

**Federal Reserve Bank of Boston
Meeting Minutes**

To: Basel II ANPR Public File

Date: August 30, 2004

From: Patrick deFontnouvelle and
Victoria Garrity

Subject: Fidelity Investments Overview

Contact at Fidelity Investments: James Bone, Senior Vice President, Risk Advisory Services.

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. The following information was obtained from Fidelity Investments (Fidelity) in written form.

Perspective: Fidelity is an international provider of financial services and investment resources. Once known primarily as a mutual fund company, Fidelity has expanded the scope of its product offerings to include not only mutual funds but also discount brokerage services, retirement services, estate planning, wealth management, securities execution and clearance, and life insurance. Fidelity offers more than 175 mutual funds and has \$903 billion in mutual fund assets under management.

Items Discussed:

1. *Fidelity's Lines of Business*

Fidelity offers products and services in three general business lines: asset management, processing, and custody.

Asset Management: Fidelity provides asset management services in the form of retail mutual funds, advisor sold mutual funds, international funds, contractual plans, and exchange traded funds. Fidelity's focus is first on manufacturing (mutual funds performance), then distribution (sales channels by client type). The retail distribution channel offers traditional retail products as well as private wealth management services. The intermediary channel services insurance agents, brokers, and registered investment advisors whose business may span retail, institutional, and private wealth management clients. The institutional channel(s) service municipalities, schools, and private for-profit and non-profit institutions.

Processing: Fidelity handles processing for more than nineteen million customer account records. Fidelity also provides clearing services (through National Financial). The company also provides HR/Benefits outsourcing solutions to the largest corporations in America.

Custody: Fidelity provides trust institutions with custody services to automate mutual fund processing. This platform is used to clear thousands of mutual funds trades, support income, reconciliation, balances, and transaction processing.

2. *Competition*

Market share determines competition in each business channel. Market forces determine other factors, such as strategy, reputation, products, and performance. Fidelity tries to distinguish itself from the competition in many ways including: brand name, performance, quality, service, functionality or “ease of doing business”, product offerings, diversity, and scale.

Market competition is global in nature. More processing is done in India and other foreign countries. World markets present more diversification and smooth out earnings cycles. Global markets present more risks and different risks that take many years to address and manage with capital investments.

From a customer standpoint, Fidelity has separated US markets from European markets, however, the business is operated from a global strategic perspective. How Fidelity delivers services to US, Asian, and European customers is more a matter of the delivery channel (e.g., web, on-site branches, banks, brokers, advisers, etc.).

Distribution and processing capabilities allow a company to expand the asset management capabilities because of the scale of increased assets, lower costs, and a higher capital base from which a company can make investments. Investing in distribution, processing and asset management is how many of the best firms distinguish themselves. The capital investments are large, take many years to re-coup, and help build brand. Reducing capital investments in an ever increasingly global marketplace places significant stresses on smaller firms to compete in the global race for assets. Competition is the key to innovation and new services and ultimately better risk management. However, market forces, regulatory oversight, and good internal controls ultimately drive where investments will be made.