



THOMAS MURRAY

PRESS ANNOUNCEMENT

For Immediate Release

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New Custody Risk Assessment Obligations

FSA Conduct of Business Regulations (Chapter 9)

Regulated Firms' responsibilities for carrying out Risk Assessments and on-going surveillance of Custodians

What the new regulations require

The new FSA Conduct of Business (COB) regulations require among other things that “before a firm holds a safe custody investment with a custodian or arranges registration of a safe custody investment through a custodian, it must undertake an appropriate risk assessment of that custodian”. (*Chapter 9.1.43*)

The regulations also expect a firm to “establish and maintain a system for assessing the appropriateness of its selection of the custodian and to assess the continued appointment of that custodian”. (*Chapter 9.1.45*)

What the new regulations mean for Regulated Firms who arrange custody

These new regulations, to be implemented on the 30th November 2001, require that Regulated Firms carry out a risk assessment of their Custodians. The regulations also require Regulated Firms to assess the continued appointment of their custodian(s) and maintain records of the grounds on which they have satisfied themselves as to the appropriateness of their selection and continued appointment.

Investors assets suffer varying degrees of custodian risk exposure directly linked to where their assets are invested and how they are safeguarded in overseas jurisdictions. Custodians and CSDs do not normally stand in front of custody and settlement linked risk exposures. These new regulations place an increased burden on Regulated Firms to demonstrate best practice.

Practical Solutions for Regulated Firms who arrange custody

Thomas Murray provides practical solutions for all Regulated Firms who arrange custody via its Custodian Surveillance and Custodian Evaluation and Selection products.

Custodian Surveillance

- ***Custodian Ratings*** - To assist Regulated Firms satisfy their obligations under the new regulations, Thomas Murray provides Private Custody Ratings including a custodian risk assessment, which analyses financial, asset safety, asset servicing and operational risk. The ratings examine a custodian's overall capabilities, credentials and services, and demonstrates

the strengths and weaknesses of custodians' internal operations. An overall rating on a scale of AAA to C is assigned to each custodian bank reviewed.

- ***Overseas Custodian and Central Securities Depository ("CSD") Risk Assessments*** – Thomas Murray provides risk assessments to allow Regulated Firms to assess their on-going risk exposures in overseas jurisdictions. The risks assessed include asset commitment, liquidity, financial, counterparty, operational and CSD on CSD (Credit) risk.
- ***Custodian Benchmarking*** – Helps Regulated Firms satisfy the need to establish and maintain a system for assessing the appropriateness of their appointed custodian by undertaking a periodic evaluation of key performance indicators.

Custodian Evaluation and Selection

- ***Health Check*** - Health Check is a free and confidential tool, which allows Regulated Firms to self-assess their custodian against best market practice. The findings would determine what the next steps should be.
- ***Formal Review*** - Thomas Murray has developed proprietary methodologies which allow Regulated Firms to formally evaluate alternative global and sub-custodians arrangements.

Thomas Murray, the leading research based management consultancy and information services group, specialising in the global custody industry, is uniquely positioned to assist Regulated Firms meet their obligations under these new rules. To date Thomas Murray has reviewed the appointment and selection of custodians on behalf of institutional investors representing an asset base of £1.1 trillion.

Simon Thomas, Chief Executive and Founder, Thomas Murray said, *"Thomas Murray has been providing institutional investors with assistance in the evaluation, selection and monitoring of custodians since inception in 1994. There has been significant consolidation of custodians and therefore more institutions need support tools to assist them ensure that their current custodian meets best market practice and the new regulatory obligations. This is why we have developed custodian ratings, which look at global and sub-custodians and market risk assessments which look at CSDs. They incorporate detailed risk assessments to help Regulated Firms understand custodian and local market custody risks and assist them select and monitor the best custodian partner on an on-going basis."*

Charles Amos, Finance & Operations Director, ICI said *"Appointing and managing a custodian is a critically important relationship and Thomas Murray has taken a major step forward in helping pension funds who may have found it difficult in the past to understand what a custodian really does - and ought to do. In particular their understanding of risks through the value chain, down to CSD level, is invaluable to funds concerned with asset safety and risk minimisation."*

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