



Committee, on the recommendation of CIBC Mellon's risk management group, and leveraging the respective credit market specialties of both shareholders, directed the JV to refrain from using any of CIBC Mellon's treasury or client funds (the latter in the form of cash collateral for securities lending transactions) to purchase non-bank-owned ABCP. Eventually, in August 2007, the \$30 billion market for non-bank-owned ABCP essentially froze. The looming financial crisis did not portend a quick or strong recovery in the credit markets, particularly in the ABCP market.

MacMillan and his team suspected that the future growth potential for the stock transfer and corporate trust business segments was more limited than it was for the asset servicing business. Notwithstanding the onset of the financial crisis, MacMillan debated whether the JV should retain or divest these business lines in order to focus more intensely on the asset servicing business for which the JV was formed.

### The Challenge of Avoiding Major Operational Missteps

The brewing financial storm became fodder for the media and it started to rattle financial markets. Despite the fact that there were reasons to believe that the impending financial crisis might not be as bad in Canada as it was likely to be in the United States and elsewhere, numerous challenges remained. Not least of these was the fact that the crisis would likely bring out the worst in many long-term business relationships. As liquidity was tightening, many financial sector lenders, borrowers and partners alike were putting aside years, even decades, of cooperation in order to ensure their own survival. This was in contrast to the approach adopted by CIBC Mellon in the months leading up to and during the crisis. It retained its long-standing practice of emphasizing very extensive communication with its clients and its shareholders, ensuring shared understanding of issues, including having representatives from both parents on ALCO and maintaining transparency.

By mid-September 2008, the most significant risks facing CIBC Mellon were credit risk, operational risk and market risk, as well as the potential exodus of assets and clients who were panicked by the wider financial chaos. MacMillan and his team recognized that it would be critical for the JV to continue to deliver a high level of client service and to avoid any major operational missteps. A key challenge facing the JV pertained to efforts to remain loyal to both long-time and newer business clients, while not exposing the JV to excessive risk in the context of an increasingly volatile market. While CIBC Mellon's global securities lending operations had extended considerable credit to some of the now more precariously perched financial giants, the JV was comfortable that these loans were adequately collateralized. Nevertheless, in order to ensure that the loaned assets were not subsumed into any debtors' possible bankruptcy proceedings, the JV would need to execute against legal agreements with rigour, to preserve its legal rights, including, if necessary, taking possession of collateral assets and then liquidating these assets in an increasingly turbulent market. Critical decisions were faced by MacMillan, Marchand, Hemingway and Slater, ranging from short-run decisions such as how to determine when to call in credit extended to some of the JV's global securities lending clients and how to liquidate any collateral that the JV was forced to take into possession, to longer-run decisions surrounding how to manage the JV's relationships with its solvent clients, so as to stem any risk of client or asset flight.

MacMillan closed the door to his office. Notwithstanding the 110 years of collective experience between MacMillan, Marchand, Hemingway and Slater, the four men recognized that the markets were headed for uncharted waters. MacMillan opened the meeting, reminding the group, "Gentlemen, now more than ever, we need to leverage our JV's administrative heritage, the guidance of our shareholders and the respective strengths of the parents to move through these unprecedented times. . ."

#### Exhibit 1 CIBC Mellon Asset Servicing Business Functions

##### CORE ASSET SERVICING BUSINESS FUNCTIONS:

The following eight functions constituted the core asset servicing business functions:

**CUSTODY** The CIBC Mellon custody system is a real-time, multicurrency processor of security and currency movement for the institutional trust/custody business. It maintains automated interfaces to/from depositories and subcustodians, supporting trade affirmations/confirmations, trade instructions, settlement confirmations, cash instructions and cash and security position status.

**TRADE PROCESSING & SETTLEMENT** Trades entering the custody system are auto-matched and confirmed to CDS (Canadian Depository for Securities) and its U.S. equivalent, DTC (Depository Trust Company). Discrepancies are flagged, reported to the client and updated with fail codes. If matched, trades automatically settle on the settlement date and the clients' securities and cash positions are updated. Each day, the service team validates the CDS Daily Settled Trades Report against the settled transactions in the system. CIBC Mellon offers contractual settlement of buys, sells and maturities for issues publicly traded on recognized exchanges in 47 countries. All other markets across all asset classes and registration locations, including physical delivery of securities, settle on the actual settlement date.

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**Exhibit 1** CIBC Mellon Asset Servicing Business Functions (Continued)

#### CORE ASSET SERVICING BUSINESS FUNCTIONS:

**ACCOUNTING** The CIBC Mellon accounting system integrates both Canadian and international securities on a single platform. This trade date, multicurrency system reflects cash movements on the actual settlement date and security transactions on the trade date. Integrated with its custody system, the accounting system manages derivative investments and accommodates both pending trades and income accruals.

**SAFEKEEPING** CIBC Mellon provides a secure facility for the safekeeping of stocks, bonds, notes and other securities—in both physical and book-based environments. It ensures assets are held securely and recorded accurately in its custody system. These two objectives are accomplished by performing an annual depository risk assessment along with regular reconciliation of physical vault and depository positions.

**CORPORATE ACTIONS** CIBC Mellon has a Corporate Actions Security Capture and Delivery Engine (Cascade) to keep it informed on all relevant announcements, while providing clients and their investment managers with instant access to information. It provides notification within hours of receipt of notice, with immediate encumbrance of position on receipt of response, and instant settlement on receipt of payment. Its online, real-time mandatory and voluntary corporate action and class action notifications enable clients to respond to events quickly. The most comprehensive sources of corporate action information for Canadian, U.S. and international markets are used, comparing vendor data to ensure accuracy and timely notification is provided to clients.

**INCOME COLLECTION** The system automatically accrues for all interest and dividend income for each security, providing the amount in local currency prior to the payable date. A contractual income policy for dividends, interest and maturities is offered in which CIBC Mellon guarantees to pay income on the day it is due; amounts are credited to client accounts regardless of receipt of payment. In non-contractual markets, income is credited upon actual receipt of funds. Assets must be held in the depository or registered in CIBC Mellon's name or its agent's nominee name. The funds are credited in local currency on the pay-date, unless otherwise specified.

**ONLINE REPORTING** Workbench offers a wide array of browser-based information capabilities allowing customers to effectively manage, evaluate and report on their individual or consolidated portfolios. The key features range from access to market news and analysis to a fully-secured virtual meeting place to performance analytics and monthly statements. Workbench cash availability and forecast reports are updated in real-time during business hours and also include custody share reports, pending trades, transaction settlements, corporate action notifications and cash balance projections of portfolios. The reporting feature, Workbench Express, facilitates the automatic distribution of reports to a designated printer, a local network drive, an e-mail account or an FTP server, all without manual intervention.

**PERFORMANCE & RISK ANALYTICS (P&RA)** This unit provides performance measurement, attribution, and investment analysis services to over 1,800 institutional investors in 50 countries and is responsible for US\$8.2 trillion in assets under measurement. In Canada, it has 151 clients using performance measurement services and products. Its suite of value-added products and services includes tools for performance measurement, portfolio analytics and universe comparison. Its performance measurement systems are fully integrated with CIBC Mellon's systems.

#### CAPITAL MARKETS FUNCTIONS:

The following two functions constituted the asset servicing business's capital markets functions:

**FOREIGN EXCHANGE** CIBC Mellon executes foreign exchange (FX) transactions through the trading desk of one of its corporate parents. From the perspective of the counterparty to the transaction, CIBC or BNY Mellon deals as principal directly with its clients. Only one step is required to execute a trade and instruct for settlement, reducing operational risks and duplication of tasks. CIBC Mellon has neither a principal nor broker role in the transaction but acts simply as a service provider. It facilitates the transactions required to support clients' global trading activity, providing a complex FX trading solution from initiation and execution to settlement and reporting.

**GLOBAL SECURITIES LENDING** The company delivers client-tailored solutions to the 120 institutional clients participating in its in-house program. Beneficial owners for whom securities are lent include pension funds, government agencies, insurance companies, mutual funds, asset managers and pooled funds. The focus is on the strategic development of new products and services to enhance client revenue performance, with a commitment to product collateral and risk management. Global One is used—the lending system of choice for more than 70 financial institutions in over 20 countries—designed by top market participants.

Source: Company materials.

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