

Press Release



Contact: Michael Geller
201-413-4179
mgeller@pershing.com

The Bank of New York Mellon's Pershing Unit Releases New Study for Hedge Funds Focusing on Best Practices for Managing Counterparty Risk and Relationships

JERSEY CITY, N.J., January 5, 2009 – A new white paper published by Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, and Aite Group LLC has found that managing counterparty risk is a much more critical component of a hedge fund's overall business operations today than it has been in previous years.

The study, entitled *Risk and Reward: Hedge Funds Changing Views on Counterparty Relationships*, focuses on the heightened importance of effectively managing counterparty risk and the integral role it plays in partnering with a prime broker. It also highlights best practices that have been implemented by other hedge funds to help address and mitigate counterparty risk. Key findings from the study include:

- *Hedge Funds Increase Scrutiny On Managing Counterparty Risk* - Counterparty risk monitoring has become a significant part of overall business operations. One of the major drivers for heightened attention to managing counterparty risk are hedge funds' concerns about the negative impact it could ultimately have on their firms' operations should one of their key counterparties default on their obligations. More than 50% of respondents reported monitoring counterparty risk on a daily basis and nearly 85% consider it an extremely important or very important business issue. An overwhelming 96% of respondents also cited managing counterparty risk as the number one factor in selecting their prime broker relationships. Concerns about managing counterparty risk two years ago were not a primary issue for most hedge funds, as 26% of the respondents considered counterparty risk important and 22% viewed it as moderately important;
- *Counterparty Risk Management Must be Tackled Directly and Systematically* – Effectively monitoring counterparty risk will continue to be a critical component of a hedge fund's business operations. The development of a standardized, well-documented approach to analyzing counterparty risk remains one of the top priorities for the hedge fund community. Best practices for proactively managing counterparty risk include:
 - Leveraging innovative services from prime brokers, such as a tri-party account approach
 - Conducting consistent internal portfolio and risk assessments
 - Formalizing business processes by outsourcing and installing in-house technology solutions such as portfolio management systems
 - Implementing third-party independent valuation technology solutions and service providers supplemented with in-house valuation tools; and
- *Adoption of Technology* - There is no silver bullet for hedge funds when attempting to actively monitor the balance sheets of important counterparties despite the growing concerns over counterparty risk management. Most hedge funds currently go through manual-intensive processes to keep track of counterparty relationships. The reality is that despite the industry's lack of a comprehensive technology platform to fully automate counterparty risk management, hedge funds continue to expand their presence globally and invest in more complex instruments. Reliable counterparty relationships will become even more critical, and continual innovation in terms of technology and services from leading service providers will be key to mitigating the hedge fund industry's exposure to counterparty risk.

Craig Messinger, managing director of Pershing Prime Services, said, "Managing counterparty relationships is one of the most important business and operational issues facing hedge funds and the broader industry today. In order to help ensure continued growth and success, hedge funds of all sizes must continue to invest in and implement the proper internal controls and systematic processes to effectively monitor, manage and mitigate counterparty risk."

Sang Lee, managing partner at Aite Group LLC, added, "The current credit crisis has elevated the importance of counterparty risk management in the eyes of many hedge fund managers. Creating a more systematic approach to counterparty risk management will go a long way in restoring market confidence and helping the hedge fund industry recapture its profitability."

Risk and Reward: Hedge Funds Changing Views on Counterparty Relationships is a component of Pershing's Ideas Without Limits™ thought-leadership program. The study is based on a survey conducted by Aite Group with 23 global hedge funds during the summer of 2008. The top 100 hedge funds—those with assets under management (AUM) greater than \$500 million—represent more than 75% of total hedge fund AUM. Aite Group targeted these funds to capture responses that reflect the changing perception and importance of managing and assessing counterparty risk. The respondents of the study were funds with active trading operations that typically handled multiple asset classes. The report was commissioned by Pershing LLC and independently executed by Aite Group LLC. A copy of the study is available by contacting Pershing Prime Services at primeservices@pershing.com or at www.pershingprimeservices.com.

Pershing Prime Services delivers an unconflicted, integrated suite of prime brokerage solutions, including expansive access to securities lending, dedicated client service, powerful technology and reporting tools, robust cash management products, global execution and order management capabilities and additional integrated solutions of The Bank of New York Mellon. Pershing Prime Services is a service of Pershing LLC.

Pershing LLC (member FINRA/NYSE/SIPC) is a leading global provider of financial business solutions to more than 1,150 institutional and retail financial organizations and independent registered investment advisors who collectively represent over five million active investors. Located in 19 offices worldwide, Pershing is committed to delivering dependable operational support, robust trading services, flexible technology, an expansive array of investment solutions, practice management support and service excellence. Pershing is a member of every major U.S. securities exchange and its international affiliates are members of the Deutsche Börse, the Irish Stock Exchange and the London Stock Exchange. Pershing LLC is a subsidiary of The Bank of New York Mellon Corporation. Additional information is available at www.pershing.com.

The Bank of New York Mellon Corporation is a global financial services company focused on helping clients manage and service their financial assets, operating in 34 countries and serving more than 100 markets. The company is a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing superior asset management and wealth management, asset servicing, issuer services, clearing services, and treasury services through a worldwide client-focused team. It has \$22.4 trillion in assets under custody and administration, approximately \$1.1 trillion in assets under management, and services approximately \$12 trillion in outstanding debt. Additional information is available at www.bnymellon.com.
