



VI. GENERAL ASSEMBLY OF ACSDA

INDUSTRY UPDATE - THOMAS MURRAY

Derek Duggan, Thomas Murray

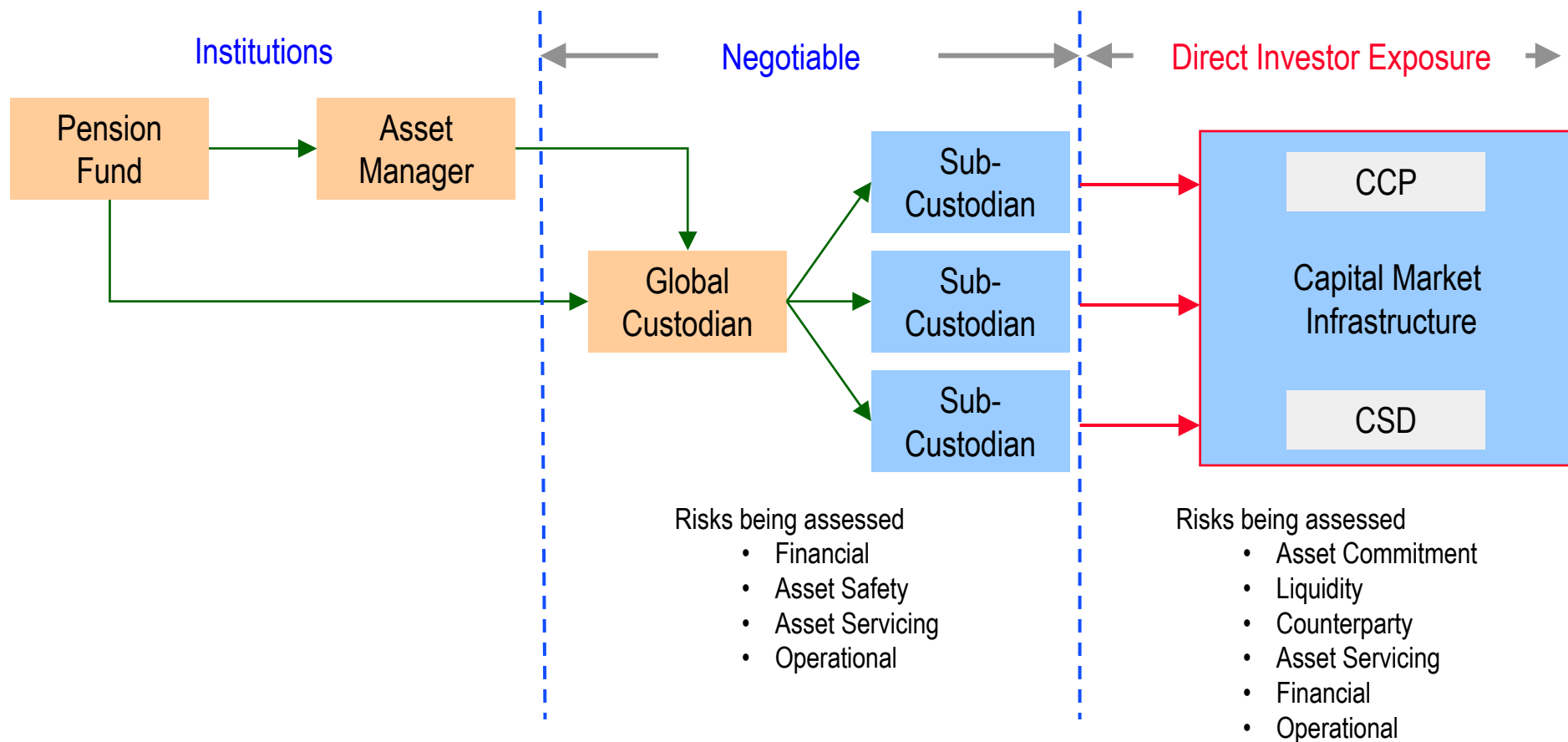
Caesar Park Hotel, Buenos Aires, Argentina
28 April 2004

Agenda

- Thomas Murray Update
- Depository Service Update
- Data Sharing Initiative Update
- Capital Market Infrastructure Risk Ratings



Core Risk Exposures Assessed by Thomas Murray



Funds need to understand the risks that they are exposed to through the use (directly or indirectly) of global custodians, agent banks and CSDs



Thomas Murray 10 Years Old

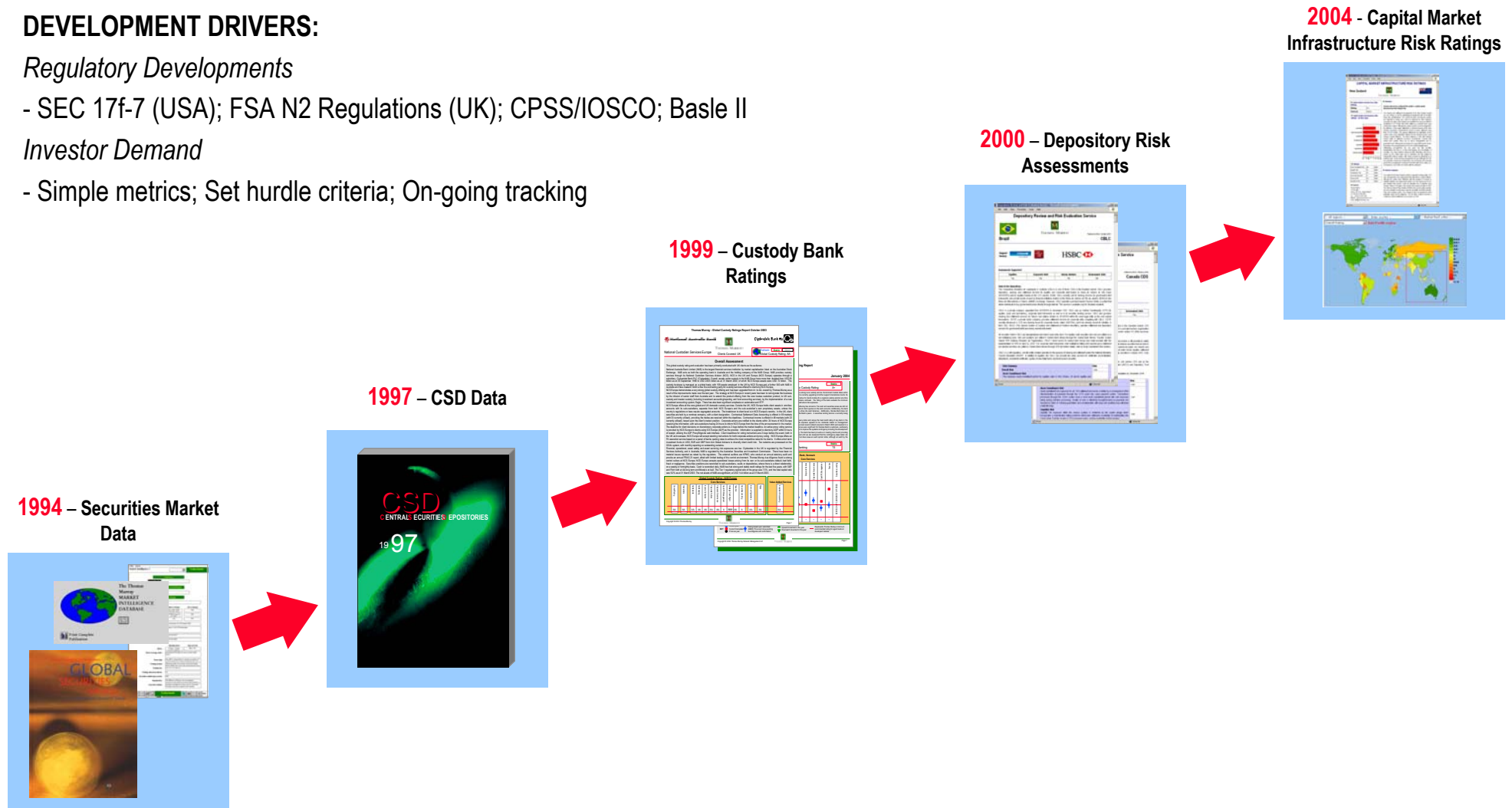
DEVELOPMENT DRIVERS:

Regulatory Developments

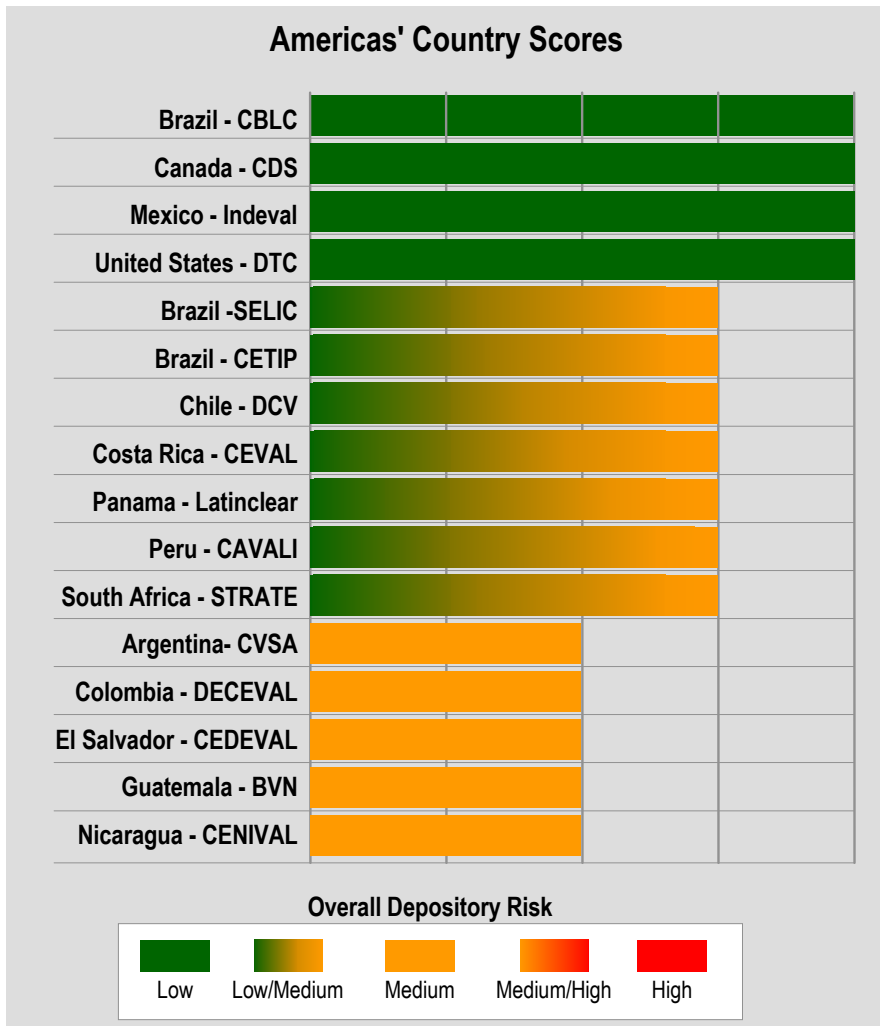
- SEC 17f-7 (USA); FSA N2 Regulations (UK); CPSS/IOSCO; Basle II

Investor Demand

- Simple metrics; Set hurdle criteria; On-going tracking



Depository Service Update



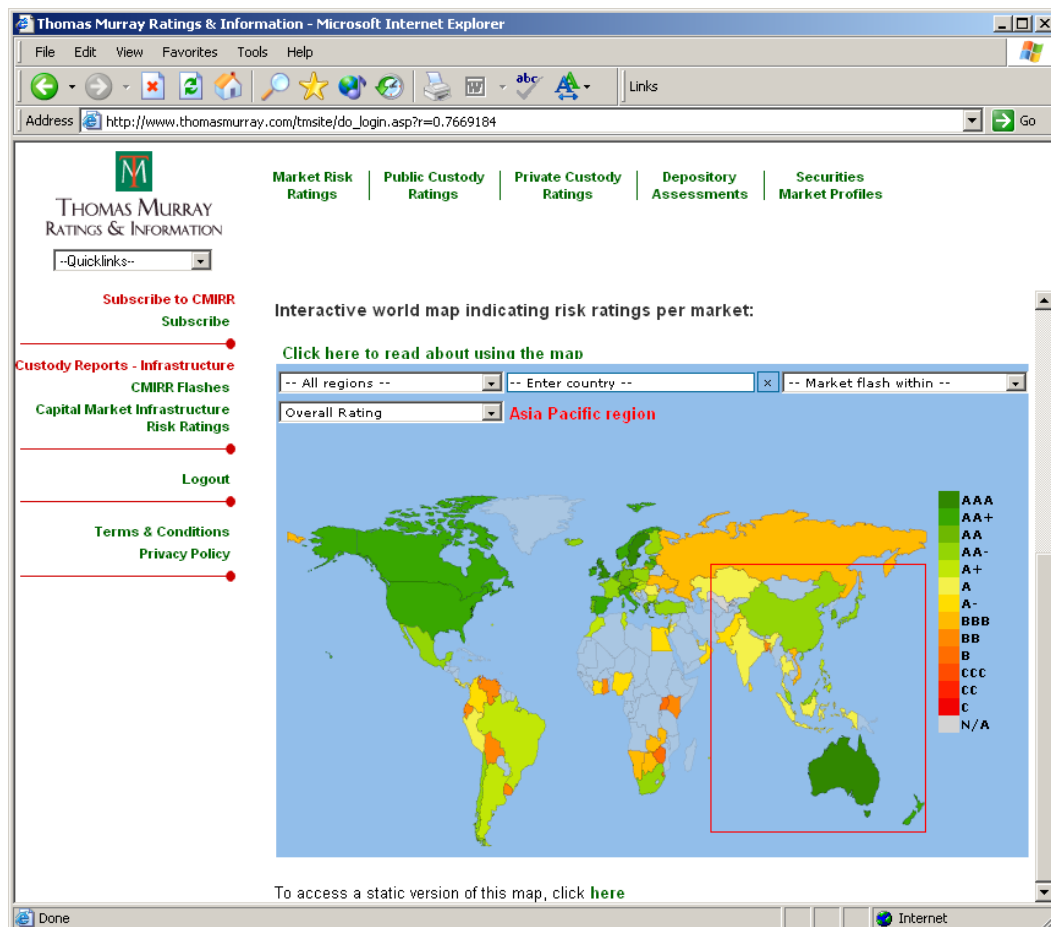
- Track 31 CSDs in the Americas
- Daily Surveillance on all CSDs
- All CSDs have “Editor” access to their respective data and Depository Assessment on www.marketsselect.com
- Depository Assessments moved to HTML format
- Asset Servicing Risk completed for all ACSDA members

Data Sharing Initiative Update

- ACSDA V Thomas Murray Discussions - Promote and facilitate the cross sharing of information amongst members
- Letter from ACSDA Executive Committee in March 2004 recommending member acceptance
- Proposal:

- A. Thomas Murray will create a White Label Site of our information website.
- B. Branded according to the existing ACSDA website members can access the following Thomas Murray Depository Service output via www.acsda.org:
 - ✘ Full access to ACSDA members' data held by Thomas Murray
 - ✘ Access to ACSDA members' summary risk assessments
 - ✘ Full Editor access to your own Depository data and assessments

Capital Market Infrastructure Risk Ratings



- Over two years in development launched in 2004
- A definitive rating of risk exposures within local capital market infrastructures
- Tracking 89 markets using the standard AAA through C rating notations.
- Daily notification of changes and how they impact risk exposures

Capital Market Infrastructure Risk Ratings Methodology

CAPITAL MARKET INFRASTRUCTURE RISK RATINGS

New Zealand

THOMAS MURRAY

Capital Market Infrastructure Risk Ratings

Rating:	AA-
Outlook:	Stable

Summary

Thomas Murray has assigned this market a capital market infrastructure risk rating of AA-

The clearing and settlement arrangements in the New Zealand market are very strong, as are the safekeeping arrangements with all securities being fully dematerialised. The overall economic and financial systems are regarded as being very sound as evidenced by New Zealand's sovereign risk rating. New Zealand has benefited from having an effective simultaneous DVP system with trades settling on a real-time basis using central bank systems. Although the systems result in sound arrangements, the efficiency of the equity settlements is reduced because of the New Zealand Exchange's requirement for broker to broker settlement using their FASTER system. This requires settlement to be undertaken on two systems when closer integration between the two market providers could enhance market efficiency. The other weakness in the New Zealand market relates to settlement assurance arrangements. Common with central bank systems, there are no buy-in arrangements and no guarantee funds. Although the exchange has a guarantee fund for broker transactions, the arrangements for its use are not that straightforward. Safekeeping arrangements are very good and with securities dematerialised the focus is on the book-keeping and reconciliation of securities. The New Zealand Central Securities Depository (NZCSD) is backed by the central bank and its operations are fully audited by independent external auditors with results provided to participants on a quarterly basis. Asset servicing arrangements are good although NZCSD has gradually reduced its involvement in the processing and corporate governance arrangements including involvement with proxy voting. As a consequence, much of the risk resides with the participant.

Capital Market Infrastructure Risk Ratings - By Risk Types

Overall Rating	AA-
Asset Commitment Risk	AA+
Liquidity Risk	AA-
Counterparty Risk	AA
Financial Risk	AA+
Operational Risk	AA
Asset Servicing Risk	AA

Outlook

Asset Commitment Risk	AA+	Stable
Liquidity Risk	AA-	Stable
Counterparty Risk	AA	Stable
Asset Servicing Risk	A+	Stable
Financial Risk	AA+	Stable
Operational Risk	AA	Stable

Outlook Summary

The outlook for the New Zealand market is regarded as being stable. The main development is the replacement of the depository's system software. Although the system works effectively with few problems, it is based on outdated software and replacement systems are now being sourced. It is also feasible that services could be operated out of Australia using Sydney Futures Exchange's new system when it goes live later in 2004. The Reserve Bank of New Zealand (RBNZ), the current system operator has also indicated it would leave open the possibility of another operator of the New Zealand system. Any changes to these arrangements would potentially impact all risk categories. The NZ dollar is likely to become a Continuous Linked Settlement (CLS) currency in 2004.

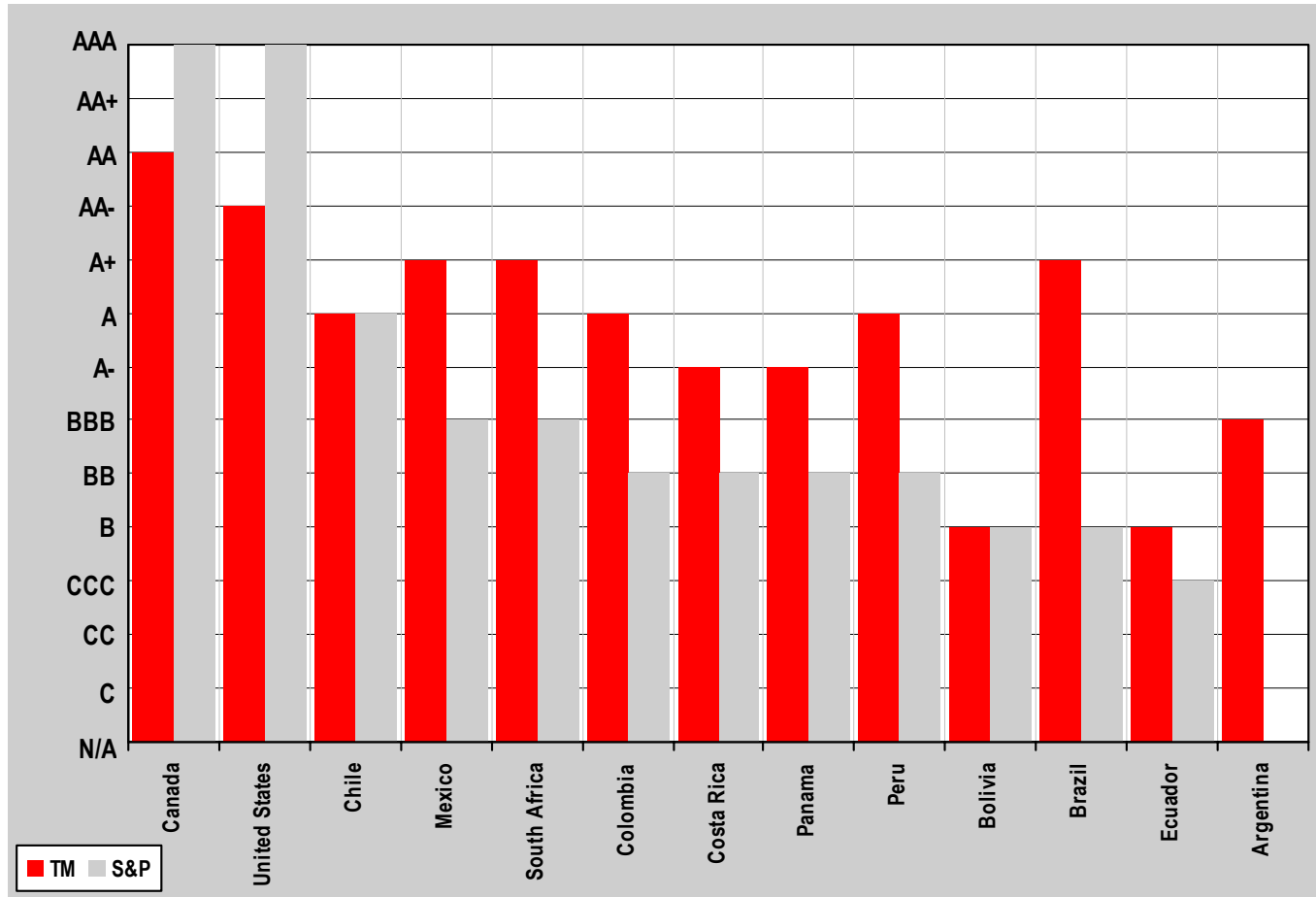
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- Depository view
- Physical view
- Other market factors
- Sovereign adjustment
- % market cap dematerialised / immobilised
- Initial rating
- Rating Policy Board
- Final rating



Capital Market Infrastructure Risk Ratings versus Sovereign Ratings



Benefits

Example

- CalPERS commissioned an investment adviser to design a new model for investing in emerging markets creating a new permissible countries review process
- Settlement proficiency was one component of the review
- On the basis of the results CalPERS announced it was pulling out of the Philippines
- It was only a year ago that the fund announced a decision to withdraw investments from the Philippines, based on the adviser's determination of that nation's stock market efficacy - only to reverse that stance a few months later after a CalPERS review determined that the Philippine stock exchange could, in fact, settle stock exchange transactions within three days of the trade date (see Philippines back on the CalPERS list). However, this time the adviser said it has "no new information that has caused any of our sources to change their evaluation of the Philippines." *Plansponsor*

Thank You



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