

MEDIA RELEASE

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Custodians flag year of change for investment and financial services sector

- **Further industry consolidation predicted**
- **Convergence of traditional banking and custody services for large financial institutions**

Sydney, AUSTRALIA – The peak body for Australia’s growing custodial and investment administration sector has flagged major changes ahead for custody providers and their institutional investment clients, predicting further consolidation and regulatory hurdles for Australia’s investment and financial services community.

The Australian Custodial Services Association (ACSA) represents members holding securities in excess of \$1.8 trillion in custody and under administration (as at 31 December 2009), and employing almost 4,000 people.

Opening the annual *ACSA/I&T Risk and Responsibility – Investment Administration Conference* in Sydney today, ACSA Chair Mr Bryan Gray said the aftermath of the GFC had established a “new world order” for Australia’s investment and financial services community – driving further consolidation as well as a raft of new regulation which will prove challenging to absorb and could impact efficiencies.

Mr Gray cited recent transactions amongst major brands such as NAB/Aviva, ING/ANZ and ANZ/J.P. Morgan, predicting more M&A activity as well as a new round of major outsourcing deals as restructuring asset management businesses look to outsource the day to day management of middle and back office operations.

“A key change we are noticing is the convergence of institutional services across the traditional bank and custody divide. Major global banks providers are bringing their own operations together to provide traditional treasury, prime broking and cash clearing services alongside the spectrum of custody and securities services that have been developed to support Australia’s superannuation and institutional investment community,” Mr Gray said.

“This will create greater efficiency for larger institutional clients as well as benefit custodians who can integrate previously segregated businesses to create a seamless solution for clients.”

Regulatory balancing act

Mr Gray said following a circumspect 2009, the pendulum had now swung from de-regulation towards greater regulation with the new raft of new policy changes expected to have a major long-term impact on the Australian financial system.

For example, the implementation of the government's new TOFA (Taxation of Financial Arrangements) reforms, due to commence from 1 July 2010, is presenting substantial challenges to Australia's institutional investors as well as custodians who will in large part administer the changes.

Mr Gray said that although post GFC regulatory impacts in Australia had not been as significant as overseas, there was a fine balance between regulation and efficiency. In December 2009 ACSA provided a submission to the Cooper Review in relation to its Stage 2 Operation & Efficiency review. The submission makes a number of observations, including commentary on prudential, taxation and accounting regulation.

"ACSA's concerns are not around the merits of proposed government policy, rather the extreme complexity of the implementation of new rules," Mr Gray said. "Complex and impractical regulation is an absolute barrier to automation, increases operational risk, and cannot generally benefit from economies of scale – all major impediments to the industry's drive to streamline the efficiency of Australia's ever growing financial services sector.

"Custodians are well placed to help the government drive its efficiency agenda through the ability to leverage global operations, global systems and centres of excellence. We still have some way to go as an industry to help educate policy makers and regulators that, while perhaps it's good to be different from the rest of the world in certain areas, being too different in accounting, taxation and investment administration creates unnecessary inefficiency and hinders the competitiveness of Australian institutions on the world stage."

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About the Australian Custodial Services Association (ACSA)

Established in 1994, the Australian Custodial Services Association Limited (ACSA) is a company limited by guarantee and was set up to represent the interests of the custodial and asset administration industry in Australia. ACSA currently represents members holding securities in excess of \$1.8 trillion in custody and under administration (as at 31 December 2009), and employing almost 4,000 people. For further information on ACSA please go to www.custodial.org.au.

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