

Asset Servicing Overview

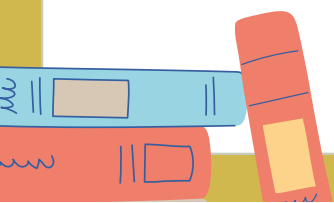
Module 2_Lesson 1A

What are Assets?

- Assets are anything of value or resource of value, that can be converted into cash
- Asset generates revenue for a company. Either by owning or using the asset
- Assets can include machines, property, inventory - as well as intangibles such as patents, royalties, and other intellectual property
- Assets are reported on a company's balance sheet

What are the Different Asset classes?

- **Equity -**
 - It denotes the amount belonging to the shareholders or owner after the discharge of dues and assets, in case of liquidation.
 - Advantage -
 - Easy to buy and sell.
 - Above average asset returns.
 - Disadvantage -
 - Market risk.
 - Dividend yield not fixed.
- **Cash & Cash Equivalent -**
 - When a company is not using its cash balance, it may invest its cash in low-risk liquid securities to generate interest income. Thus very liquid securities are sometimes called cash equivalents.
 - Advantage -
 - Cash is the most liquid of all the asset classes.
 - Cash can reduce the volatility of portfolio
 - Disadvantage -
 - Might be misuse of excess balance.
 - Cannot keep up with inflation rate



- **Fixed Income -**

- Fixed-income securities, such as bonds, pay a coupon to the owner on a fixed schedule.
- Advantage -
 - Lower risks.
 - Steady returns
- Disadvantage -
 - Bond prices decline when interest rates rise

- **Real Estate -**

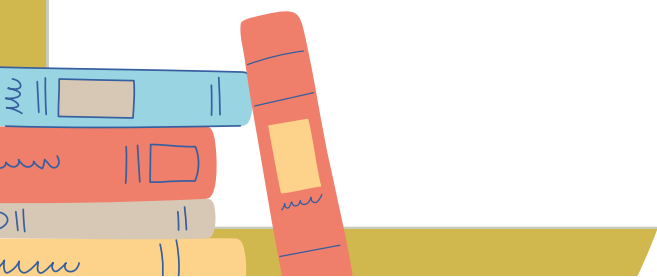
- Real estate involves tangible assets commonly purchased for either residential/commercial usage or future investment.
- Advantage -
 - Gives control.
 - Tax benefits.
 - Market liquidity.
- Disadvantage -
 - Requires ample of money
 - Long term investment
 - Higher transaction cost

- **Derivatives -**

- The derivatives are financial contracts between at least two parties whose value relies upon the underlying asset. There is a buyer and seller for each contract.
- Advantage -
 - Hedging risk exposure.
 - Market efficiency
- Disadvantage -
 - High risk products.
 - Counterparty risk

- **Alternatives -**

- Alternative assets typically refer to investments that fall outside of the traditional asset classes commonly accessed by most investors, such as stocks, bonds, or cash investments.
- Advantage -
 - Lower volatility.
 - Enhance returns



What are Equities?

- Equity represents the value of an investor's stake in a company and the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off in the case of liquidation.
- Equity is one of the three principle asset classes in the market.
- Equity shares are long-term financing sources for any company.
- These shares are issued to the general public.
- Investors in such shares hold the right to vote, share profits and claim assets of a company.
- It also represents the amount of capital invested in a company.

- **Features of Equities -**
 - Permanent
 - Transferrable
 - Represents Ownership of the company
 - Dividend paid to shareholders is a part of the company's profit; however the rate is not fixed
 - Shareholders carry the most risk, of all the participants, and also stand to gain the most potential gains.

- **Types of Equities -**
 - **Ordinary shares -**
 - Issued by a company to procure capital and meet long-term plans
 - It gives the bearer ownership and voting rights
 - It entitles them to dividend if and when the company pays them out
 - **Preference shares -**
 - Gives the investor a guarantee of the payment of cumulative dividend before returns are distributed among ordinary shareholders
 - Usually do not carry voting rights
 - Can be further classified into participating & non-participating preference shares. If an investor invests in participating preference shares, it entitles them to an amount in the profit and bonus returns.
 - **Bonus share -**
 - Issued out of retained earnings
 - The profits of the company are distributed in the form of additional shares to investors/shareholders
 - They do not increase the amount of capital of the company - they only represent the profits made

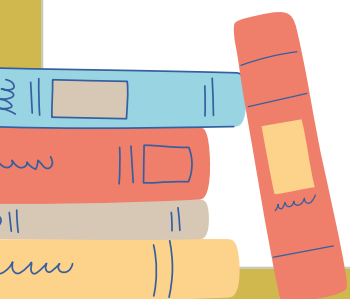


What are Fixed income securities?

- It refers to securities or investments that pay a fixed amount in interest.
- On the maturity date, investors are repaid the principal amount they had invested.
- They are like a loan to the company or institution.
- Fixed income payments are determined in advance as per a schedule.
- **Features of Fixed Income -**
 - **Debt instruments -**
 - They are loans given to corporations/companies and appear as such in the Balance Sheet.
 - **Fixed interests -**
 - They pay a fixed amount of interest or dividend, for a set period of time; the interest payment is called coupon payment.
 - **Fixed term -**
 - The coupon payments are made on a semi-annual basis (usually). The principal amount is repaid on maturity only.
 - **Raising capital -**
 - Companies and governments issue fixed income securities primarily to raise capital.
- **Types of Fixed Income -**
 - Certificate deposit
 - Preferred stock
 - Treasury notes
 - Treasury bond
 - Treasury bill
 - Municipal bond

Key Security Identifiers

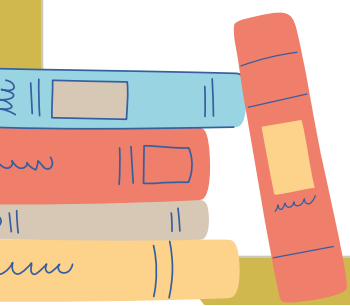
- A security identifier is a data structure in binary format that contains a variable number of values
- Some of the well known security identifiers are :
 - CUSIP
 - ISIN
 - Sedol



- **CUSIP (Committee on Uniform Securities Identification Procedures) -**
 - CUSIP numbers consist of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of financial instrument.
 - A CUSIP number is similar to a serial number. The first six alphanumeric characters are known as the base, or CUSIP-6, and identify the issuer. The seventh and eighth digits identify the type of security and the ninth digit is a “check digit” that is automatically generated
- **ISIN (International Securities Identification Number)**
 - 12-digit alphanumeric code that uniquely identifies a specific security
 - Unique the first 2 digits represent the country code (So for the Indian securities, it will be IN), the third digit usually represents the type of security (Example: In India, E is for Equity; F is for Mutual fund/ETF etc.), the next 8 digits are the unique code generated for each security and the final digit is the 'check digit', which is used to verify the accuracy of the previous 11 digits
- **SEDOL (Stock Exchange Daily Official List)**
 - SEDOL is Seven-character identification code.
 - SEDOLs consisting of two parts: a six-place alphanumeric code and a trailing check digit.
- **Examples -**
 - HSBC **404280406** (CUSIP)
 - HSBC **INF336L01NY9** (ISIN)
 - HSBC **0540528** (SEDOL)

What is Asset setup/coding?

- The activity of adding an asset to the books or records of a bank or custodian is called ‘Asset Coding’.
- It is usually a one-time activity which requires maintenance.
- **When is Asset set-up needed?**
 - New asset / security launched in the market
 - Existing security goes through any changes
 - New client onboarding
- **Why is Asset set-up done?**
 - To check if our records are in line with exchanges & regulators



- **How is Asset set-up done?**

- Asset set up begins with updating security master with external identifier
- If there is no external identifier than an internal identifier is created
- **External Identifier** - Security available in the market (in exchange)
- **Internal Identifier** - Security that are readily not available in the open market & are created by the company internally to maintain the records for a client

Third Party Data & Its Uses

- **Who** - Investment banks, custodian banks etc use third party sources for pricing and supplemental data
- **Why** - Third party data is used for security creation, pricing, reconciliation and calculation processes to validate data received from client.
- **How** - Through a Security Master Data

Security Master Data

- The security master holds the third party vendor data for the security that a company obtains, the mapping is typically done using security identifiers such as ISIN, Sedol or CUSIP
- The data is maintained in Asset Register / Asset data base
- It is ensured that the data is kept Current

- **Security Master - Equity Set Up**

Asset Information - Equity Sample	
Asset name	Gallivant Corporation
ISIN / CUSIP / Sedol Number	INE009A01021
Ticker Symbol	GCORG
Asset Internal Reference Number	IN0001A2
Asset Type	Equity
Asset Sub Group	Equity
Asset Trading Currency	INR
Asset Listed In Country	India
Lot Size / Min. Transaction Quantity	1
Asset Insertion Date	14-07-2022
Asset Last Modified On	14-07-2022

Template

Field

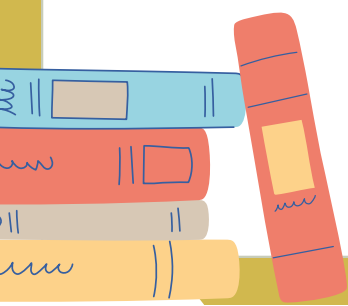


- **Security Master - Fixed Income Set Up**

Asset Information - Fixed Income Sample	
Asset name	Shriram Transport Finance Company Limited
ISIN / CUSIP / Sedol Number	INE721A08DE4
Ticker Symbol	BOES
Asset Internal Reference Number	IN0001C2
Asset Type	Fixed Income
Asset Sub Group	Bond
Bond Issue Date	31-12-2018
Asset Trading Currency	INR
Asset Listed in Country	India
Lot Size / Min. Transaction Quantity	50
Coupon Rate	10.25 %
Dividend Payout	Quarterly
Dividend Last Paid on	31-03-2022
Maturity Date	27-12-2024
Asset Insertion Date	14-07-2022
Asset Last Modified On	14-07-2022

Asset Pricing Team

- After the asset set up is done. The following process will occur:
 - Load the third party pricing data each night
 - Allow accounts to run in the system in order to capture daily prices
- **Parties involved in Pricing -**
 - Prices provided by the investment bank itself (1st party) – example - Money market funds - these are not institutional prime , Par Pricing.
 - Client Sources (2nd Party)– price provided by client, broker, asset managers
 - Third party pricing data/vendor sources –
 - Bloomberg– provides prices for fixed income securities
 - Interactive data Corporation (IDC)– provides prices for fixed income and equity securities
 - Refinitiv
- **Pricing Hierarchy -** Pricing Hierarchy which is set at client or account level.
 - Determines the order in which pricing sources are used
 - Choose order of pricing source
 - Choose frequency for pricing source & staleness



- **Pricing Tool -**

- Each security price is determined by the highest priority pricing source in the client chosen source hierarchy
- Secondary pricing sources will be used for filling gaps and for price comparisons
- The pricing tool assigns the prices at an account level, based on the sources hierarchies, staleness, and the availability of data from the sources.

Summarization of Asset Pricing -

- **What is it?**

- The activity of updating the price of an asset, based on pricing market vendors & as agreed with the client, in accordance with the regulators.

- **When is it required?**

- A regular process to reflect the true prices of assets in the market.

- **Why is it done?**

- To ensure that the client periodic reporting portfolio reflects the correct market price.
- Not updating the correct and accurate prices, leads to misrepresentation of client's assets.

