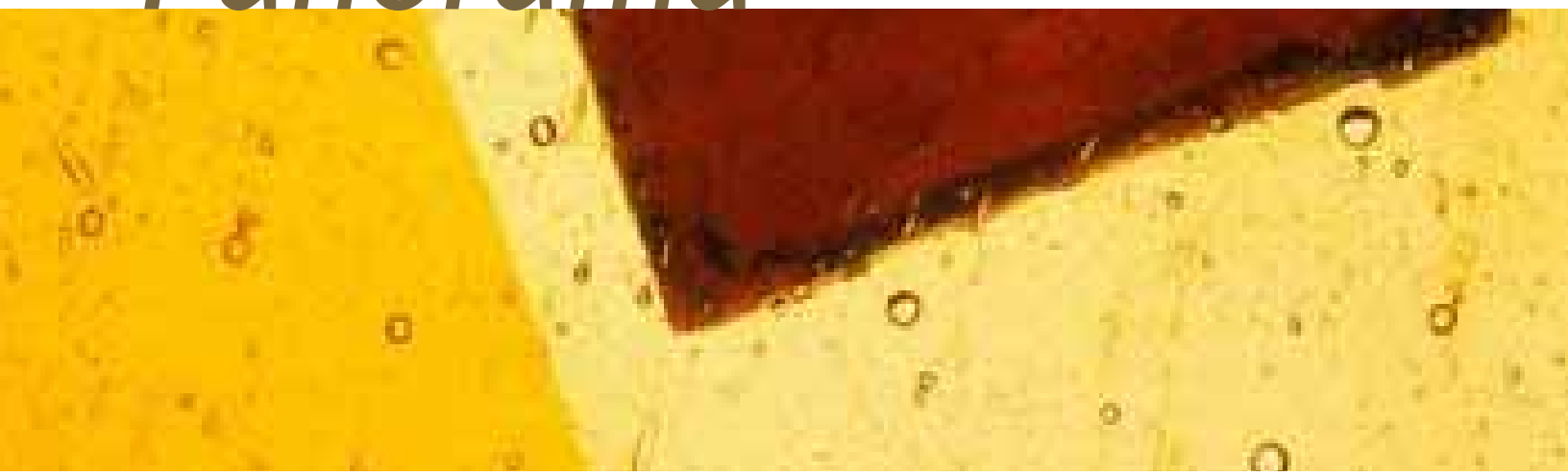
Panorama



Global Perspectives on the Debt Capital Markets

3rd/4th Quarter 2010

BNY MELLON

Who’s helping you?

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Devising a new investment instrument for private pension funds to spur public infrastructure development in Mexico…

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For BNY Mellon Corporate Trust, work on these and other innovations is a global activity and an ongoing process. At any moment, somewhere in our worldwide network of locations, our professionals are collaborating with clients to find new ways to address emerging needs. Or they're joining forces with partners to develop fresh responses to persistent problems. Or an individual staff member is creating a better methodology for getting the job done in a demanding marketplace.

We believe that one innovation tends to nurture another and that discussion about innovation stimulates further innovation. That is why innovation is our theme in this issue of Panorama. In the pages that follow, our business leaders report on the areas within their markets in which innovation is needed—and on the kinds of innovation that are being pursued. We also track some of the innovations that we have implemented around the globe on the theory that what works in one part of the world may well be adapted to work equally successfully in another. We think of it as the ripple effect of innovation, and we believe that even the smallest stirring of the waters of innovation can prove rewarding for all participants in today's debt capital markets.

Scott Posner
Chief Executive Officer
BNY Mellon Corporate Trust

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Market Volatility: An Opportunity to Innovate

By James W. Maitland and Rossana E. Abueva

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Rossana E. Abueva is Manager of Corporate Trust's Strategy and Product Management.

"Volatile"... "uncertain"... "contentious"... "irrational." Any and all of these adjectives can be applied to today's debt capital markets around the world. Add to the description the one foregone conclusion we can all pretty much count on over the next 18 months or so—namely, the looming refinancing cliff to which issuers and arrangers are now inching, ever closer to its edge—and the picture becomes even more complicated.

Pretty clearly, issuers will not be raising capital in the same old way, and although we may not be able to say today what the new ways of raising capital will look like, it is important to explore, rationally and without contentiousness, the forces that are likely to shape the results.

Volatility: Financial, Political, Social

It is almost impossible to overstate the volatility, uncertainty, contentiousness, and irrationality of the global markets today as they look toward this veritable tsunami of refinancing on the horizon. Recent events lead to the conclusion that the Eurozone will play a major role in market changes, but recent events also offer even further evidence on how closely the global capital markets are inextricably linked together. When Europe coughed and the pipeline dried up, the Middle East and Asia Pacific region felt the contagion effect immediately, and their pipelines correspondingly withered. As the Germans and the Greeks can confirm, a market is not a vacuum.

Nor is the issue solely finance. Political and social forces are also at work. Populations around the world are worried—anxious about their jobs, about loss of income and narrowed options, about loss of savings and security in retirement. Political leaders are feeling the pressure of these concerns and, as they must, are considering these pressures in their decision-making.

Some of that political reflection affects regulatory reform, a topic the world's leading economies are just now beginning to address, with each looking to see what the other does and who will move first. They are all also looking for points of possible alignment or harmonization, for clearly, if there is too much regulatory divergence, a form of regulatory arbitrage may result.

No wonder many market participants are not opportunistically opting to refinance. Rather, they are sitting on the sidelines and waiting for the tidal wave of issuances to term out. Where accessing the capital markets is concerned, there are just too many open questions.

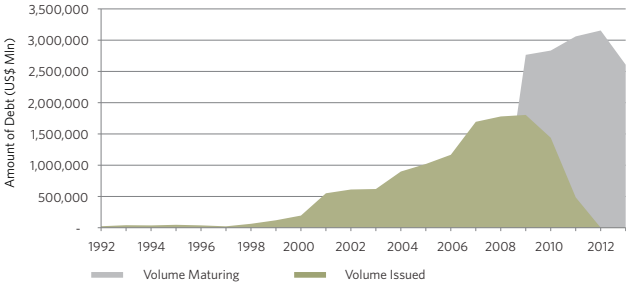
What do Market Participants Want?

Market participants have their own questions—about products and distribution channels, for example—and are beginning to provide some answers. Over the last 18 months, we have seen more secured debt coming into the market. We've seen clients pledging their own shares to a deal or sourcing less traditional asset types like oil tankers and commodities. These shifts present agents and trustees with the challenge of getting comfortable with these new products and with new jurisdictions.

But the questions keep coming. The debate over whether the refinancing will be cross-border, local, or a combination of the two continues. However the debate is resolved, investors want to be sure that access to both cross-border and local markets operates smoothly and efficiently. For Eurozone issuance, for example, will euro platforms be integrated onto Target2, the real-time gross settlement system, on time and on target? With domestic issuance outpacing cross-border issuance, the cost of using separate depository platforms is becoming a serious disadvantage, and the need to encourage domestic issuance by linking settlement and processing on standardized platforms is becoming a critical issue.

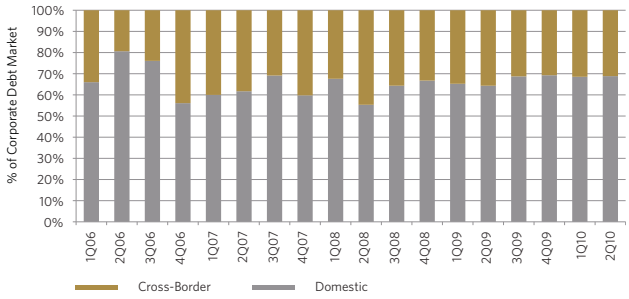
An issue for those coming to the market out of necessity, rather than opportunistically, is a profound concern about flexibility; for these investors, the focus is on program-based structures. As for structured finance, the emphasis is on transparency; investors and counterparties alike want to be sure they can interrogate the underlying asset or security pools.

Issuance Period of Global Debt Maturing Between 2009-2013
(Depicts when the growing volume of debt maturing between 2009 and 2013 [grey] was issued [green])



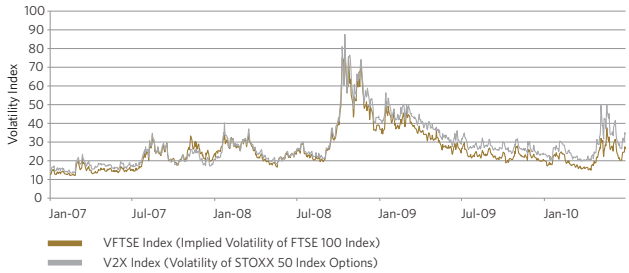
Includes corporate, ABS, MBS, and taxable municipal debt known to Thomson Reuters.
Source: Thomson Reuters

Europe, Middle East and Africa Corporate Bond Activity
(Cross-Border vs Domestic Issuance)



Includes all EMEA corporate debt.
Source: Dealogic

Eurozone Market Volatility



Source: Bloomberg

The Challenge for Service Providers

Against this backdrop of confusion and in this tentative environment, service providers at least can look to what is perhaps the one fixed point of clarity—that whatever happens, there will be an increased need for the ability to deliver and disseminate information. Regulatory reform will require this. Investors and counterparties will demand it. Issuers and arrangers will count on it.

The challenge for service providers—and their opportunity—is to develop innovative tools to provide more flexible access to more levels of detail. After all, as the agents in the process, service providers hold the data; the task is to present it to the marketplace in meaningful ways—standardized, where that requirement is imposed by regulators, and as bespoke reporting, where that is what investors want and will expect.

In our view, the challenge revolves around two factors in particular: composing the information solution and making it accessible.

As to the first challenge, the issue is integration. With issuers rightly looking at numerous alternative means of refinancing, diversifying their funding sources across a range of tools and strategies, service providers will need to offer integrated solutions that embrace a wider range of data. The task of identifying, collecting, aggregating, and processing information to create such solutions is a formidable one, requiring significant resource capacity.

One way large-scale service providers can address this challenge is to leverage the expertise within their own organizations. We believe they will need to partner with various lines of business in every corner of their institutions in order to tap into a range of information sources as they compose a value-added—and seamlessly integrated—solution. That is an organizational and management issue that the large-scale service providers may not have dealt with in the past, but in the emerging debt capital markets, mastering it will be both a necessity and a potential path to competitive advantage.

Making the information available in meaningful ways is primarily a matter of the right technology tools. The major requirement for the information delivered is transparency, but service providers will need to provide flexibility in delivering this transparency to issuers, investors, counterparties, even rating agencies. Only technology—with its imaging capture capabilities, its consolidation capacity, and its web-based immediacy—can deliver the right information at the right level of detail in the right way to the right stakeholder. The debt capital markets have lagged behind other financial markets in developing their technological base, but today's information demands mean we can't wait any longer.

Time and Opportunity

Despite the volatility of the markets, we believe that the overall trend is toward stabilization, and we expect that we'll begin to feel that stabilization by year-end or by the start of 2011.

Still, we see no quick fix ahead. Rather, we expect a series of stops and starts in a bumpy recovery over the next 18 months or more—time enough for service providers to innovate the kinds of information tools that will be so essential to the debt capital markets emerging from this global crisis.

'Getting it Right' in the Americas: Best Practices for Best Growth

By Sonia Chaliha and Ian Fuchsloch

Sonia Chaliha is the Americas Regional Head for Corporate Trust.

Ian Fuchsloch is a Business Development Representative in Brazil and a former Product Manager for the Americas region.

Markets evolve in different ways, at their own pace, and with asymmetric, unanticipated, and often unintended consequences. The securitization markets in the Americas present a case in point.

In the U.S. market, certainly the biggest and arguably the most influential, market evolution was rapid and expansive, with consequences that were worldwide in impact and damaging in effect, as has been reported widely in the press as well as in these pages. Just to the north in Canada, by contrast, a well advanced market has managed to remain more or less insulated from the worst effects of the global financial crisis—thanks mostly to a tightly regulated, less highly leveraged system and a culturally conservative view of credit and finance. It is in the admittedly somewhat varied markets of Latin America, however, that the overall picture is so starkly different, for what we see across that region is a market not just latent with growth opportunity but beginning to spring forward to seize the opportunity just about everywhere.

Out of Decline, Onto a Springboard for Growth

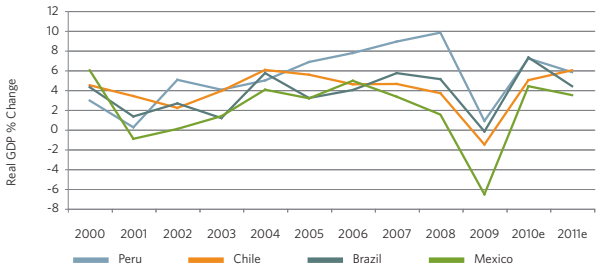
The robustness of Latin America's potential as a securitization market derives, ironically enough, from the region's prior economic difficulties. Once caught in what seemed a cycle of decline and default, the region's economies lacked the depth to create or finance a stable capital market. With its limited debt capital techniques and structures, the Latin American market was simply less evolved than the markets to the north or in Europe, and when the global financial crisis came, it didn't have as far to fall.

Today, therefore, while more sophisticated markets limp toward recovery, this market finds itself poised and ready for large-scale growth. Debt issuance is in general on the rise—notably so in countries like Chile and Peru. Mexico, too, though its debt capital market is not growing at the same pace as in these countries farther south, continues to be one of the most active debt markets in the region, as befits Latin America's second biggest economy.

Brazil, with debt issuance growing dramatically, is of course the powerhouse of the region, and one of the most interesting recent developments in the Brazilian economy is a noticeable increase in real estate financing. Far from constituting a speculative spree, these investments are fueling the demand for new housing construction on the part of a rising middle class. To supply the demand, Brazil's securitization market favors innovative fund structures—specifically, credit rights investment funds—rather than asset-backed securities or the equivalent. Investors will be relying on service providers acting as collateral agents to help sustain the transparency of these structures.

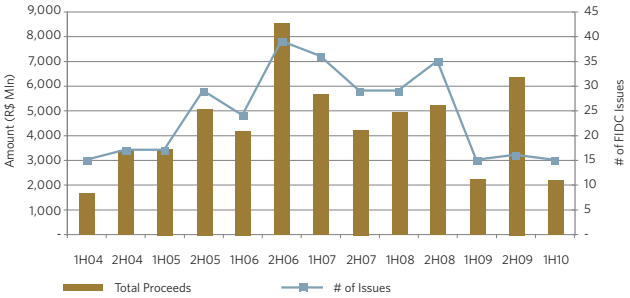
With developments like these up and down the region, no wonder once-wary investors feel encouraged by the improved credit ratings and are eager to seek the region's potential for higher returns. It all makes this a unique moment in the Latin American securitization market, one offering participants and would-be participants an opportunity to take advantage of lessons learned elsewhere and, with the benefit of hindsight,

Latin America Gross Domestic Product



Source: Institute of International Finance

Brazil FIDC (Credit Rights Investment Funds) Activity



Source: Brazil Comissão de Valores Mobiliários

elude or avoid known mistakes. Here in Latin America is the chance to "get it right," to apply to greater effect and with the possibility of more rewarding results the teachings of past experience. By bringing to the market the structures and mechanisms, the best practices and proven programs, the tools and techniques that have been shown to work elsewhere, the Latin American market may be able to evolve into a strong, stable securitization market.

The challenge for service providers is to be prepared with the right apparatus to realize this opportunity. We see the task as building a framework within which service providers can compose bespoke solutions that will meet the needs of both issuers and investors, and we've identified four components of that framework: product range, global standards of transparency, partnership connections, and third-party independence.

Framework for Growth

The first and perhaps most obvious requirement for a vibrant debt market is a broadened range of capital opportunities. In a business that has been mainly "vanilla," it is time to diversify asset profiles, funding choices, and balance sheets with new ways to analyze and arrange cash flows—for example, with short-term paper, commercial paper, medium-term notes as in Europe or the U.S.

Service providers have a proactive role to play in developing the models for this broadened product range. They will need the ability to segregate value for a particular investor or group of investors. That means knowing what investors need in terms of information about securities, including ratings, payment profiles, redemptions, and the like, and then applying experience in servicing the structures that meet their needs.

For example, if there is one overriding securitization servicing need in this market at the moment, it is for an independent third party that can hold cash, safe-keep assets, and provide reporting or valuation services. Based on their experience in other markets and their knowledge of what will and will not work, providers need to be addressing this issue and forging the right model to service this need and support such deals.

Transparency is essential to the framework for developing these models. Those international investors looking to the Latin American market represent a more militant breed; they are not comfortable accepting information at face value and will require the ability to see through to the underlying assets and the moving parts of a structure. Service providers will need to be equipped with the systems and techniques to provide this level of transparency. It is a benefit that will be expected in a market that is doing things right.

Connections

Debt capital transactions typically involve a network of participants, and a viable and vibrant market needs service providers that can partner strategically with all of them. As Latin American economies grow more robust, investment bankers, lawyers, and regulators will increasingly demand a stake in the debt capital markets process. Issuers and investors will need a way to connect with these participants; at the same time, lawyers, bankers, and regulators will need confidence in a third party that can operate the network and make the process work. The role of third-party partner, maintaining connections and facilitating the network, will be a requirement for service providers in a viable securitization market.

Getting it Right

The mistakes and wrong moves of the sophisticated securitization markets now struggling to regain their vibrancy have much to teach Latin America, which today sits just on the cusp of substantive growth. But it's a watershed moment. Forget or short-change the lessons of the evolved markets, and the growth opportunity may well be squandered. Apply the lessons learned to the particular needs of this region, find the best solutions for issuers and investors alike, and support it all with independent, third-party service, and Latin America can become an exemplar of what an evolved debt capital market should look like.

That's the challenge for all participants in this market, but it is a special summons to providers, for their service role will be essential in helping to sustain market viability.

Pure Innovation for a Purely Mexican Need

By Juan Carlos Morales

Juan Carlos Morales is President of The Bank of New York Mellon, S.A., Institución de Banca Múltiple.

When mortgage originator defaults brought Mexico's securities market to a standstill, the nation's private pension funds found themselves flush with excess liquidity. By October, 2008, Mexico's regulators agreed that something had to be done, and market participants began to think about ways these funds could invest for higher yields and thereby ignite market activity. For the Mexican government, an important public interest was also at stake—namely, funding the development of such needed public infrastructure projects as roads, bridges, airports, and the like. The challenge was to leverage the two goals—the public and the private—in a single structure.

Regulatory and procedural questions loomed. What kinds of higher-yield securities might qualify—given the public sector involvement? What about transparency for investor protection? And what would be the structure of such an investment?

After much discussion and debate, in July 2009, Mexico's regulators modified existing statutes to allow pension funds to invest in such higher-yielding instruments as private equity and hedge funds. The caveat was that these could not be direct investments; rather, pension funds could invest only indirectly through publicly issued debt. In short, the new law provided a concept for satisfying the two goals—a framework only, nothing more.

Left unstated in the legislation and undefined by the regulators was how to structure these investments. So starting that month—July, 2009—service providers, investment banks, lawyers, tax advisors, regulators, and pension fund officials sat down together to try to figure out how to make the concept work. They began with a blank slate, for nothing like this had ever existed before. Among other realities, this meant there was no expert anywhere who could supply advice or spell out the details. Although Canada has something similar in its investment trust, that is not similar enough to have influenced the design of the new structure. Instead, for a specifically Mexican need, market participants innovated a pure invention: the specifically Mexican financial instrument known as the CKD—collectively, Development Capital Certificates, or Certificados Bursatiles de Capital de Desarrollo. The first CKD was issued in November, 2009, just a few months after the law had been passed. Two more followed in 2009, and as of this writing, 2010 has seen another two.

In essence, the CKD structure is simple: A trust is established, funded from the public market, to buy into either companies or infrastructure projects—existing or planned—that have been approved as acceptable investments. When the securities are sold, the funds flow through the trust, which makes payments on a private-equity basis and following a typical private-equity formula, paying out first to investors, then to holders, and then to managers. The result is the realization of the twofold goal of CKDs—to serve the bottom line of Mexico's pension funds, and to help fund the development of major Mexican infrastructure projects.

But while the basic CKD "package" is standard, implementation of each must be carefully customized to differing needs, different investor goals, different tax treatments, different formalities—especially given the keen interest of foreign funds in entering the Mexican market through these instruments.

For service providers, the challenge is to bring to bear substantive resources and a high level of financial sophistication for understanding the varied structures and standards and mitigating risks to bring these instruments to market. They also need to bring to the table their best creativity, for as the Mexican market is learning, each CKD is an innovation.

Canada's P3 Market: New Road to Infrastructure Means New Direction for Trustees

By Jerome P. Dwight

Jerome P. Dwight is Head of BNY Trust Company of Canada.

The idea for Highway 407 in Canada's province of Ontario was to provide an express alternative to Highway 401, the famous road that tracks the coast of Lake Ontario and passes right through Toronto and that, by the 1990s, had become the busiest highway in North America. The problem was money; the recession of the early years of the decade had so constrained the provincial government's budget that major highway construction simply wasn't possible. So in 1999, Ontario turned to a new idea—a public private partnership, or P3, bringing together the government, a project sponsor, and private lenders and thus sharing the financial risk between the public and private sectors.

It worked—not just in financing Highway 407 but also in stimulating jobs and economic growth that helped bring the region out of recession. And it offered a new option to the investment community that has sparked a consistently rising level of demand. Investment in Canadian P3s grew substantively even as the global economic climate deteriorated; indeed, P3s were responsible for refurbishing much of the nation's infrastructure. Today, P3 financing is a significant and growing component of Canada's debt capital markets, and the Canadian P3 market is one of the most robust in the world.

The reason is not hard to identify. With Canada rightly perceived around the world as a secure jurisdiction with a strong and stable banking system, investors are eager to participate in the kind of infrastructure developments Canadian P3s finance—highways, hospitals, bridges, courthouses, and an array of renewable energy projects—so it is little wonder that this market is now equivalent in size and strength to those of Europe and Australia. In Ontario alone, in fact, during the period 2005 to 2010, more than 30 projects totaling $30 billion were completed using the P3 model.

For service providers in the Canadian market, the challenge is one of execution. These are complex, sophisticated transactions, and the process of creating and executing them can be lengthy and demanding. A number of private lenders may be involved, and the sponsor may represent a multitude of subcontractors, investors, and issuers, each of whom must be approved by the government. A high level of cooperation is essential among the multiple participants and across their multiple organizational levels, and the arrangements and contracts that secure the cash flows can be intricate and sensitive.

As I see it, the challenge for service providers is to rethink and enhance their core competencies to deploy them successfully for P3 transactions. In one sense, it is simply an issue of leveraging existing paying agency capabilities to far more complex requirements, applying the same basic disciplines but at a higher level. In another sense, however, there is a tipping point at which sheer size and complexity shift the character of the service needed, and that is what seems to be happening in Canada's robust P3 market: Trustees are being challenged to do so much more—to stretch the definition of the services they provide—that it constitutes an innovation in the very content of the service provision responsibility.

And I expect that the "stretching" will continue. Particularly as this asset class continues to grow, its widening investor base—moving from traditional private placement buyers to broader public investors —will surely seek new forms of reporting with more transparency, requiring value-added services from providers. And given the long shelf life of P3 developments—typically, a construction phase of from three to five years and an operating phase lasting two to three decades—the challenge to service providers will persist for some time.

Asia-Pacific Region: Domestic Debt Capital Markets In the Ascendant

By Gary Lew and Peter Kee

Gary Lew is Asia-Pacific Regional Head of Corporate Trust.

Peter Kee is Product Manager of Corporate Trust for the Asia-Pacific region.

The compelling reality about the Asia-Pacific region at this time is the robustness of the domestic capital markets. The volume of cross-border issuances dropped dramatically during the global financial crisis, but a rising tide of domestic issuance more than took up the slack, and today, it is the domestic market that engages the interest and attention of issuers and other market participants. This new reality changes the market picture in important ways, and it presents service providers with a challenge they can only address through innovation.

The figures illustrating the new reality are clear. Cross-border corporate bond issuance, which stood at approximately 21 percent of total issuance as recently as 2007, plunged to just about five percent of the total in the fourth quarter 2008 and rose only to 13 percent of the total in 2009. At the same time, domestic corporate debt capital market issuance rose 56 percent—a stunning increase that was sufficient in some markets to constitute a gain in overall issuances over the pre-crisis period.

But stunning though it may be, the rise in domestic issuance is not a particularly surprising development. As has been pointed out previously in this publication, the Asia-Pacific region suffered less gravely than the rest of the world from the 2007-2009 global financial crisis. Having learned well the lessons of its own financial crisis in the 1990s, the countries of the region insulated themselves against external shocks by focusing internally and looking to domestic and regional rather than to international markets. As a result, the Asia-Pacific region has been able to enjoy a quicker and more robust recovery from the global crisis; its economies are stronger, its markets more resilient and less prone to external pressures, its financial institutions less afflicted with the problems that burden so many of their counterparts in other parts of the world. As domestic

corporations—and major banks—diversify their funding and normalize pricing, these markets are flush with liquidity, and investors are evidencing a new appetite for Asian-Pacific credits. Issuers and investors are thus primed to interact; it's a healthy formula for growth.

What are the implications of this trend for debt capital market participants in the region—especially for service providers?

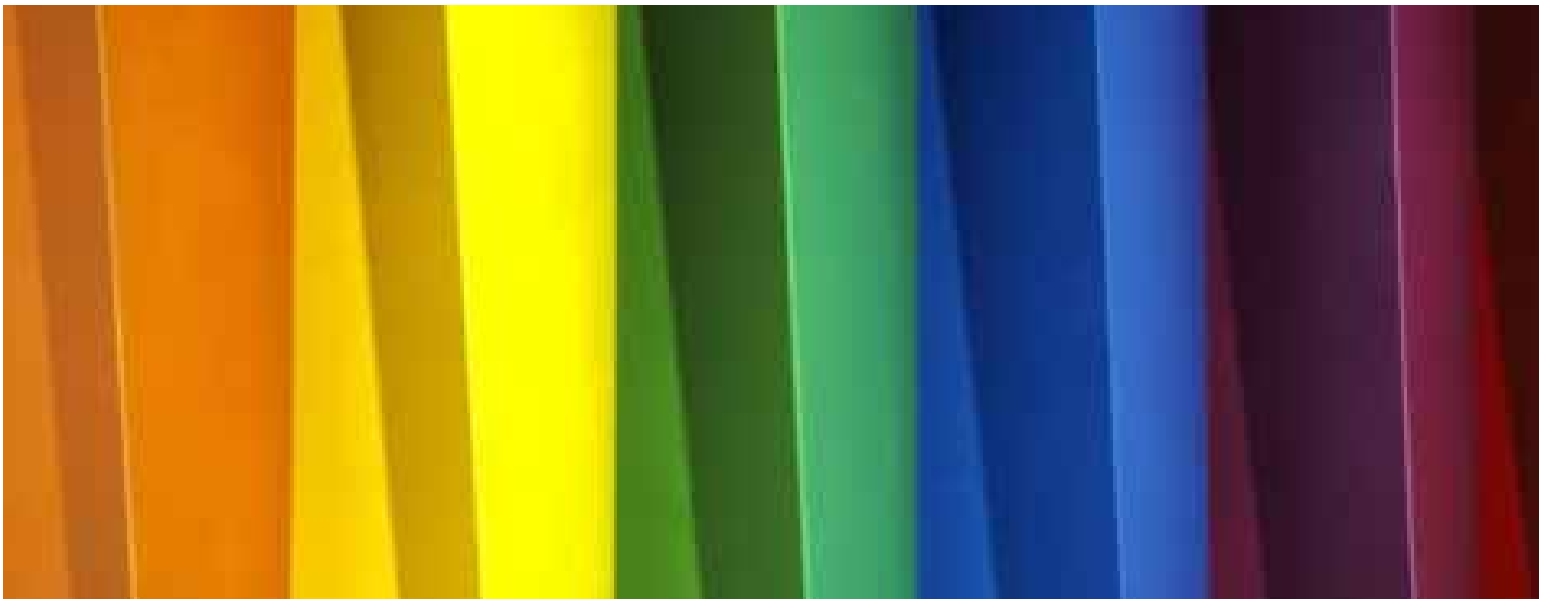
In what some may see as an ironic twist, the rising tide of domestic debt issuance is driving an overall need for an international standard of service in each market. By that we mean a level of expertise in delivering liquidity effectively, global acumen based on wide global experience, advanced technology resources, and third-party independence that can satisfy both regulators and investors. This need presents both a challenge and an opportunity for service providers to be creative in innovating the tools and capabilities these markets need to sustain the upward growth trend.

Yet in each of the major domestic markets of the region— in particular in China, India, Australia, Korea, Japan, Malaysia—the opportunity is evidenced in different ways.

China and India: Structural and Infrastructural Innovation

In China and India, both huge markets growing at a fast pace, the problem is that the existing debt capital markets infrastructures do not yet support the pace of the growth. In China, the financial reforms instituted in the 1990s have fueled enormous progress in transitioning from a single-institution, state-run financial system to today's increasingly diverse capital market—a transition that correlates to the explosive growth in the Chinese economy. Where debt capital is concerned, both the number of market participants and the range of instruments have widened significantly, and while issuance by financial institutions remains the dominant activity, there has been substantive growth in corporate issuance, which virtually tripled from 2007 to 2009.

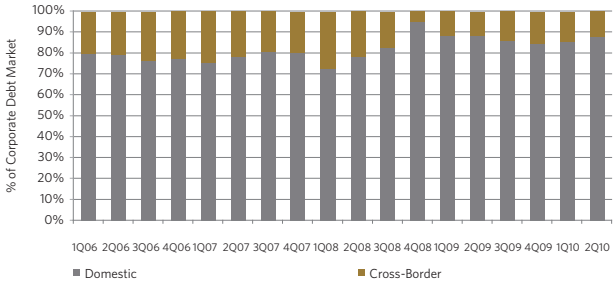
But given the nation's ongoing debt capital needs—above all, its huge project financing agenda—its debt capital infrastructure still isn't keeping up with the capacity demanded. In a sense, the old market model, in which bonds served as part of the national credit plan, has still not completely disappeared, and the need to leapfrog to an infrastructure model that can handle a comprehensive suite of debt capital activities is a pressing one.



In India, the distance that needs to be leapfrogged is not from an outmoded political model to a market-driven one, as in China, but rather from an obsolete processing model to one capable of dealing with the growth in domestic issuance. India's documentation infrastructure remains primarily paper-based, and its file "systems" and padlocked custody vaults by now seem antiquated. They are certainly inadequate to support either the processing needs or the international documentation standards regulators and investors demand.

Where can India—and others—find an infrastructure model to which they might aspire? An excellent example lies just across the waters in Australia.

Asia-Pacific Corporate Bond Activity
(Cross-Border vs Domestic Issuance)



Includes all APAC corporate debt.
Source: Dealogic

Australia: Leading Edge of Technological Innovation

More than twice the size of India in area, though with a far smaller population, Australia has managed to build a debt capital markets infrastructure of highly advanced core capabilities. In this market, in fact, the issue for service providers is to find still more efficiencies and to add auxiliary services. The current transformational initiatives towards e-conveyancing provide a model for this kind of opportunity. E-conveyancing is a joint public-private effort to automate key functions of property-based transactions and title registration. Such a model, in which a government seeks private partners with whom to move toward a paperless marketplace, could set a standard for the region.

For those partners, the opportunity is to find the pioneering edge that can enhance this market's already significant technological effectiveness. One such example is the new BNY Mellon document custody facility just outside Sydney in Rosebery—with state-of-the-art scanning, online access to files, and a range of other capabilities. The facility's operations in fact bring a new standard to the entire document custody process and thus raise the level of value of the process. It is the kind of technology-based efficiency that can redefine process or product and drive the market forward.

Product as Well as Process Innovations

The domestic debt capital markets of Korea, Japan, and Malaysia are all traditionally strong, stable, and mature. Korea has long been a leader in structured finance,

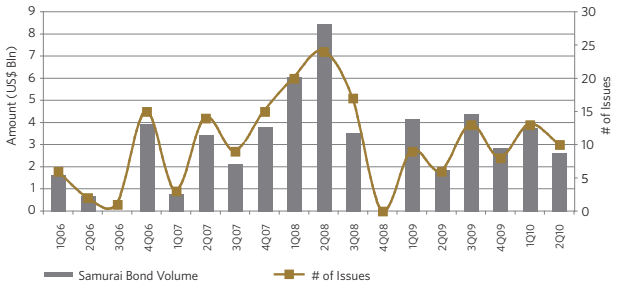
Malaysia in sukuk—debt securities that comply with Islamic law, Japan in Samurai bonds. In these markets, the issue is to develop new and different products in an expanded suite that can attract international players—for example, adding security trust in Japan, sukuk in Korea, or insurance trust in Hong Kong.

The latter offers a case in point. A cost-effective alternative to the traditional Letter of Credit, insurance trust may also in some senses be a more useful way for insurers to collateralize insurance or reinsurance obligations. It constitutes an innovation for the region that can add choice to the market's product portfolio. The local insurance authority has been reviewing proposals for this product, and we anticipate that it will eventually be rolled out even beyond Hong Kong—for example, to Singapore and Australia.

The Service Provider's Role

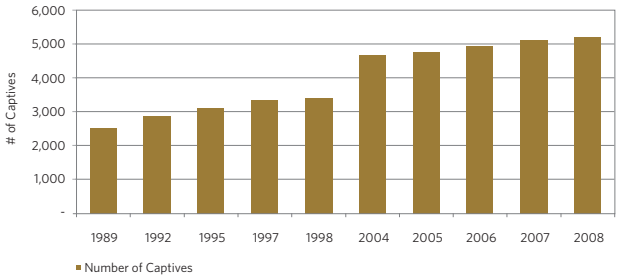
While the focus of growth differs from market to market in the region—for reasons of market maturity, character, and emphasis—all the domestic markets in the Asia-Pacific region are nevertheless comparable in their growth trend. Such growth will continue to require the highest international standards of resources and performance: the expertise to deliver liquidity efficiently and effectively through expanded products and technology-based systems. With liquidity abundant and investors ready, the challenge for service providers is to provide the tools that can strengthen each market's capabilities and keep the region's domestic debt issuance growing.

Japanese Samurai Bonds



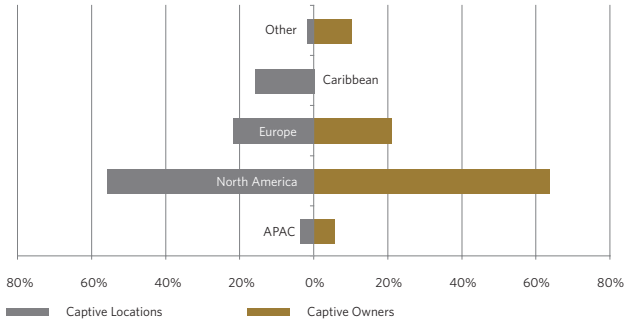
Samurai Bonds as defined by Bloomberg league tables.
Source: Bloomberg

Captive Growth Globally
(Insurance)



Source: AM Best

Captive Owners and Captive Locations Globally
(Insurance)



Source: Marsh

Japan: Signs of a Comeback Stir Action in Debt Capital Market

By Dominick F. Falco

Dominick F. Falco is President and Chief Executive Officer of BNY Mellon's Japanese Trust Bank subsidiary.

Recovery.

At long last, that is the word that defines the Japanese economy, and it is the reality that is stirring Japan's debt capital market. Certainly, the upswing from a decade and a half of stalled growth is more muted than the post-crisis recovery evident elsewhere around the globe—and certainly around the Asia-Pacific region. But the Japanese economy starts from a more persistently depressed level, and with a strong currency and low interest rates nourishing the seeds of the comeback, there is reason for optimism across the financial markets. That optimism, in turn, offers both challenge and opportunity to service providers.

For evidence of the optimism, one need look no further than the rising appetite for Samurai bonds among foreign issuers. With Europe in particular an investing question mark at the moment, issuers—including, as of this year, European issuers—are turning to Samurai bonds as a good bet for value—especially as they convert yields to their own currencies—and a good tactic for hedging foreign exchange risk. Whatever the particular goal, these issuers are looking relatively more favorably on Japan, and bond issuance is up.

But there are other stirrings in the debt capital market that also evidence this recovery, and service providers in this market need to take notice of these burgeoning needs and be prepared to address them creatively. I believe a handful in particular will require new kinds of strategic solutions as the recovery continues.

First, with a shorter maturity for bonds here than elsewhere, defaults offer trusteeship opportunities. As deals are renegotiated, and as bondholders seek to hold onto what they have in hopes of an improved future prospect, service providers can be ready with workout and restructuring services that meet these client needs.

Second, a growing derivatives market in Japan has typically been underserviced, so this market presents a blank-slate opportunity for providers who can apply products and services already proven in other markets. Legally, accounts in Japan can be established as comprehensive trust structures, affording corporate trust organizations the opportunity to serve as the gatekeeper or contracting counterparty.

Third, as Japanese companies, with their typically sound balance sheets, seize the opportunity to expand overseas, service providers have an equal opportunity to support this merger and acquisition activity with escrow services as well as with agency services for loan syndications. To date, such services have not been common in Japan, so here again, the opportunity exists for service providers to leverage existing capabilities that have proven effective in other markets.

Fourth, changes in Japan's trust law are making it possible for companies to post collateral through trust agreements and thus are creating a need for security trustee services. Such services, in which a trustee manages the various security interests held in trust for multiple creditors, have been virtually unknown in Japan, and their introduction to meet this new need would constitute a true innovation.

Finally, given all these developments, it is clearly time for a new reporting paradigm that services the growing needs the developments represent. This presents a considerable challenge to providers because portfolio reporting has long been delivered here as a plain vanilla service, if at all. Today, however, with financial deregulation proceeding apace, albeit gradually, a fresh reporting paradigm is bound to become increasingly important, and service providers need to be ready to deliver reporting services in both standard and customized fashion, bringing to the task the flexibility and richness the reporting demands.

The world has always watched the Japanese economy. Today, it is watching a market coming back from a deep decline and rising up to confront a changed economic situation. For service providers in Japan's debt capital market, the watchword, as the market regains strength and evidences new needs, will be to bring fresh thinking to traditional services and to leverage familiar solutions in innovative ways.

Reigniting Structured Finance and the Mortgage Market: A New Model of Information, A New Level of Transparency

By Debra A. Baker, Richard P. Stanley, and Antonio A. Nunes

Debra A. Baker and Richard P. Stanley are Co-Heads of Corporate Trust's Structured Finance Business.

Antonio A. Nunes is Manager of Corporate Trust's Strategy and Product Management.

One of the key questions in today's troubled residential mortgage market is how to encourage investors to assume managed risk again and thereby reinvigorate structured finance activity. One way of addressing that question, in our view, is to assure investors that the information they receive about the performance of both their loans and bonds is absolutely transparent. When investors are satisfied that the data they see about a security's underlying assets is complete and comprehensive, that access to the information is in formats that are useful and meaningful, that the source of the data and how it was derived are clear, and that they can validate the information at every stage of the process, then they will have confidence that they can mark their assets to market appropriately, deal with the looming impact of increased regulatory scrutiny, and properly assess their capital ratios. In short, they will have confidence that they can manage their risk.

How is such transparency to be ensured? We believe it will take some fundamental innovations in the way information for these asset classes is delivered, and we believe further that it is the responsibility of service providers to create this new model. To do so, service providers should be exploring the information needs of market participants and analyzing those instances where the market's information engine failed in the past. We've identified four primary elements of a new information model: content, usefulness, thoroughness, and user-friendliness.

Content: Comprehensive, Accurate, Timely

The first requirement is that the content of the information provided must be wider in scope, must offer greater depth of detail and more reliable accuracy, must be presented at both the loan level and securities level, and must be delivered in more timely fashion than was the case before the market collapse of 2007-2009. All these conditions are necessary if investors are to be able to project delinquencies or defaults, strategize about pricing, know the facts on their underlying collateral, and think in overall terms about their portfolio.

How can such content be reliably delivered? While there can never be an absolute guarantee of accuracy—lack of automation always risks potential human error—we believe the best assurance of accuracy can be provided by electronic systems in a paperless environment. The aim is to capture data in e-notes at the point of origination, the moment at which "perfection" of legal ownership is most likely to be achieved, then hold the e-notes in e-vaults where the data can be validated and re-validated as needed at every stage of the investment's life cycle.

The efficiencies of electronic systems also improve timeliness, another information essential. In the past, it took as long as 30 to 45 days to extract data from servicers and normalize it—time during which events like delinquencies might well overtake opportunities for buying and selling. A period of less than five days is a reasonable standard of timeliness for a transparent information model and is eminently achievable through electronics-based technologies.

Content in the new model must also include a portfolio-level view of information in addition to views at the stand-alone deal or transaction level. Such a view makes possible a total approach to risk management, enabling investors to see across assets as well as to drill down to the granular level.

Usefulness: Information that is Meaningful

Enabling a holistic view is just one of the ways information needs to be made more useful, and innovations to make it so are another essential of the new information model. Perhaps the most important new utility the model should offer is analytics. Investors and others need to be able to analyze in detail what they have and to stress-test their models appropriately so they can assess risk across origination, ratings, securitization, and servicing.

Moreover, investors seek hands-on participation in this analysis and stress-testing. While it is not likely that any risk modeling or projections would have predicted the collapse of the mortgage market in 2007, today's investors will be unwilling to cede control over this function; even if they do not custom-build their own models, they need to direct their own analysis, and the new information model must facilitate that capability.

Thoroughness: Information that is Transparent

The new model must offer thorough transparency about how the process works. By thoroughness, we mean the ability to see into the process—up, down, sideways—so as to be able to know the source of the information. Market participants must have access to all applicable transaction documents, must have access to all the cash flow details, and must be able to see how each component of the transaction works.

This means that service providers must be equipped and ready to provide explanations—about the cash flows on which a deal is based, about how each component of the deal was modeled, and about how it all ties to the applicable transaction documents. Providing such explanations in response to a query must be seen as a core service provider responsibility.

Asset Life Cycle

Asset Origination	Asset Sale/Issuance	On-Going Maintenance
Comprehensive performance analytics - Reverse engineered waterfalls - Cash flow analysis Fraud detection Control of collateral assets - Asset registration - Document custody certification - Accelerated funding - E-vault services	Less complex structures Asset level purchase criteria verification Asset level analytics Document custody and safekeeping - E-vault efficiencies New buyer-seller marketplace for whole loans and securities	More analytics - Performance monitoring - Asset level • Credit score drift • Price depreciation/appreciation • Primary vs. secondary residence • Owner occupied Electronic repurchase determination and tracking Electronic collateral release Servicer oversight Strong relationship model

Source: BNY Mellon

User-Friendliness: No More Black Box

Finally, the model must be user-friendly, for as touched on briefly above, today's users are prepared to be hands-on in their approach. The traditional black box into which participants plugged numbers and waited for performance results is no longer viable for today's investors. Nor will they find it sufficient to rely on ratings or a financial website search. Instead, today's market participants need to see the inner workings.

The new information model must therefore be an open architecture investors can easily access to perform their own what-if scenarios. It must present not just the numbers but details on how the numbers were derived, continually noting changes in foreclosure frequencies, loss severities, and/or prepayment rates. Process, not just results, must be readily available so that investors can "see through"—in the true sense of the word "transparency"—to anything that might affect the value of their loans or bonds in any way.

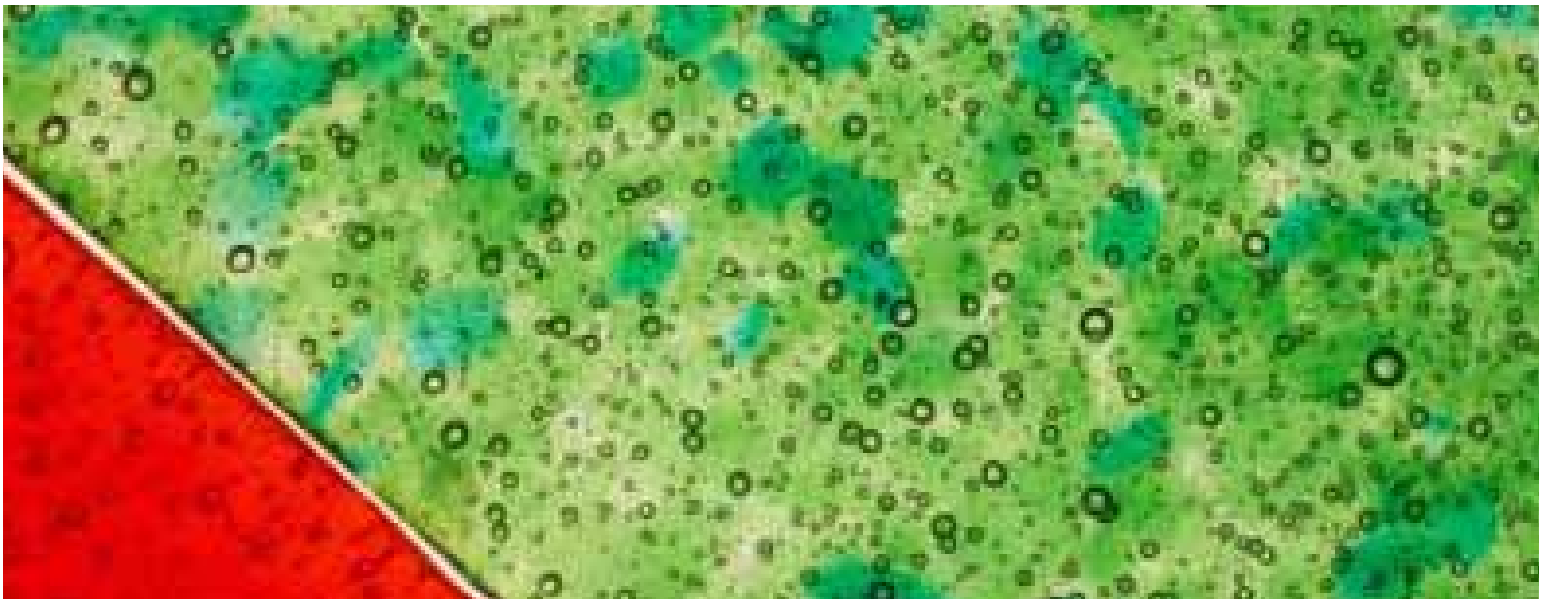
Once that happens, a new market is effectively made. And that is really what the new information model achieves: It opens the market to potentially huge numbers of new buyers and sellers, to any investor anywhere. Transparency of content, usefulness, thoroughness, and the ability to access it all in a user-friendly way are not only the essential attributes of a new information model; they are the components of a platform-based, global secondary market for loans and bonds that is "headquartered" wherever there is an internet connection.

Restoring Faith

In the credit crash of 2007-2009, investors learned that they had taken on more risk than they thought they had, based on the information they had received. Hurt and perhaps humbled by the results, investors simply lost faith in the market's traditional information model. Unless and until that faith is restored, the structured finance market will struggle to come back.

Service providers have it in their hands to innovate the kinds of change the information model requires.

Such a model must provide comprehensive, accurate, and timely information that investors can see into, can easily access, and can use for the kind of thorough analysis and profound understanding that lets them manage their risk and decide to commit to an investment. It's the essential starting point for getting this market moving again. The time has come for the structured market to have the same level of transparency and timely information flow that has been the hallmark of the traditional securities market for decades.



The Public Finance Sector Confronts The Post-Crisis Compliance Challenge

By Alex P. Tsarnas and Christine D. Johnson

Alex P. Tsarnas is Head of Corporate Trust's Conventional Debt Business for the U.S. market.

Christine D. Johnson is Corporate Trust's Conventional Debt Product Manager.

One of the most profound consequences of the 2007-2009 financial crisis in the U.S. is a sharp uptick in federal oversight of state and local government compliance with public finance disclosure regulations. The reason for the heightened oversight is clear and compelling: A strong, viable municipal bond market is seen as part and parcel of long-term economic recovery, and increased transparency, enforced through strengthened compliance measures, is in turn seen as part and parcel of a strong, viable market. So in addition to creating new types of public finance instruments, the federal government has sought to break through the market's opaqueness by escalating the enforcement efforts of its regulators, the Securities and Exchange Commission (SEC) and the Internal Revenue Service (IRS). For issuers, one result is an increased load of administrative tasks associated with issuing direct-pay or tax-credit bonds and providing more timely financial disclosures.

In an environment of diminishing resources, state and local governments find the added load a challenge. But more frequent, timely, and detailed financial disclosure is only the beginning. These governments are also required to track secondary trades of their Build America Bonds (BABs). And since the new financial reform legislation has charged both the SEC and the Government Accountability Office (GAO) with studying the regulation of the public finance market and suggesting changes, future regulatory reform is a certainty. Issuers must therefore stay flexible today to accommodate potentially sweeping future changes that will make the public finance market look more like its corporate counterpart.

All of these changes—instituted and prospective—constitute a twofold challenge for issuers: first, the

substantial volume of compliance tasks that has been added to issuers' plates today, and second, the need to be "primed and ready" for the looming regulatory changes. We see the task of helping issuers address this twofold challenge of increased oversight as a logical component of the service provider's role, and we believe it will take a range of innovations to do that.

Adding it Up

Driving these innovations is the understanding that issuers confront three new levels of augmented oversight requiring a substantive increase in their compliance efforts:

- first, tightened oversight where there was little if any before the global financial crisis;
- second, revisions to existing regulations requiring revisions to compliance mechanisms;
- third, entirely new regulations requiring supplemental disclosures and more documentation, along with fresh standards for presenting the information and formatting the reports.

The ratcheting up of current oversight starts with a shift in perception. The prevailing assumption of pre-crisis days was that government agencies would do whatever was necessary to ensure payment of debt obligations. In fact, many state and local government entities passed legislation giving priority to public finance bondholders above other obligors. In such a climate, although transparency was desirable, there was no sense of urgency to force the level of information disclosure required in the corporate bond market.

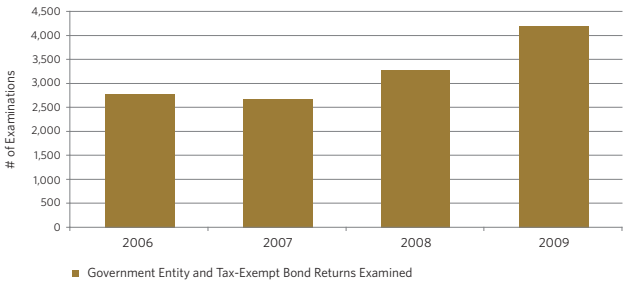
The recession, however, has undermined the assumption of infallibility of government debt obligations, and in response, the regulatory agencies have stepped up their monitoring and auditing dramatically. To take just one example, in pre-crisis days, the IRS, which increased its staffing by 40 percent during 2009, only passively monitored tax-exempt proceeds to ensure they were being used for tax-exempt purposes. Today, its enlarged and reinvigorated staff is active indeed, stepping up its audit of potential private uses of publicly financed facilities. This in turn means that issuers must step up their custody and control of documentation on tax-exempt proceeds and purposes.

In addition to tightening oversight, regulators are also revising reporting and disclosure procedures. Recently released amendments for SEC rule 15c2-12, for example, governing broker-dealers who trade public debt, now requires those dealers to ensure that issuers disclose reports on a list of material events—that is, events affecting the security and therefore to be reported—not just "in a timely manner," a highly subjective condition, but within ten business days of the event. In addition, "materiality" has been removed as a

defining characteristic for a reportable event, potentially increasing substantially the number of events that must be "listed" and reported to the market. Moreover, the expected repeal of the Tower Amendment, which restricted the Municipal Securities Rulemaking Board (MSRB) and the SEC from requiring issuers to file financial disclosures prior to every market issue, means more compliance work for issuers, and it is clear that not just the timeliness of financial disclosures but also their quality and uniformity will increasingly be controlled.

Finally, public finance issuers today confront new regulations on the structures embraced as part of the American Recovery and Reinvestment Act of 2009 (ARRA). A host of compliance activities surrounds direct-pay taxable structures—especially BABs and Recovery Zone Economic Development Bonds (RZEDSs)—to ensure receipt of the rebate. Forms must be filed when the bonds are issued and every time a rebate is requested. The use of proceeds must be carefully recorded, and since financial intermediaries have come under fire in the post-crisis era, the IRS has all but mandated that issuers track trades of their bonds on the Electronic Municipal Market Access system (EMMA™), a web-based platform created by the MSRB to facilitate municipal market transparency.

Government Entity and Tax-Exempt Bond Returns Examined Annually



Source: Internal Revenue Service

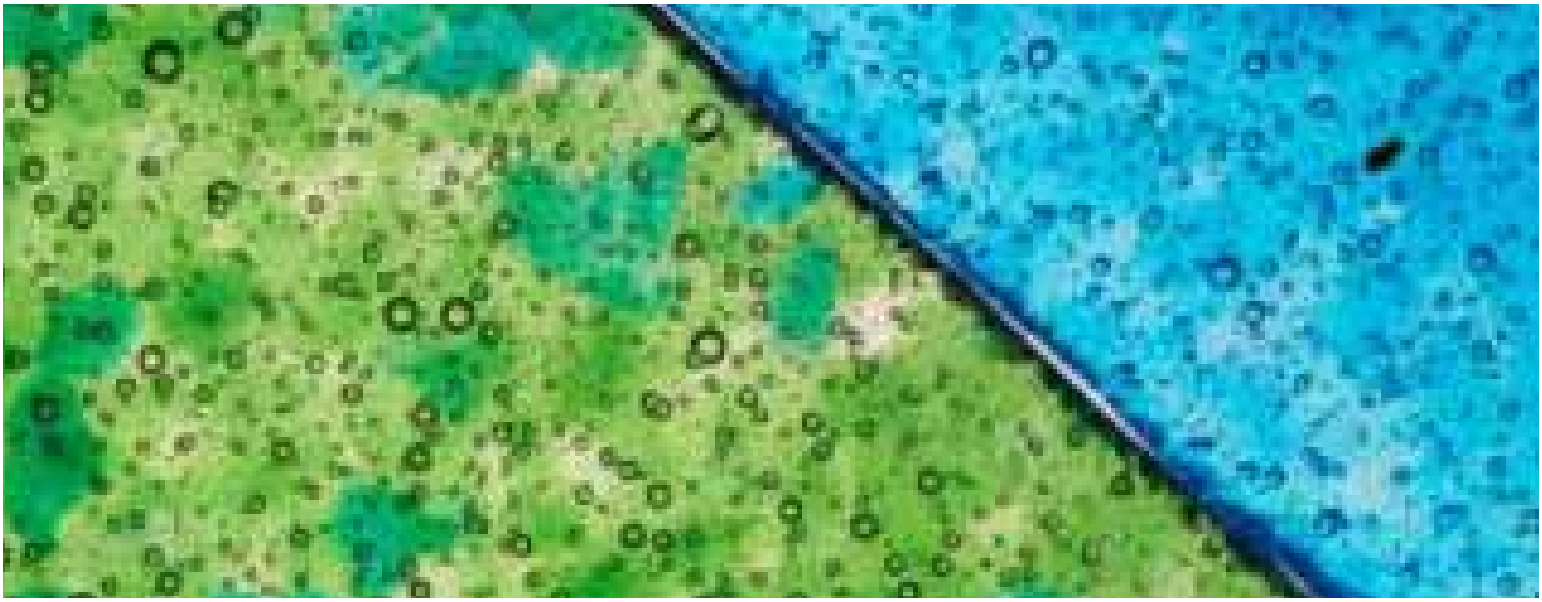
High-Stakes Challenge and the Service Provider's Role

Tightened oversight. Revised regulations. New regulations. All put a lot of pressure on state and local government issuers at a time of plummeting revenue sources and mounting political pressure to control budgets and relieve taxpayer burden. But while these new administrative requirements can be costly to implement, it could be even more costly not to commit the time and resources to do so, as non-compliance might jeopardize federal rebates for direct-pay bonds or compromise tax-exempt status.

The situation presents an opportunity for service providers to bring innovative thinking and action to the job of helping municipalities handle the day-to-day administrative tasks and prepare for an uncertain regulatory future. Service providers are uniquely positioned to do so; after all, they have the majority of the information required for compliance with financial

disclosure regulations. A big first step in reducing the issuer's administrative burden, in fact, would be to make this information available in a user-friendly format, or even to assist in creating and submitting disclosure forms and other paperwork. But that is only the beginning.

As a hub of information on outstanding issues in the municipal market, service providers have the capability to offer simple calculations and analytics that would advance the goal of providing transparency and uniformity in the marketplace. For example, they can calculate rebates for direct-pay bonds, assist in determining private-use allocations, help compile financial disclosures, track secondary bond trades, and provide arbitrage compliance services. Making it all available on a user-friendly web platform would render this a true 21st-century solution. This would be a win-win proposition for service providers and for today's beleaguered state and local governments as they continue to provide services to their most important stakeholders—their citizens.



Shift in Government Strategy Requires Service Innovations

By Robert L. Griffin and Thomas J. Bogert

Robert L. Griffin is Head of Corporate Trust's Government and Specialty Services.

Thomas J. Bogert is Product Manager for that business.

The U.S. government's intervention in the financial marketplace in order to address the global credit crisis has not been unprecedented, but it has been extraordinary. Equally extraordinary—and also not unprecedented—has been the government's leveraging of the service provider marketplace to assist in implementing its public policy initiatives. Those initiatives are now undergoing a change in direction—a strategic shift—and that shift will require change and innovation on the part of service providers as well.

Everyone remembers how it went: The first step of government action, led by the U.S. Department of the Treasury and the Federal Reserve in the critical early days of the crisis, was the attempt to stabilize the financial market through a combination of bailouts, forced sales, or outright takeovers of significant financial institutions. Step two comprised such initiatives as TARP—the Troubled Asset Relief Program—including, among other sub-programs, the Capital Purchase Program (CPP), providing capital to viable banks in exchange for preferred stock and warrants. These innovations appear to have worked as intended: Financial markets have stabilized, many financial institutions have repaid TARP funds, and the federal government has begun to wind down programs initiated to assist segments of the asset-backed marketplace.

But it is not exiting the overall financial marketplace, which remains the central battlefield of the global economic crisis. Instead, with catastrophe averted and the financial community back on firmer footing, government action now turns to three challenges—carrying out the newly passed financial regulation, divesting the assets held as a result of steps one and two, and stimulating economic growth.

Addressing the first challenge are the various government agencies charged with enforcement of the new financial regulations, which were designed to provide greater transparency and help prevent another major financial crisis. The agencies' task is to translate the recent legislation into practical actions, and it remains to be seen just how they will do that.

Addressing the second challenge is a set of initiatives, carried out by the Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC), for disbursing and distributing the assets these agencies hold as a result of their direct investment in financial institutions, purchase of asset-backed securities, and other measures taken to prop up particular markets. To this end—getting illiquid assets off their balance sheets—government agencies must find ways to sell these assets back to the Street.

Addressing the third and related challenge is a set of initiatives for ensuring the extension of credit in ways that target job growth and/or transform certain aspects of economic behavior—for example, energy use. To achieve this goal, government is establishing programs that combine government guarantees and private capital-raising—and that require skills that bridge the two activities.

For all of these initiatives, government will be coming to the private sector for help. We see three areas in particular where service providers should be thinking innovatively about how to supply that help—in asset management services, securities processing services, and technology.

A Fresh Round of Services for a Fresh Round of Needs

Since the financial crisis took hold in the beginning of 2008, the FDIC has taken over more than 250 failed banks; the Treasury still holds preferred stock and warrants of hundreds of banks purchased under the CPP; and the Federal Reserve, having fully executed its announced plan to purchase $1.25 trillion of mortgage-backed securities, has a considerable supply. These and other government entities need help with when, how, and where to sell those assets in order to maximize their returns or limit losses to taxpayers. They will be looking for fresh tools that can ensure such maximization across the full range of asset management services—from trading, settlement, and marketing to ongoing monitoring, data aggregation, and the preparation of reports.

Trustee services will also be on the agenda. Agencies that securitize or issue assets through a conduit will need to turn to the securities industry for help with document custody, income collection, reporting, and the like. Again, fresh tools that can optimize the benefits to taxpayers will become increasingly important as the government's focus shifts to disposing of assets.

In addition, agencies that have been entrusted with significant stimulus funds via the American Recovery and Reinvestment Act of 2009 (ARRA)—for example, the Departments of Agriculture, Energy, and Transportation—need assistance developing and bringing to market new programs leveraging private markets to advance public policy. Such programs will seek to tap the financial and intellectual capital of the private sector to create jobs, improve infrastructure, and lessen the nation's dependence on foreign oil—among other objectives.

The Technology Factor

Technology will be key to everything in this next phase of capital market intervention—specifically, the ability to build, customize, or enhance platforms and systems to meet changing needs and accommodate innovations. Government intervention is always a work in progress, but that is particularly so now, during the worst economic crisis since the Great Depression, when the changes are coming fast and when the needs are so demanding. Yet what seems just a minor technical change in a government program can require substantive enhancement to the technology platforms and systems a provider has virtually custom-built to the program's specifications. So when the Small Business Administration, for example, changes the amount guaranteed in its 504 program providing financing for fixed assets, or when it foregoes certain fees in its core 7(a) program providing loans for start-ups, a service provider will need to be quick and nimble—as well as expert—in enhancing existing systems to accommodate the changes and to track, monitor, and report on the new activities. Such agility requires significant knowledge, experience, systems basics, and of course sufficient

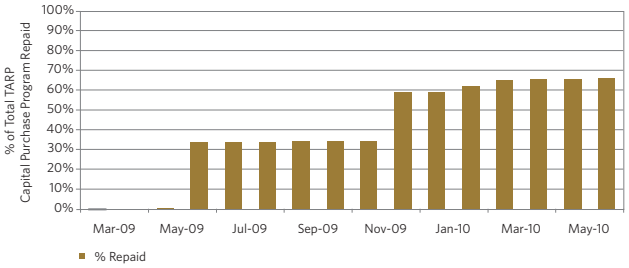
resources. Add in the demand for the reporting transparency that has become particularly important in this crisis, and the need for innovation by service providers becomes even more pressing.

One example we've identified as a key opportunity for innovation is the underwriting of government-guaranteed mortgages through such government-sponsored enterprises (GSEs) as Fannie Mae and Freddie Mac. Difficulties in confirming conformance with underwriting standards for mortgages, as has been widely reported, contributed to these agencies' troubles and to the collapse of the mortgage market. We believe service providers can profitably rethink and redefine the mortgage underwriting process, starting with robust fraud detection solutions in connection with the underlying mortgages, imaging of documents to ensure transparency down to the underlying loan level, periodic cross-checks along the life-cycle of the process, and regular reporting to the marketplace.

The Government Challenge

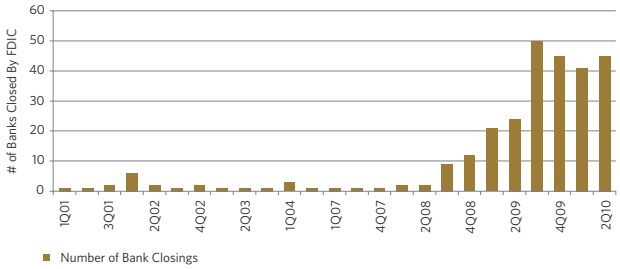
Yet in addition to these specific servicing needs, providers will also need to act innovatively in terms of the overall challenge of working with government agencies. Compliance is a case in point—along with the systems and infrastructure for compliance that providers must build and maintain. Complying with the rules and procedures set forth in the Federal Acquisition Regulation (FAR) system, for example—and with all the agency-specific supplements to FAR—demands a very

TARP Capital Purchase Program Repayment
(TARP Capital Purchase Program Repayments by US Institutions as of July 15, 2010)



Source: US Treasury

Federal Deposit Insurance Corporation Bank Closings



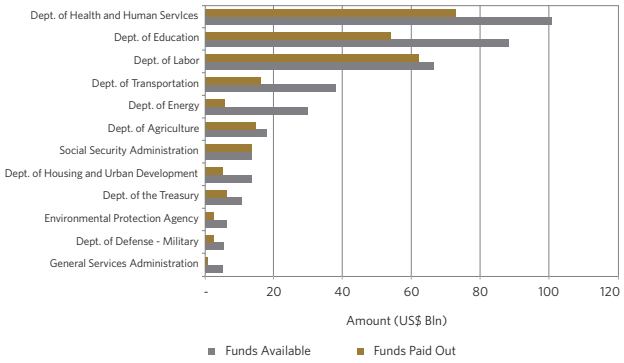
Source: Federal Deposit Insurance Corporation

high level of flexibility. Each agency, and each regulatory change, requires corresponding customized changes in systems, deliverables, and reporting; minimizing those customization processes should be a high priority for service providers.

And as every provider of services to the government knows, the entire approach to working with government agencies is far different from the approach to commercial clients in the private sector. The financial crisis has exacerbated the particular qualities of serving these agencies—specifically, the need to turn on a dime and the transparency obligations that are an obvious requirement where taxpayer money and citizen benefits are concerned. Service providers will do well to explore innovations in responding to change and ensuring transparency—whether or not they are contractually required to do so.

In our view, the strategy shift we're seeing today will last for some time. We believe we can expect credit intervention initiatives to persist, and we would not be surprised to see the effects of stimulus efforts lasting two decades or more; ARRA stimulus funds have seeded a considerable number of long-term programs. For service providers, this means it will be a long-range imperative to find new and innovative ways to help government divest itself of assets and facilitate programs to stimulate jobs, implement public policy initiatives, and increase credit while safeguarding the interests of the nation's taxpayers.

ARRA Funding by Government Agency
(Amount of ARRA Funding Disbursed, as of July 15, 2010)



ARRA: American Recovery and Reinvestment Act of 2009
Source: US Government: Federal Agency Financial and Activity Reports

Real Innovations

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Innovation at BNY Mellon Corporate Trust

By Troy L. Kilpatrick

Troy L. Kilpatrick is Head of Corporate Trust's Global Business Development.

There is nothing esoteric or abstract about innovation at BNY Mellon Corporate Trust. It is a practical, hands-on endeavor we engage in whenever meeting a specific client need demands it or when marketplace conditions warrant it.

We have put in place a structured innovation process through which we incentivize creative thinking, vet all ideas surfaced, and fast-track those deemed workable. Driving the process is our expertise in how the debt capital markets function and our experience in providing the services that support and enhance market activities.

The innovations described in the following case-studies sometimes simply adjust an existing solution, sometimes create something entirely original, and often fall somewhere in between. Whatever the degree of innovativeness, each solution is a step forward, helping our clients move ahead.

Funding Education, Creating a National Treasure

An institution to "instruct the descendants of the African Race in school learning, in the various branches of the Mechanic Arts, Trades and Agriculture, in order to qualify them as teachers..."

That was the aim of a Quaker philanthropist, Richard Humphreys, when, in 1837, he bequeathed a tenth of his estate to found the Institute for Colored Youth on the outskirts of Philadelphia. Humphreys could have had no idea of the forces his bequest would unleash. His modest expectations were exceeded not only at the Institute, which became Cheyney University of Pennsylvania, where today a multiracial student body can earn degrees in more than 30 disciplines, but also in the nation's history, as his endowment gave rise to what has become a national treasure—the 105 institutions of higher learning known as the Historically Black Colleges and Universities, the HBCUs.

In the centuries of slavery, segregation, and social and economic persecution south and north that have characterized so much of the African-American experience, the HBCUs carved out a remarkable record of achievement. While some educational institutions in the North and West opened their doors to black students following the Civil War, Americans of African descent in general had only limited opportunities for higher education. In the South, they had virtually none at all; state and local laws barred blacks from attending the public land-grant colleges that had been established in every state of the union under the Morrill Act of 1863.

But in 1890, the second Morrill Act required those states that excluded African-Americans from the existing land-grant college to establish a separate one for African-Americans only. The new law spurred the founding of some 16 black land-grant institutions across the South, eligible, like all land-grant schools, to receive federal funding for research and outreach.

And a number of private institutions followed, planted around the country with the specific aim of serving black communities that were educationally under-served and financially under-resourced.

In the Higher Education Act enacted in 1965, at the peak of civil rights legislation, all these institutions, public and private, founded before 1964 specifically to serve the black community were recognized as Historically Black Colleges and Universities. The special designation acknowledged the unique role these institutions had played in the nation's history, the extraordinary graduates they produced—too numerous to list, the minds they nurtured, and their skills in, as one prominent educator put it, doing "so much, for so many, with so little."

The legislation also established a program of direct federal grants to these HBCUs so that today, at least, they have more than "so little." And recognizing that as niche schools in rural areas with small enrollments, the HBCUs still often lacked access to mainstream capital markets, the Department of Education in 1996 created a special funding mechanism to widen such access so these schools can do "so much" more.

That is where BNY Mellon comes in. Through a long-standing partnership with a minority-owned underwriting and trading firm, Corporate Trust provides the servicing on a number of loans—32 to date—funding major infrastructure developments for nearly one-third of the eligible universities.

Where Richard Humphreys' 1837 bequest gave rise to a national treasure, today's public funding keeps the treasure flourishing so that it continues to yield immeasurable value. BNY Mellon is proud to help facilitate so historic an effort.

Case Studies

Supporting Innovation in the Commercial Paper Market

U.S.A. — In a sluggish commercial paper (CP) market, a U.S.-based asset management firm came up with an innovative idea for issuing secured CP. The firm would use its own trading inventory as collateral; since it could be locked down as required, it could "float" in and out of the account during the day to secure the notes.

Implementing the innovation required both a trustee and a collateral reporting agent; the latter would monitor and report in real-time on dozens of daily collateral trades that the asset manager's investors could access in end-of-day reporting. Moreover, the client wanted a single service provider to deliver both capabilities, trusteeship and collateral reporting agency—a formidable requirement.

BNY Mellon Corporate Trust met the requirement. To complement its trustee services, Corporate Trust staff collaborated with colleagues in Broker-Dealer Services, using that business's clearing system to create specialized reporting to meet the client's needs. Today, the client's investors can access and download collateral confirmations daily through the same one-stop shop that serves as trustee—for a transaction that just may wake up the commercial paper market in the U.S.

The Art of the Samurai Bond

ASIA — Companies seeking access to Japanese investment capital typically issue Samurai bonds—denominated in yen, issued in Tokyo, and subject to Japanese regulation. Proceeds from the bonds might be used for local operations, converted to the issuer's own currency, or deployed to hedge foreign exchange risk.

In looking for a local fiscal agent for such bonds, you might suppose an Australian issuer's first stop would be one of the three Japanese mega-banks that specialize in Samurais.

You'd be wrong.

BNY Mellon Corporate Trust (Japan) has broad experience with Japanese private bond issuances, possesses comprehensive expertise in Samurai bonds, and is thoroughly conversant with the processes and procedures of the Japanese Securities Depository Center. Working in close collaboration with the client from Down Under, BNY Mellon innovated a tailored solution that enabled the client to enter this market successfully: In the wake of a downturn in Samurai bond issuance in 2009, BNY Mellon closed three issuances for the client in January, 2010, becoming one of the first fiscal agents to close a Samurai bond this year.

Tailored Solution to the Issuing Community's Need

EUROPE — A 2003 law subjected all Spanish issuers to a formidable set of reporting obligations—substantial enough to require the issuers to hire a tax certification agent. For their issuances in Europe, a uniform procedure makes the reporting process relatively easy, but in the U.S. market, the Depository Trust Company's procedures for receipt of data proved particularly demanding. The U.S. provider's solution to the demands was, in its turn, so costly that issuers simply brought fewer Spanish Yankee deals to market.

No wonder the Spanish issuing community sought an alternative. First, these issuers wanted a provider that would compete on cost. Second, for added value, they sought a competitor with a strong balance sheet denoting financial stability and longevity. Of course, they turned to BNY Mellon.

The answer was swift and sure. A Corporate Trust team comprising professionals from several lines of business established an exclusive relationship with an outsource vendor to create a service innovation for this key client base. The solution created, tailored specifically to the need of the Spanish issuing community, gives these issuers the support they need to bring their issuances to market in the U.S.—effectively and cost-efficiently.

Quick Solution, Right Solution

LATIN AMERICA — Everything about the U.S.-based bond offering by a large international financial institution seemed standard and by the book—until about a week before the closing. That's when the legal experts involved in the transaction noted that, as then constructed, the procedure for paying out the U.S. dollar proceeds could, under the laws of the bank's home country, lose it its preferred-rate domestic tax qualification.

The BNY Mellon Corporate Trust team sprang into action, sifting through a number of options, and reaching out to colleagues in a foreign affiliate's office. That office has the authority, under local law, to act in a cross-border fiduciary capacity, and this proved the perfect solution: The bonds were sold, the dollar-denominated proceeds were transferred to the affiliate, and the funds were then remitted to the client—satisfying both the bank's capital-raising needs and its tax requirement.

Only a trustee/paying agent with capabilities on a global scale could have created such a solution: the right capabilities and people in the right place at the right time to deliver the right solution, virtually overnight, to advance client interests and ensure client benefits.

Losses Reduced, Standing Regained

U.S.A. — A company sought to reduce investment losses by exchanging insured securities for its holdings in residential mortgage-backed securities (RMBS) that had lost value in the market collapse. The solution made sense, but once the legal terms had been agreed and the agreement had been approved by government authorities, a key task remained: executing the massive exchange—on a tight deadline—and administering the terms of the deal.

BNY Mellon Corporate Trust staff, called in to handle the exchange, gathered all the RMBS certificates, deposited them in the certificate trusts for the insured securities—125 of them, and then, as paying agent, assumed the ongoing task of maintenance and administration.

They got it done on time and on target.

New Kind of Comfort

U.S.A. — The financial meltdown may have been global, but its impact has been keenly felt by local governments everywhere—including the government of a populous American county. Inertia and a sense of tradition had long kept the county financially tethered to a local bank, despite that bank's somewhat limited scale and service capabilities where trusteeship for bond issuance was concerned. And for a long time, that was understandable; in government as in finance, staying with what you know seems good policy—and feels comfortable.

But with the financial crisis lending fresh urgency to the need to realize the greatest value for every taxpayer dollar spent, new staff in the county financial office decided to challenge traditional assumptions.

BNY Mellon Corporate Trust was ready. For a new bond issuance, staff in the local Corporate Trust office drew on the institution's vast experience as a trustee and agent in the municipal market to realize a distinctive advantage for the county in service strength and cost-effectiveness. As Corporate Trust staff had for some time asserted to the county's financial staff, the best way to serve local needs is to leverage the product strength, stability, global resources, and wide experience of a triple-A institution to address those needs.

What can give more comfort to a county government than that?

The Debt Markets by the Numbers

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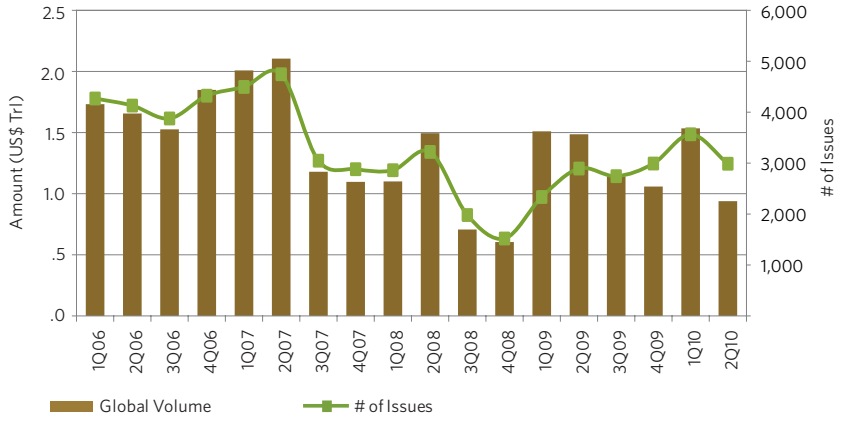
Graphs and analysis compiled by BNY Mellon Corporate Trust Strategy & Product Management.

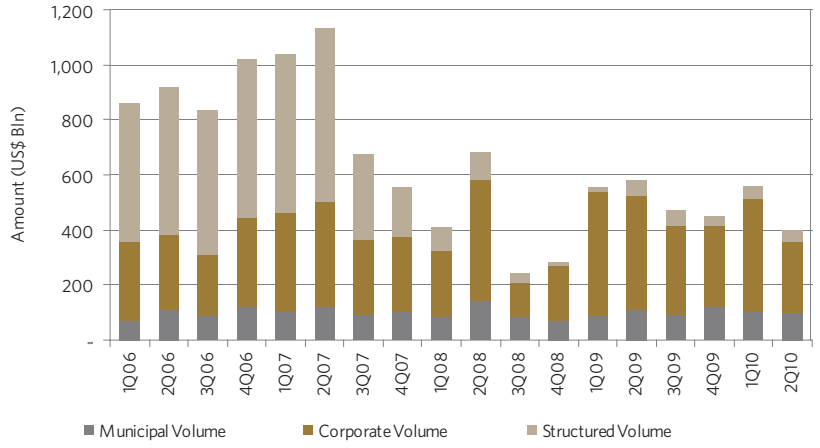
Debt Issuance

Global Long-Term Debt Activity



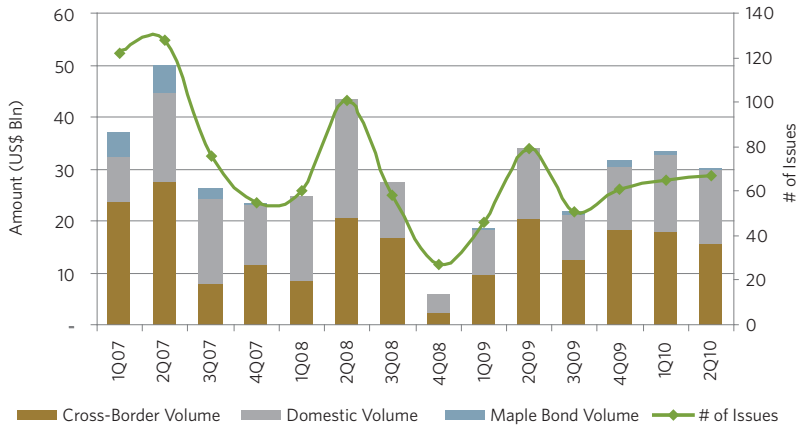
Includes corporate, ABS, MBS, and taxable municipal debt known to Thomson Reuters.
Source: Thomson Reuters

United States Debt Activity



Includes all US municipal, corporate, and structured (ABS and MBS) debt known to Thomson Reuters.
Source: Thomson Reuters

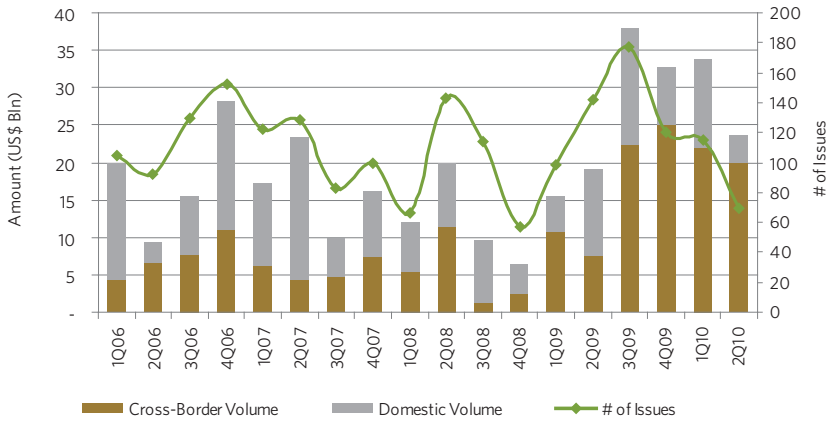
Canada Debt Activity



Includes private and public corporate and structured debt in Canada known to Thomson Reuters.
Source: Thomson Reuters

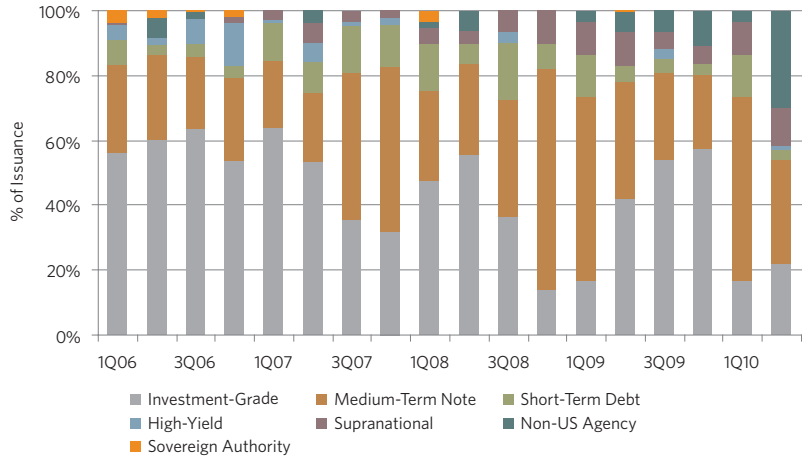
Debt Issuance (continued)

Latin America Debt Activity



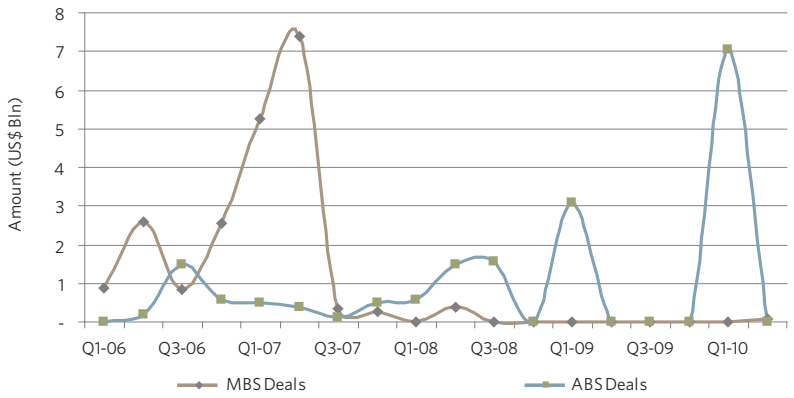
Includes private and public corporate and structured debt in Latin America known to Bloomberg and Dealogic.
Source: Bloomberg, Dealogic

Asia-Pacific Cross-Border Corporate Debt
(Issuance by Bond Type)



Percent of total of XS ISIN volume issued corporate debt in the APAC market quarterly. Corporate debt includes medium-term notes, investment-grade, high-yield, sovereign, supranational, non-US agency, and short-term debt as defined by Dealogic.
Source: Dealogic

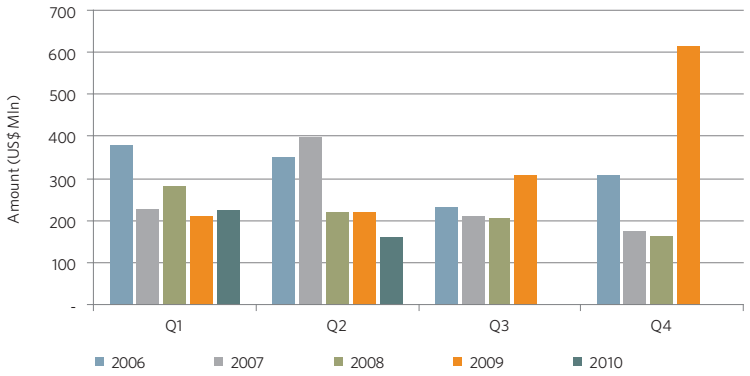
Asia-Pacific Cross-Border Structured Debt
(MBS & ABS Issuance)



Total of XS ISIN structured debt volume issued in the APAC market quarterly. Structured debt includes ABS and MBS issued publicly and known to Dealogic. May not include all structured deals placed in the defined market.
Source: Dealogic

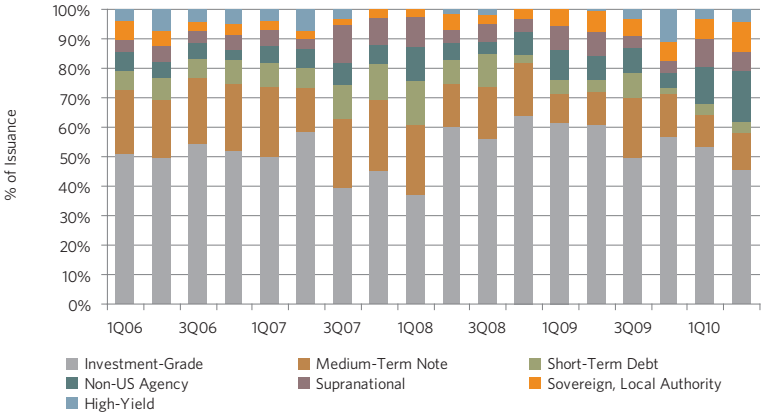
Debt Issuance (continued)

Asia-Pacific Cross-Border Corporate Debt
(Average Deal Size by Quarter)



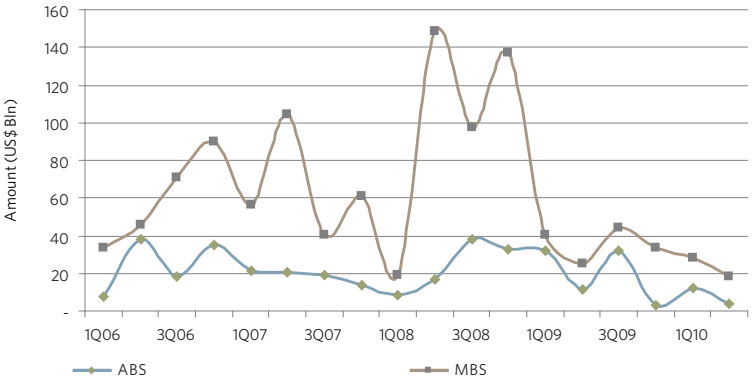
Average deal size of XS ISIN issued stand-alone corporate debt in the APAC market quarterly. Corporate debt includes investment-grade, high-yield, sovereign, supranational, non-US agency, and short-term debt.
Source: Dealogic

Europe, Middle East and Africa Cross-Border Debt
(Issuance by Bond Type)



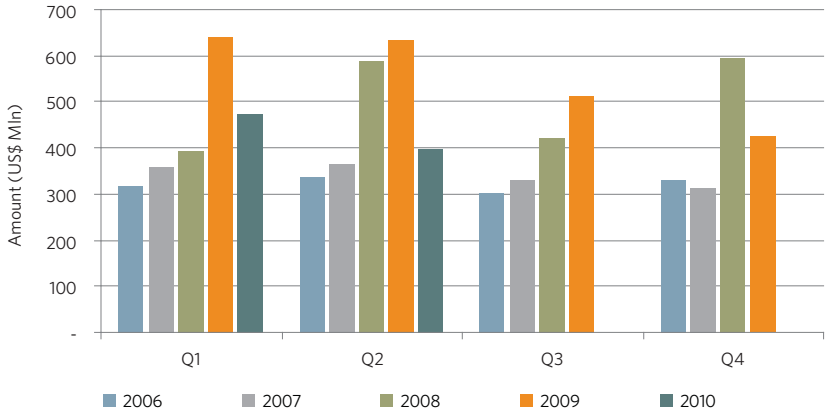
Percent of total of XS ISIN volume issued corporate debt in the EMEA market quarterly. Corporate debt includes medium-term notes, investment-grade, high-yield, sovereign, supranational, non-US agency, and short-term debt as defined by Dealogic.
Source: Dealogic

Europe, Middle East and Africa Cross-Border Structured Debt
(MBS & ABS Issuance)



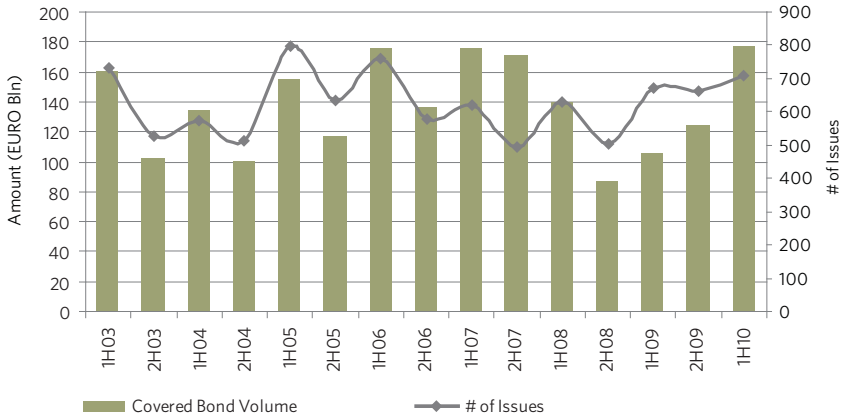
Total of XS ISIN structured debt volume issued in the EMEA market quarterly. Structured debt includes ABS and MBS issued publicly and known to Dealogic. May not include all structured deals placed in the defined market.
Source: Dealogic

Europe, Middle East and Africa Cross-Border Corporate Debt
(Average Deal Size by Quarter)



Average deal size of XS ISIN issued stand-alone corporate debt in the EMEA market quarterly. Corporate debt includes investment-grade, high-yield, sovereign, supranational, non-US agency, and short-term debt.
Source: Dealogic

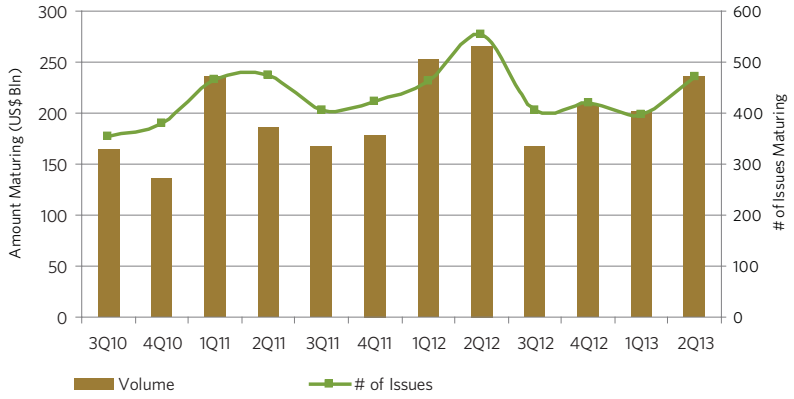
Global Covered Bonds
(Funding Activity)



Covered bonds, as defined by Bloomberg League Tables, includes Pfandbrief issuances..
Source: Bloomberg

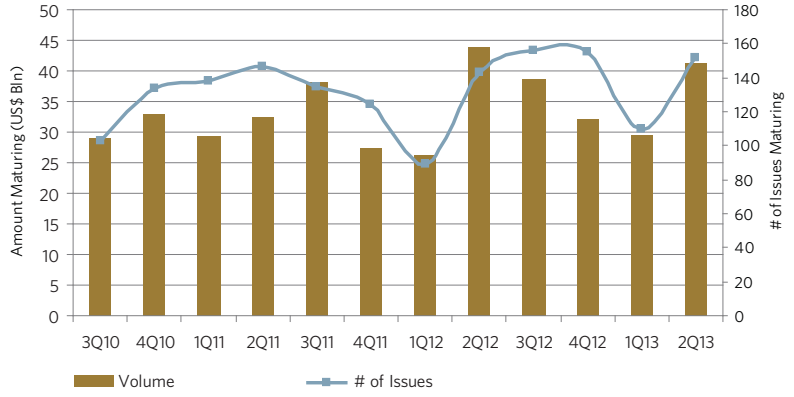
Maturing Debt

United States Maturing Corporate Straight Debt
(Three-Year Maturity Schedule)



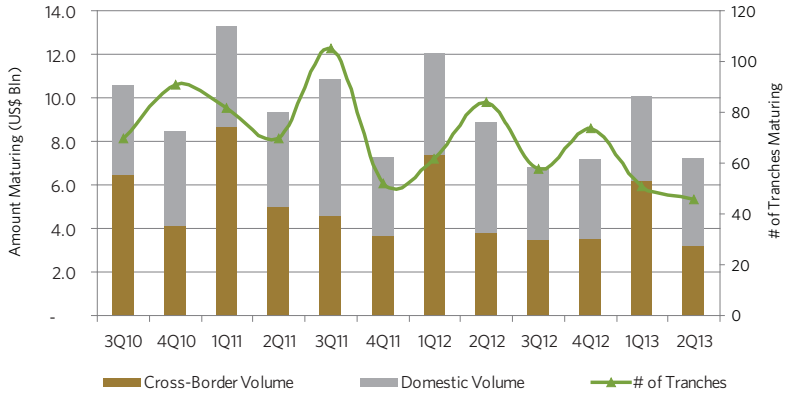
Comprises US straight debt issued between 1/1/1989 and 6/30/2010, still outstanding, with a maturity between 7/1/2010 and 6/30/2013.
Source::Thomson Reuters

United States Maturing Structured Debt
(Three-Year Maturity Schedule)



Comprises US ABS and MBS debt issued between 1/1/1989 and 6/30/2010, still outstanding, with a maturity between 7/1/2010 and 6/30/2013.
Source: Thomson Reuters

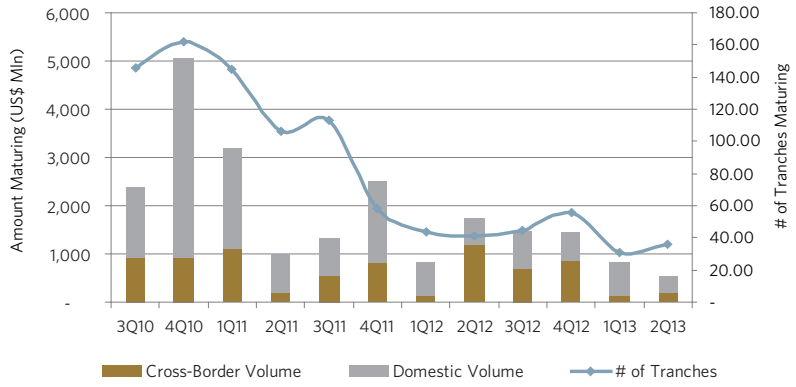
Latin America Maturing Corporate Debt
(Three-Year Maturity Schedule)



Comprises Latin America corporate and sovereign debt issued between 1/1/1999 and 6/30/2010, still outstanding, with a maturity between 7/1/2010 and 6/30/2013.
Source: Bloomberg, Dealogic

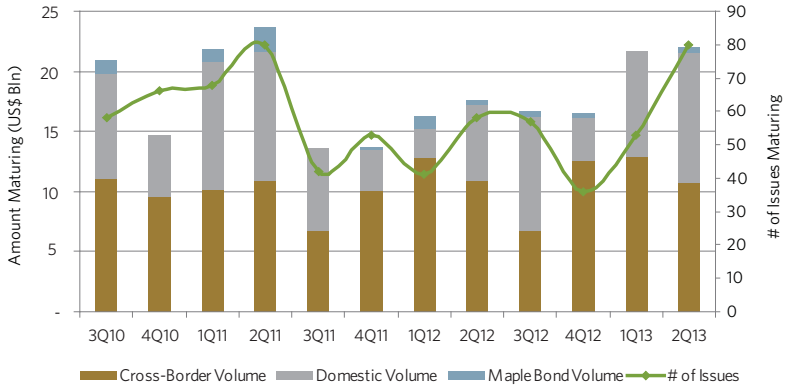
Maturing Debt (continued)

Latin America Maturing Structured Debt
(Three-Year Maturity Schedule)



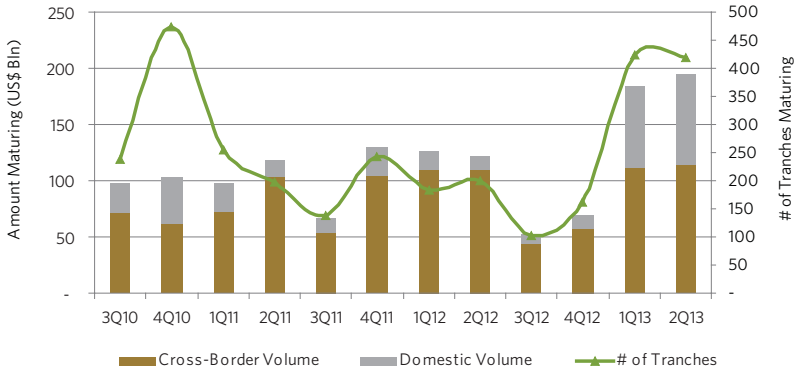
Comprises Latin America ABS and MBS debt issued between 1/1/1993 and 6/30/2010, still outstanding, with a maturity between 7/1/2010 and 6/30/2013.
Source: Bloomberg, Dealogic

Canada Maturing Debt
(Three-Year Maturity Schedule)



Comprises Canadian cross-border, domestic, and Maple corporate and structured debt issued between 1/1/1986 and 6/30/2010, still outstanding, with a maturity between 7/1/2010 and 6/30/2013.
Corporate debt includes investment-grade, high-yield, and agency/sovereign issued securities.
Structured debt includes ABS or MBS.
Source: Thomson Reuters

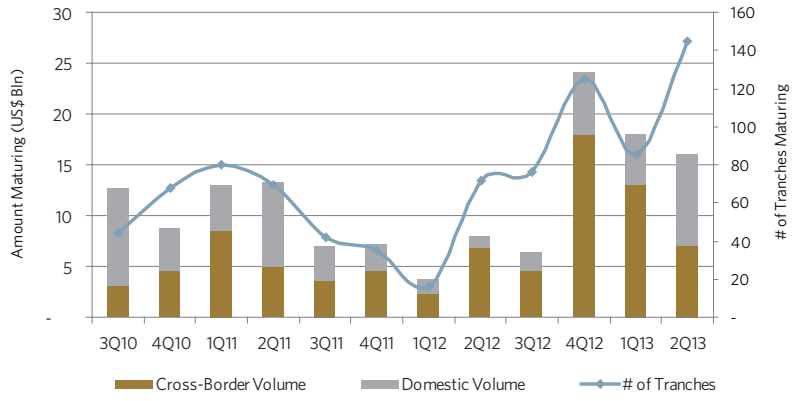
Europe, Middle East and Africa Maturing Corporate Debt
(Three-Year Maturity Schedule)



Comprises corporate and sovereign debt by EMEA domiciled issuers between 1/1/1985 and 6/30/2010, still outstanding, with a maturity between 7/1/2010 and 6/30/2013. Does not include MTN issuance.
Source: Dealogic

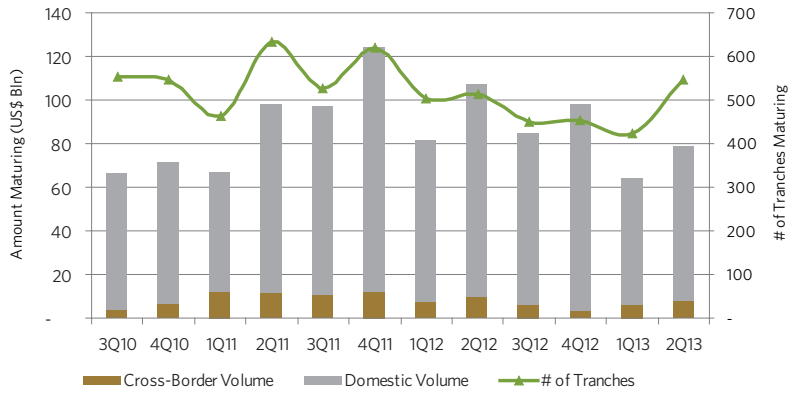
Maturing Debt (continued)

Europe, Middle East and Africa Maturing Structured Debt
(Three-Year Maturity Schedule)



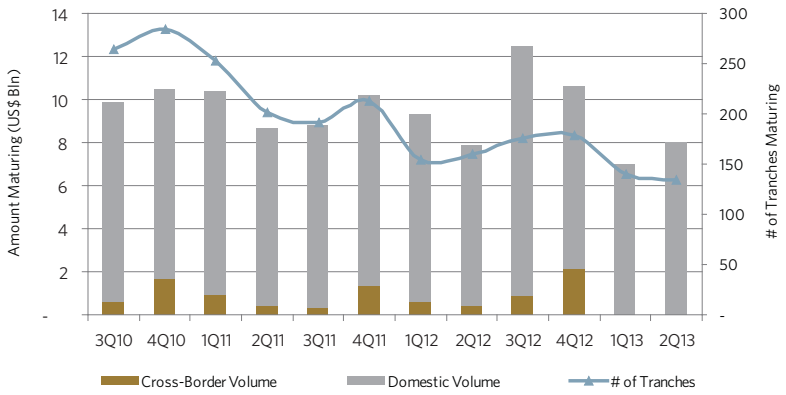
Comprises ABS and MBS debt by EMEA domiciled issuers between 1/1/1985 and 6/30/2010, still outstanding, with a maturity between 7/1/2010 and 6/30/2013.
Source: Dealogic

Asia-Pacific Maturing Corporate Debt
(Three-Year Maturity Schedule)



Comprises corporate and sovereign debt by APAC domiciled issuers between 1/1/1986 and 6/30/2010, still outstanding, with a maturity between 7/1/2010 and 6/30/2013. Does not include MTN issuance.
Source: Dealogic

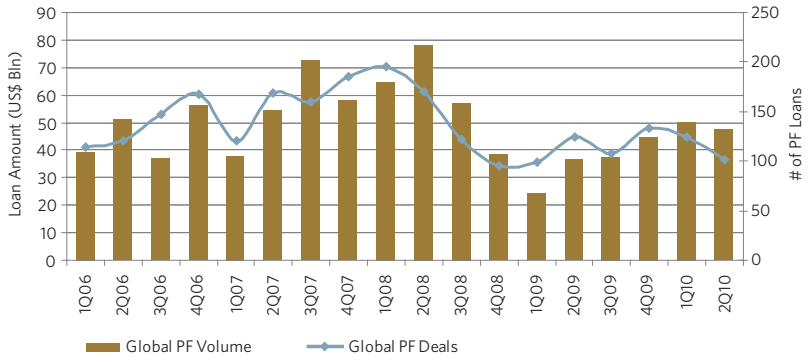
Asia-Pacific Maturing Structured Debt
(Three-Year Maturity Schedule)



Comprises ABS and MBS debt by APAC domiciled issuers between 1/1/1994 and 6/30/2010, still outstanding, with a maturity between 7/1/2010 and 6/30/2013.
Source: Dealogic

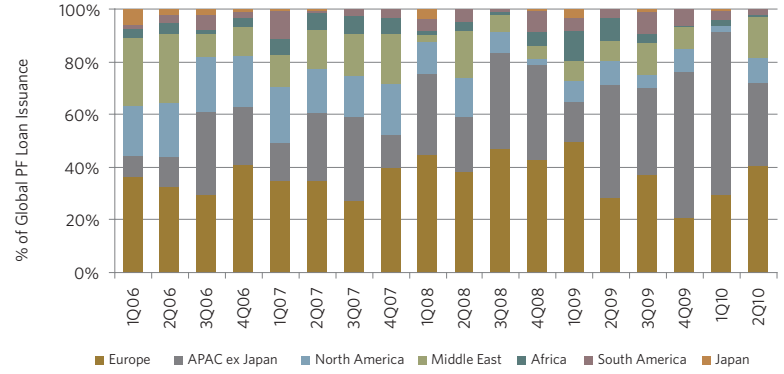
Project Finance

Global Project Finance
(Funding Activity)



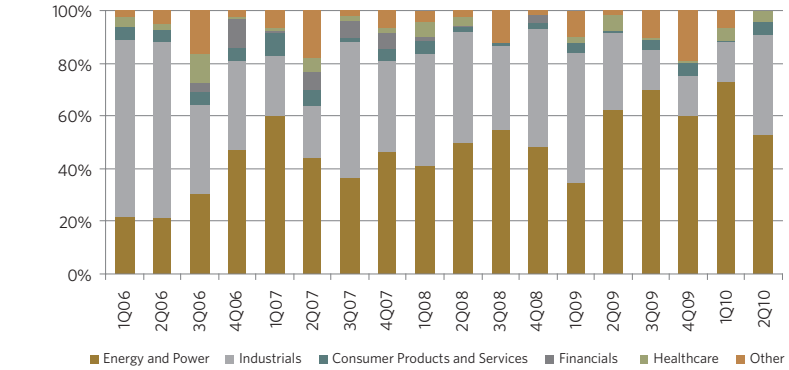
Loan transactions with proceeds directed to project finance initiatives as defined by Thomson Reuters.
Source: Thomson Reuters

Global Project Finance Loans
(By Domicile Region)



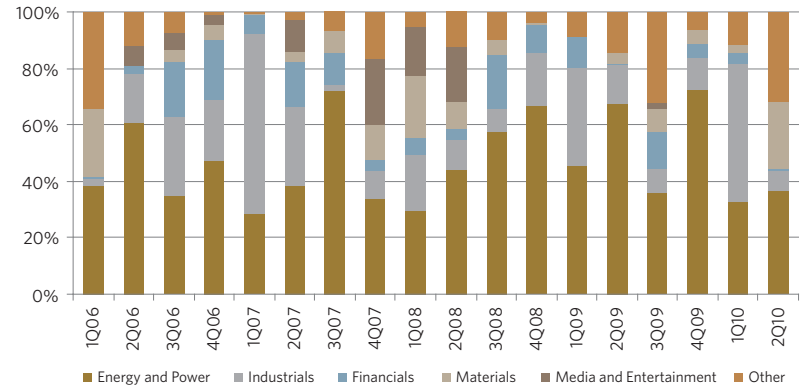
Loan transaction volume in specified domicile regions with proceeds directed to project finance initiatives known to Thomson Reuters.
Source: Thomson Reuters

Europe Project Finance Loan Volume
(By Project Industry)



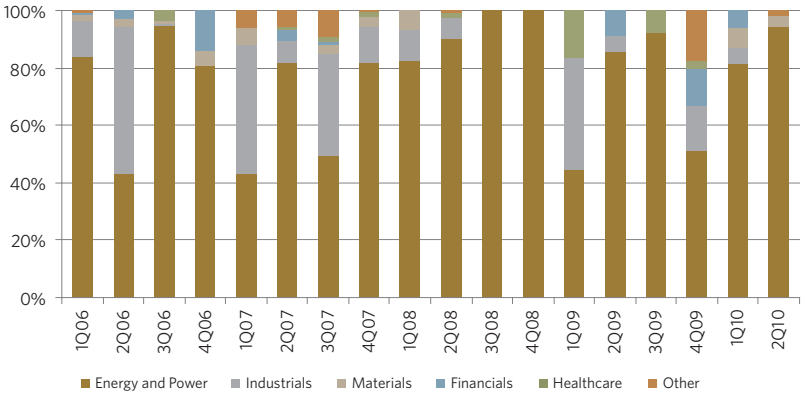
Loan transaction volume in Eastern, Central, and Western Europe domicile regions with proceeds directed to project finance initiatives as defined by Thomson Reuters.
Source: Thomson Reuters

Asia-Pacific Project Finance Loan Volume
(By Project Industry)



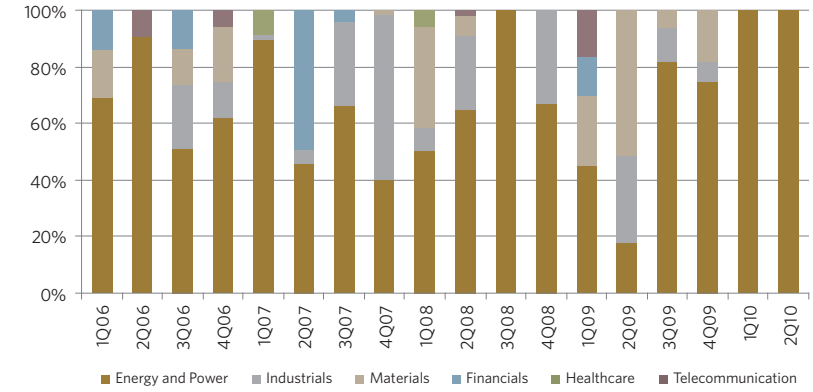
Loan transaction volume in Asia-Pacific and Australasia domicile regions with proceeds directed to project finance initiatives as defined by and known to Thomson Reuters.
Source: Thomson Reuters

North America Project Finance Loan Volume
(By Project Industry)



Loan transaction volume in North America domicile regions with proceeds directed to project finance initiatives known to Thomson Reuters.
Source: Thomson Reuters

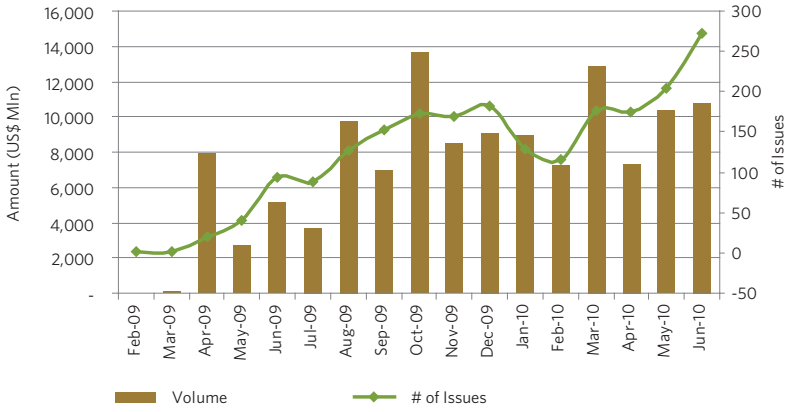
Latin America Project Finance Loan Volume
(By Project Industry)



Loan transaction volume in Central America, South America, and Caribbean domicile regions with proceeds directed to project finance initiatives known to Thomson Reuters.
Source: Thomson Reuters

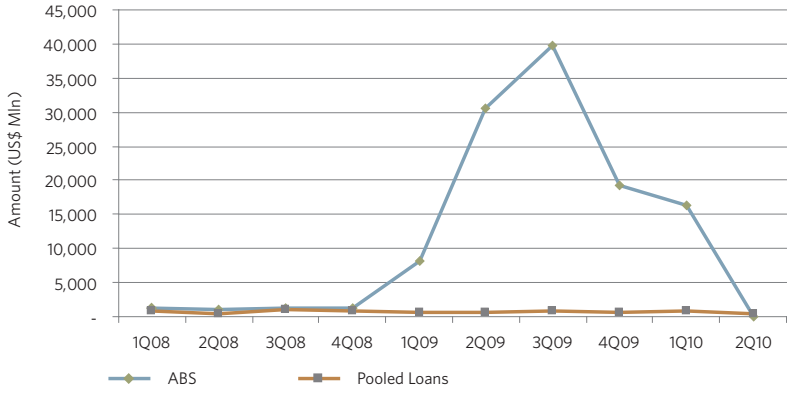
U.S. Stimulus

Public Finance Bond Issuance Under ARRA
(American Recovery and Reinvestment Act of 2009)



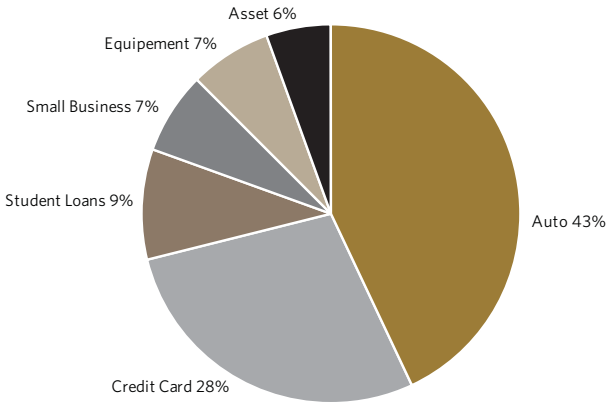
Issuance activity comprises public finance bond authorizations under ARRA including Build America Bonds (BABs), Clean Renewable Energy Bonds (CREBs), Qualified School Construction Bonds (QSCBs), and Qualified Zone Academy Bonds (QZABs) since 1/1/2009 known to Thomson Reuters.
Source: Thomson Reuters

United States TALF Eligible Securities Issued 2008-2009



Includes all term ABS loan facility-eligible securities known to Bloomberg.
Source: Bloomberg

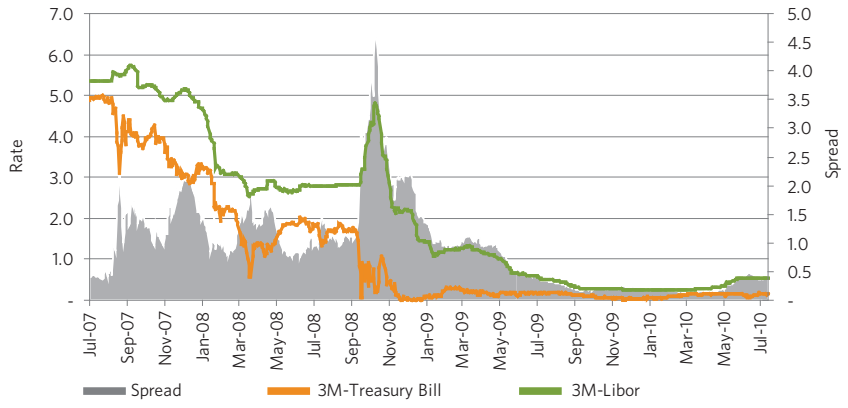
Collateral Type of TALF Eligible Securities 2009-2010
(US$ 119 Bln)



Source: Bloomberg

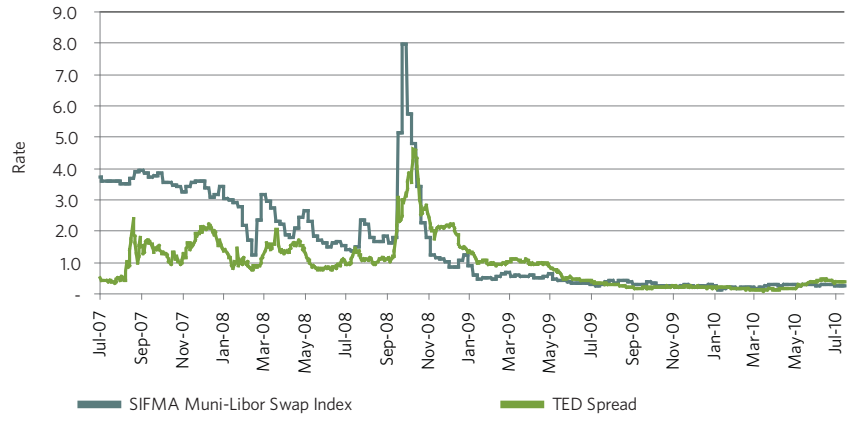
Broad Market Indicators

3-Month T-Bill and Libor
(Historical Rates and Spread)



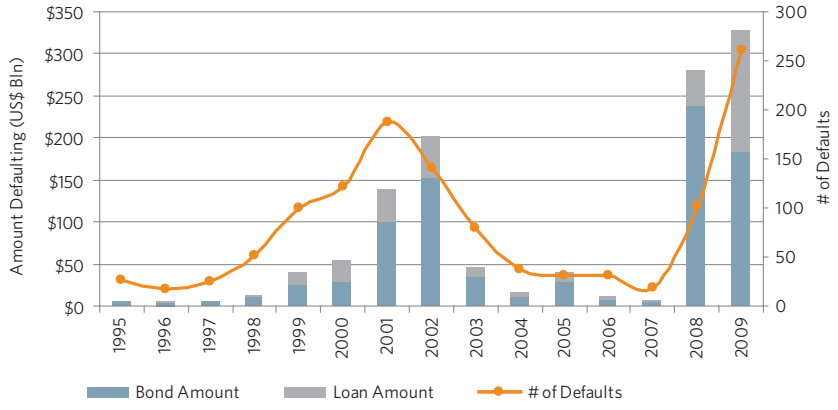
Spread calculated as difference between 3-month Libor and 3-month Treasury Bill, commonly referred to as the TED Spread.
Source: Bloomberg

TED Spread and Libor-SIFMA Municipal Swap Index
(Rate Changes)



TED Spread calculated as difference between 3-month Libor and 3-month Treasury Bill.
Source: Bloomberg

Default Rate on All Moody's Rated Corporate Securities



Source: Moody's

Profile of a Leader

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Credit Ratings

As of July 2010

Listed below are the credit ratings for The Bank of New York Mellon Corporation and a principal banking subsidiary, The Bank of New York Mellon.

The Bank of New York Mellon Corporation	Moody's	S&P	Fitch	DBRS
Long-term Senior Debt	Aa2	AA-	AA-	AA (low)
Subordinated Debt	Aa3	A+	A+	A (high)
Trust Preferred Securities	A1	A-	A	A (high)
Short-term	P1	A-1+	F1+	R-1 (middle)
Outlook	Stable	Stable	Stable	Stable (long-term) Stable (short-term)

The Bank of New York Mellon	Moody's	S&P	Fitch	DBRS
Long-term Deposits	Aaa	AA	AA	AA
Long-term Senior Debt	Aaa	AA	AA-	AA
Short-term Deposits	P1	A-1+	F1+	R-1 (high)
Outlook	Stable	Stable	Stable	Stable (long-term) Stable (short-term)

A security rating is not a recommendation to buy, sell, or hold securities. The rating may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of the other ratings.

Market Leadership

For 225 years, BNY Mellon has been a strong, stable company with excellent long-term credit ratings. The quality of our execution and service is recognized across the industry.

Top Trustee in the U.S.
(*Thomson Reuters*, 2009)

Top Municipal Debt Trustee in the U.S.
(*Thomson Reuters*, 2009)

Global Corporate Trust Services Provider of the Year
(*Infrastructure Investor*, 2010)

Best in Corporate Trust: Australia, India and Korea
(*The Asset* magazine Triple A Awards - Securities & Fund Services 2010)

Safest Bank in U.S.
(*Global Finance* magazine "World's 50 Safest Banks 2010")

 # 3 Superregional Bank (U.S.)
(*Fortune* World's Most Admired Companies, 2010)

Perfect Marks in 2010 Corporate Equality Index
(*Human Rights Campaign Foundation*)

2010 Green Power Leadership Award
(*U.S. Environmental Protection Agency*)

100 Most Influential People in Finance
(*Treasury and Risk* - Karen Peetz, Senior EVP & BNY Mellon CEO of Financial Markets and Treasury Services - Banks category)

BNY Mellon Corporate Trust Worldwide Locations

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The Bank of New York Mellon*
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Houston, TX 77002

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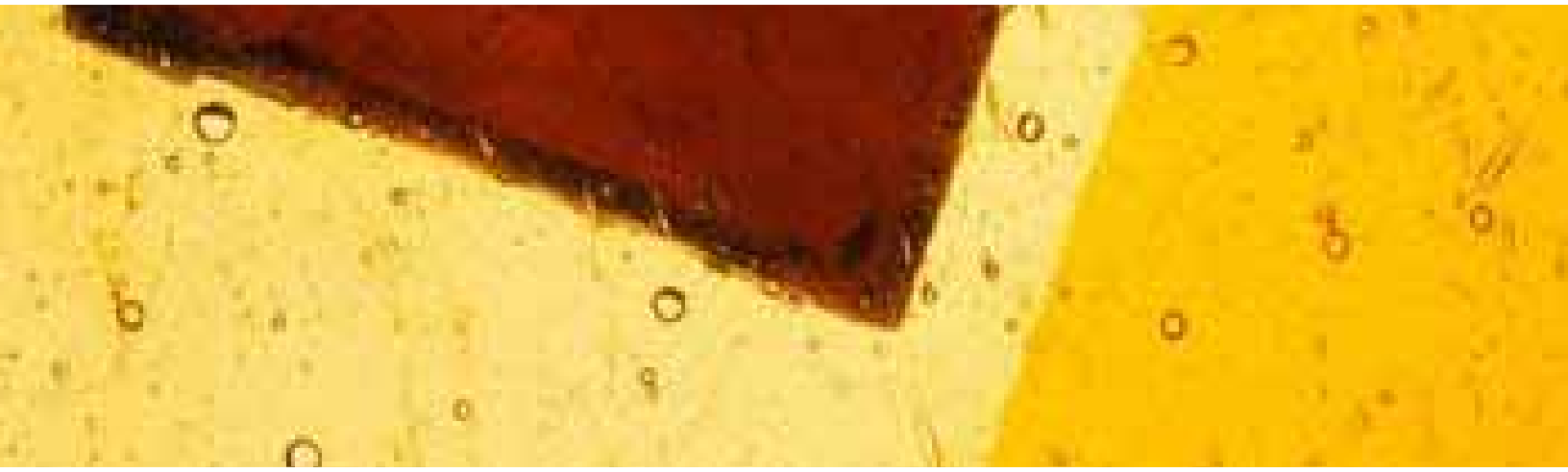

BNY MELLON

www.bnymellon.com

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