

# Citi at center of regional boom

*Citi's historical presence and established corporate infrastructure place it at the vanguard of Asia's booming securities servicing market. Matthew Brown, regional head of fund services, and Lawrence Komo, regional head of securities finance at Citi's Global Transaction Services spoke to Asia Asset Management about the future of asset servicing*

As one of the world's leading global financial institutions, Citi has an unparalleled history of doing business in Asian markets. Against the backdrop of a regional boom in offshore investment by Asian institutions, particularly in China, and the substantial expansion of global investment flows into once ignored countries such as Vietnam and Indonesia, Citi has already cemented its place at the hub of a new wave of financial activity.

Unlike its rivals in the fund and securities servicing industry, Citi can lay claim to an established corporate infrastructure in 17 markets across Asia Pacific, as such, it has an unrivalled opportunity to leverage this in the creation of substantial, and sustainable, fund and securities servicing platforms.

"Global custody players have focused on selective access to Asian markets," says Matthew Brown, managing director and Asia Pacific region head for fund services. "Most providers have not been committed enough to build infrastructure but we have. This, however, is our commitment and because we already have a substantial business in the region, we will leverage that experience to expand the services we provide."

Across the region, fund and securities regulators are becoming more open to the expansion of overseas investment, the development of new products and in many cases the establishment of whole new industries.

In the securities financing area, its presence in Asian countries has focused on providing long-only services to investors but, according to Larry Komo, managing director and Asia Pacific head of securities finance, this will change.

"Since the Asian financial crisis, regulators across Asia have become more confident in their ability to manage risk," Komo says. "This will provide significant opportunities for securities lending and other function providers. However, reservations remain and in this context the experience of truly global companies like Citi will be most attractive."

In terms of the emerging opportunities, the drivers of growth have come from strong demand for equity assets by international investors and plan sponsors, including assets in emerging markets. Investor appetite has expanded beyond the



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traditional asset classes and now include currency derivatives and alternatives. Moreover, the continued quest for added alpha and to seek incremental returns as well as the overall liberalization of regional markets have opened up new possibilities. The new rules in place in some of the jurisdictions allow domestic investors to undertake cross-border investments for the first time. Markets such as Malaysia, Taiwan, Indonesia and South Korea are also at varying stages of reforms in allowing activities such as securities borrowing while the enhanced liquidity and trading volumes brought about by the increased investor activity all point to greater

demand for securities lending in the region.

## China

No market is more representative than China of Asia's boom in offshore investment and the increased acknowledgement of the region as a global marketplace.

Citi in China has played a pioneering role in opening up new arenas of investment for local and global investors. In 2003 it became the first financial institution to provide securities services under the qualified foreign institutional investors (QFII) scheme. Citi has been the sole US dollar clearing bank for the Shanghai Stock Exchange since 1991, is an eligible foreign custodian and a member of the QFII special development team set up by the securities regulator.

Today, Citi is the only provider with both global and domestic custody services in China, and the only bank with a global custody window in China. It has the most comprehensive global custody offering in China, serving investors with custody, fund administration, performance analytics and offshore securities lending. However, it is in the expansion of securities services to the qualified domestic institutional investors (QDII) to include insurers and other financial institutions that Citi can best push its global advantages over other providers. Citi is among the most established of foreign custodian banks in China, serving the majority of local insurance companies' overseas investments.

"Major QDII capacity will be coming on line this year and domestic institutional investors are a major target for us," says

Matthew Brown. "We will be selling services including multi-currency asset transactions, asset pricing and global custody services."

Citi offers a full suite of products in China, with key benefits including QFII scheme execution, a suite of advanced technology and processing platforms, compliance and control mechanisms and, anticipating the growth of alternative investments, a full securities lending service.

### Vietnam

The last year has seen Vietnam emerge as one of the most talked-about of Asia's emerging markets. In the first half of 2007, the country's market capitalisation grew by almost 43 % and, in such a context, Citi again has business and service advantages that few other major financial institutions can match.

Citi is the fastest growing foreign custodian bank in Vietnam with leading market share among institutional investors. Since launching securities services in Vietnam in February 2006, Citi has captured the majority of market share and its assets under custody is the highest among all custodians in Vietnam, based on its market analysis.

Local and foreign institutional investors now benefit from a full range of custody and clearing services, as well as access to our local market expertise in both Hanoi and Ho Chi Minh City.

Up to now Citi has focussed on providing clearing and custody solutions given the nascent nature of Vietnam's asset management industry, but is expanding to offer the full suite of products available to more established markets. Last year, the bank was the first custodian in Vietnam to launch an Internet banking platform for securities clients. The service, CitiDirect® for Securities, allows clients to access customized reports and MIS of their securities portfolio.

"We will be expanding to include a whole range of fund servicing products," says Matthew Brown. "Many of our global clients are looking to get into this market and the regulator has done a good job in responding to the needs of investors. They have created a positive environment for the asset management business."

"We even welcome the fact that vol-



Lawrence Komo

ume growth in some developing markets has been slower than expected," says Larry Komo. "This means regulators are treading carefully and ensuring that they do not create a speculative market."

### Indonesia

What is true of Vietnam is also true of Indonesia, where Citi has had a corporate presence since 1968. Citi is the largest foreign bank in Indonesia with several thousand securities clients. It has the largest market share of international broker dealers in terms of transaction volume and assets under custody.

It remains close to the country's regulators and institutions, holding settlement agreements with stock exchanges, a sub-registry position with the central bank and acting as a committee member of the Indonesian Central Securities Depository.

Since taking over the legacy business of ABN Amro in Indonesia, Citi has become the country's second largest provider of fund services.

Key to Citi's success has been its focus on providing fiduciary services to clients, including board support, financial and regulatory reporting and compliance monitoring, thus establishing a status few other global providers of fund services can lay claim to.

"We have a very strong management team," comments Matthew Brown. "Transfer agency is a particular strength but our main advantage is compliance with the fiduciary obligations required by government and quasi-government funds."

Because the concept of hedge funds is relatively new to emerging markets like Indonesia, Citi has a competitive advantage it does not have in more established jurisdictions.

"As markets like Indonesia develop there will be demand for a more hands-on process to guide administrators through the process of setting up hedge funds. Because take up levels are low it will be easier for us to get into the market," says Larry Komo.

With its comprehensive range of services and global presence, Citi is in a position to meet the needs of local and global clients in Asia, matching the challenges such a diverse region poses, and becoming the pre-eminent provider of services across Asia's investment universe. ■

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