

THE ASSOCIATION OF GLOBAL CUSTODIANS

The Bank of New York
Brown Brothers Harriman
The Chase Manhattan Bank
Citibank, N.A.
Deutsche Bank AG
Investors Bank & Trust Company
Mellon Trust/Boston Safe Deposit
& Trust Company
The Northern Trust Company
State Street Bank and Trust Company

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Washington, D.C. 20006

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April 30, 2001

VIA FACSIMILE AND AIR COURIER

Secretariat to the CPSS-IOSCO
Joint Task Force on Securities Settlement Systems
Bank for International Settlements
CH-4002 Basel, Switzerland

Re: Recommendations For Securities Settlement Systems: Report of the CPSS-IOSCO Joint Task Force on Securities Settlement Systems

Ladies and Gentlemen:

The Association of Global Custodians ("Association"), an informal group of nine banks that are major providers of global custody services to institutional investors,¹ submits this letter in response to the January 2001 Consultative Report of the CPSS-IOSCO Joint Task Force on Securities Settlement Systems. The Association appreciates the opportunity to comment on the Joint Task Force's recommendations. We recognize that the consultation period closed on April 9, 2001, and apologize for submitting this letter after the comment deadline.

The Association has a deep interest in the standards that apply to the financial infrastructure through which securities trading, payment and settlement, and custody occur in the securities markets around the globe. We estimate that the members of the Association are custodians for, in the aggregate, over \$27 trillion in institutional assets, a substantial portion of which are invested in securities that are held outside of the

^{1/} The members of the Association are The Bank of New York, Brown Brothers Harriman & Co., The Chase Manhattan Bank, Citibank, N.A., Deutsche Bank AG, Investors Bank & Trust Company, Mellon Trust/Boston Safe Deposit & Trust Company, The Northern Trust Company, and State Street Bank and Trust Company.

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home jurisdiction of the investor. The great majority of these assets are held through a chain of subcustodians and other intermediaries that ends in an account at central securities depository. Accordingly, the member banks of the Association devote substantial professional talent and financial resources to reviewing and monitoring the securities settlement systems, including securities depositories, and related facilities in the world's various securities markets. The strength, soundness, and transparency of this infrastructure is key to the efficient operation of the business of global custody and to the safety of the assets of the clients of Association members.

For these reasons, the Association has reviewed with considerable interest the CPSS-IOSCO recommendations. We support the recommendations and believe that they are an important step toward the development of uniform benchmarks by which components of the clearance, settlement, and custody systems of each market can be assessed. At present, one of the difficulties in reviewing and evaluating financial infrastructure across markets is the lack of uniform standards and the absence of guidelines or norms against which varying practices and institutional structures can be compared. While we understand that the Joint Task Force's report is not the end-point in the development of such standards and norms, it is an important development.

In this regard, we particularly endorse Recommendation #17. Recommendation #17 states:

CSDs and central counterparties should provide market participants with sufficient information for them to accurately identify and evaluate the risks and costs associated with using the CSD or central counterparty services.

The Association of Global Custodians has direct experience with the challenges inherent in obtaining uniform information concerning depositories and evaluating depository risk. During the past several months, the Association has gathered information concerning the central securities depositories operating in 81 countries. The Association obtained this information by circulating a 98-item questionnaire, devised by the members of the Association, to 131 depositories.

The genesis of the Association's depository information-gathering project was the adoption by the U.S. Securities and Exchange Commission of Investment Company Act Rule 17f-7.² Rule 17f-7 sets forth the circumstances under which U.S. investment

^{2/} See Investment Company Release No. 24424 (April 27, 2000), 65 FR 25630 (May 3, 2000). Rule 17f-7 is Appendix A to the enclosed report.

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companies may hold securities through the facilities of non-U.S. securities depositories. A principal requirement of Rule 17f-7 is that an investment company must receive from its "Primary Custodian" an analysis of the custody risks associated with maintaining assets with each depository it uses.³

The purpose of the Association's depository questionnaire is to gather basic, factual information concerning depositories in order to assist members in preparing the risk analyses required under Rule 17f-7. The questionnaire is not intended to limit or fully define the type information that should form the basis for such an analysis, and individual custodians may choose to draw on additional sources of information in the preparation of particular risk analyses. We believe, however, that the questionnaire responses will provide a pool of factual information concerning depositories that was not previously available. Association member banks will use this information, along with other data, to prepare the required depository risk analyses.

The Association was extremely pleased with the responsiveness of the vast majority of the depositories we contacted and with their willingness to supply information. The Association has prepared a booklet entitled Depository Information-Gathering Project: A Report For Clients and Participating Depositories (March 20, 2001) which provides an overview of the project. The booklet contains a list of participating depositories and a copy of the Association's questionnaire. It also indicates whether depository responses are available to the general public, and, if so, how particular responses may be obtained. We thought that, in light of Recommendation #17, the Joint Task Force would find the Association's report on its depository information gathering project of interest, and a copy is enclosed.

^{3/} Rule 17f-7 does not provide specific guidance concerning the content of these analyses of depository custody risk. However, in the release announcing the adoption of the rule, the SEC stated:

"As a general matter, we expect that an analysis will cover a depository's expertise and market reputation, the quality of its services, its financial strength, any insurance or indemnification arrangements, the extent and quality of regulation and independent examination of the depository, its standing in published ratings, its internal controls and other procedures for safeguarding investments, and any related legal protections." Investment Company Act Release No. 24424 at 10-11 (notes omitted) (April 27, 2000).

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Because of the regulatory obligation to gather information concerning central securities depositories that now applies to global custodians for U.S. mutual funds, we strongly support the Joint Task Force's efforts. Our experience indicates that most depositories are willing to cooperate in requests for information. However, we believe that it is important to embody, in concrete terms, the expectation that depositories will provide market participants, such as global custodians, with sufficient data to permit accurate identification and evaluation of the risks associated with using the depository. Recommendation #17 is consistent with this goal. Indeed, while the Association supports all of the Joint Task Force's recommendations, we would urge that the final report recognize that transparency is the single most important prerequisite to confidence in the infrastructure on which cross-border investment depends.⁴

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If there is additional information that the Association can provide to the Joint Task Force, or if you have questions concerning this letter, please contact the Association's counsel, Daniel L. Goelzer, at the address above or by telephone (202/452-7013), fax (202/452-7074), or e-mail (daniel.l.goelzer@bakernet.com).

Sincerely,

The Association of Global Custodians
By: Daniel L. Goelzer

Enclosures: Depository information Gathering Project: A Report For Clients and Participating Depositories (March 20, 2001)

^{4/} Linkages between depositories are becoming increasingly common. The Association believes that it would be useful for the Joint Task Force to recognize in its report that the principle of transparency should extend to these linkages and that depositories should therefore be prepared to provide users with relevant information concerning the operation and risks associated with inter-depository links.