



# NeMa Presentation Slides

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NeMa  
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**Prepared by McLagan**

McLagan is part of Aon Hewitt, a business unit of Aon plc.

## Blythe Masters

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“If you're consistently making returns on your capital that are below your long-run cost of capital, that becomes an existential problem for financial services providers.”

**Blythe Masters | CEO  
Digital Asset Holdings**



# Are Custodian Banks Destroying Equity Capital?



RoR vs.  
Book Value



RoR vs. Mkt  
Value

**That's WACC!**  
The Web's Best WACC Calculator

RoR vs.  
Book Value

**That's WACC!**  
The Web's Best WACC Calculator

RoR vs.  
Book Value

Bank of  
New York  
Mellon

**-3.27%**

**-4.81%**

**-5.21%**

**-6.75%**

Citi

**-6.13%**

**-1.38%**

**-8.09%**

**-3.34%**

J.P. Morgan

**0.00%**

**-1.23%**

**-1.78%**

**-3.01%**

Northern  
Trust

**+2.12%**

**-3.51%**

**-0.43%**

**-5.20%**

State Street

**-0.19%**

**-2.39%**

**-1.92%**

**-4.12%**

Average

**-1.49%**

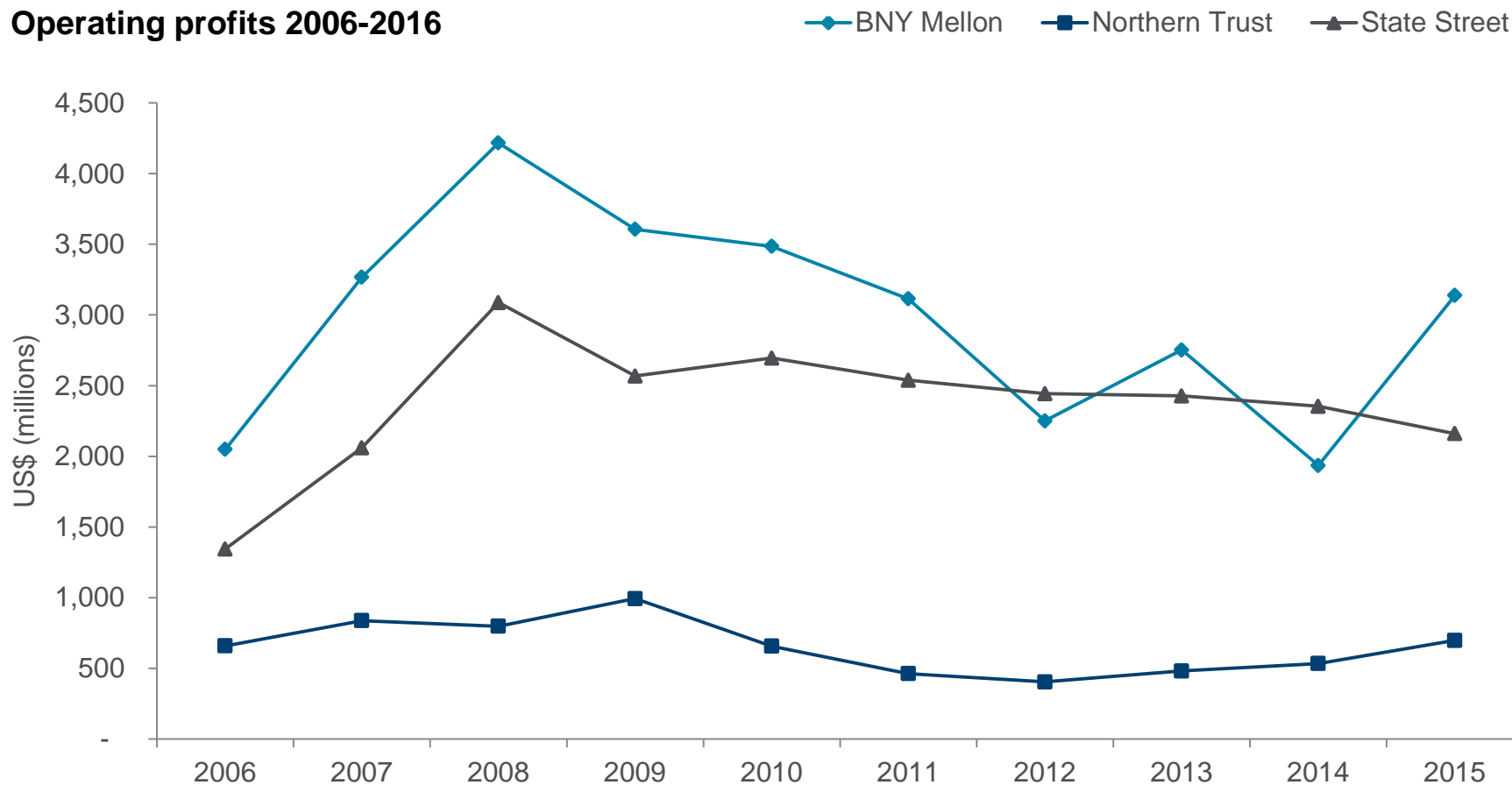
**-2.66%**

**-3.31%**

**-4.48%**

# Investment Services Profits

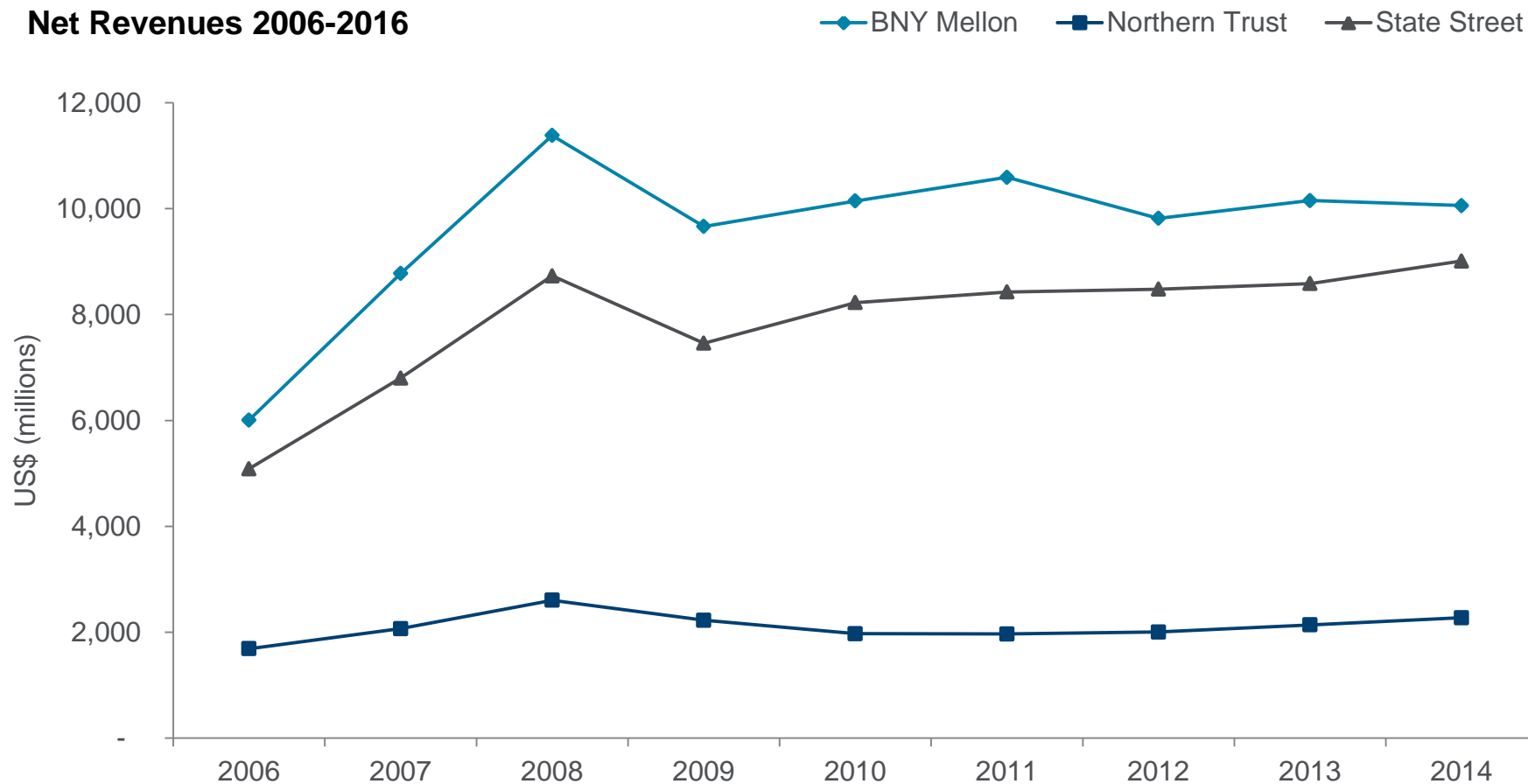
## Operating profits 2006-2016



Source: Bloomberg

# Investment Services Revenues

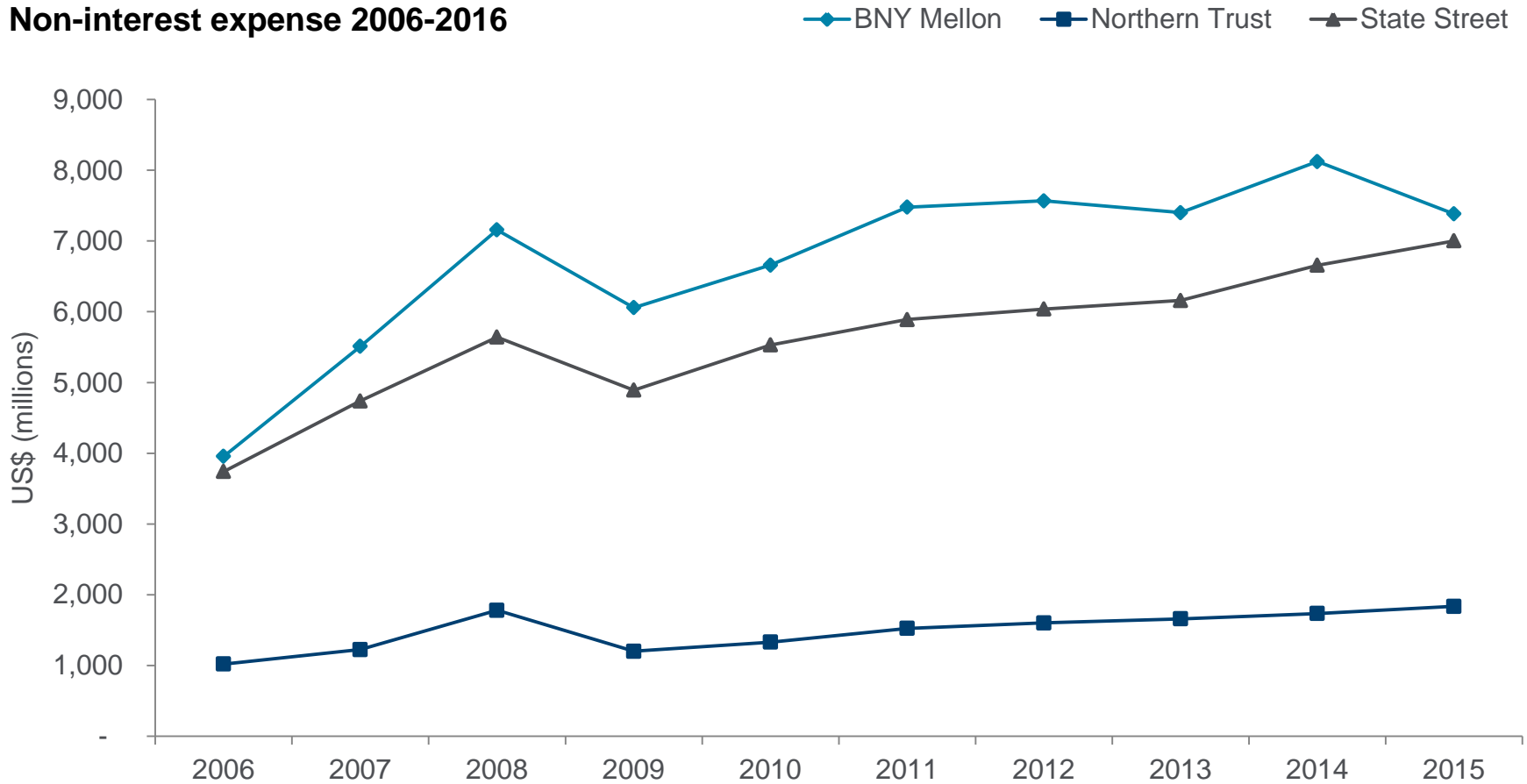
## Net Revenues 2006-2016



Source: Bloomberg

# Investment Services Costs

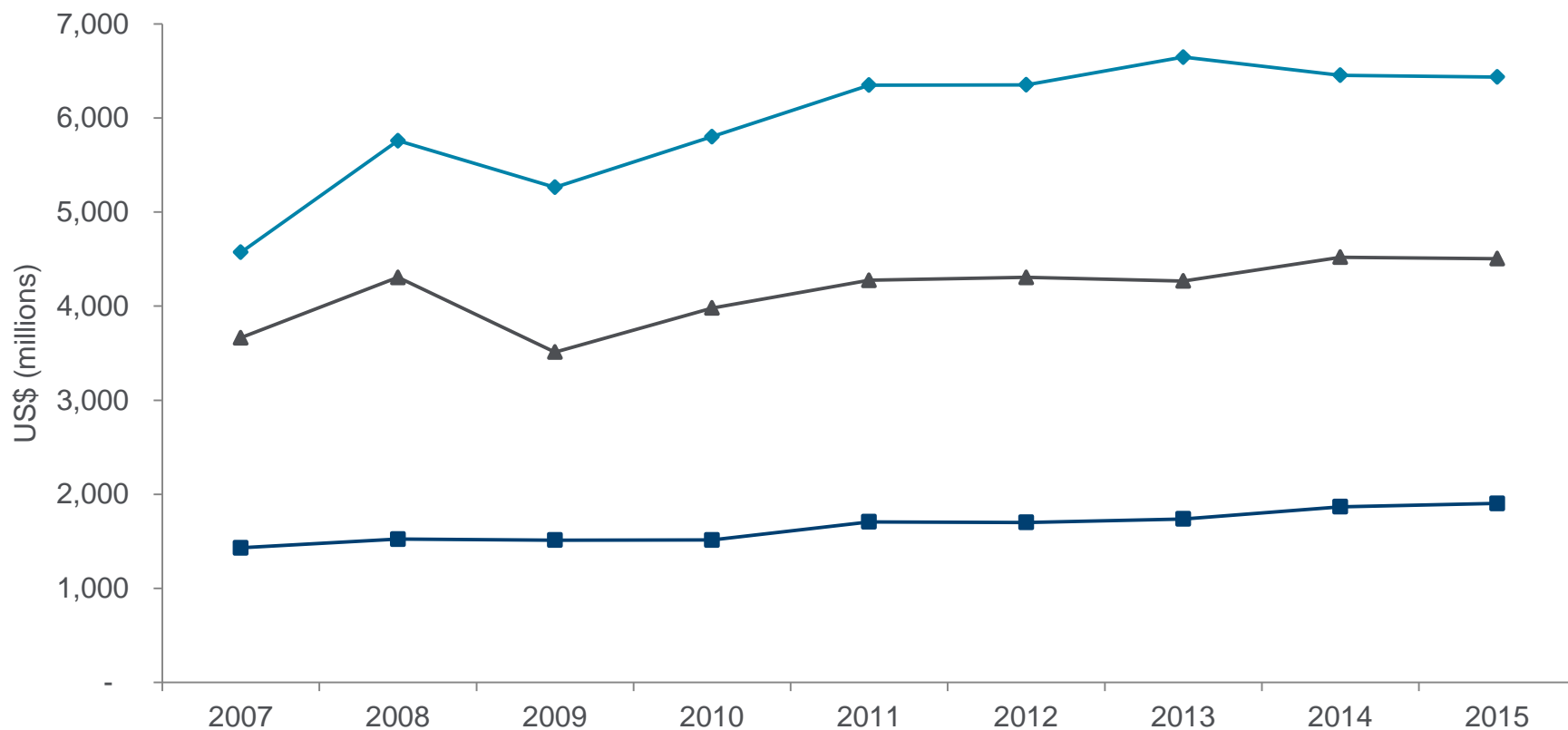
## Non-interest expense 2006-2016



Source: Bloomberg

# Compensation, Benefits and Office Space

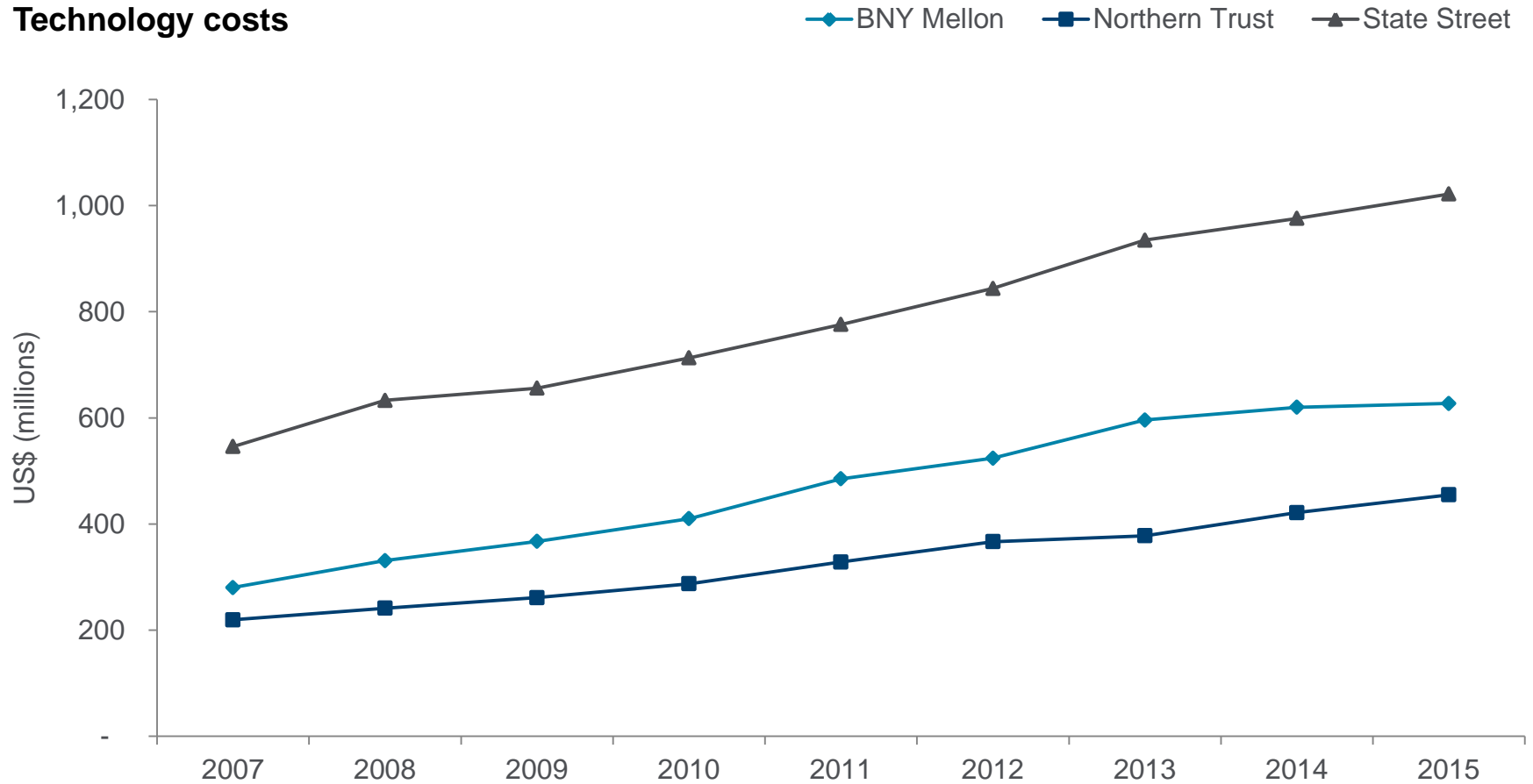
**Staff costs (compensation, benefits, office space)**    ◆ BNY Mellon    ■ Northern Trust    ▲ State Street



Source: Annual reports

# Technology Expenditure

## Technology costs

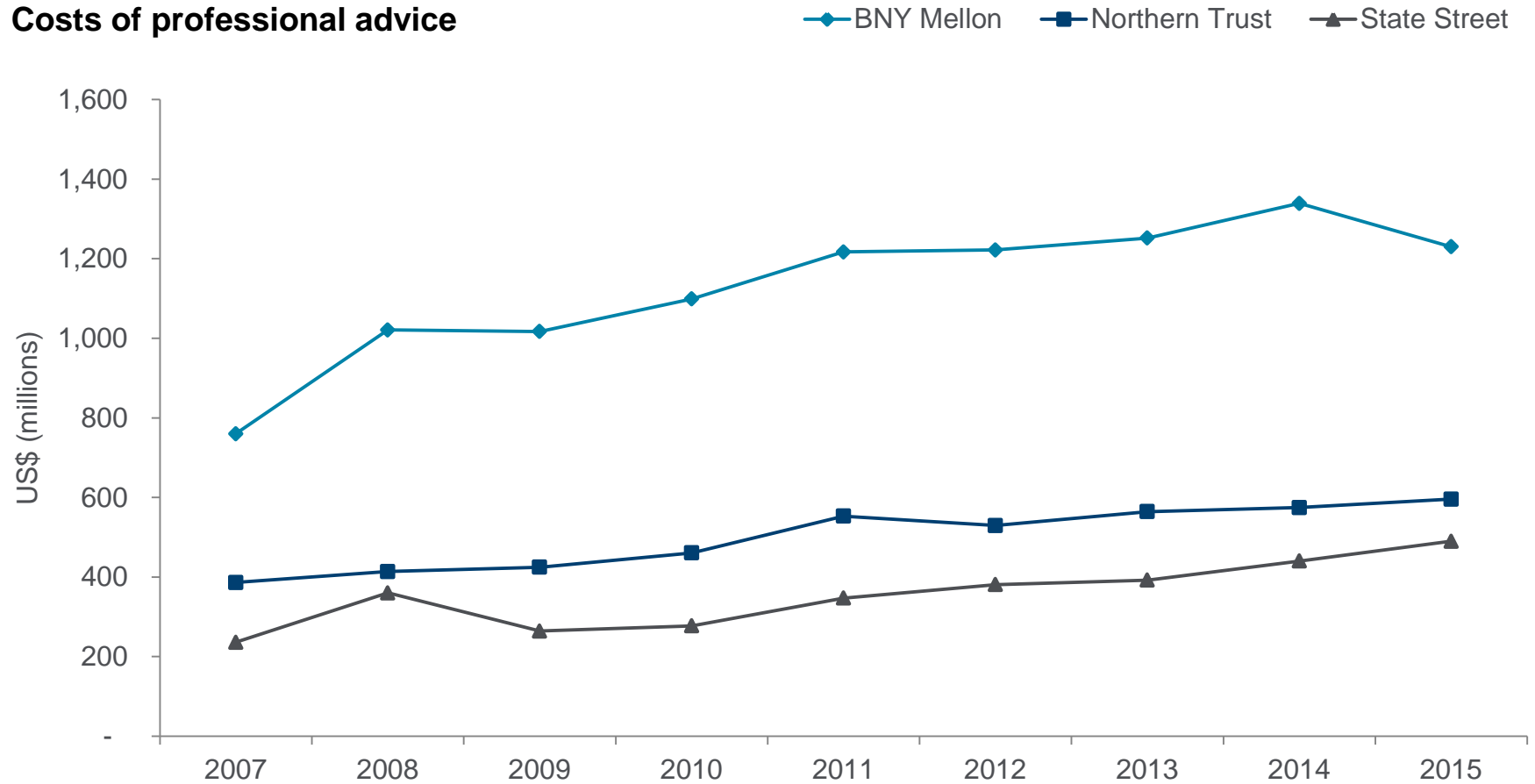


Source: Annual reports



# Expenditure on Professional Advice

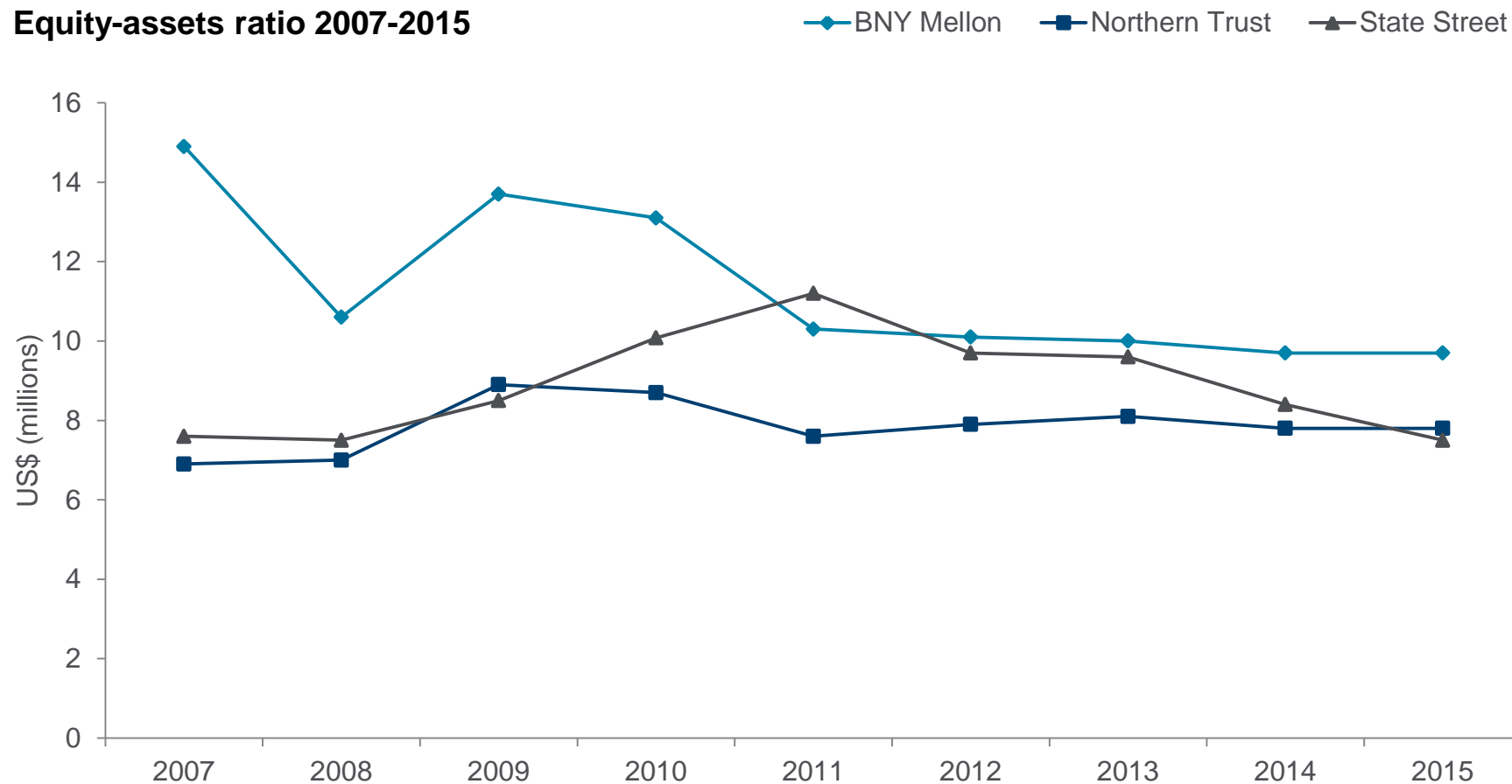
## Costs of professional advice



Source: Annual reports

# Balance Sheet Leverage

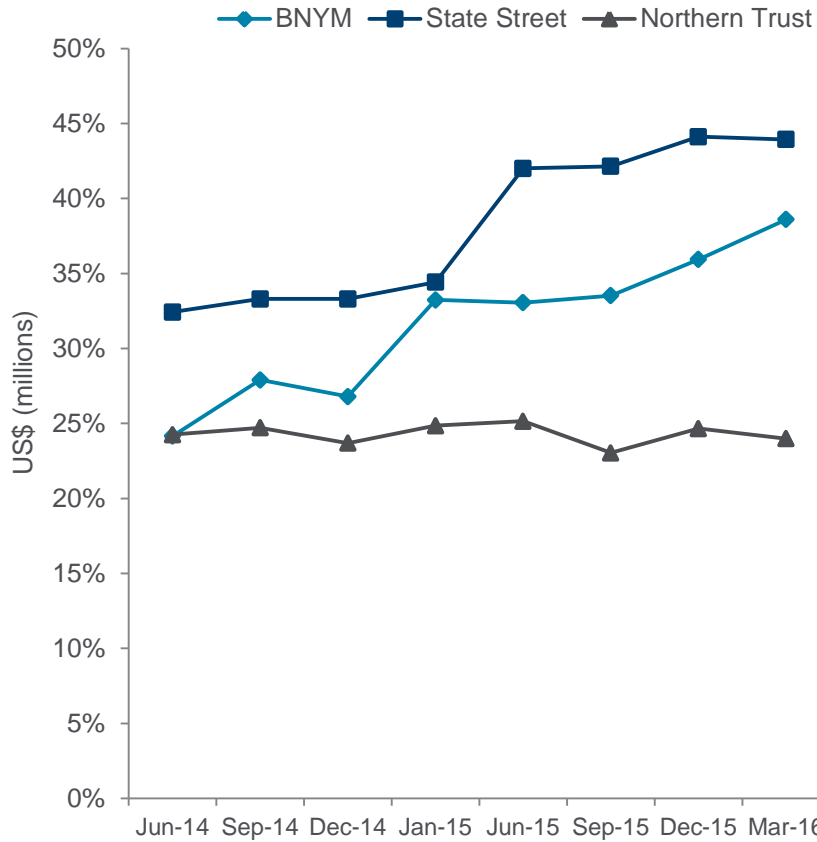
## Equity-assets ratio 2007-2015



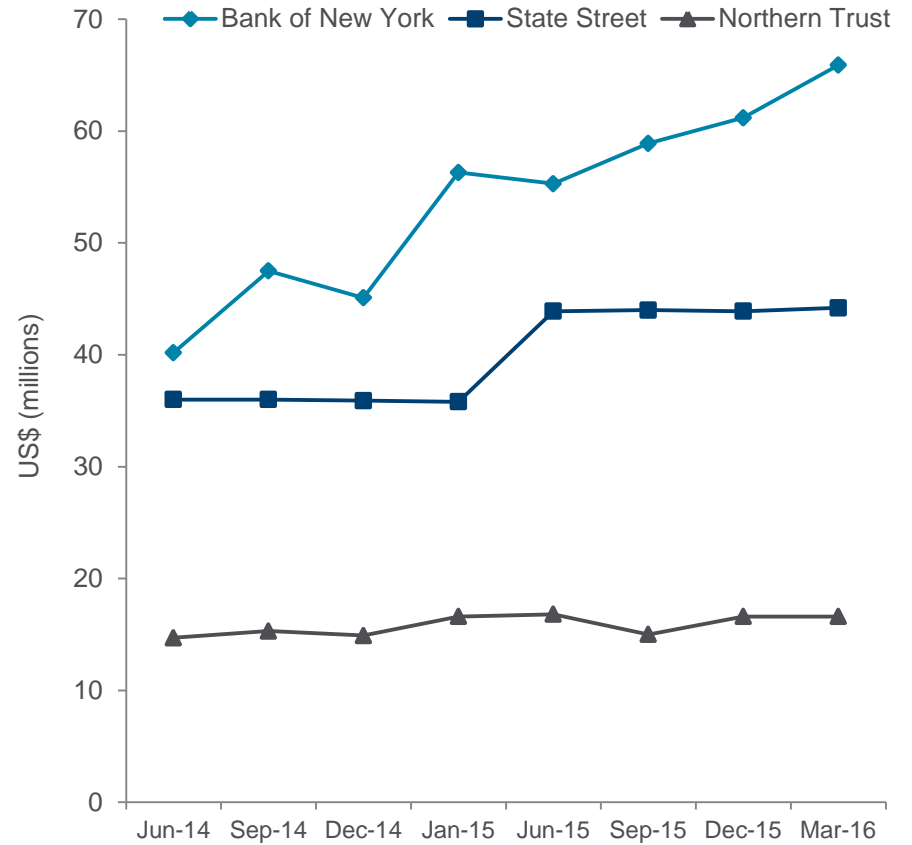
Source: Annual reports

# Capital Allocations to Operational Risk

**Operating risk capital as a percentage of total risk weighted assets (RWA)**



**Operating risk capital allocations**



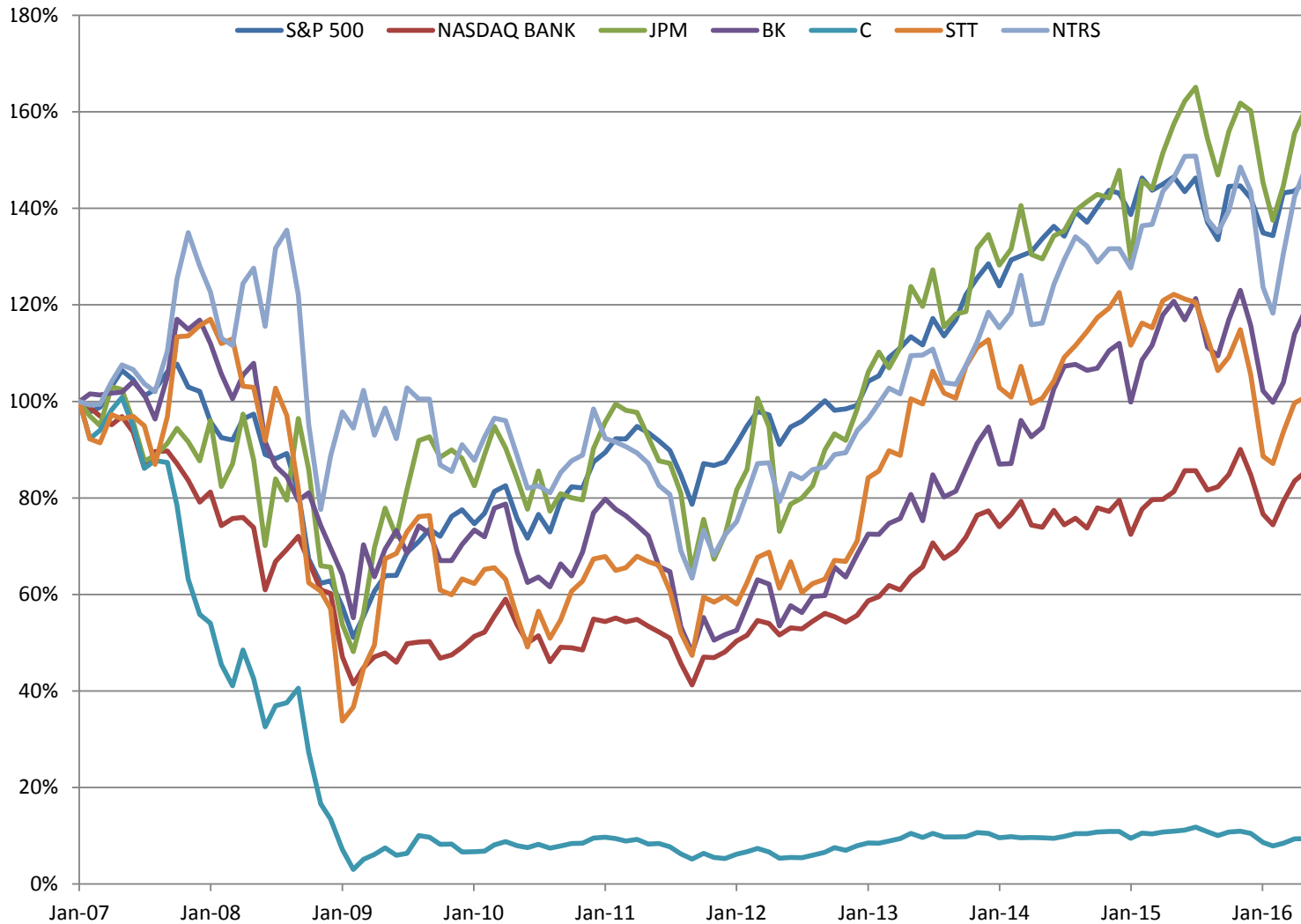
Source: Basel III disclosures

# 50 Varieties of Operational Risk

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- A:** Account structure risk (e.g. omnibus vs. segregated); Anti-Money Laundering (AML) risk; Asset safety risk; Asset segregation risk; Audit risk (e.g. controls)
- B:** Bankruptcy regime risk; Business continuity risk
- C:** Cash risk (on- and off-balance sheet); CCP risk; Collateral risk (e.g. loss, illiquidity and reinvestment); Contingency planning risk (e.g. changing sub-custodian); Contractual risk; Corporate actions risk (e.g. missed instructions); Counterparty risk; Country risk; Credit risk; CSD (and ICSD) risk; Cyber-attacks
- D:** Data breach risk; Default risk; Depository risk (AIFMD and UCITS V); Disaster recovery risk
- F:** Foreign exchange risk; Fraud risk (e.g. by employees or third parties); Fund accounting risk
- I:** Income collection risk; Indemnity risk; Insolvency risk; Insurance risk
- K:** Know your customer (KYC) risk
- L:** Legal risk (e.g. establishing ownership); Liquidity risk
- M:** Margin call risk; Market risk
- N:** Net asset value (NAV) calculation risk
- O:** On-boarding risk; Operational error risk (e.g. incorrect data processing)
- P:** Political risk; Principal risk; Proxy voting risk
- R:** Reconciliation risk (e.g. of assets); Regulatory risk (e.g. non-compliance); Reporting risk (e.g. late delivery of information)
- S:** Sanctions risk (e.g. holding assets of sanctioned state); Securities lending; Settlement risk (e.g. free-of-payment deliveries, buy-ins); Sub-custodian risk
- T:** Tax reclaims; Technology risk (e.g. inadequate capacity); Third party risk (e.g. outsourcing provider failure); Title transfer

# The Share Price Performance of five custodian banks 2003-12



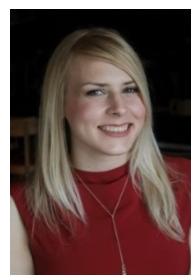
# Our Team



**Dominic Hobson** is Co-Lead of Aon McLagan Investment Services. He was one of the founders of Asset International, a publishing and events business whose titles include *Global Custodian*, where he was for many years editor-in-chief. After Asset International was sold in 2009, Mr Hobson founded COO Connect, a peer group network for fund managers, now also sold. As an independent consultant, he has delivered a variety of projects on behalf of custodian banks and financial market infrastructures, and consulted to Instant Actions, a corporate actions verification service. Dominic has written for *Financial News*, contributed occasionally to the BBC on financial markets issues, and has three works of non-fiction to his name. He was amanuensis to Nigel Lawson, former Chancellor of the Exchequer, in the preparation of his memoirs. Mr Hobson was born in Southern Rhodesia in 1958, and educated there and at Magdalene College, Cambridge. He spent four years in investment banking before electing in 1988 to work for himself. Mr Hobson is also co-founder of the Future of Finance conference held at the Saïd Business School in Oxford, a member of the Innovate Finance Policy Advisory Board, and served on the Government Office of Science group of experts on distributed ledger technology.



**Keith Amos** is an Associate Partner in McLagan's London office and Co-Lead of McLagan Investment Services. Mr Amos has worked at McLagan since 2004 and heads up the financial benchmarking capabilities for Investment Services. In his time at McLagan he has worked within the Performance business (and part of TRP), having previously worked on the financial benchmarking product for Investment Banks covering the capital markets business. He relocated to New York where he spent four years in a number of different client-facing and relationship management roles. Prior to joining McLagan Mr Amos worked for a number of investment banks in mainly operational roles including time with Standard Chartered Bank, Deutsche Bank, Lehman Brothers and Salomon Brothers (at Lehman and Salomon he worked on the trading desk with a specific focus on Emerging Markets). After leaving Salomon in 1999 he joined MIB Partners, a financial benchmarking Start-Up which was subsequently purchased by McLagan Partners, an Aon Company, in 2004.



**Allison Cayse** is a Manager within Aon McLagan Investment Services, which she joined this year. Ms Cayse has more than 12 years' experience of the investment services industry, having joined *Global Custodian*, a trade magazine dedicated to the industry, as its surveys editor in 2004. In that role, she was responsible for the day-to-day management of more than a dozen surveys of various aspects of the investment services industry, including global custody, direct custody and clearing in major and emerging markets, central securities depositories (CSDs), hedge, mutual and private equity fund administration, securities lending and financing, and prime brokerage. In addition, Ms Cayse headed up relationship management and client services for the surveys group, and managed the technical team which scripted surveys, analysed the results and prepared research reports for clients. Ms Cayse also contributed regularly to the editorial content of the magazine, and helped to conceive, develop and manage its annual survey awards events in Hong Kong, London and New York. She is a graduate of the Scripps School of Journalism at Ohio University, where she majored in journalism, and minored in Economics and German. She also earned a master's degree in European Cultures at Birkbeck College, University of London.



**Sophie Chapman Daws** is a Manager in McLagan's London office and works with Mr Amos as part of the Performance business and the McLagan Investment Services team. In her role within the McLagan Investment Services Ms Chapman-Daws supports all our benchmarking efforts and capabilities from an execution perspective with additional responsibility for managing and developing the reporting and analyses we deliver to our clients. Additionally she is currently working with our partners within the Compensation team on a new initiative to develop an analyses that is able to join together the financial performance benchmarks with the detailed pay data to create a performance and reward solution to our clients. She joined McLagan in December 2013 having previously worked for Benchmarkers where she was responsible for the running of the Insurance benchmarks. Sophie graduated from LSE with a background in Mathematics and Economics.

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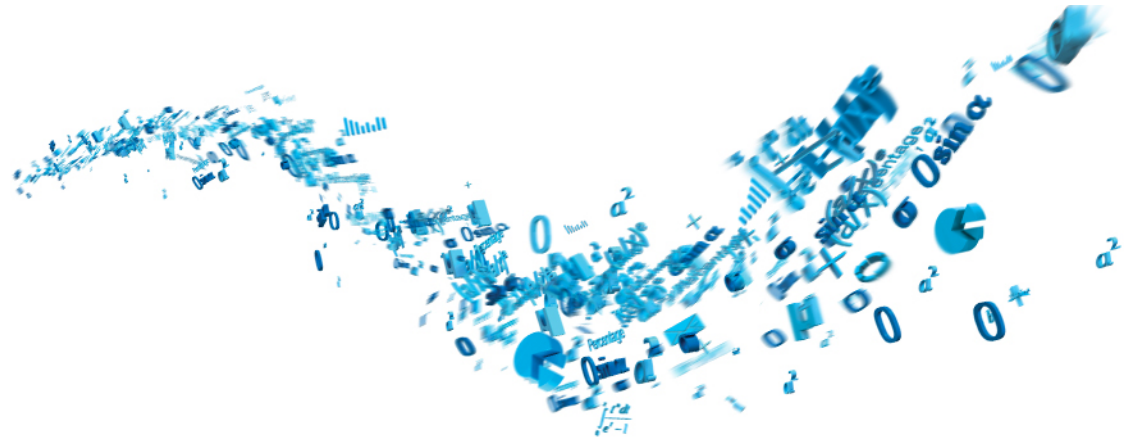
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## About McLagan

McLagan provides tailored talent, rewards, and performance expertise to financial services firms across the globe. Since 1966, we have partnered with the largest and smallest financial services firms to help them make data-driven decisions to hire, retain, and engage the top talent for keeping the global economy running. Our compensation surveys are the most comprehensive, in-depth source of rewards data covering over 150 countries from more than 2,500 clients. Our consultants work with hundreds of firms annually to design total rewards programs and benchmark financial performance for boards of directors, executives, employees, and sales professionals.

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