

# The Customer Solutions Business

For more than 65 years, Pershing has been tailoring its suite of trading, clearing, settlement and custody solutions to the evolving needs of the financial services industry. Since its purchase by The Bank of New York Mellon in 2003, the company has acquired additional scale and an even greater depth of expertise to bring to its investment services and technology business.

**Bob Currie** spoke to senior executives at Pershing about how they are applying these resources to shape an exciting future for investment professionals and independent registered investment advisors



**Richard Brueckner**  
Chief Executive Officer,  
Pershing

In opening our discussion, *FSR* asked Pershing's Chief Executive, Richard Brueckner, to reflect on how the character and strategy of the company had changed since its acquisition by The Bank of New York Mellon (BNY Mellon). "In reality, there has been little substantial change in our character or our approach to the business subsequent to our purchase by BNY Mellon in 2003," responds Brueckner. "Pershing has had a strong customer focus running through its veins since its formation in 1939 and our parent company has had the same focus for more than 200 years. This remains central to all our endeavours at the company and it will be integral to our focus moving forward."

This said, there have been some compelling opportunities that have been made available through the additional scale and expertise established by the BNY Mellon purchase. BNY Mellon retains a strong institutional focus and this has helped Pershing to develop its institutional capability and to extend its presence in the institutional investor marketplace. For example, BNY Mellon's fixed income capital markets trading division is now a Pershing customer and this has helped Pershing to develop its processing of institutional fixed income transactions.

The strength of balance sheet under BNY Mellon ownership has enabled Pershing to explore greater opportunities for growth than was possible prior to 2003. This is reflected most recently in Pershing's decision to transition the Neuberger Berman Management business from Lehman Brothers in January 2007. The conversion helped to enhance Pershing Advisor Solutions' footprint in the registered investment advisory market and extended Pershing's reach in the introducing broker-dealer market. Combined, BNY Mellon and Pershing Advisor Solutions currently have more than US\$73 billion of advisor assets under administration, while Pershing LLC as a whole currently has more than US\$940 billion of assets under administration.

The BNY Mellon purchase has also enabled Pershing to leverage its securities lending activities, drawing on the strong partnership established with the securities lending and borrowing team in the parent bank, which holds more than US\$20 trillion in custody and administration. Consequently, this offers a deep pool of securities to meet its securities lending needs.

Brian Shea, Pershing's Chief Operating Officer, points out that the core values at BNY Mellon and Pershing were well aligned going into the acquisi-

tion. Their shared commitment to high standards in the global financial services business consequently builds on this collective expertise. Shortly before buying Pershing, for example, BNY Mellon acquired Lockwood Financial Advisors, a leading managed accounts money platform. This established Pershing as one of the largest providers of managed account programmes globally, with client assets approaching more than US\$30 billion. Subsequently, it has been able to build on this capability in order to extend a comprehensive suite of managed account solutions to Pershing's customers under the motif Pershing Managed Account Solutions. Today, Pershing has more than US\$50 billion of assets under custody across its managed account network.

## Distribution support

At the heart of Pershing's distribution support capability is its FundVest no-transaction-fee mutual fund platform, through which investors can purchase a range of load and no-load mutual funds products without incurring regular transaction fees. The appeal of this platform to fund promoters has been clearly illustrated over the past 12 months by a strong flow of blue-chip asset managers that have opted to make their funds available through the FundVest platform – with Schroders Asset Management, Seligman Investments, Putnam Investments and Goldman Sachs Asset Management just four recent names to add their products to the fold.

Mitchell Bell, a Director in Product Management and Development at Pershing, explains that in parallel with strong investment flows into mutual funds, the registered investment adviser (RIA) market has also been attracted to exchange-traded funds (ETFs) in almost all locations supported by Pershing Advisor Solutions.

In line with this trend, Pershing has established a partnership with Morningstar, through which more than 90,000 investment professionals that use Pershing's NetExchange Pro broker workstation have the option of employing the MorningstarAnalytical framework for ETFs. Fully integrated into Pershing's online solution, this allows the RIA to go directly from researching an ETF to managing the order entry through a single interface.

Pershing currently processes approximately 180,000 trades per day through its NetExchange Pro portal, including 50,000 mutual fund and ETF orders. This has brought significant improvement in efficiency



for fund subscriptions and redemptions, with orders channelled in automated format though the Workstation, rather than received in physical form via hard copy application and cheque. The automated transaction workflow reduces errors and provides exception reporting to help customers to meet their compliance obligations.

Importantly, Pershing has developed a robust rules engine within NetExchange Pro that spans a wide product range. These rules can be applied in different ways, depending on a firm's preferences and risk tolerance. If an order violates a rule, it can be programmed to impose a hard stop, or there can be a soft reject where the order requires an authorised supervisor to verify the application criteria. Alternatively, the rules engine may be configured to issue a warning message notifying the sales representative that a trade violates specified criteria and that remedial action may be necessary.

Though BNY Mellon's acquisition of Pershing has provided important stimulus to [our] international expansion, the seeds of this growth long precede it, building on the foundations sown by the Irving Trust business, which was far-sighted in establishing operations around the world from the 1960s through to its integration into BNY Mellon in 1989.

### Trading services

Pershing offers a dedicated suite of internal tools and employs an open architecture structure, involving strategic partnerships with a range of third-party solutions vendors, in order to extend multiple routes to market for the customer.

In keeping with this strategy, Pershing LLC opted in July 2007 to add Neovest technology to its portfolio of trading technology solutions. Neovest, which is owned by JPMorgan Chase, will be made available to introducing broker-dealer firms through Pershing LLC and to independent RIAs through Pershing's affiliate, Pershing Advisor Solutions.

Craig Messinger, Managing Director of Trading Services at Pershing, explains that Neovest will be advanced to customers on a reseller basis. The two parties have aimed to establish a tightly-integrated approach that offers high levels of STP and comprehensive post-trade support for those IBDs that do not have the resources, or the inclination, to manage these challenges internally. The service relationship will extend to multi-asset direct market access,

including equities and options trading, along with advanced ECN and exchange aggregation, broker routing and algorithmic order routing aggregation. It also offers smart order management functionality and real-time market data and analytics.

The discerning reader will recognise that the Neovest relationship spans facilities that Pershing can already offer internally through its own direct access trading application, Sonic, and through its Eze Castle Software order management capability that falls under the BNY ConvergeX umbrella. The attraction, however, is to provide customers with choice and flexibility, while reaching out to firms that may demand a more specialised level of service support. "Though at Pershing we offer level two quotes, sophisticated routing and a broad range of tools to support IBD and RIA customers, the partnership with Neovest has been developed to support the next level of sophisticated user," he says. "This may represent no more than 10

per cent of Pershing's client base, but these clients may be at the forefront in terms of pushing forward service levels to new standards in this area."

Messinger identifies a spirit of what he calls 'co-opetition' with partner vendors within Pershing's open architecture framework. "In working with Neovest, we recognise that we compete in certain areas but that we can also work together to develop effective trading technology and order routing solutions," he says. This has been a refreshing development over the past 3-4 years in both the equities and fixed income trading environment. With this in mind, Pershing expects to announce a partnership arrangement in the near future with a leading European trading technology vendor that will extend the services that it can offer in the European trading arena.

### Strength in diversity

Given the diverse profile of Pershing's customer base, the task of pre-empting clients' evolving service needs presents a unique set of demands. Introducing broker-dealers continue to manage



**Mitchell Bell**  
Director, Product Management  
and Development, Pershing



**Craig Messinger**  
Managing Director of Trading  
Services, Pershing

the challenges of commission compression and the need for electronic trading support, DMA and order-routing aggregation. On the buy-side, customers are looking to secure better connectivity and improved STP rates, greater flexibility in their electronic execution tools and the need for better information around this process. The registered investment advisor business takes on these respective elements from both sides. Pershing is noting a gradual convergence between the needs of the smaller adviser and the tools and support services that have traditionally been demanded by larger buy-side customers.

With demographic trends prompting an ageing population to progressively reallocate investment into fixed income based products, trade services providers are recognising that they need to become better at supporting this asset class. "Support for fixed income trading has tended to be undernourished at many firms providing trade services," says Messinger. "This trading segment remains complex to process, it is typically not commission-based, and has played second fiddle to equities trading in many circumstances." With this point in mind, Pershing has invested heavily to ensure that it is ahead of the curve in this area. "In responding to these trends, we have extended our redistribution capability for new issue products, we have enhanced our direct sales coverage and we have introduced new technology that allows us to extend portfolio solutions – for

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example, in response to the investor's changing tax or credit circumstances."

On the equities side, Pershing serves as market maker in more than 6,000 US securities. In advance of Regulation NMS, the focus has been on investing in technology to guarantee high execution quality, connectivity and low execution costs. "The key is to ensure that customers have competitive access to equities markets in a cost efficient manner and at Pershing we have positioned execution quality and order flow management as a hallmark of what we do," says Messinger.

This includes supporting the extension of customer activity into new markets globally. Global extension is central to the company's development outlook – and this is reflected in the fact that Pershing has doubled its growth in its foreign exchange and international equity execution business in each of the past three years. "We now treat foreign exchange as an asset class through our NetExchange Advisor and NetExchange Pro broker workstations," comments Messinger. "This allows users to buy and sell spot and forward foreign exchange trades in real time, with an execution capability that is fully backed by Pershing trade support staff 24 hours per day, five days per week."

### World view

Frank La Salla, Managing Director of Global Securities Services at Pershing, explains that the non-US securities services business has experienced a faster growth rate than the domestic broker-dealer business. Though BNY Mellon's acquisition of Pershing has provided important stimulus to this international expansion, La Salla notes that the seeds of this growth long precede it, building on the foundations sown by the Irving Trust business, which was far-sighted in establishing operations around the world from the 1960s through to its integration into BNY Mellon in 1989.

Pershing now offers clearing services in more than 60 markets around the world, complemented

by execution services and a breadth of ancillary services required by the market. These activities are supported through two principal operating hubs in Jersey City and London, along with satellite offices in Singapore, Sydney, and Dublin.

As mutual fund promoters extend their fund range to increasingly sophisticated high net-worth and retail clients, they are constantly inquiring about the support that Pershing can offer for the offshore non-US dollar marketplace. This embraces not just foreign bonds, but alternative investments, offshore mutual funds and fund of funds.

By consolidating this activity on the FundVest platform, this allows customers to secure a consolidated view of their global holdings in one place and for Pershing to provide associated risk analysis and performance monitoring on this portfolio.

"In the Anglo-Saxon world, the fully-disclosed model is well established and we work closely with our client base to extend choice to this community," says La Salla. "In the non-Anglo world, customer requirements can differ markedly and we extend a broad range of client solutions to cater for this diversity." In Germany, for example, Pershing maintains direct exchange membership of Xetra and direct CSD membership at Clearstream Banking Frankfurt, thus extending services to German market participants as a domestic provider. This is also the case in the UK and Switzerland, where Pershing is self-clearing in both markets.

#### Future strategic initiatives

As the 'baby boomer' generation in the US approaches retirement and a gradual transfer of wealth takes place across the generations, these

functions are now considering the options that Pershing can deliver.

A key avenue for growth is likely to be the extension of Pershing's prime brokerage capability. All the relevant building blocks are in place to support this service, with strong execution and securities lending capability reinforced by additional scale and expertise arriving through the Mellon acquisition. CEO Richard Brueckner indicates that this leaves Pershing well placed to raise its profile in supporting high-end money managers and other buy-side clients that require prime brokerage services.

Alongside this, Pershing is destined to be spending more time developing practice management support for its broker-dealer and RIA customers. Labelled *Ideas Without Limits*, Pershing's comprehensive practice management programme combines consultative marketing support, exclusive roundtables and events, white papers, and industry-leading independent studies that help the customer to manage their business more efficiently, profitably and with greater creativity.



**Frank La Salla**  
Managing Director of Global  
Securities Services, Pershing

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demographic drivers support the expansion of the registered investment advisory business. Pershing continues to invest in developing this area, building new capabilities on to its technology platform and adding new personnel in sales and relationship management. "The partnership between BNY Mellon and Pershing Advisor Solutions will provide our RIA customers with a comprehensive solution that includes bank custody and brokerage custody to satisfy a broad spectrum of solutions," says Brian Shea.

Looking ahead, the need for greater scale continues to be a competitive driver in the financial services arena and, thus, institutional customers that might not previously have considered outsourcing non-core

On balance, the world is gradually becoming smaller and cross-border trading activity is growing at a rapid pace. In this context, Pershing will continue to extend its global focus. "Projecting forward, we expect to do more business in the US on behalf of non-US companies, and selectively expand our capabilities in non-US venues to support our ever-increasing global customer base," says Shea. Pershing will also be keeping a close eye on consolidation initiatives at exchange, clearing house and depository level, particularly in Europe. With infrastructure consolidation gathering pace, unit costs coming down and utilities in Europe operating more efficiently, Frank La Salla believes that these developments are coming together to generate a positive and exciting outlook for Pershing's global future. ■

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