

Federal Reserve Bank of Boston

To: Basel II ANPR Public File

Date: July 15, 2004

From: Patrick deFontnouvelle and
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Subject: Meeting with The Bank of New York

Attendees: The Bank of New York Company, Inc. representatives: Todd Gibbons, Chief Risk Officer; Donald Gilmore, Senior Vice President, Operational Risk Management; and Mark Rogers, Managing Director, Financial Institutions Credit. Federal Reserve Bank of New York representatives: Paul Whynott, Jeanmarie Davis, Anne Golden, and Kevin Bowler. Federal Reserve Bank of Boston representatives: Linda Barriga and Victoria Garrity.

Purpose: In connection with the Op Risk White Paper, a discussion was held to discuss the custody and clearing businesses and the competitive considerations within those businesses.

Perspective: The Bank of New York Company, Inc. (BNY), headquartered in New York, New York, is a financial holding company with \$93 billion in assets. Its principal subsidiary, The Bank of New York, has the following five primary business lines: Securities Servicing and Global Payment Services, Private Client Services and Asset Management, Corporate Banking, Global Market Services, and Retail Banking. With assets under custody of \$8.6 trillion, BNY services securities in more than 100 markets worldwide.

Discussion: For the purposes of this discussion, BNY management was asked to outline the services it provides and the competition it faces in two operationally intensive business activities—global custody and securities clearance and settlement. They were also asked to comment as to whether they viewed the proposed Basel II Operational Risk Capital charge as an impediment to competing in these markets.

BNY management stated that global custody services are often bundled with other “value-added” services, most typically, foreign exchange and securities lending. BNY competes with a wide range of bank and non-bank companies in this business. Some banks offer the full suite of services, but may sub-contract out some elements. Other companies (both banks and non-banks) specialize in certain niche offerings, such as just securities lending or fund accounting services. BNY’s global custody customers can contract for some or all of the services that it offers.

With regard to securities clearance and settlement, BNY provides both securities clearance and execution services to introducing brokers and government securities clearance. There is a wider range of competitors for securities clearance and execution, with about six first-tier, full-service providers. These providers can be either banks or non-banks. In addition, there are niche players that provide only some of the services. In government securities clearance, BNY has only one competitor, which is a bank. BNY provides a suite of services in these IT-intensive businesses that a customer can choose from.

BNY management has not identified any concerns regarding its ability to stay competitive in these businesses in light of the new requirement to hold regulatory capital for operational risk. Pricing, while very competitive, is only one factor that a customer considers when selecting a service provider. Other considerations include the quality of service and execution, IT integration

capabilities, risk controls and indemnifications, and MIS reporting. Perhaps one area where the Basel II Operational Risk Charge could impact BNY's competitiveness is in the securities lending business where BNY competes not only with other banks, but also broker-dealers who may not be subject to the same charge.