. "The purchase of these shareholdings needs to be funded, and while the prices of shares in existing schemes have come under pressure in uncertain markets, there could be clear opportunities for international banks and asset managers

willing to provide that funding as new trusts come into existence over the next few years," says Andrew Willcox, Chief Operating Officer at SGSS Johannesburg branch. "The yields on offer are substantial, representing enough of a risk premium to attract overseas investors."

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European Market Integration: Crisis Creates Unique Opportunity

The economic crisis that we are currently facing paradoxically presents us with unique opportunities to overhaul the architecture of the international financial system, increasing harmonisation and regulation, and reducing systemic risk.

It is well documented that the roots of the crisis lie in the economic policies pursued by the United States of America since the turn of the millennium, the decision not to save Lehman Brothers representing the pinnacle. It can be explained by three factors: excessive debt, a lack of regulation and supervision of this debt, and the spread of risks through securitisation within the framework of an increasingly global financial universe. The solutions proposed aim to implement reforms and to boost confidence. Public authorities realised that, within the financial universe in general and on the markets in particular, the priority was to identify and manage risks, and not just to cut costs. They decided it was time to overhaul banking and financial regulations, but also to reorganise markets around infrastructures, which had proved they could cope with the collapse of a systemically important player.

Logical result

This should logically result, in terms of infrastructure, in a reappraisal of the liberal approach implemented from 2004 by the European Commission; this has resulted in an increasingly fragmented and complex market which is often opaque and characterised by substantial regulatory discrepancies between member states. This in turn has led to competitive imbalances to the detriment of market security. Furthermore, whilst people were pleading for pan-European consolidation we have seen an alternative transatlantic consolidation scenario develop, which has simply increased confusion.

How to react?

So how should one react to this? I feel that if we want to create a single, safe, liquid, transparent and low-cost market, we first have to define our objective and then outline the action that needs to be taken to meet it. This objective has to:

- focus on Europe. Before thinking globally and looking at transatlantic consolidation, we have to work towards the creation of a

powerful and coherent European financial market that can stand shoulder-to-shoulder with the USA;

- build this market around the Euro, now a benchmark currency, with the help of the ECB*, whose role during the crisis has proven to be essential;
- define a European framework for post-market activities. The crisis has shifted the priority to risk management, and local regulations should not be a competitive factor between infrastructures: all should work within the same framework and meet the same constraints in hedging risks and supervision;
- promote consolidation. The defining of a European framework for post-market activities, the implementation of T2S** and CCBM2***, and an awareness of the risks that could result from the creation of multiple interoperability ties between central counterparties should accelerate the infrastructure consolidation process;
- strive to modify the architecture of Europe's supervisory system beyond recent initiatives in order to strengthen cohesion further. The more systemic players are consolidated and work transnationally, the more it will become obvious that they will have to be subject to unified supervision. I would add that, for financial stability, it will become vital for financial instruments in a given currency to fall under the jurisdiction of entities that are supervised by the central bank responsible for this currency and located in its sphere of influence;
- lastly, work more intently towards harmonising the legal and fiscal framework, where progress thus far has been very limited.

Once in a lifetime

To summarise my argument very briefly and simply, I believe that we face a once-in-a-lifetime opportunity to bring about systemically important reform, overhauling our infrastructures and markets on a sustainable basis for the benefit of everyone with an interest in having successful financial markets. We must maximise the benefits from this unique opportunity.

* ECB – European Central Bank

** T2S – Target2-Securities

*** CCBM2 – Correspondent Central Banking Model 2



Alain Closier,

Global Head of Société Générale Securities Services



After hours

*Tim Reucroft,
Director of Research at Thomas Murray at the wheel*

It's not a car, it's a way of life!

Be careful what you wish for. That is one lesson to be drawn from the experience of Tim Reucroft, Director of Research at Thomas Murray, the specialist custody rating, risk management and research firm, and owner of a Chevrolet Corvette C5. "I had always liked them as a young lad, but in your 20s, you just can't afford it, then you get married and have kids, but I managed to buy one for my fiftieth birthday," he recalls. But what starts out as the love of your life, becomes an obsession, then ends up as a nightmare, he warns.

"It's not a car, it's a way of life. I've been modifying it ever since I bought it in 2000, but every modification has a consequence. I had a supercharger kit fitted, then found out the transmission couldn't cope with the extra power. I had to upgrade the computer to allow

the new transmission to put down the power and get enough fuel through into the engine. It now runs by injecting methanol, giving you the equivalent of 116 octane fuel, compared with around 98 for the best pump fuel. That has made a huge difference, especially when drag racing."

It does sound worth it, though. Tim and his two-seater travel regularly to Corvette Club events around Europe, a recent highlight being one in Luxembourg. "Some people might think Luxembourg is dull, but this was superb. We had a convoy two miles long driving into Germany, with a police escort blocking off junctions and roundabouts for us. Whoever organised it must have some real influence..."

Global village New CEO for KAG



*Frédéric Barroyer,
CEO for SGSS KAG*

Frédéric Barroyer has been appointed Chief Executive Officer for SGSS Deutschland KAG mbH, based in Munich. He takes over from Jürgen Scharfenorth, who has joined the Global Commercial Team as Managing Director of Sales in Germany.

Frédéric, 40 years old, has more than 15 years of experience in the finance industry, much of it within Société Générale. He began his career in 1993 with the Fimat Group (now Newedge) as Financial Controller and was appointed Managing Director of Société Générale Fimat Asset Management in Ireland in 1994. Frédéric joined Société Générale Asset Management group in February 1998 as Head of Financial Operations in Paris and in 2001, he was appointed Chief Operating Officer of SGAM in Japan, followed by his appointment in 2005 as Singapore based Chief Executive Officer for the Asia Pacific region, excluding Japan.

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Market watch: Service Evolution

SGSS has already extended its securities services capabilities to a broad range of new markets in recent months, including Russia, Eastern Europe and North Africa and soon in India with its joint-venture with State Bank of India. Efforts continue to support client interest in expanding the number of markets in which they can invest confidently and profitably, armed with the necessary risk informa-

tion advice. A deluge of recent articles in the international press has highlighted the investment attractions of a number of new markets in the Middle East, North Africa and Asia Pacific. SGSS is working hard to ensure that its capabilities can help clients achieve their investment ambitions. In the meantime, the SGSS/BHFM joint-venture team in Prague has been strengthened by the arrival of Jana Boskova as head of the

custody and depositary department earlier this year. Jana, who took on responsibility for establishing the department and developing the services, previously held a similar post at Komerční banka, where she spent a total of 16 years.

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