

Welcome to our Quarterly UK Financial Services Newsletter

Here you can read about current issues facing the market, new technology and a summary of the latest news from some of the software suppliers, outsourcers and transfer agencies. We trust that there will be something for everyone!

FusionExperience provides innovative solutions to all your business and technology needs. Working across financial services and complementary vertical markets, we deliver a broad range of services to an international client base.

We offer to support your business with a complete end to end solution, based on tangible results.

There's no escape as the FSA heaps a personal fine on MLO

In a landmark ruling the FSA recently imposed personal financial penalties of £17,500 on a money laundering officer, in addition to a company fine of £49,000.

In deciding the penalty the FSA took into account the limited financial resources of the firm and its ability to pay the fine. Save for these factors, the penalty would have been significantly larger. In addition, in both cases, these fines would have been substantially higher had there not been full co-operation with the FSA.

Notably, this comes despite the FSA not finding any evidence of money laundering at the firm. A warning to us all! Rather, the penalties were for failing to implement procedures, as required by the regulations. Specifically:-

- ❑ Failure to implement adequate procedures for verifying the identity of its clients;
- ❑ Failure to adequately verify the identity of a significant number of its clients;
- ❑ Failure to keep adequate records with regards to the verification of the identity of its clients; and
- ❑ The MLRO (Money Laundering Reporting Officer) had failed to take reasonable steps to implement adequate procedures for controlling money laundering risk.

Key Lessons to be learnt

- ❑ The FSA can – and does – fine organisations for failures in systems and controls in the absence of any actual money-laundering incidents. In other words, we need to safeguard ourselves against visits from the Regulator as well as actual incidents of money laundering
- ❑ Although the nominated MLRO is personally liable for any failings in a firm's anti-money laundering systems and controls - he is not the only one. Directors and senior management -what the FSA terms 'Significant Influence Functions' (Controlled function 1-29) are also open to enforcement action from the FSA. Additionally, all employees are open to criminal prosecution (a fine and/or a prison sentence) for assisting in, failing to report or tipping off a money laundering incident.

The full rulings can be found at <http://www.fsa.gov.uk/pubs/final/sindicatum.pdf> and <http://www.fsa.gov.uk/pubs/final/m-wheelhouse.pdf>

Is this a potential area of concern for you and your company? If so, please contact us on + 44 (0) 20 8652 9710 today to see how FusionExperience can review your systems and controls.

Gordon Easden
FusionExperience

New world post credit crisis: Future trends in retirement income products

As we enter 2009, businesses and individuals alike are confronting major challenges as arguably the most serious and far reaching financial crisis since the depression sets in.

So what are consumers looking for in this difficult time?

Lack of confidence and uncertainty about the future requires flexibility. We anticipate that the retirement income products which will be of far more interest to individuals in the near future will need to offer this flexibility - enabling investors to vary their post retirement income levels to suit their lifestyle, retain access to capital, possibly revert to beneficiaries on death and allow for a range of asset alternatives whilst invested. A product provider who can address these challenges will create opportunities to develop their business and broaden their relationships with their existing clients.

What innovation is required in future products?

Future retirement products are expected to encompass some or all of the following features:

- ❑ *Investment choice:* Allow investors to tailor their risk/return profile to their investment selection
- ❑ *Guarantees:* A range of guarantees to meet investors' requirements on income and/or account value
- ❑ *Control of income drawdown:* Options need to be based on investor needs, for example, support access to tax free cash but delay income withdrawal or the ability to pay income to a reversionary
- ❑ *Deferral options:* A pension plan with market linked growth or guaranteed until the investor elects to retire and draw an income
- ❑ *Lifestyling:* The ability to move funds from investment to annuity purchase at different stages as investors adopt a conservative approach in later life
- ❑ *Joined up administration:* Closer integration with more holistic wealth management platforms such as Wrap.

Do product providers have the technology to deliver new products?

To be competitive in the marketplace, we believe that product providers must be able to deliver a range of retirement income products with the flexibility to respond to market changes. A key enabler of product innovation is the IT platform. For many product providers, the traditional annuity is the only post retirement product they provide. Their technology platforms are often limited in their capability to adapt to the expected innovation in retirement income products.

Experience counts

Bravura Solutions addresses these challenges with applications that support the administration of the full spectrum of retirement products for a wide range of providers in different parts of the world. In the UK we support traditional products as well providing platforms in support of the growing SIPP market. In the Australian superannuation market, our systems are utilised to provide annuities, term guaranteed annuities, allocated pensions and term allocated pensions as well as personal pensions (superannuation), and unit linked investment portfolios. In New Zealand we provide extensive support for the Kiwisaver initiative which commenced in July 2007. The New Zealand Government selected six default providers, four of which utilise a Bravura Solutions application.

Bravura Solutions

The customer is now truly the king

Big shifts in customer behaviour, driven by a combination of innovation, competition, socioeconomics and recessionary pressures means it is time for change.

Executives need to rethink four basic elements of their work for top-line growth and market responsiveness:

- ❑ customer interaction
- ❑ joined-up organisation
- ❑ measurement and accountability
- ❑ project investments to deliver future wealth

The shift towards customer experience is already succeeding with Apple's iPod establishing a new benchmark for smart interactions across all touchpoints. Yet, the latest Forrester Customer Experience Index states that 89% of corporates are below a high standard as rated by customers themselves. Even more worrying, these customers are rating 38% of corporates as poor or below poor in terms of their experience, covering all sectors. This is in direct conflict with corporates own customer satisfaction ratings. Which one is right?

A customer is interested in a seamless service designed for their convenience across all touchpoints. Customers are already engaging in value added services that save them time and add quality to their life style, which has pushed product pricing to second place in terms of importance.

When a customer is upset through a poor service then their voice is amplified through social networks. Brand integrity is now being fought at the level of customer interaction, which is why marketing spend is being redirected to customer experience.

Unlike the hype during the 1990s, the customer is now truly the king.

FusionExperience believes the key is to focus on decisive actions and definitive outcomes, through modelling, visualisation and simulation to deliver superior customer experience.

Ensuring customer experience investments lead to definitive outcomes requires companies to visualise and interact with the customer experience before building the software solution. This new approach has already been tested successfully with over 3,000 projects and over 250 clients in the USA.

Now is the time to change as the customer experience will determine the winners and the losers for some years to come.

Freddie McMahon
FusionExperience

UCITS IV from Concept to Reality

The UCITS IV proposals aim to make the current UCITS framework more proficient through increased market efficiency, investor protection and a multifaceted solution to the investment community. The key points of the Directive are:

- ❑ Notification Procedure
- ❑ Key Investor Information (KII)
- ❑ Adapted Framework for Mergers
- ❑ Master-Feeder Structures
- ❑ Cooperation between Member State Supervisory Authorities
- ❑ Management Company Passport

Quicker time to market

The current Notification Procedure has prompted many concerns regarding time to market and the lengthy filings. The changes within UCITS IV take into consideration the notification of marketing in another Member State. The following notification is required: documents are to be translated into English with the exception of the KII which should be translated into the local language of the host Member State, a full prospectus, the latest annual and any subsequent semi-annual reports. When the filing is complete the Home regulator transmits to the Host Member State no later than 1 month after receipt. The marketing of the fund can begin immediately after the transmission of notification to host regulator. This is a significant improvement to the current process and a key note is that the marketing can begin on the basis of the KII and the prospectus.

New Key Investor Information (KII) brings clarity

KII is a replacement of the Simplified Prospectus which was typically confusing, lengthy and inconsistently implemented. This was mainly due to the contents not being harmonized. The KII will replace the Simplified Prospectus with a 2-page common format. It will be brief, clear and not technical. There will be a standardised list of contents which will include product information, investment objectives & policies, past performance, cost & other charges and a risk & reward profile. There is no civil liability attached to the KII and delivery will be in a durable medium or in electronic form.

Bringing Structure to Mergers

The establishment of an Adapted Framework for Mergers will address the absence of a common EU framework. This limits economies of scale and cross-board consolidation. The proposed framework would be applicable for domestic and cross-border mergers. There would be a prior authorisation by the merging UCITS Supervisory Authority within 30 days which would consult with the Supervisory Authority of the receiving UCITS, unless the merger is negligible. The receiving UCITS will need to be registered in the same countries of the merging UCITS. The information to the investors of the merging funds would need to be provided at least 30 days in advance and only to the receiving UCITS if the merger is of considerable size. The approval by investors is only required by national law however a maximum threshold of 75% of the votes cast by investors. The cost is not to be borne by either the merging or receiving UCITS as well as the investors.

Managing costs

A much widely discussed topic in UCITS IV is the introduction of Master-Feeder Structure. In today's financial uncertainty managing cost is crucial and the introduction of the master-feeder structure is timely. The structure will enable economies of scale and reduce charges for investors. Some key characteristics are:

- ❑ The feeder and master UCITS must enter into a legally binding agreement in which the feeder will be required to have at least 85% of its assets in a single master fund
- ❑ Each feeder fund is only allowed to invest in one master fund
- ❑ The master UCITS would be defined as a fund which has at least one feeder fund investing into it

New powers bring on-the-spot verification

The Supervisory Cooperation measures to be implemented are to address the existing framework for cross-border notification and implementation of the Management Company Passport. The proposed framework provides a mechanism for equivalence of power for the supervisory authorities. The extensive investigative power for the supervisory authority would allow for on-the-spot verification by a supervisory authority of another Member State. The Supervisory Authority would have the ability to freeze assets and the power to refer matters for criminal prosecution and can take the necessary organizational measures to assist other Supervisory Authorities in verifying and investigating complaints.

New to UCITS IV

Another key and anticipated aspect is the Management Company Passport, which did not materialize in UCITS III. The Management Company Passport would allow UCITS to be managed by a management company authorized and supervised in a Member State other than its home Member State. The funds domicile will be determined by Member State where it is authorized. The applicable law for the Management Company follows an organization and operation that is governed by the Management Company home Member State rules. The constitution and functioning of the UCITS are governed by the host Member State UCITS home rules. The Management Company has sole responsibility to ensure compliance at all times and the supervisory authority has responsibility for ensuring the adequacy of the Management Company's organization for all the UCITS it manages and attestation on the type of UCITS. The UCITS supervisory authority has responsibility for the approval of the UCITS and the ongoing rules on its constitution and functioning. The Depository must be established in UCITS home state and has both a safekeeping and fiduciary responsibility. There are specific provisions for the depository in the situation of remotely managed funds where the Management Company and the Depository need to sign a written agreement regulating the flow of information between them.

Where are we now?

Steps towards Implementation of UCITS IV have begun. On January 13, 2009 European Parliament, adopted in plenary. The next step is around second quarter 2009 when the EU Council and the EU Parliament are expected to adopt the directive and publish it in the Official Journal. Then during 2009 /2011 preparation will commence on the transposition measures and adaption of national legislations of Member States with expected entry in force by the July 1, 2011.

Marty Dobbins
State Street

Recent Projects

Implementation of risk reporting tool

This global fund manager needed to report risk characteristics of its UCITS III funds. We have been involved from the beginning of the project to select the best tool to be used and subsequently to implement it.

Back office operating model

Subsequent to the build of an in house back office system, our client sought to migrate the functionality to their back office provider. The project re-defined the operating model to include services provided.

PMO set up & client reporting

Provision of project management resource to support a programme of projects sanctioned by the Global Head of Performance and Risk for this global asset manager; designed to integrate the systems and operating model following an acquisition, as well as delivering other tactical objectives that may arise throughout duration of the tenure.

Fund accounting product review

A major International player of financial IT solutions engaged us to undertake a review of their fund accounting product. The review included; an analysis of the sales, marketing and product management process, competitive analysis and a market segmentation analysis to identify potential clients in the UK.

Technology Spotlight

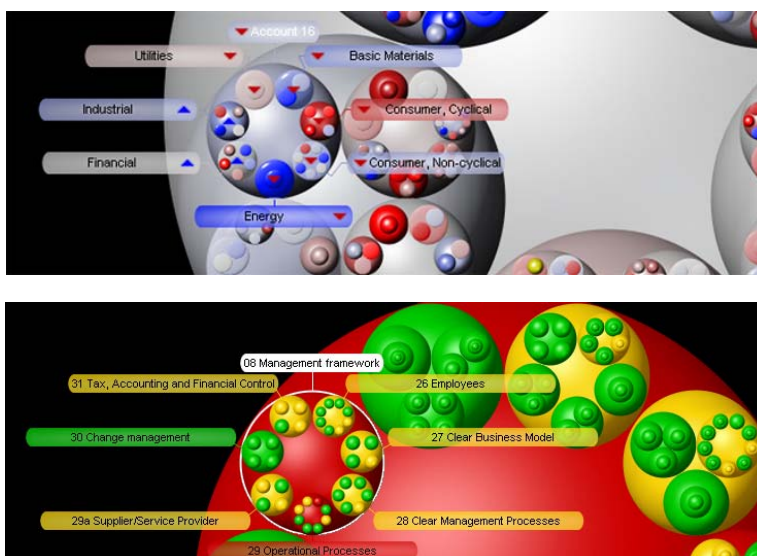
Each quarter we spotlight companies we have come across in recent months as part of our ongoing independent assessment of new solutions to the market.

Fractal Edge – Solutions for Governance Risk and Compliance (GRC)

Recent upheaval in financial markets has drawn into sharp focus the critical need to understand and communicate risk in all its forms. Complexity is the enemy of understanding – but complexity can be mitigated with appropriate tools.

One of the simplest and most effective ways of understanding and communicating information is to visualize it. Humans are evolved to spot the important details in broad swathes of visual information, but not in reams of numbers. As business – and the associated data – becomes more complex, more ingenious approaches to visualization are required.

Fractal Maps provide a uniquely powerful way of visualizing large or fast-moving data. By showing patterns of performance at the same time as highlighting specific areas of interest, these maps allow humans to get a much broader sense of what's going on very quickly and to focus actions on the areas of interest. An example of a Fractal Map is shown below:



This visual approach has proven to be particularly helpful in understanding and communicating risk across a range of areas:

- ❑ Exposure across various instruments, lines of business, geographies and sectors under a range of scenarios is much more quickly understood, allowing quicker action to mitigate these market risks
- ❑ Credit risk associated with individual counterparties or types of counterparty can be managed more dynamically and shared across the firm
- ❑ Actions taken to mitigate operational risks can be communicated and monitored more effectively
- ❑ Trade compliance and AML pattern recognition is enhanced by improving the ability to sift out false positives and spot persistent activity near limits

Fractal Edge provides a range of packaged products and development tools to incorporate Fractal Maps into the workflow of investment and risk professionals. With straightforward data connectivity and configuration, Fractal Maps can immediately start to provide significant benefits to any organization concerned about their risk.

To access case studies, solution overviews and technical details please visit www.fractaledge.com

Verdict:-

- ❑ Provides unparalleled visualisation of fast moving complex data sets
- ❑ Allows identification of areas of concern more rapidly and reliably across the organisation
- ❑ Ensures group-wide familiarity with exposures and priorities
- ❑ Quick and easy deployment means immediate benefit through understanding and communication

Supplier Watch

We take a look the latest from some of the outsource providers, transfer agents and software vendors in the market.

BNP Paribas

www.bnpparibas.com

BNP Paribas announces that it is targeting the UK IFA market as a strategic growth area. Over the coming years, the Bank is committed to expanding its range of innovative solutions to address the needs of Independent Financial Advisers ('IFAs').

BNY Mellon

www.bnymellon.com

BNY Mellon Asset Servicing has been appointed by Invesco to provide global custody, fund accounting and fund administration services for assets valued over \$50 billion within a portfolio of 135 funds domiciled in Dublin, Luxembourg and the United Kingdom. As part of the deal, Invesco is outsourcing fund accounting. Invesco employees currently delivering these services have been offered career opportunities with BNY Mellon.

Bravura Solutions

www.bravurasolutions.com

Bravura Solutions Limited, a leading global supplier of wealth management applications and professional services, recently won the European ICFA Award in the *European Asset Servicing Technology Vendor of the Year* category. The award highlights innovation and cost effective solutions in the European securities market. The recent acquisition of Citi's Warsaw-based transfer agency software platform cements Bravura's position as one of the largest transfer agency application providers in Europe.

Charles River Development

www.crd.com

Charles River Development has announced that in 2008 three additional South African financial institutions selected the Charles River IMS to automate their front to middle office operations: Prudential Portfolio Managers (Prudential), ABSA Capital (ABSA), and Sanlam Prime Services (SPS). These firms join STANLIB Asset Management (STANLIB) and Metropolitan Asset Management (Metropolitan) and expand Charles River's South African client base to five buy-side firms.

Eagle Investment Systems

www.eagleinvsys.com / www.gipsstandards.org

White paper: GIPS® is a set of standardized, industry-accepted principles that provide investment managers with guidance on how to calculate and report investment results to clients in an ethical and consistent manner. According to industry reports, these standards have been accepted and adopted in more than 30 countries, with nearly 70-90% of investment managers globally adhering to or making preparation to meet the GIPS® guidelines.

Fidessa LatentZero

www.latentzero.com

Fidessa LatentZero offers cross-asset connectivity to all major trading destinations - Fidessa LatentZero, one of the world's leading providers of front-office software to the buy-side, has announced that users of its Minerva Order and Execution Management System (OEMS) and the LatentZero Trading Network (LTN) now have access to all major ATSS, crossing networks and ECNs direct from the blotter using both FIX and proprietary (non-FIX) message types.

IFDS / State Street

www.ifdsgroup.com / www.statestreet.com

State Street Corporation (NYSE: STT), the world's leading provider of financial services to institutional investors, has garnered top rankings in both Funds Europe magazine and International Custody and Fund Administration (ICFA) magazine. Funds Europe magazine named State Street and IFDS - its transfer agent affiliate, as European Transfer Agent of the Year 2008. State Street was also recognised by Funds Europe as European Hedge Fund Administrator of the Year and received a special commendation in the European Technology & Trading.

J.P. Morgan

www.jpmorgan.com

J.P. Morgan announced it has been appointed to provide fund accounting and global derivatives services for UBS Global Asset Management's UK funds, which have \$20 billion under management. The appointment is an extension of the services already provided to UBS in the UK, which include custody and related services.

Northern Trust

www.ntrs.com

A quarterly poll of investment managers conducted by Northern Trust Global Advisors (NTGA) found a silver lining at the end of a punishing year: almost four out of five managers now believe the equity market to be undervalued. However, most managers believe that the economy is in for at least another quarter of decreasing corporate earnings before a market rebound begins.