

Spitzer, Myners A New Transparent Investment World



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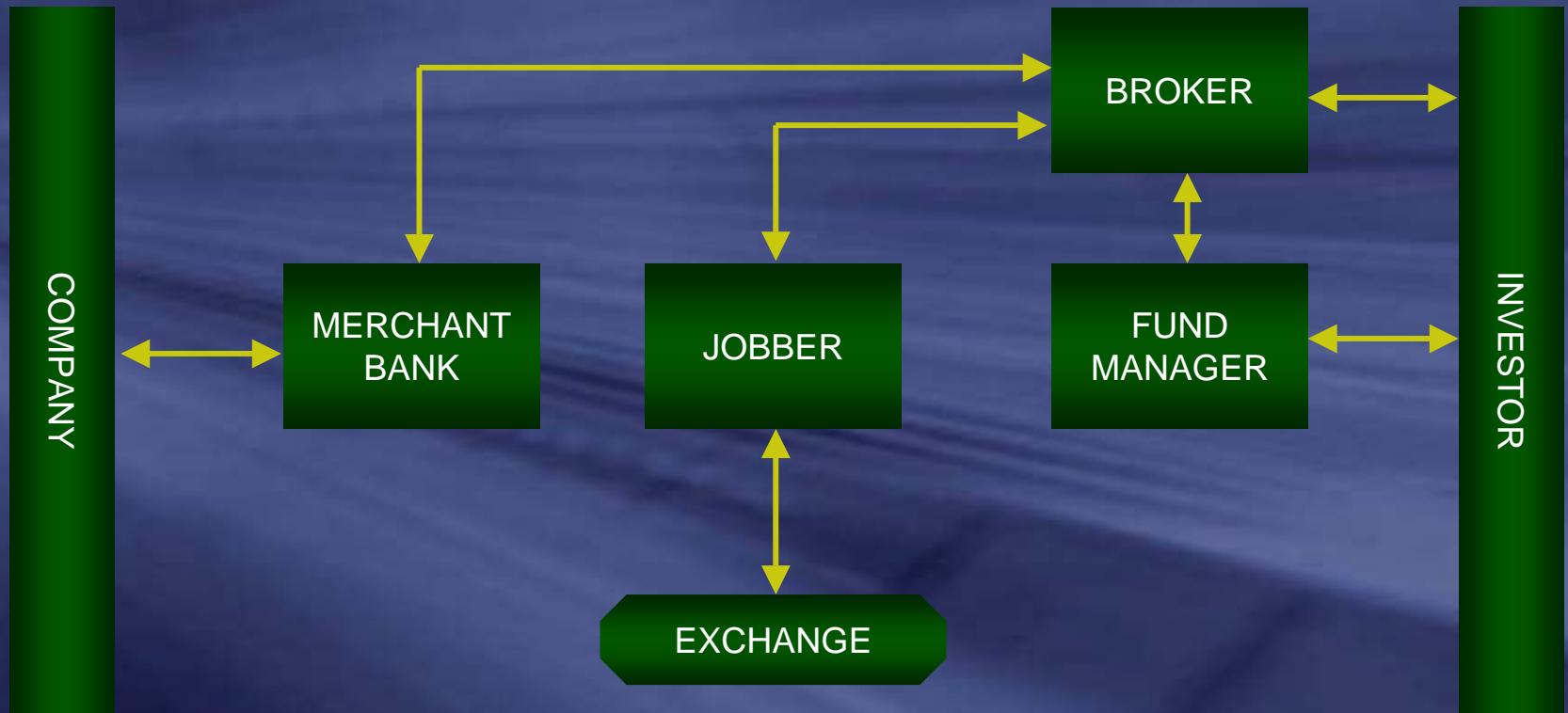




Agenda

- Where we've come from
- What are the drivers for change?
- What does the future look like?

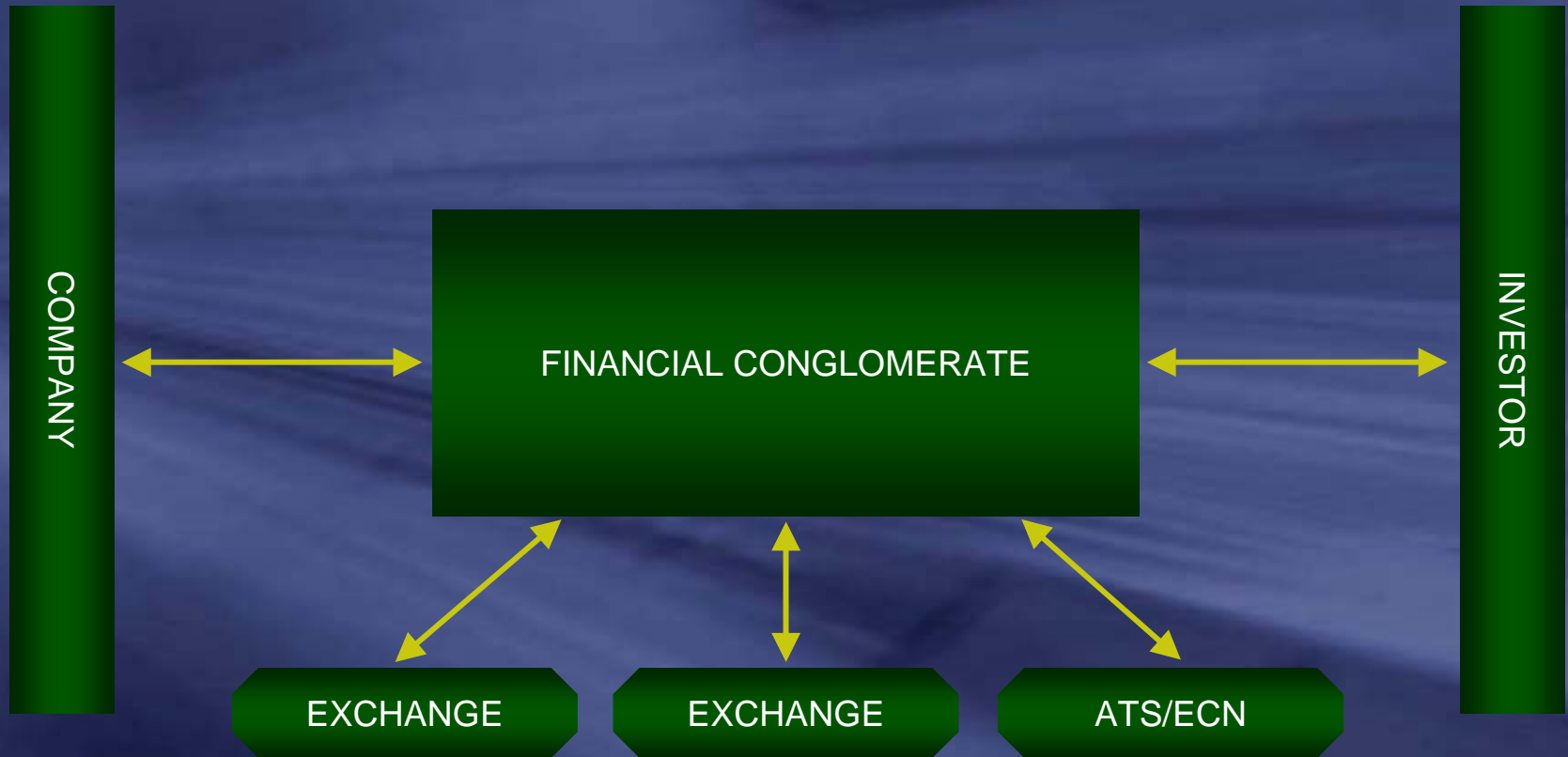
UK pre “Big Bang”



Where have we come from?

- High degree of structure
 - fixed commission rates
 - clear segregation of duties within the market
- An opaque world!
 - insider trading was accepted practice
 - trading practices didn't always favour the client
 - lack of information

Today



But it hasn't changed yet

- Trading practices are still opaque
- Enormous hidden costs of trading
- Research and trading is bundled
- Soft commissions are widely accepted

What are the drivers?

- Technology
- Scandal
- Regulation

Elliott Spitzer – what are his goals?

Mission to uncover irregularities in the securities markets

- First attack – the analysts
 - fines
 - segregation of duties
- Second attack – the mutual funds
- Third attack -

Paul Myners – what did he propose?

- Myners report
 - shareholder activism
 - better knowledge of Pension Scheme Trustees
 - use of benchmarking (in particular peer group benchmarks)
 - investment managers should assume cost of trading
- Prompted FSA proposal CP 176

FSA CP 176

- Cost of services provided in a package with execution should not be passed through automatically by a fund manager to his customer's funds – costs additional to execution should be rebated to the customers' funds
- Goods and services beyond trade execution that can be bought with commission or order flow should be limited

Why was CP176 initiated?

- 40% of commissions are not execution related:
 - payment for investment research
 - payment for investment technology
- Lack of transparency for underlying investors
- Conflict of interest - broker selection may be more influenced by research and soft dollar rather than execution quality

Questions over FSA CP 176

- Can it ultimately change the traditional broking business model?
- Could unbundling apply to the UK only?
- Will investment managers be able to persuade their clients to pay more fees?
- Would investment managers move to an easier jurisdiction?
- Will the equity market deal net?

ISD 2

- Revision of 1993 ISD

- treaty – allowed firms to operate under their own regulation in different EU markets
- existing doesn't provide harmonisation
- “outdated investor protection disciplines”
- not broad enough in terms of coverage – asst class –distribution channels etc
- does not cover the concept of exchanges or ATS competing

- Main proposals

- harmony of regulation
- transparency
- regulation of MTFs
- concentration/internalisation rules

The Future

- Abolition of soft commissions
- More reporting on all aspects of investment
- More discretion in purchase of services
- Reduction in commissions paid
- More emphasis on execution performance

The Effect

- The sell side will need to evolve significantly
 - differentiation will become even more critical
 - technology will become ever more important
 - independent research providers will proliferate
 - compensation will be reduced
- Asset managers will also have to evolve
 - differentiation will become even more critical
 - technology will become more important
 - focus on where value is added

