markets, BNY Mellon had a strong understanding of credit in the global custody market and enjoyed a strong reputation with federal regulators in the United States. CIBC, on the other hand, had a strong understanding of credit in the Canadian marketplace and was known for its strong global trading platform (CIBC World Markets).

Equally important were provisions pertaining to risk management. The shareholders agreed to the formation and to the membership on the JV's Asset & Liability Committee (ALCO). ALCO was tasked with the responsibility of overseeing the formulation of risk management policies and asset investment policies associated with the JV's treasury and securities lending activities—principal activities under which financial services firms could become exposed to credit risk and market risk. This pivotal committee was populated by senior management from CIBC, BNY Mellon and the JV itself. MacMillan acknowledged that both shareholders had sought to structure the JV to develop a discrete, low-risk business and that risk tolerance would be maintained in the parents' businesses. As such, the JV only engaged in very conservative transactions and did not engage in proprietary trading. Appropriately managing risk necessitated clear and constant communication in order to ensure that the JV was aligned with its shareholders. It also effectively positioned the JV's management team to tap into the knowledge assets and accumulated experience of two major financial institutions.

When formed at the end of 1996, the JV had fewer than 200 employees, $110 billion in assets under administration, a market share of less than 10 per cent and revenues of about $25 million. However, over the next decade, the business grew dramatically. In 1997, it acquired the Canada Trust custody business. In 1999, it acquired the Bank of Montreal custody business, in 2002, the TD Bank third-party custody business, and in 2006, it was awarded the IG/Mackenzie custody business. By 2006, there were 1,400 employees and 1,140 custody clients. At this point, the asset servicing business offered a wide and integrated range of products and services from custody to risk management which could be grouped into two broad categories—core asset servicing functions and capital markets functions (see Exhibit 1). Historically, each of these two categories of business functions contributed approximately 50 per cent of the profits generated by the JV's asset servicing business. While the core asset servicing business functions supplied a stream of recurring-fee revenue to the JV, the income stream generated by the capital markets functions could be more volatile, depending upon the state of the capital markets. The global securities lending component of the capital markets functions involved acting as an agent in facilitating the lending of debt and equities from the JV's clients to other clients, who were typically brokers. While they did not disclose to CIBC Mellon why they were undertaking any particular loan, it could be expected that the brokers that borrowed the assets from CIBC Mellon would utilize the assets both for their own proprietary trading and to loan to the brokers' clients, sometimes including hedge funds that pursued short positions in equities. Short positions were established by traders who sold equities that they did not currently own. In essence, short sales involved selling borrowed equity assets. Consistent with regulatory requirements and its low-risk culture, CIBC Mellon routinely secured the loans that it extended to its broker clients by requiring the borrowers to pledge high-quality assets in excess of the value of the underlying loans as collateral. Exhibit 2 illustrates the interactions that occurred between external parties and CIBC Mellon's securities lending service.

By 2007, assets under administration for the JV's asset servicing business exceeded $800 billion, and were growing. The JV had become the second-largest asset servicing business in Canada, with a market share over 30 per cent. It was settling 15,000 transactions each day. Total revenues for CIBC Mellon exceeded $350 million, and healthy quarterly dividends were being paid to each partner.

The Stock Transfer and Corporate Trust Businesses

In 1997, the JV entered the trust services business through CIBC's purchase of a 50 per cent interest in Mellon's R-M Trust Company. The purchase was undertaken because the JV required a trust company as a deposit-taker for its asset servicing business and because R-M also had established stock transfer and corporate trust businesses. Through this business, Canadian companies that issued securities that traded on major stock exchanges relied on CIBC Mellon to manage administrative duties like security holder record keeping, securities transfers, investor communication, dividend payments and employee plan administration. The JV also acted as a corporate trustee for its trust clients' assets. In its corporate trustee role, the JV acted as indenture trustee for a number of series of asset-backed commercial paper (ABCP). ABCPs were typically short-term commercial paper investments that were collateralized by other financial assets which were characterized by very low risk. As of 2006, the JV had 1,200 trust clients. CIBC Mellon did not borrow or lend any securities in connection with this line of business.

In a November 2006 speech to the Financial Services Institute, MacMillan was asked to reflect on both the reasons he felt many joint ventures failed (see Exhibit 3) and the reasons why CIBC Mellon had been so successful.

Let me start with the one main reason that towers over all of them: our people. They are amazing and we have together somehow created an atmosphere where we can all thrive. Our people are our big differentiator. This can happen in any company. It has happened in our JV. We have succeeded because:

- ***The original business plan made sense.***

CIBC Mellon is profitable, growing, with good returns because the original business rationale was solid. It wasn't two "lousy" businesses coming together. Outstanding Mellon technology and service was introduced into Canada relatively quickly through a JV that had CIBC in its name and made an immediate positive market impact.

- ***The parents receive benefit from the JV itself in the form of dividends but also from outside of the JV.***

Both parents make significant FX revenues for their own books from JV clients. We help Mellon win global custody bids, we help CIBC win additional banking business that is often tied to asset servicing, for example cash management. We contribute to the building of strong client relationships for both parents. Mellon gets to appropriately allocate costs to the joint venture connected with their technology spend—and this spend is significantly larger than what they could otherwise afford because of the JV.

- ***Both parents cooperate.***

I see it at every board meeting—they respect and appreciate the contribution of the others; work collaboratively to make the JV a success. Despite the historical, jurisdictional and managerial differences, we've managed to put these differences to the side to make the JV work. And when there are differences of opinion (and frankly there's not that many) they work it out; and both organizations complement each other: CIBC defers to Mellon's expertise in the global custody business; Mellon defers to CIBC's knowledge/expertise relative to Canadian business and banking. I think it helps that both banks had a good solid friendship for many decades prior to the formation of the JV. They were (and are) comfortable with each other. They don't really compete against each other in any major business lines. Canadians are generally comfortable working with Americans and vice versa. Both parents' head offices are in the same time zone.

- ***Commitment of the parents.***

They have from the very beginning wanted to see the JV succeed and grow and they spent time making this happen. When more capital was required for acquisitions (the asset servicing business of Canada Trust, BMO, TD)—both parents were there. Early on in our history we had teething pains (our level of client service was not what it is today)—the parents didn't waiver and constructively helped us overcome issues and push on.

- ***The JV has effectively leveraged the strength of both parents.***

Mellon has 50 per cent ownership, but we benefit 100 per cent from their ongoing technology spend—over US$200 million a year. On a stand-alone basis, we couldn't afford US$200 million each year for technology in support of asset servicing business. This is an enormous plus for us.

From CIBC, we consistently leverage their client banking relationships to win new business for CIBC Mellon. We also leverage governance standards and risk management practices from both partners.

- ***And finally—our company is well managed.***

We have a strong board composed of mature, competent executives who can speak for their organizations. There has been minimal board turnover and when it has happened the transitions have been smooth. My lead board members from both organizations have been there since day one.

But equally important, I am blessed with an extremely strong executive management team. This team gets direction from the board and we run with it. They are also very skillful at working with both shareholders to ensure that all interests are balanced and satisfied and the strengths of both parents are fully realized. This is a skill requirement unique to joint ventures. For example:

- *Leveraging technology development at Mellon and sales development at both parents.*
- *Working with both parents' risk, audit and compliance.*
- *It is a skill to unleash the power of our parents without being overwhelmed by them.*

And while we are proactive in leveraging the strengths of our shareholders, we never forget we are a stand-alone organization that needs to be managed effectively. We have developed a strong internal culture quite independent of our parents, including our own strategy, brand, vision and core values. And we've shown enormous skills in initiating and successfully concluding major acquisitions at critical times.