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Global custody deal near

Morgan Stanley would gain strong U.K. foothold

By Joel Chernoff

LONDON — Morgan Stanley & Co.'s efforts to acquire Barclays Global Securities Service would provide a powerful boost to the New York investment bank's global custody business.

But observers also speculate that sale of the entity could result in a significant backlash to London-based Barclays Bank PLC, and that recent accounts might jump ship.

The addition of Barclay's £203 billion (\$325 billion) client base could more than triple Morgan Stanley's \$135 billion asset base, giving the firm critical mass in the rapidly consolidating global custody business. In Great Britain, the Royal Bank of Scotland recently entered into a joint venture with SBC Warburg, while Lloyds Bank PLC purchased NatWest Group's custody business.

In addition, a purchase would give Morgan Stanley a strong foothold in the U.K. custody market, where Barclays ranks second only to Midland Securities Services. It also would expand Morgan Stanley's custody operations in key African markets. Barclays

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already serves as subcustodian for Morgan Stanley in Britain and elsewhere, mainly in Africa.

The catalyst to talks, some speculate, might have been Barclays' purchase last year of Wells Fargo Nikko Investment Advisors. Wells Fargo Nikko was Morgan Stanley's first client and still represents a significant chunk of its custodied assets, with \$22 billion in non-U.S. securities investment at yearend 1995. Buying Barclays'

custody business would eliminate the risk of Barclays shifting custody of the former Wells Fargo Nikko assets to the bank's own custodial arm.

"For Morgan Stanley, it's a big coup if they can pull it off and can retain the business," said one competitor, who asked not to be named. "They take out a competitor, establish a U.K. client base, and deal with the Wells Fargo problem," he said.

Simon Thomas, partner in Thomas Murray Ltd., a London custody consultant, said a purchase would be "a defensive move from Morgan Stanley's point of view." Added William Imhoff, principal at Alliance for Fiduciary Consultants, Parsippany, N.J.: "You have to buy it to keep your competition from getting it."

Experts also said expansion of Morgan Stanley Trust fits into the vision of its parent company to develop its fee-based businesses in asset management and securities lending.

The custody business also complements Morgan Stanley's other businesses, said Ross Whitehill, a director at Thomas Murray who previously was in charge of Morgan Stanley Global Custody's London operation. An expanded amount of custodied securities increases stock-lending capabilities with hedge fund clients, who often take short positions.

In addition, Morgan Stanley can

try to sell custody products to money managers who subscribe to Morgan Stanley Capital International index products.

"It's a strategic business for them," Mr. Whitehill said.

But one big question is whether Morgan Stanley would make the commitment to fully service U.K. accounts. Mr. Thomas doubts whether Morgan Stanley would be interested in servicing all of these accounts, particularly because most ban stock-lending, a significant source of fee income.

