

Federal Reserve Bank of Boston

To: Basel II ANPR Public File**Date:** June 7, 2004**From:** Patrick deFontnouvelle and
Victoria Garry**Subject:** Meeting with State Street Global
Advisors

Attendees: Representative from State Street Global Advisors (SSGA): Peter Ambrosini, Senior Principal. Federal Reserve Bank of Boston representatives: Patrick deFontnouvelle and Victoria Garry.

Purpose: To obtain information on competition in the asset management business in connection with a study to assess the competitive impact of the Basel II Operational Risk capital charge.

Perspective: SSGA is the investment management group of State Street Corporation. SSGA is one of the world's largest asset managers with \$1.2 trillion in assets under management and nine investment centers throughout the world. SSGA provides strategies on the whole spectrum of investing from passive to fundamentally active. SSGA's business is managing client funds. The company is not engaged in proprietary management. SSGA focuses on managing funds for the institutional investor.

Key Points Discussed:*(1) Competitors*

SSGA views its competitors to be companies such as Fidelity, Putnam, and Vanguard. Fidelity and Vanguard each have a large institutional business. In general, SSGA views its competitors to be those providing pooled vehicles rather than individual accounts.

The largest asset managers could be separated into three categories: bank, insurance company, or standalone asset manager. SSGA looks at organizational structure in determining its competitors. For example, Merrill Lynch has an asset management arm and a brokerage arm. SSGA views itself to be in competition with the asset management division, but not the brokerage.

(2) Private Wealth Management

SSGA does not provide private wealth management (PWM), although other U.S. nonbank asset managers do provide this service. Certain U.S. and multinational banks are also in this market. Companies under the Citigroup and JP MorganChase umbrellas are significant players in the global PWM market, while Bank of America is a significant player only within the U.S. Multinational banks such as UBS and Credit Suisse are also in this market. State Street got out of this business as it requires a company to maintain commercial banking activities, a business that State Street does not want to be in.

(3) *Defining the asset management market.*

In defining the asset management market, the two biggest factors are size/scale of the asset manager and the geographies in which they are located. Also figuring into the market definition is the type of client in which the manager specializes (tax-exempt, retail, etc.) and the types of investment vehicles offered.

A great source of information on competitors is consulting companies such as Frank Russell, SEI Investments, and Callan. These firms provide lists to institutional investors of the top asset managers for various types of investments.

In summary, the geography of the market should be defined first (global vs. national). Then the market could further be defined by focusing on asset classes (equities, fixed income, and cash). Then it could be broken down further into institutional vs. retail. After this level, the market could be broken down by strategies within institutional and retail investment.

(4) *Capital*

Peter stated that nonbank asset managers have a cushion against operational losses in the form of retained earnings. Even if a nonbank asset manager is not highly leveraged, the company has an option to reduce the amount of capital it holds without any regulator getting involved. This option has value and provides the nonbank with flexibility that an asset manager associated with a bank would not have.

(5) *Geography*

Some countries require a physical presence in their country if an asset manager is going to manage pension funds in that country. In order to be a global player, an asset manager must have a presence in certain major financial markets. U.S. asset managers compete in Europe with European asset managers and vice versa.

A physical presence in a market is important to business growth and development.

If the geography of the asset management market was defined globally, one could define competitors as those having a presence in a group of certain key markets. Fidelity, Wellington, and Goldman Sachs are global players while Vanguard and Putnam are mostly U.S.

(6) *Subadvisory Market*

The subadvisory market could be viewed together with the institutional market as they each involve the same group of competitors. Subadvising is like outsourcing – asset managers may select another company to invest some client funds. This can be done if a client wants to invest in a certain strategy that its asset manager doesn't offer. If an asset manager wants to expand the strategies it offers, it is fairly easy; the best way is to buy an asset manager who is strong in this strategy.

(7) *Processing*

Aside from custody and asset management, State Street provides outsourcing services. State Street engages in outsourcing for asset managers, private asset managers, and hedge

funds. State Street's competitors in the outsourcing business are the other major custodian banks such as Bank of New York and JP Morgan Chase. Clients choose to outsource because it is cheaper, easier, and/or better and it allows clients to focus on their core business. Outsourcing can be done on a single service basis or bundled with custody. If a custodian handles both a client's custody and outsourcing it is easier.