

Treasury Services Update

A newsletter for treasury professionals.



BNY MELLON
TREASURY SERVICES



Third Quarter 2010

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BNY Mellon Named Safest Bank in U.S. in *Global Finance* Ranking

Trusted Standard of Creditworthiness Recognized Worldwide

For the second year in a row, BNY Mellon was ranked as the safest bank in the United States by *Global Finance* magazine. *Global Finance* has published its "World's Safest Banks" listing for 19 years and this ranking has become a recognized and trusted standard of creditworthiness for the entire financial world.

The "World's 50 Safest Banks" for 2010 were selected through a comparison of the long-term credit ratings and total assets of the 500 largest banks around the world. Ratings from Moody's, Standard & Poor's and Fitch were used.

"Banks that have strengthened their liquidity positions and the quality and quantity of their capital are recognized in these rankings," said *Global Finance* publisher Joseph D. Giarraputo. "More than ever, customers around the world are viewing long-term creditworthiness as the key feature of banks with which they do business."

Said Eric Kamback, chief executive officer of BNY Mellon's Treasury Services group, "We are both pleased and honored to receive this recognition. Our fiscal stability throughout the financial crisis, and our ability to provide the correct tools to meet ongoing market challenges, have made BNY Mellon an attractive source of investment advice to our clients and a safe haven for their liquidity needs. It is heartening to see this reflected in the *Global Finance* rankings."

The complete rankings are available on the magazine's Web site at gfmag.com.



Industry Accolades

BNY Mellon Receives 10 Medals in *Trade & Forfeiting Review Magazine's* 2010 Survey

Rankings reflect focus on helping client banks and their customers succeed in a challenging trade environment

BNY Mellon Treasury Services has received top-three rankings in 10 separate categories for its trade finance services in *Trade & Forfeiting Review* magazine's 2010 survey of service providers. The awards, listed below, marked the largest number of gold, silver and bronze medals won by any service provider in this year's survey, with four more than BNY Mellon's total in 2009:

GOLD

- Best Online Trade Provider

SILVER

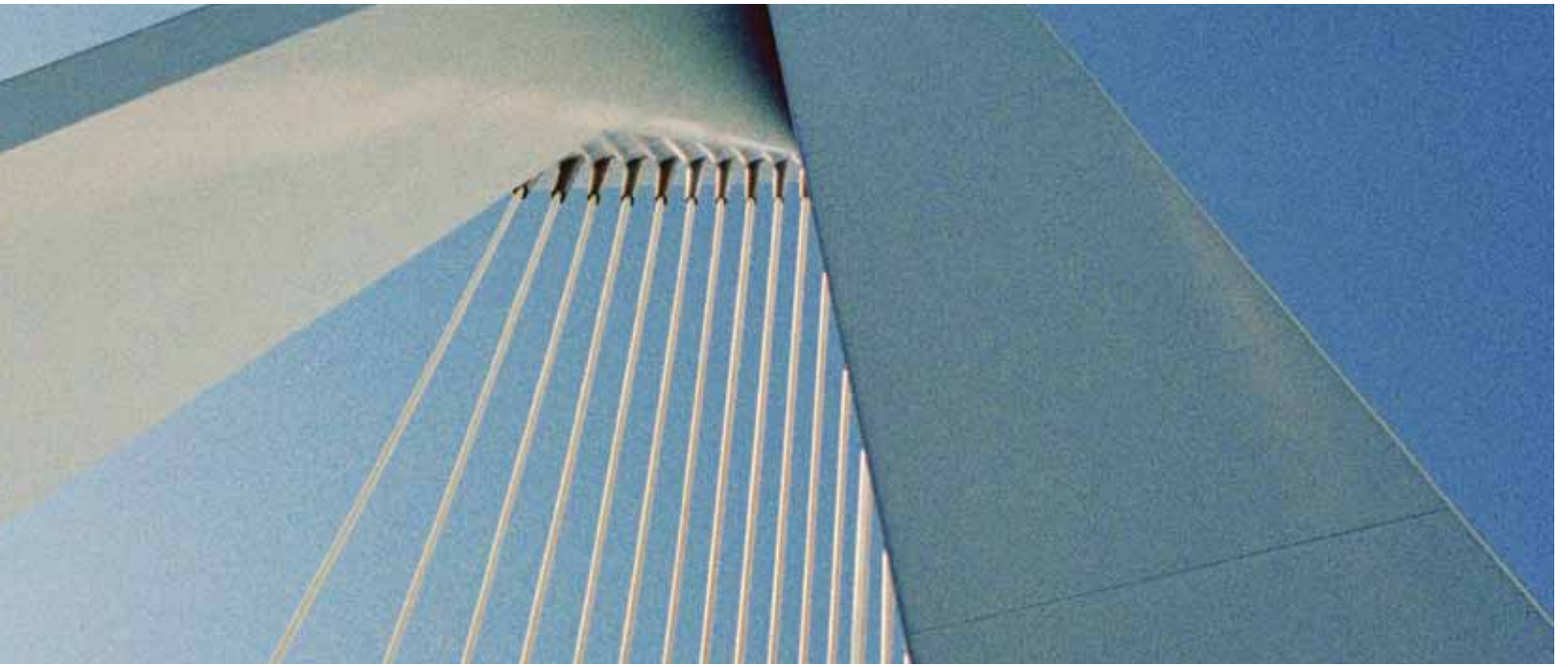
- Best Trade Bank in the World
- Best Trade Bank in Structured Finance
- Best Trade Bank in Latin America
- Best Trade Bank in North America
- Best Trade Bank in Asia
- Best Trade Services Provider
- Most Innovative Trade Bank

BRONZE

- Best Trade Bank in the Middle East
- Best Supply Chain Bank

"Our longstanding global presence and continuing commitment to innovation enable us to add substantial value to trade finance client relationships," said Eric Kamback, BNY Mellon Treasury Services' chief executive officer. "Companies are taking an increasingly integrated approach to managing their treasury services and corporate finance operations, and trade finance has been both a driver and beneficiary of this integration. We've worked hard with our banking clients and their customers to help them stay abreast of these changes amidst challenging global economic conditions. The results from this year's *Trade & Forfeiting Review* survey indicate that our efforts are appreciated."

The awards are based entirely on verified reader votes — mainly corporations, banks and other financial institutions involved in international trade finance. This year, a total of 5,220 individual votes were cast. Complete results of this year's survey appeared in the magazine's July issue.



BNY Mellon's Community Partnership Program Earns Corporate Social Responsibility Award

Employee Relations Program Generates \$26 Million and 45,000 Hours Helping Others

PR News has awarded BNY Mellon the 2010 Corporate Social Responsibility (CSR) Award for its innovative global Community Partnership Program. Presented at the National Press Club in Washington, D.C., the award recognizes BNY Mellon's CSR leadership in the employee relations category.

"BNY Mellon inspired us," said Scott Van Camp, *PR News* editor. "Even in the most challenging economic times, their innovative approach to employee relations is a corporate social responsibility best practice that's helped people around the world." BNY Mellon's Community Partnership Program for employees encourages personal donations, team volunteering and fundraising year-round in the 34 countries in which the company operates.

In the two years since BNY Mellon's Community Partnership Program was launched, its 42,000 employees around the world have:*

- formed 1,100 teams to support our communities;
- volunteered over 45,000 hours through these teams;
- pledged, raised and contributed \$26 million dollars; and
- helped 3,000 nonprofit organizations through these efforts.

Employees and the company also contributed more than \$900,000 in one month for urgent disaster relief efforts in Haiti. "Employee engagement and community support are core pillars of our corporate social responsibility program," said Jeep Bryant, BNY Mellon's chief corporate affairs officer. "With the extraordinary ambition and generosity of our employees, BNY Mellon has significantly impacted communities around the globe as a result of this signature employee program."

PR News, a leading trade publication for professional communicators, selected the 2010 CSR Awards honorees based on criteria including program impact and results, CSR reputation and overall program excellence.

**Includes corporate matches.*

"Even in the most challenging economic times, [BNY Mellon's] innovative approach to employee relations is a Corporate Social Responsibility best practice that's helped people around the world."

- Scott Van Camp
PR News Editor



Thought Leadership

Complex International Payment Systems Challenge Global Business Practices

Developing Local Payment Network Relationships May Ease Burden

by Michael Bellacosa, BNY Mellon Treasury Services group head of Payment Services Product management

Since the credit crunch and the crash of the U.S. housing market in 2008, the global market has been encumbered by a rise in government deficits and borrowing, and a decline in the value of the U.S. dollar. As a result, the U.S. and other nations have tended to retrench and turn toward protectionist policies. Fortunately, market forces have diminished the effectiveness of this reaction, and companies increasingly realize that one of their best chances for improving operations, reducing costs and building new revenue sources is through foreign trade.

Trends largely in place before the current downturn have also fostered change and development in international trade and payments flows. Throughout the 1990s, trade agreements and alliances proliferated, with the rise of NAFTA (the North American Free Trade Agreement), the European Union, Mercosur in Latin America, and a reinvigorated ASEAN (Association of South East Asian Nations). Along with this regional cooperation, cross-border standardization and harmonization of payments systems were strengthened,



notably by the creation of Europe's Single Euro Payments Area (SEPA), by the industry's still-emerging ISO 20022 payment standards, and by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) initiatives to provide corporations as well as banks access to standard financial communication methodology.* As banks and corporations in the U.S. attempt to position themselves for future growth, achieving an optimal balance among multiple types of cross-border payment capabilities will be key to successfully achieving that expansion.

PERSISTENT IMPEDIMENTS TO CHANGE

Despite the rise of a more streamlined and automated payments world, harmonization of global payment practices has been difficult to achieve. The forces that encourage it, though generally strong everywhere, proceed at different rates in different regions against different payment systems.

For an obvious example, paper checks have generally declined relative to card payments and direct debits made through the automated clearing house (ACH) or comparable local clearing systems. However, while the largest declines in paper volumes

are exhibited in the U.S. and Canada, a sizeable percentage of U.S. payments are still conducted through checks, which is likely accounted for by their persistent use in business-to-business payments. Credit transfers show similarly mixed results. There has been a slight rise in the use of credit transfers in the U.S. and Canada (representing the increase in wire payments and ACH credit volumes), but Europe, for the most part, demonstrates relative declines. This suggests a decline in giro or "push" payments, and that card systems and the rise of local clearing systems for debit transactions have outpaced any growth in wires or other credit transactions.

This same inconsistency in growth patterns and relative areas of focus among economies in different stages of development has impeded creation of a worldwide system and universal network for international payments. Among mature economies, businesses and the banks that serve them place primary emphasis on generating new revenue and on cutting costs by eliminating obsolete and redundant payment systems. These banks aim to offer higher straight-through payment rates, better quality, and more dynamic reporting and to integrate payment data with clients' internal general ledger systems or ERPs. Often, however, these efforts are slowed by global or regional regulatory and standardization efforts, fraud prevention and anti-terrorism protection.

In contrast, wholesale payment strategies in developing economies have focused on moving from cash to electronic payments and on developing interfaces with payers (many of them unbanked) through mobile devices or cell phones. Local clearing systems have emerged, but they are often not easily penetrated by payers outside the country. To make global payments into or within these regions, there is little to no reliance on central banking systems. Instead, global private payment networks, such as MasterCard,[®] Visa[®] and even PayPal,[®] or new infrastructures provided by mobile telecommunications, form the bases for interconnectivity.

CORPORATE PRIORITIES

Multinational corporations have a compelling need to locate untapped revenue opportunities and new labor or sourcing prospects, but encounter difficulties when they navigate foreign payments markets and their inherent complexities. Cross-border payments made through traditional methods (e.g., check, drafts or wire) put companies at an increased disadvantage against their in-country competitors. The time required to clear an international check (often exceeding a month or longer) and the expense associated with wires make it difficult to conduct a lean and efficient business. And, since wire fees are often borne by the beneficiary through deductions from the payment, it is difficult to develop a broad group of satisfied trading partners.

However, for companies that make just a few payments into and within foreign countries, international wire transactions do often suffice, and for payments requiring significant remittance data or rapid settlement, wires are essential. But as involvement and activities abroad increase, companies must find ways to pay through local payment systems as well. The key requirements for this capability are:

- mastery of the methodology and rules for making payments in distinct markets, since each country has a different local payment system with its own rules, regulations and submission timelines;
- development of separate methods of handling the reporting, accounting and reconciliation processes associated with each country's payment system;
- alternate methods to make payments into, and receive payment from, countries without local clearing systems; and
- design of a time-efficient system for researching inquiries that accommodates beneficiaries unable to get clearing and settlement data.

Since these requirements must be learned and applied according to each region or country's specifications, it is nearly impossible for any corporation to navigate these areas on its own.

DIFFERENT SOLUTIONS FOR DIFFERENT SITUATIONS

Beyond acquiring a command of local payment systems, deriving a company's ideal mix among wire, ACH and card payments involves weighing the costs against the associated advantages. These are determined not only by capital costs but also by the size of the firm, the locations and scope of its operations abroad and the receiving capabilities of its beneficiaries. For example, a small company that engages a consultant to run a defined project in another country may choose to pay the consultant fees and expenses by wire. Should the project come to require a physical presence in the country, and the consultant is brought onto the company payroll as an employee, it would be more effective to pay the employee and real estate expenses by local

ACH. Business operating costs could be funded by purchasing card and local clearing system payments where possible, and by cash and wire in other instances (see Figure 1).

A STREAMLINED PAYMENTS FUTURE

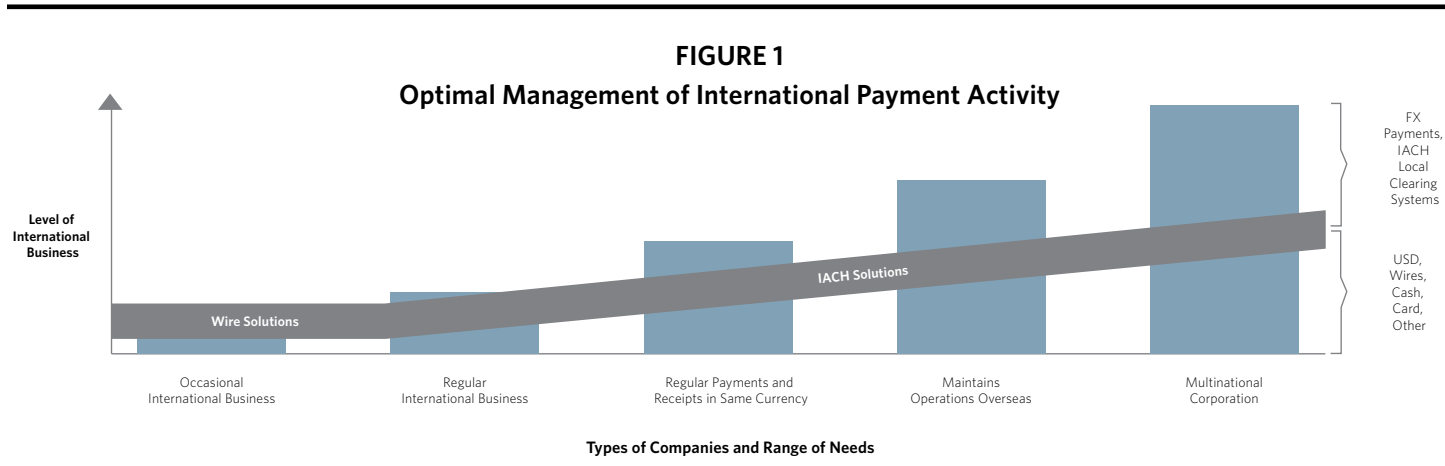
Despite, or perhaps because of, today's uncertain economic outlook, there are countless studies recommending marketing and technology strategies, risk and expense management, and revenue generation schemes. Without robust payment capability, however, a corporation can enact none. In the realm of international business — increasingly a priority for businesses of all sizes — a variety of international payment capabilities and the knowledge of how, when and where to use each can determine survival or demise.

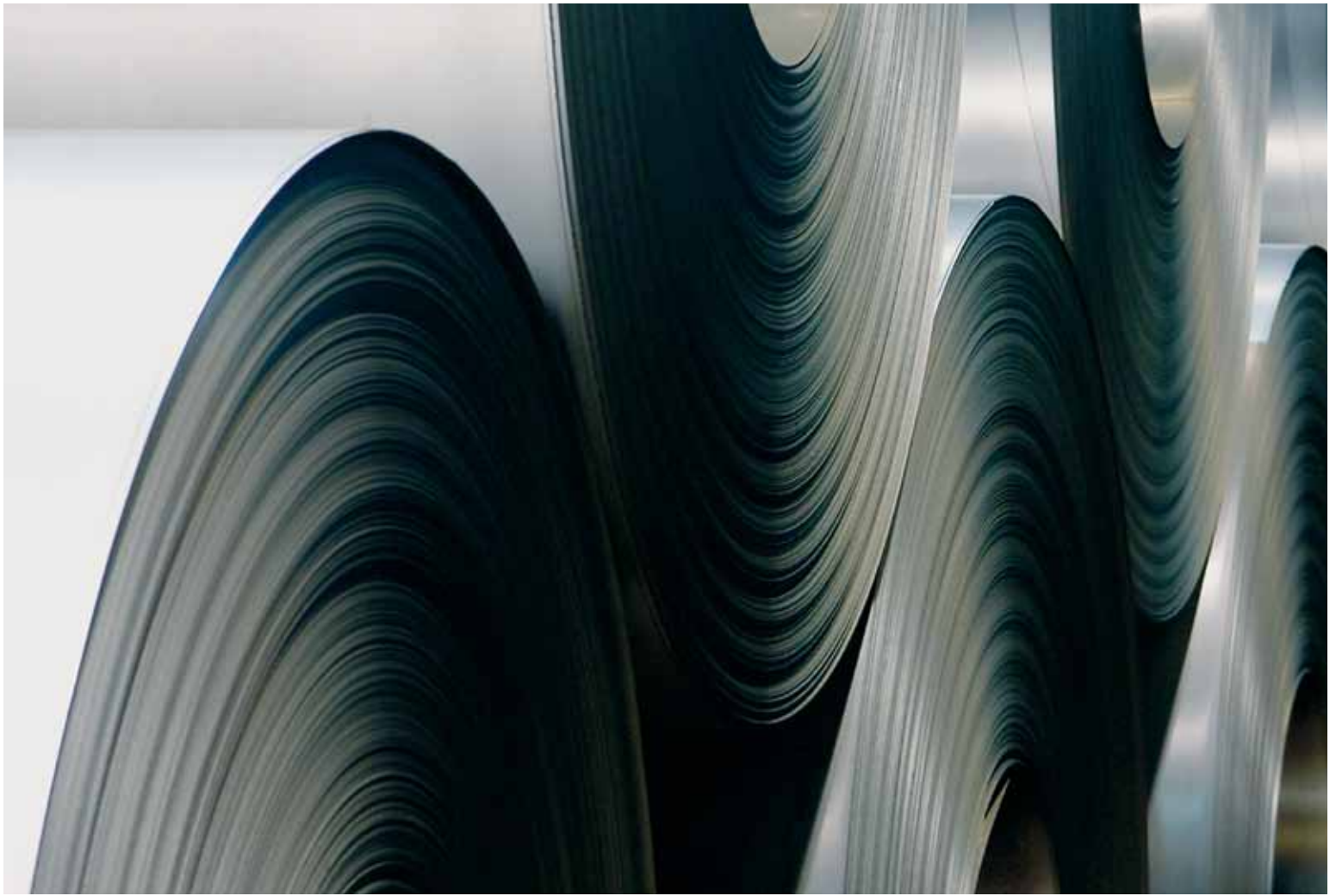
BNY Mellon believes the most effective way for companies to meet the prerequisites of payments capability is through a relationship with a bank that has direct associations with as many payment networks as possible. These connections can either be through a physical branch presence in each country or through maintenance of international accounts and relationships with local bank correspondents. Optimally, the bank should provide a range of international payment capabilities to meet the evolving needs of the client company's international activities.

Global payment options are improving for savvy companies that are aware of the requirements. 2010 is the year to gear up and prepare.

For more information on how BNY Mellon Treasury Services can help your organization connect with global payment networks to help foster your international business initiatives, please contact us at 1 800 424 3004 (Option 2) or e-mail us at treasury@bnymellon.com.

**Joining SWIFT through SCORE, swift.com/corporates/, 2009.*





The Convergence of Payments and Trade

Advantages of an Integrated Treasury Solution

By Michael McDonough, BNY Mellon Treasury Services managing director and head of Global Trade Product management

Two key treasury solutions areas — trade finance services and cash management — have traditionally been offered to organizations via two quite separate banking areas. This division has been in line with a tendency for companies also to manage these functions separately, although both have a major bearing on the efficiency of a company's supply chain. But companies have increasingly come to understand the impact of greater internal efficiency on working capital and cash management and are more actively centralizing these functions. Banks are responding accordingly.

Developments in information technology and, especially, an expanded use of the Internet, allow for the easier provision of integrated treasury solutions. This is the case both in trade finance, where the migration towards electronic documentary processing has driven up confidence in the reliability and

efficiency of transactional services and in cash management, where electronic payments systems have helped lower costs and optimize company cash flows. The combination of these two processes (electronic documentary processing and automated payments systems), provided seamlessly to companies, defines today's emerging concept of integrated treasury solutions.

STEP ONE: INTEGRATION WITHIN TRADE FINANCE

On the trade finance side, prior to full integration with cash management, many corporations have already integrated their physical supply chain (the movement of goods) with the financial supply chain (the movement of money), which includes payments, guarantees, loans and receivables financing. The key to this has been the introduction of electronic trade payment and documentary processing, often in centralized processing

continued on page 8

centers. In particular, placing trade documents onto a transparent and visible platform can automatically trigger financial supply chain events (such as payments, loans and the opening of letters of credit). By improving efficiencies within the supply chain (e.g., by reducing delays in receivables), potential improvements in the overall cash management of a corporation can be achieved.

STEP TWO: THE INTEGRATION OF CASH MANAGEMENT AND TRADE FINANCE

The integration of the physical and financial supply chains has increased confidence in the reliability of trade documentation and associated payments. This has resulted in corporate trading activities being seen not only as a function of risk mitigation, but also as a potential support for the overall cash management of a corporation. This blending of cash management and trade finance can be particularly attractive to corporations given the pressure to improve returns on equity without recourse to additional external funding.

However, such integration doesn't come cheaply. As noted above, developments in IT have been largely responsible for fostering this integration. But the development of IT platforms able to cope with the complexity of such operations — as well as migrating paper-based systems to electronic systems in a way that benefits all involved — is a major undertaking, often with a high cost. So small and midsized banks are driven to consider that, although fully integrated treasury solutions can greatly alter the provision of trade services and cash management, the benefit may be available only to such global banks as can make, or have made, the required systems investment. If this is correct, it describes a scenario wherein a few global banks can offer their major corporate clients, largely in OECD countries, a fully integrated treasury solution, while the alternative is a disparate range of providers offering a less efficient, paper-based trade finance solution with little or no integration into a corporation's cash management system.

One clear solution for small and mid-sized banks is the outsourcing of their trade and cash management functions to a global bank, but this solution is not without its own problems and risks. There may be a perceived loss of control when outsourcing to a global bank and the solution may not be as easy to implement as originally thought, as the global banks' systems typically don't allow for individual client customization. More troubling is that the global bank — which acquires knowledge of the client-bank relationships of the smaller bank — may be a competitor for the same corporate accounts. There is, however, a third alternative. Some large treasury service providers, BNY Mellon among them, work with local banks in a collaborative arrangement that offers the same depth of functionality and breadth of offering, but with no threat of

competition for local clients. Further, the offerings are customized to the needs of the client bank and not, as is often the case with large global providers, a connection to the standardized practices of the global bank — practices created to address the giant flow of business through the global banks' regional hubs. In many cases, the outsourcing offering is simply an add-on for a global bank to generate additional revenue.

Further enhancing the collaborative option is the development of SWIFTNet's Trade Services Utility (TSU). Launched in 2007, the TSU shifts the balance of power toward the partnership model and away from simple outsourcing, because its centralized matching utility is designed to allow all banks to meet the challenge of supply chain automation. Banks that are members of SWIFTNet can use the system to offer open account trade services to their corporate clients, in addition to traditional documentary credits. Yet, crucially, it applies a standardized interface that not only dispenses with the need to adapt to the proprietary systems and processes of a global bank, but also empowers other supply chain parties, such as logistics companies, to be seamlessly included in the electronic and automated financial supply chain.

SUPPLY CHAIN COLLABORATION: THE GOAL FOR LOCAL BANKS

While SWIFTNet TSU is a valuable tool for achieving the full integration of cash management and trade finance, it is only one potential answer. The real choice facing local banks is, again, between outsourcing to a bigger bank that is also a potential competitor, or collaboration with a non-competing provider. The solutions-driven (rather than product-driven) collaborative approach opens local banks up to a far greater number of options than would be the case with outsourcing. It also widens the potential circle of usage for modern trade finance techniques considerably, creating new capabilities for small and medium-sized import and export entities, as well as for their respective banks. And, finally, it enables the entire trade finance process to be joined with cash management in a wholly integrated solution.

To learn more about BNY Mellon's cash management and trade finance solutions, please contact us at 1 800 424 3004 (Option 2) or e-mail us at treasury@bnymellon.com.

A version of this article previously appeared in Treasury & Risk magazine.

Analyzing A Successful Integration

Harvard Case Study Cites BNY Mellon Merger Success

The Harvard Business School has published a case study on the successful execution of BNY Mellon's merger and integration. Titled "Merger of Equals: The Integration of Mellon Financial and The Bank of New York," the case study is a follow up to a previous study published as the merger was being structured and negotiated.

The 30-page study includes comments from BNY Mellon integration project senior managers about the importance of

melding corporate cultures to make BNY Mellon a high-performance organization emphasizing a common set of core values. And BNY Mellon Chief Information Officer Kurt Woetzel discussed technology as the foundation of how the company delivers and interacts with its clients.

Clayton Rose, senior lecturer and co-author of the case study, said, "An important lesson in this case was that the culture of accountability, ownership, support and honesty at BNY Mellon allowed the team to face issues and make the necessary changes."

The case study summarizes the success of the BNY Mellon integration by emphasizing business as usual. It also cites its success in helping to disseminate new skill sets, such as project management, broadly throughout the company.

Insurance Industry Looks Toward Streamlining Treasury Operations

BNY Mellon Survey Cites Treasury Technology Priorities for Insurance Companies

According to a recent BNY Mellon survey of leading U.S. insurance companies, electronic billing, remote deposit capture and integration with banking systems are among the industry's top areas of treasury technology focus.

The survey* noted several specific areas of focus for streamlining treasury operations, as cited by participating insurance companies. These included:

- improved sophistication of remote deposit capture capabilities;
- greater centralized management of collections data;
- increased proportion of electronically collected payments;
- decreased technology fragmentation that often follows merger integration; and
- integration with treasury workstations and other bank technology systems and platforms.

According to Frank Froud, head of Global Client Management for North America for BNY Mellon, "This benchmarking study and others like it allow us to share experiences and perspectives. By working collaboratively with leading companies, we can better identify relevant trends and come up with enhanced solutions that benefit everyone in the industry."

The full survey results, presented in a white paper entitled, "Treasury Collections in the Insurance Industry: Current Practices and Priorities for the Future," are available at bnymellon.com/products/treasuryservices.

**Undertaken with Asymmetric Solutions Ltd., a global provider of treasury and finance consultancy, editorial and research.*

Industry Regulatory Issues

Federal Reserve to Offer New Same-day ACH Settlement Option

Banks Must Weigh Issues When Deciding to Adopt

By Al Briand, BNY Mellon Treasury Services Global Product and Strategy business manager

In response to a number of banks that have established out-of-network, same-day automated clearing house (ACH) settlement connections, the U.S. Federal Reserve has announced that, as of August 2, 2010, it will provide a means for banks to clear and settle certain ACH transactions on a same-day basis. These include accounts receivable conversion (ARC), back-office conversion (BOC), point of purchase (POP), and returned check re-presentment (RCK), as well as phone-based and Internet (TEL and WEB) debit payments. The Fed has been open as to its reasons: out-of-network settlements have caused a notable decrease in settlement volume, and the accompanying loss of payments revenue has been estimated as running to tens of millions of dollars. Further, out-of-network settlements bypass NACHA (The Electronic Payments Association) governance and increase compliance risk.

The Fed has defined same-day settlement as “a proprietary service that accomplishes depositing, processing/editing, distributing, and settling of certain ACH forward payments during the current processing day.” (Currently, the earliest settlement, referred to as “next-day” service, is the open of business of the processing day following the depositing of the ACH forward payments.) Same-day settlement will be available on an opt-in basis for both Originating Depository Financial Institutions (ODFIs) and Receiving Depository Financial Institutions (RDFIs) and any participating bank can opt in as either or both, either globally, or with specific, selected partners. Opting in or out will be on a monthly cycle and a master participant list will be forwarded, also on a monthly basis, or during the month, should changes occur.



The decision presents banks with choices that they may or may not deem positive. Although same-day settlement should prove attractive to corporate clients, as it will provide more ready availability of funds, participating banks must consider that same-day ACH could have credit impacts and system processing impacts such as certain items settling same day and some settling next day, and potential Regulation E* and other regulatory concerns. And RDFIs must weigh the loss of profit from float. Perhaps predictably, there is, so far, little apparent appetite for banks to participate as RDFIs. The system will not handle consumer and corporate credit transactions (payroll direct deposit and online bill payment), but the Fed may consider a future broadening to allow for contingency payments such as hourly payroll.

At this stage, BNY Mellon is closely monitoring the situation. Same-day ACH represents the first change to settlement schedules by the Fed in 35 years. As such, there are numerous details surrounding regulatory issues, credit, client communication and changes to format about which we are not yet clear. There will likely be necessary investments in technology upgrades that could prove costly and, as with other banks weighing participation, BNY Mellon must consider these investments in light of client demand.

BNY Mellon intends to keep our clients advised as this issue develops. Look for future articles in this and other BNY Mellon Treasury Services publications for further clarification on our position as details on the pros and cons of this service emerge.

**A consumer electronic transaction law governing certain types of electronic payments and defining authorization requirements and consumer rights.*





New SWIFT Message Type Offers Enhanced Payment Transparency

MT 202 COV Meets Global Regulatory Requirements

The Society for Worldwide Interbank Financial Telecommunication's (SWIFT's) latest message type for effecting third-party beneficiary payments aims at satisfying global regulatory, government and Anti-Money Laundering (AML) requirements.

The new MT 202 COV message is designed to create a more transparent method of effecting the reimbursement, or cover, of third-party beneficiary payments. It does so by providing mandatory information fields in the cover instruction, including all parties to the underlying transaction, the originator and the beneficiary of the payment instruction, and all remittance and reference details.

Prior to the new compulsory message type, the global banking community often sent MT 103 or MT 103+ messages directly to third party beneficiaries' banks, even when there was no account relationship between the sender and receiver. The cover payments for these messages were effected by MT 202 messages through their respective correspondent relationships in the country of the transaction currency.

However, groups such as the International Financial Services Association (IFSA), NACHA (The Electronic Payments Association), Wolfsberg Group and the Financial Action Task Force (FATF) began raising concerns surrounding the MT 202 cover payments because there was no place in the existing cover instruction to include the party and remittance detail from the underlying transaction. This meant that, due to this absence of essential details about the underlying transaction, the cover payment could avoid detection under AML or sanctions rules.

MT 202 COV USAGE REQUIREMENTS

The new MT 202 COV message type seeks to increase controls around these payments by imposing the following rules:

- As with the MT 202, all parties to the MT 202 COV must be financial institutions.
- The transfer of funds between the ordering and beneficiary institution is always related to an underlying customer credit transfer, and field 21 must refer to the underlying transaction.
- The MT 202 COV must not be used to convey customer credit transfer instructions, only to order the movement of funds related to the underlying customer credit transfers that were sent directly with the cover method.
- The MT 202 COV must not be forwarded to the beneficiary's financial

institution for reporting purposes. Since the MT 202 COV now contains all the details of the MT 103/103+ already received, forwarding it would likely result in duplication of payment, since both the MT 103/103+ and the 202 COV are separate and valid payment instructions. To avoid this, when the beneficiary's bank's correspondent credits the beneficiary bank's account, it sends a reporting message such as an MT 910, MT 940 or MT 950 only.

The MT 202 message will remain in existence only for financial institution payments that do not involve any underlying third-party beneficiary credit transfers, such as the settlement of foreign exchange contracts or reimbursements under documentary credits. There will be no change to the rules affecting this message type.

RESULTING CHALLENGES TO FINANCIAL INSTITUTIONS

As a result of these changes, new technology and training is required to capture, send and receive the enhanced mandatory information fields. Additionally, reporting of this enhanced information, both from a regulatory perspective and from the perspective of how it will be advised to customers, needs to be addressed by financial institutions. And these institutions must develop processes to handle potential payment delays through the increased embargo filtering of incoming payment messages.

BNY MELLON'S RESPONSE TO THESE CHALLENGES

Fully compliant with regulations to send and receive the new message type as of the November 21, 2009 deadline, BNY Mellon now uses MT 202 COV for all transactions, irrespective of currency, that conform to the MT 202 COV usage requirements. As such, we will continue to:

- process MT 202s for interbank transfers, as the MT 202 is still a valid message type for transactions not involving cover of a customer payment;
- follow regulatory requirements and (where we are the intermediary bank) advise the ordering bank of any identified irregularities; and advise, on receipt of a cover payment, incoming credits by MT 910, 940 or 950 when the beneficiary bank has an account on our books. Otherwise, an MT 202 COV or an equivalent local clearing message will be sent to the beneficiary's bank's correspondent or the intermediary bank;
- conduct post transaction analysis on traditional MT 202s to help ensure correct usage; and
- handle the increased information with tools available to help prevent messages from being constantly stopped for the same reasons when sent repeatedly, provided they comply with government and regulatory requirements.

ALTERNATIVES TO THE NEW MESSAGE TYPE

Many institutions are considering using the serial MT 103/103+ payment type where a single MT 103/103+ is sent to the correspondent bank for further sequential payment to each party in the chain, instead of a direct MT 103/103+ and separate MT 202 cover payment.

There are several potential risks to consider with such an option, including those that are listed below:

- Payments may be susceptible to charges and deductions through the entire payment chain on BEN (beneficiary)/SHA (shared) payments. Similarly, an OUR indicator (in which an originating institution pays all transfer charges) could result in substantial correspondent fees being charged back to the remitting bank.
- The value date may not be respected where the payment flow would go against the clock, (e.g., from Europe to Asia).
- Serial payment routing poses the risk of incorrect instructions being routed in the payment chain, or incurring an OFAC hit that could potentially cause the value date to not be respected by the time it reaches the beneficiary's bank.

BNY MELLON'S SOLUTION

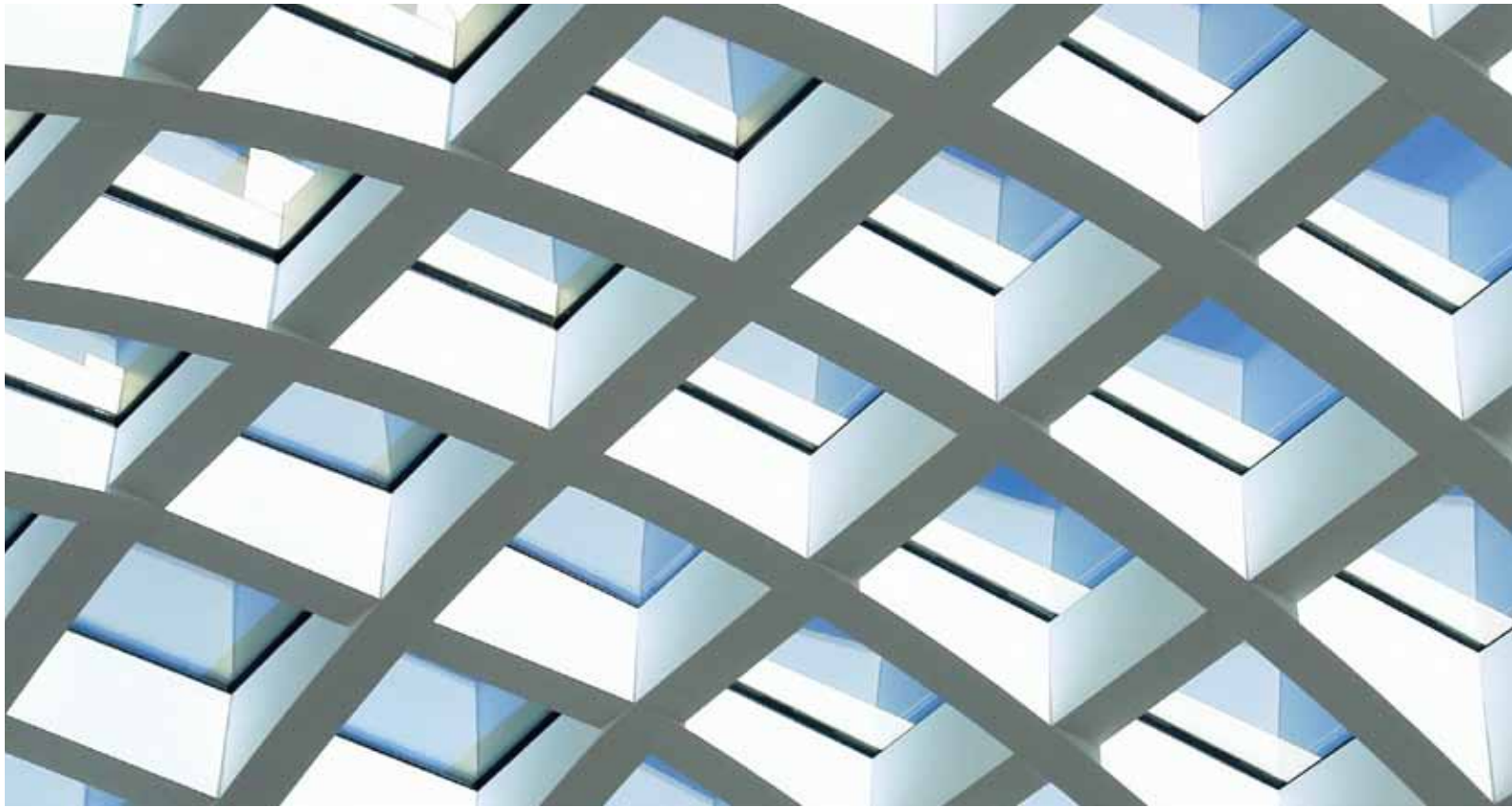
Our Pre-Advice service can assist clients in processing cover or serial payments. Clients eligible for the service can send us an MT 103/103+ instruction up to spot the value, (i.e., two business days prior to value date).

The service allows BNY Mellon to issue an MT 103/103+ directly to the beneficiary's bank, allowing the instruction to be received before the start of business on the value date. If no direct relationship exists between BNY Mellon and the beneficiary's bank, an MT 202 COV or the equivalent local clearing system message will be issued to the beneficiary's bank's correspondent.

With BNY Mellon's Pre-Advice service, clients can:

- minimize the number of charging parties to a transaction;
- customize charging requirements via our enhanced beneficiary charging system;
- reduce the likelihood of a payment being stopped, as we use one of the market's leading transaction monitoring systems to check all transactions, whether an MT 103/103+ or an MT 202 COV prior to processing; and
- streamline enquiries relating to payments/services that we handle via the use of a single interface.

To learn more about how BNY Mellon can assist you in your processing of cover or serial payments, please contact us at 1 800 424 3004 (Option 2) or e-mail us at treasury@bnymellon.com.



European Regulation Spotlight: Meeting The Payment Services Directive

European Banks and Corporations Face Challenges for Compliance

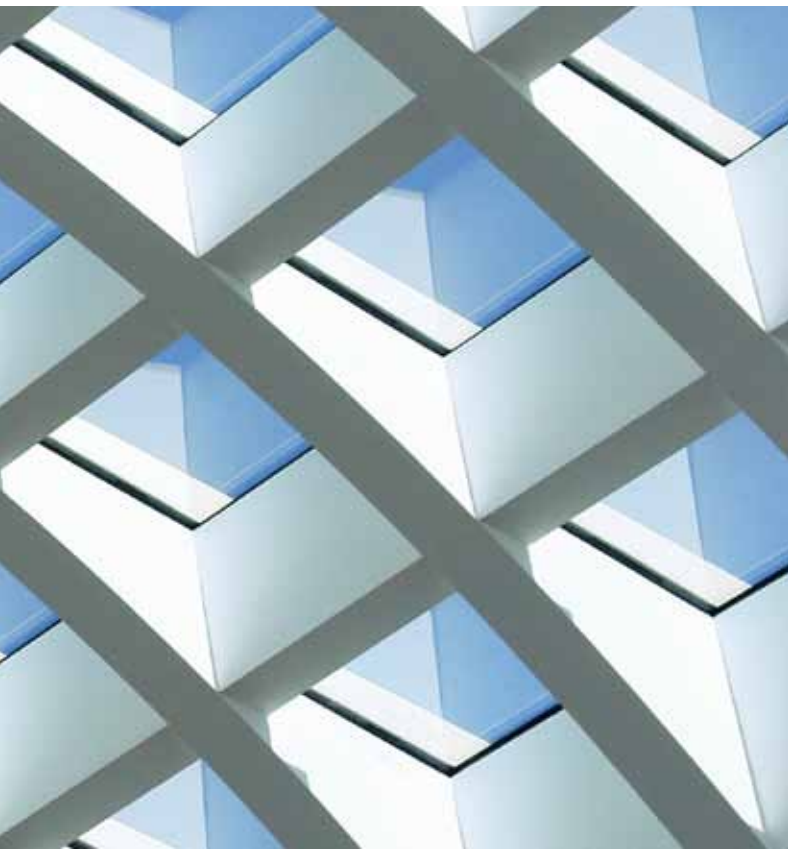
By Michael Burkie, BNY Mellon Treasury Services Market Development manager, Europe, Middle East & Africa

As many European Economic Area (EEA) banks are still working to meet the terms required by the Payment Services Directive (PSD) since its November 1, 2009 compliance deadline, it is somewhat ironic that its intent has resulted in such confusion. The PSD is a regulatory framework that covers all bank and non-bank payment service providers (PSPs) operating within the 30 member countries of the EEA. The directive aims to establish clarity and uniformity of the industry payments market by formalizing standards and clearly defining commercial and technical frameworks to standardize the rights and responsibilities of PSPs and payment service users. As a result of this uniformity, it is hoped there will be enhanced competition among EEA banks, consistent consumer protection and increased payment transparency and efficiency within the EEA. New payment solutions will likely emerge in Europe as a result, creating a region-wide competitive dynamic, and as a result, PSPs are expected to enjoy improved access to any country of the European Union (EU) and the EEA.

The PSD contains two principal sections: market rules for PSPs and rules of business conduct. These sections are complicated by the fact that they allow for 23 areas of local derogation, meaning that EEA member states can vary certain PSD provisions at their discretion. Rather than the uniformity the PSD is meant to create, this variance is apt to create national market inconsistencies across the European payments system that allow for the continuation of national payment clearing practices.

WHAT DOES THE PSD MEAN FOR EUROPEAN BANKS?

The PSD will undeniably present banks with a series of major challenges. From an operations perspective, banks must confront issues impacting both the front and back office. The PSD's pledge for faster payment execution times means that the date specified for the bank debit/credit of funds is much stricter, ending the practice of back — and forward — value dating, which allowed banks to earn interest on funds that sit in their accounts while waiting for onward transmission to the



countries (which would include mid-tier banks with a presence in several EU and EEA member states) to ensure compliance within each individual jurisdiction, further compounding the compliance challenge.

Knowing what must be done to be PSD compliant is one thing, but understanding how to do it is quite another, particularly under such extreme time and credit constraints. Although it remains unclear what the consequences will be for those that have not met (or are not taking sufficient steps to meet) the deadline, the PSD is a compulsory initiative. Furthermore, corporations (for whom the PSD is good news, as it will force banks to offer better terms on payments and allow them to better manage their cash flow) will undoubtedly expect their house banks to be fully compliant, implying that those who are not may lose business.

THE SPECIALIST PAYMENTS PROVIDER SOLUTION

One option for banks struggling with the PSD's demands is to outsource payment functions to a fully compliant and technologically capable global payments provider. Because payments are an integral part of their business offering, these organizations understand the finer mechanisms of the PSD and are fully prepared for it. And understanding is a key point: even at this late stage, many banks have yet to comprehend the breadth of the legislation and the extent to which the PSD will impact their business. These providers also possess the payment systems required to ensure compliance for banks operating in one or several member countries.

Some banks remain, however, understandably uncomfortable about outsourcing their payments business to a bank that may, one day, become a local competitor for their own customers. For this reason, some specialist global payments providers, such as BNY Mellon Treasury Services, remove the competitor risk posed by the standard outsourcing format by offering to not compete with a bank's clients. This solution allows local and mid-tier banks access to the necessary technology to run an efficient and PSD-compliant payments service at reduced cost and minimal project risk with an accelerated time to market. Entering into a partnership with a specialist provider can offer a reasonable way for banks to avoid being left in payment limbo.

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final beneficiary. In addition, there are restrictions on the deduction of bank fees from issued payments. The PSP/payer's bank, the payee's bank and any intermediary bank must transfer the full requested amount under PSD conditions and refrain from deducting charges from the payment itself. To do this, PSPs must provide customers with full transparency of information (e.g., the maximum payment execution time, all charges payable and the foreign exchange rate, if applicable, etc.) before and after a payment is executed.

Banks will thus need to be capable of validating bank identifier codes and international bank account numbers, as well as other local bank account and routing code details. This, in turn, will require remitting banks to work on their service level agreements with their foreign currency partner banks to obtain the necessary fee information, and to upgrade their banking platforms appropriately. Meanwhile, compliance with the conduct of business requirements necessitates sophisticated technology capable of displaying payment and client data and information at a very granular level.

GETTING READY

Given the scope and complexity of the PSD requirements, there are particular concerns over whether domestic and mid-tier banks are aptly prepared. These banks face the expensive and arduous prospect of upgrading their banking platforms, a daunting task for many in the current economy. The PSD also requires any bank that maintains a presence in several member

Around the Corporation: Spotlight on Our Leaders

BNY Mellon Corporate Trust

Leading with Strength in Experience, Breadth of Service and a Vision for the Future



“When significant corporate events or restructurings occur [ranging from merger and acquisition activity to balance sheet restructuring], organizations need to know that they don’t have to go outside of their current treasury relationship with BNY Mellon to find solutions. BNY Mellon Corporate Trust is part of that same family of services.”

- Scott Posner
BNY Mellon Corporate Trust
chief executive officer

With \$12 trillion in outstanding debt under administration from 61 offices in 20 countries around the globe, BNY Mellon is the world’s leading corporate trust provider. As trustee for governments and their agencies, multinational corporations, financial institutions and other entities that access the global debt capital markets, our Corporate Trust division is supported by 4,000 dedicated employees and serves as an independent and impartial third party in helping issuers access the debt capital markets.

Scott Posner, CEO for the business, recently spoke with Treasury Services Update about the importance of BNY Mellon Corporate Trust’s offerings to their global client base, current trends impacting corporate trust client needs across the world’s recovering economies, and how treasurers and treasury departments can benefit from their extensive offerings.

TREASURY SERVICES UPDATE: Can you talk about the important role your business plays in helping your clients meet their debt servicing needs, and what sets BNY Mellon Corporate Trust apart from other providers in the marketplace?

POSNER: By definition, a trustee carries out the essential role of supporting debt transactions, helping issuers navigate the debt capital markets and ensuring that bondholder interests are protected. In fulfilling this role, the trustee performs functions that facilitate the orderly workings of the debt markets.

Corporate trust providers are appointed by multinational corporations, governments and their agencies, financial institutions and other entities issuing debt to perform a variety of duties, including servicing and maintaining the debt issue, processing principal and interest payments for investors, representing investors in defaults, and providing value-added services for complex debt structures.

As a core business of BNY Mellon, we are able to focus significant resources and investment on developing customized solutions that answer our clients’ most critical needs. This core position gives us the credibility to say to our clients that we’re here for issuers and investors now and will be for the duration of their transactions, which can last upwards of 30 years.

TREASURY SERVICES UPDATE: What key market trends do you see evolving for your client base from a global perspective?

POSNER: Our view of the debt capital markets is truly global. From Korean issuers seeking to issue Islamic law-based Sukuk bonds, to U.S. issuers issuing debt in overseas markets, the world of debt finance is not bounded by national borders.

As the recovering global economy brings instances of new issuance back to the debt capital markets, we see a fundamental change in the dialogue between issuer and investor. Investors are

BNY Mellon Ranked Top Trustee in the U.S.

Corporate Trust Division Also Named Top Municipal Debt Trustee for 2009

BNY Mellon Corporate Trust was the number one overall trustee for all U.S. debt for the first quarter of 2010, according to Thomson Reuters, a leading source of intelligent information for businesses and professionals. The company's top trustee

ranking encompasses market share positions across all significant U.S. debt categories, including long-term municipal, investment grade, high yield, asset-backed and mortgage-backed debt.

The division was appointed on 326 debt transactions generating proceeds more than \$113.3 billion, over two and a half times the value of issuance handled by the nearest competitor.

Also according to Reuters, BNY Mellon ranked as the number one overall trustee for municipal debt in 2009.

now demanding more information, fuller disclosure, simpler and more standardized investment structures, more communication and greater attention to investor needs. These are reasonable, thoughtful requests that deserve to be heard by issuers around the world.

TREASURY SERVICES UPDATE: What services do you see your clients requiring in order to effectively meet the needs of this trend toward increased standardization? And what role do you see BNY Mellon Corporate Trust taking, as a whole, as the marketplace evolves?

POSNER: I believe that the trustee's role will increasingly require supporting the lines of communication between issuers and investors to uphold the operational activities of the debt capital markets. And I believe it will require four ingredients in particular to do that work successfully — expertise, collaboration, innovation and leadership.

First, the well of expert capabilities that will be needed to support investor calls for more detailed information and for simplified structures is both wide and deep. Even standardization — of documentation if not of structure — may ease the process for the investor, but the volume and scope of knowledge and skill needed will still be a tall order for issuers and for those providing them trustee services.

The level of experience BNY Mellon brings to the market uniquely prepares us to most effectively deal with this greater level of support the market will require. We are well known in the marketplace for our expertise — our business requires a deep understanding of the complexities of vastly different regulatory requirements across industries and regions.

Second, I believe trustees will increasingly be called on to engage with their clients in a collaborative, consultative fashion. The days of automatic, almost reflexive service delivery are

over. We trustees must listen well to our clients, and deliver tailored solutions that can help them achieve their strategic aims. BNY Mellon Corporate Trust is also well known for listening to client needs and collaborating on solutions. That level of engagement and response is exceptional in our industry. A result of our high level of collaboration has been an ability to repeatedly deliver tailored solutions to meet clients' customized debt-issuing needs. We were instrumental, for example, in teaming with the U.S. Treasury for the extensive work required over the past year in developing several new solutions, constructs and funding models to handle trustee programs, such as the Troubled Asset Relief Program (TARP). And our innovative solution for handling document custodian services to meet the unique needs of a large government purchaser of U.S. whole-loan mortgages successfully combined document custody and tracking, the review and certification of all documents, safekeeping, and loan-level and aggregate performance tracking across the portfolio.

Third, the revival of issuance activity in a renewed debt capital market will increasingly require a commitment to innovation. No market can sustain momentum without regenerating itself over and over. That means the kind of fresh solutions that emerge from the collaboration with clients I just described, and it means investment in the tools and technologies that can keep clients in step with, if not ahead of, market shifts.

Finally, it comes down to leadership, measured not only by industry rankings, but also a record of performance, financial strength and stability, and a willingness to act on a vision. Our experience and breadth of service allow us to help clients with solutions for their needs today, and to provide insight into where the market will emerge, along with a vision of how to lead them through it.

TREASURY SERVICES UPDATE: What services from your product suite dovetail most effectively with the needs of CFOs and treasury managers, both today and for the long term?

POSNER: Our discussions with CFOs and treasurers start with a broad discussion of their capital structure and balance sheet management strategies. Our current or customizable solutions sets are most valuable to them when their needs focus on the debt capital side of the ledger.

We also find that the need for conversations with treasurers involving BNY Mellon Corporate Trust arise mostly during times of significant corporate events or restructurings, ranging from merger and acquisition activity to balance sheet restructuring that requires escrow services, debt issuance, paying agencies, tenders and exchanges, etc. When these events take place, organizations need to know that they don't have to go outside

of their current treasury relationship with BNY Mellon to find solutions. BNY Mellon Corporate Trust is part of that same family of services.

If your organization is interested in learning more about how BNY Mellon Corporate Trust can benefit your treasury operation, please visit www.bnymellon.com/corporatetrust/contacts.html.



Spotlight on Our Services

New Electronic Banking Platform

Coming in 2011

Advanced System to Combine Best Features of CA\$H-Register Plus and iTelecash

As part of our ongoing efforts to deliver the industry's most advanced capabilities via our products and services, BNY Mellon Treasury Services is currently developing an enhanced electronic banking platform that will merge the best features of our two existing electronic banking systems — CA\$H-Register Plus® and iTelecash.® We plan to begin migrating current clients onto the platform starting in the second quarter of 2011.

The new system — called Treasury EdgeSM — will provide enhanced capabilities for clients,* allowing immediate, hands-on access to — and management of — their treasury information, such as:

- **Advanced Reporting Capabilities**, including access to Event Manager, which provides proactive notification of predefined events or automatic delivery of reports based on clients' scheduling needs; expanded output formats for improved information gathering; and instantly collapsible/expandable reports — with a single mouse-click — for faster data navigation;
- **Increased Security Features**, using security tokens or digital certificates and multiple security administrators during log on, creating dual-control measures to enter, and further safeguard, the system;
- **Expanded File Transmission Tools**, providing additional detail on wire text and a single format for all transmission customers;
- **Extended Automated Clearing House (ACH) Capabilities**, including detailed ACH returns reports for faster exception-item processing and expanded ACH history features to enhance online information research to streamline payment-submission adjustments;
- **Enhanced Balance Reporting**, enabling clients to pull balance reports for multiple days and in multiple formats, including BAI, CSV, HTML and PDF to quickly access important data;
- **Streamlined User Functionality**, including restructured menus and improved screen navigation;
- **Expanded User Entitlements**, which includes grouping of user entitlements based on job function (versus user only), saving time in accessing the system as new users are added;
- **Access to New Product Offerings** that may not have been available via a client's legacy system, such as:
 - **Fundstrac**, which offers a daily cash position for individual business divisions, enabling clients' headquarters to monitor contributions or borrowings and assign individual investment and borrowing interest rates;
 - **Masterfile Payment System**, a service that consolidates daily deposits and funds subsidiary or vendor accounts quickly and economically via one comprehensive system. The system processes electronic funds transfers via our ACH network, with reporting options that offer easy monitoring of site activity, comprehensive audit trails of all transactions and access to up-to-the-minute and prior-day information;
 - **Global Mass Payments**, a service that allows clients to initiate payments electronically worldwide. Clients can originate recurring cross-border payments using lower-cost, batch-oriented payment systems for transactions including pension, dividend, interest, payroll and other employee benefit payments;
 - **Automatic Investment Service**, which determines the available balance in an account and then automatically invests some or all of that balance in an investment instrument;
 - **Check Writer**, a flexible service that enables clients to create and locally print checks against a demand deposit account. As an added benefit, the demand deposit account can be automatically funded from the customer's custody account(s) (principal and/or income); and
 - **Tax Payments**, a service that offers clients the ability to enter and release tax payments to state and federal government entities.

WHAT CURRENT ELECTRONIC BANKING CLIENTS CAN EXPECT

As we finalize the new system throughout 2010, our focus will be to notify our clients well in advance of any planned changes to help minimize disruptions and enable smooth transitions to the enhanced platform. To this end, our efforts will include the following:

- **Advanced Conversion Date Notifications** — We'll notify existing electronic banking clients at least six months prior to their conversion date so that they may begin plans for allocating resources (staff and technology) that may be needed to accommodate BAI2 modifications and screen flow changes.
- **Extensive Training Materials** — Information will be available well in advance of scheduled conversions to allow clients to familiarize their staff with the new system, including screen changes, new functionality and modifications to existing services.

BNY Mellon Expands Comprehensive Payment Solution

Straight-through Processing Connects Buyers/Suppliers

Since trade began, businesses have been locked in a payment battle. While buyers and suppliers both want to streamline payment processing within their accounts payable and accounts receivable departments, what serves as a process improvement and cost savings for the buyer often becomes a process degradation and cost increase for the supplier. The check has been the compromise payment instrument of choice, providing buyers a small delay in the release of funds and suppliers an amount of processing efficiency by including remittance data to support manual payment posting. This compromise, however, has slowed buyer/supplier adoption of electronic payment methods that can provide cost savings, process improvement and improved liquidity management.

To help solve the dilemma while offering the benefits of electronic payment, BNY Mellon has joined forces with MasterCard® International to include card payments as part of our comprehensive payment solution. The card payment option offers corporate buyers and suppliers the same advantages of traditional electronic, straight-through processing for business transactions (e.g., ACH), with the added benefit of delivering robust, easy-to-use remittance data. Instead of continuing to use checks to pay suppliers for goods, buyers can use BNY

- **Frequent Communications** — We will send regular, detailed updates throughout 2010 to clients currently using iTelecash and CA\$H-Register Plus with information on new platform developments, projected conversion dates/status and training. These will be sent via mailings, e-mail, announcements posted on our Client Advocacy Web site, Webcasts and on the CA\$H-Register Plus and iTelecash Internet home pages.

If you are a BNY Mellon Treasury Services client who would like to receive regular e-mail updates from BNY Mellon on this conversion, please send an e-mail to treasury@bnymellon.com requesting to receive updates on the new electronic banking platform.

We look forward to bringing you a new era in electronic banking, and we will keep you apprised of our plans and progress as we move forward. For more information, call us at 1 800 424 3004 (Option 2) or e-mail us at treasury@bnymellon.com.

**Certain capabilities may be new, extended or unchanged, depending on an existing client's current electronic banking platform capabilities.*

Mellon's payment solution to expedite and make supplier payments electronic, and receive their comprehensive payment services via a single provider — a win-win situation for both parties.

BNY Mellon's new card payment service offers clients (the buying organization) several key benefits, including:

- **Streamlined Accounts Payable Process** — As part of our comprehensive set of payment solutions, the service initiates all payments — including check, ACH, card, wire and foreign exchange transactions — in one file. Unlike other AP card services, reconciliation is streamlined and clients control payment timing. The card activity processes as buyer-initiated, buyer-executed transactions. Clients' accounts payable workstreams can remain intact with no separate procedure, portal or expensive systems integration required to initiate a card-based transaction.
- **Enhanced Payment Security** — Suppliers cannot access card numbers with the service, eliminating the need for one-time-use cards and temporary card limit increases.
- **Advanced Electronic Payment Options** — Suppliers may benefit from accepting these card-based payments over

ACH, check or other AP card solutions available in the market, as:

- payments are received by suppliers without having to manually initiate a transaction;
- easy access to robust remittance data speeds suppliers' accounts receivable posting process; and
- suppliers can benefit from significantly reduced card acceptance fees for these transactions, as compared to other AP card solutions or purchasing card transactions.

As a means to break the hold checks have on the buyer-supplier payment relationship and become the single source for handling clients' varied transaction needs, BNY Mellon's payment solution offers an improved, low-risk, high-advantage, electronic option to business payments.

To learn more about BNY Mellon's comprehensive B2B payment solutions, please contact our BNY Mellon Treasury Services' solutions experts at 1 800 424 3004 (Option 2), or send an e-mail to treasury@bnymellon.com.



Online Transaction Image Archive

Extended for Clients

BNY Mellon Wholesale/Wholesale Lockbox Service Offers Seven-year History

As the marketplace quickly migrates towards a paperless environment, organizations need access to electronic transaction data as quickly and seamlessly as possible. To help meet this demand, BNY Mellon's Wholesale/Wholesale Lockbox service now offers clients the ability to instantly access up to seven years of their wholesale and whole-tail lockbox transaction history and related data via a single Web browser.

Offered as an option to the service's standard image offering of 65 days of online history, the extensive image archive is a critical component for clients looking to improve retrieval of remittance processing records, allowing them to:

- access critical lockbox information through one browser, with up to seven years of history at their fingertips;
- eliminate delivery expenses for daily paper lockbox detail packages, as well as the off-site physical storage needed to handle accumulated paper detail; and

- respond to customer concerns and questions more quickly and accurately via instantly accessible, extensive historical information.

BNY Mellon Wholesale and Whole-tail Lockbox clients choosing not to utilize this capability will have access to online images for the standard 65-day retention period.

Plans are also underway to enable BNY Mellon's Retail Lockbox service clients to access a seven-year image archive via a single browser. Look for future communications from us announcing the availability date for this enhancement, scheduled for later this year.

Advanced Payment Technology Enables Mobile Transactions

Mobile Payment Solution Speeds Cash Flow, Streamlines Collection Process

ClearTran, a department of BNY Mellon Treasury Services, is now offering clients a convenient and easy electronic payment capability that streamlines an organization's ability to collect payments during point-of-sale transactions.

Called Mobile Payment Solution, the service is an extension of ClearTran's call center browser that allows clients to access all data entry, reporting, daily operations and non-critical configuration functions from any PC with an Internet or Intranet connection. With the Mobile Payment Solution functionality, field staff can accept and process credit/debit card and electronic check (ACH) transactions from their clients' locations via any Internet-linked mobile device (e.g., Blackberry® smartphone, and iPhone® and iPad™ mobile digital devices, etc.).

The new Mobile Payment solution is designed to benefit

industries with a large number of employees who accept full or partial payments for goods or services delivered and/or rendered in the field on a regular basis (e.g., utilities, insurance, food and beverage delivery, telecommunications, cable or home security installation, etc.) The ClearTran Mobile Payment Solution can benefit these industries by:

- increasing sales force productivity by accelerating cash flow and eliminating paper;
- eliminating the need for a remote sales force to manage cash, checks, coins and credit card receipts, freeing their time and effort to focus on their clients;
- improving service by offering an additional convenient payment option;
- reducing transaction fees (electronic vs. paper);
- increasing employee safety and data security; and



- helping to improve compliance with regulatory mandates (Payment Card Industry [PCI]/NACHA — The Electronic Payments Association) by being able to track and audit each electronic transaction.

Similar in function to the ClearTran call center browser product, the Mobile Payment solution is unique in its compact size and content layout, which is specifically designed to fit the small screen sizes of mobile devices.

ABOUT CLEARTRAN

ClearTran offers electronic payment processing solutions that provide NACHA- and PCI-compliant technology to help organizations quickly and efficiently accept and process payments that are received over the telephone, through automated voice systems (IVR/VRU), and over the Internet.

All transactions that take place with ClearTran flow to a single database for consolidated data payment processing and reporting. Through proven, reliable and secure technologies, ClearTran provides integrated, end-to-end solutions for processing payments from multiple sources, including electronic (ACH) and paper checks, credit cards and online channels.

To learn more about ClearTran's Mobile Payment Solution, call Kevin Fahey, managing director of ClearTran, at 1 800 946 8355 or e-mail us at treasury@bnymellon.com.

Treasury Across the Regions

The Resilient Asian Economy

Global Transaction Banking Trends and How India is Faring

BNY Mellon Managing Director and Head of Treasury Services for the Indian Subcontinent, Aneish Kumar, recently discussed global changes in transaction banking and what's going on in Asia's other dragon — India. Below is a transcript of that discussion, as it appeared on FinanceAsia.com.

Asia's ability to withstand the economic downturn has been a major topic of conversation in recent months. How has demand for banking services in India and other Asian countries been affected by the downturn?

KUMAR: First, let us accept two facts: one, the current economic downturn has been more severe than any we have seen and it is a worldwide phenomenon; two, global economies are so interdependent that business decisions made in the West impact Asian countries. Over the last decade or so, the overall integration of Asian countries into the global economy has been remarkably rapid, but at varying rates, country by country. Asian economies that have been most impacted tend to be those that export to Europe and America.

As for India, the crisis has dented the country's growth trajectory, as investments and exports slowed, but has not dented its ability to manage its balance of payments. However, the demand for bank credit has slackened, industrial production has shown negative growth and investment demand is decelerating. All these factors have impacted the demand for banking services. The crisis has been a time of painful adjustment but, once the global economy begins to recover, India's turnaround should be sharp and swift.

Last year the market saw a flight to quality and strength; what do you see as this trend's longer-term effects?

KUMAR: Things have changed since the meltdown, at least in developed markets. Clients and institutions have indeed focused more on the financial strength of banks and corporations in a flight to quality. But in developing markets, like India, there has been little evidence of a flight to quality.

In India, there has been a decline in the flow of business, but relationships have remained and flows have been diverted for only a short time. So the move to quality is likely short term; as the health of institutions improves, the shift back should be quick. But everyone is aware that issues of liquidity and insolvency will confront investors everywhere in the times ahead. They need strong partners in times of need.

Does India face any problems from the current crisis that are particular to the country?

KUMAR: From a financial perspective, the impact of the crisis has been similar to that in most parts of Asia. Unique to India are its social implications, which, as we speak, are not fully comprehensible. India is a country with a large number of people living below the poverty line and with the highest number of non-skilled workers. These people are affected most during a full-blown crisis, as they have few, if any, buffers.

Information technology has played a huge role in India's economic growth. How do you see the sector impacting the development of global banking systems and platforms?

KUMAR: Developments in the IT sector have significantly changed the contours of many banking functions — liquidity management, asset transformations and risk monitoring. As the IT industry grows, the communication networking systems in banking will improve, which will in turn, lead to business efficiencies.

Technology will be the key differentiator between banks in India and other countries in the future and a major competitive edge. With improvements in technology, India can catch up with the developed nations and become a major growth market for traditional banking, investment banking, insurance and securities products.

Speaking of information technology, how will concerns about risk management impact the development of banking systems and platforms?

KUMAR: Banks must move away from silo-based risk management to a more integrated and interconnected model by building linkages across all risk types — internal, market, extraneous and new-business. Banks will need new analytical tools to track market trends and risk exposures more quickly so they can respond with informed decisions. In addition, there will be increased pressure from regulators, shareholders and customers, forcing banks to find better ways to identify and

manage risk. Legacy systems will be discarded and solutions will emerge to provide improved information analysis for risk mitigation, efficiency, optimization of operations and flexibility to adapt to ever-changing business environments.

How will the increasingly global scope of electronic payment platforms and systems affect the relationships between banks and their clients?

KUMAR: Tough question! I think technology will change the relationship between banks and clients. If banks work towards removing the obstacles that currently limit the relationships, clients will stay. For example, the nature of clients' payment needs will have to change from a highly impersonal, one-size-fits-all model to one where client service interactions are personalized for individual clients.

Do you see a tendency for global companies to integrate supply chain management and market trade finance practices?

KUMAR: The answer to this question is probably "yes," but the convergence will come only when the markets gain more confidence. When this happens, it will likely be aggressive in developed markets but slow in the emerging markets. While markets improve, banks must rethink the way trade finance is done. There is already movement away from traditional trade instruments to a supply chain model, but I only see large corporations operating in this space. Small businesses will continue to use simple spreadsheets for most of their effective decision making on trade finance. I think the future of trade finance really depends on collaboration between buyers, sellers, logistic companies, insurance companies and financial institutions.

Do you see the current resurgence in letter of credit use giving way to a resumption of growth in open account trade finance?

KUMAR: During the global crisis we saw two phenomena. First, banks around the world reduced lending to emerging markets and cut trade finance lines to importers and exporters. This slowed some U.S. imports drastically and many U.S.-dependent Asian countries faced intense pressure.

Second, open account sales became less common because they substantially increased risk for the seller. Many banks, especially in Asia, reported an increase in demand for alternative instruments, as their clients felt these instruments would reduce payment risks. With confidence re-emerging, the use of letters of credit has fallen, replaced by open account trade.

Workers' remittances are a multi-billion-dollar global business that banks have but a small role in. How might they gain a greater foothold in this market?

KUMAR: Money transfer agents like Western Union and MoneyGram have, so far, outperformed traditional correspondent banks in the retail — I mean workers' — remittance market, mainly because they are fast and convenient. They can provide transfer of funds instantaneously, sometimes within a few hours. For banks, the cross-border process is multi-layered and can take two to three days.

Where banks have an advantage is in cost per remittance and exchange rates. Transfer agents' cost per transfer is high, varying from \$15 to \$50, and their rate of exchange is far less than what banks can offer. Still, the only way banks can gain a better wallet share is by educating remitters on their strengths in managing cross-border regulations and compliance issues, and by stressing the improved technology and fraud mitigation techniques they employ, and the host of other related services they offer.

How do local banks fit into the overall future of treasury services?

KUMAR: Local banks will be key. They have both the reach and profound knowledge of their local clients' characteristics and intricate needs. This is true especially in China and India, where the tentacles of their local branch networks are spread wide and deep throughout the system. Local banks can grow profitable more quickly than investors expect if they embrace the culture and technology of a foreign bank.

Ideally, local banks that intend to stay local, or even those that go global, will not spend significant time and resources in building their channel infrastructures. Instead, they will use correspondent banking infrastructures to provide the products and services necessary to gain a competitive advantage in the global marketplace.

What is your outlook for treasury services in Asia?

KUMAR: I am certainly optimistic that the treasury services business will grow in this region. The intra- and inter-region trade and investment flows within and into the region are expanding and will continue to do so in the future. They have been less impacted and some are already stimulating domestic consumption. Asian middle-market corporations, mostly from the key markets of China, India and Korea, are emerging strongly and harbor intentions of going global. Banks seeking to grow in this area need to educate their customers, provide innovative products and deliver new solutions through comprehensive relationships across product lines.

The Next Great Financial Market

Why Carbon Could Become the Largest Global Commodity Asset Type

By James Balsan, BNY Mellon managing director of Environmental Innovation Solutions

Cap and trade. As this term captures headlines and holds center stage in American politics, a sense of uncertainty — and, for some, even anxiety — is palpable. What does it mean? What obligations will it bring? How can businesses meet them cost effectively? How can you prepare? These are questions that nearly every U.S. company must consider while evaluating impacts of the proposed federal trading system for carbon and renewable energy credits.

The truth is, cap and trade is nothing new. While many U.S. companies view it as a new and somewhat daunting concept, such a system has been operating — and flourishing — in Europe for years. In the U.S., similar systems are also in place on the regional and state levels.

The Question Is What Does the Future Hold?

As proposed energy bills move through the legislative process, some see a new and unprecedented opportunity. Perhaps the U.S. can influence environmental finance, while also supporting businesses in their universal goals to achieve efficiency and innovation.

Despite the interest in and activities surrounding the topic, a recent survey by *Treasury and Risk* magazine revealed that only about 15% of companies are actively pursuing a cap and trade market system for carbon emissions. If yours isn't one of them, it's time to learn more.

European Union Emission Trading Scheme

The European Union Emission Trading Scheme (EU ETS) is the world's largest emissions trading system. Launched in 2005, it is one of the tools that the EU uses to meet its greenhouse gas emissions reduction target under the United Nations' Kyoto Protocol. The EU target is an eight percent reduction to 1990 levels by 2012. EU ETS includes over 10,000 energy and industrial plants across the 27 EU member states. Each member country creates a National Allocation Plan, which distributes the allowances among the companies within their country. Post allocation, each year millions of credits are bought and sold under EU ETS by companies to assure compliance. If the U.S. passed environmental reform calling for implementation of a carbon and renewable environmental units trading system,

the resulting system would be several times larger than the EU ETS system. *Ultimately, carbon would become the largest global commodity asset type.*

State-Level Renewable Energy Credit (REC) Systems

While participation in a carbon and renewable trading system is not mandatory in the U.S., many states have implemented their own renewable energy credits systems. More than 29 states nationwide have developed a Renewable Portfolio Standard (RPS), which mandates a certain percentage increase in production of energy from renewable sources. In order to fulfill the standard, companies acquire Renewable Energy Credits (RECs) by producing energy from renewable sources or by trading and buying credits from other companies that produce more energy from renewable sources than they require for compliance. The production of 1MWh of energy from renewable sources is equivalent to one REC. Most likely, a federal energy trading scheme in the U.S. would override the state REC markets, but until a federal system can be approved, these state systems are the best way for the states to efficiently achieve their emissions goals and encourage development of new technology.

According to Pike Research, the state-level REC compliance market could reach 179 million MWh by 2015, but the market could almost triple if federal energy legislation is passed (see <http://www.pcb007.com/pages/zone.cgi?a=58202&artpg=1&topic=0>).

Proposed Federal Legislation

The American Clean Energy and Security Act of 2009 (H.R. 2454) was passed by the House of Representatives on June 26, 2009, but the Act has not been addressed by the Senate. This bill, also known as the Waxman-Markey Bill, was authored by Representatives Henry Waxman (D-CA) and Edward Markey (D-MA) and called for a federal cap and trade system. Although the Waxman-Markey Bill has not progressed since last summer, multiple new bills and initiatives have renewed the efforts to instill an environmental credits trading scheme in the U.S. The Bingaman Bill calls for the creation of a federal Renewable Energy Credit (REC) and Energy Efficiency Credits (EECs). The American Power Act drafted by Senators Kerry

(D-MA) and Lieberman (D-CT) calls for the issuance of 4.7 billion federal carbon allowances and up to 1 billion tons of offsets. These proposed bills outline possible ways to explore implementation of a federal 'cap and trade' system.

What Does It Mean For You?

There has been a great amount of analysis of the possible effects from each proposed energy bill. Job creation, cost

containment, and impacts to international competitiveness are only a few of the considerations apart from the core environmental discussion. By following developments in the markets and the legislatures, prudent businesses can identify opportunities for differentiation, innovation and improved competitiveness. Obtain more information or subscribe to our environmental financial markets e-mail updates by calling 212 635 7010.

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CONFERENCES:

November

- 7-10 **Association for Financial Professionals (AFP)**, San Antonio, TX
Thomas John, Carbieon and James Balsan, BNY Mellon Environmental Innovation Solutions, "Practical Aspects of Managing Carbon Assets and Liabilities"; Karen Peetz, BNY Mellon Financial Markets and Treasury Services, "Women in Finance — Opportunities and Challenges for Women in Finance," (panel discussion); and Kevin Ronan, BNY Mellon Asset Servicing, "The Search for Yield — Practices and Pitfalls," (panel discussion).



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