



Asset International

DAVID MANN Clearing up

David Mann joined Merrill Lynch earlier this year as group manager in the firm's international operations group. Prior to that he ran Chase Manhattan's global custody department in New York. In an interview with AI, Mann discusses some of the developments necessary to resolve the current settlement problems that afflict global trading.

What does a broker need to have in place to expedite an efficient trading desk?

"You have to establish an effective custodian network which will arrange for timely settlement of securities transactions. To do this you have to have a direct relationship with every principal market with which you are dealing because of the size of transactions and the need for communication."

Are there markets where that custodian network is unavailable?

"In the major markets there are banks that can provide a professional level of service. But market conditions can prohibit their effective operation - from time to time we face problems in any country where you are dealing in a registered market and where there is no central depository and you get unusually high volume. That has happened in countries like Australia and Italy, for instance."

How about the UK and Japan?

"In the UK you get situations such as what happened with Wellcome, where the transfer agent got overwhelmed and demonstrated an inability to turn around the stock

have to watch for situations like that. In Japan, there is no real problem in terms of settlement because there is the ability to borrow. The settlement process does work effectively there. There may be short-term fails but they are typically cured quickly."

Is there an ideal solution to the global settlement problems?

"The ideal would be the establishment of an international version of the DTC [Depository Trust Co]. That unfortunately is some time away."

Are realistic efforts being made to get closer to such a system?

"Certainly. For a start, organizations like Euroclear and Cedel are looking to make many securities eligible for their depository systems. Cedel, for instance, has made all German equities except registered ones eligible - certainly at Merrill we use Cedel for our German settlements. I think that both Cedel and Euroclear have become much more pro-active in addressing the problems of equity settlements."

Have there been any other notable initiatives to develop global settlement systems?

"I understand that DTC is looking at the feasibility of establishing an international ID capability, akin to what now exists on the domestic side. This means that a DTC participant will have the ability to match trades with a counterparty prior to settlement. In general, I think there is an industry-wide recognition that there is a need to communicate all trade details between interested parties, and hence the need to develop systems that allow that communication. There now exists a clear opp-

ortunity through systems like Swift, Fitel and Reuters, and through organizations like the International Securities Clearing Corp and the International Operations Association to come up with effective ID systems for international equities."

The opportunity is there. How about the reality?

"The key to any success is the breadth of participation. All parties - be they broker-dealers, managers or banks - have to work together for a solution. There is evidence that that is happening. You are getting the major players addressing the common problems and not trying to do it alone. We all have to work together to come to a level playing field."

But domestically there wasn't nationalism to deal with.

"That's true. The question is whether institutions have the leverage to persuade countries to either establish depository organizations or to join a central organization."

Are you optimistic about the chances of establishing unified global settlement procedures?

"I think that in two years systems will be in place for an international ID capability, if not for an international depository system. At the least you'll see the growth of national depository systems."

If that doesn't happen, then what?

"Well, clearly, the further globalization of the international securities market is dependent on the implementation of such systems. If the back office can't support a firm's trading activities, it will very adversely affect the entire business."