

## Federal Reserve Bank of Boston

**To:** Basel II ANPR Public File

**Date:** December 1, 2004

**From:** Patrick deFontnouvelle

**Subject:** Meeting with Northern Trust Corporation

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**Attendees:** Northern Trust: Duane Rocheleau, Senior Vice President and Head of Treasury; Beverly Fleming, Head of Investor Relations; Michael McGlinn, Head of Operational Risk. Federal Reserve Bank of Boston: Patrick de Fontnouvelle.

**Purpose:** In connection with the Operational Risk White Paper, a discussion was held regarding the custody, asset management, and processing businesses and the competitive considerations within those businesses.

**Discussion:** Northern Trust staff were asked to outline the services their company provides – as well as their client base – in custody, asset management, and general processing.

Northern Trust staff stated that they are one of the largest global asset managers, offering services in a wide range of strategies and asset classes. Over the last ten years, Northern Trust has significantly rounded out its asset management product offering, partly to suit the needs of their Custody and Private Wealth Management (PWM) clients. However, asset management is also viewed as a lead product in its own right. Northern Trust's asset management business focuses mainly on institutional and high net worth clients; there is also a smaller mutual fund business (approximately \$46 billion in assets under management). Northern Trust views institutional asset management (and competition therein) mainly as a global business. It views PWM (and competition therein) mainly as a U.S. business. For both institutional asset management and PWM, competition is viewed as highly fragmented including large and small competitors alike.

Discussion next turned to whether being a bank confers any particular advantage in the asset management market. Northern Trust staff stated that this is definitely the case for PWM, where clients value the ability to obtain not only asset management services but also banking services as well. In the institutional market, it is possible that being established as a client's custodian would help a bank to sell asset management services to that same client.

Federal reserve staff next directed discussion to the custody market. Northern Trust staff began by noting that in ranking tables for this market, assets under custody can be double-counted – once under the top-level custodian and once under a sub-custodian. This can make some competitors appear larger (in terms of assets under custody) than they really are.

It was then noted that the custody market is much more concentrated in the U.S. (where a handful of firms dominate) than in Europe (where there are many competitors). Northern feels that this is because the U.S. market is more mature than the European market. In a mature market, sophisticated clients demand complex cross-border custody services that only the largest and most sophisticated custodians can provide. The implication of the preceding discussion is that in the U.S. Northern faces only a few very large competitors, while in Europe they face many smaller localized competitors.

The remainder of the discussion focused on the general processing market. Northern Trust staff discussed some processing activities where they are active, and others where they are not. Among the activities discussed, Northern is active in Cash Management, Foreign Exchange, Fund Accounting, Fund Administration, Institutional Brokerage, Outsourcing of Securities Processing and Financial Accounting, Performance Analytics, Recordkeeping, Risk Management and Compliance, Securities Lending, Transfer Agency, and Transition Management. Northern is not active in Employee Benefit Plan Administration, Government Securities Clearing, Human Resources Outsourcing, IT Systems Solutions, or Securities Clearing. Northern Trust staff stated that they do compete against non-banks in several of the above activities.