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Large Wall Street Firms Exit Transition Management

Much to the industry's surprise, two large Wall Street firms abruptly exited the US transition management space; JP Morgan and Credit Suisse.

The reasons remain unclear. While neither firm is commenting, speculation is focused on lower margins driven by principal trading restrictions and increased regulatory scrutiny.

Some believe the departures could be the result of decreased revenues as trading fees have come down. Driven by regulatory changes and the increased focus on a fiduciary approach, principal trading opportunities may be reduced to the point of being unattractive to some transition managers. While this is not an issue for agency trading firms, it may cause some transition management divisions to be reclassified as non-core business lines.

Additionally, earlier this spring, UK's chief regulator, the Financial Conduct Authority (FCA), announced plans to investigate custody banks, and in particular their transition management services. While the timing seems to fit, there is no evidence that the departures are directly related to the FCA actions.

Regardless of the reason for the departures, fund sponsors may be forced to review and/or replace their transition management partners. Some things to consider when looking for a new provider include:

- **Stability & Commitment:** How long have the transition management team members worked together? Has there been turnover at the top management level? If so, why? Is transition management considered a core business line?
- **Revenue & Trading Approach:** Do they receive any undisclosed revenue from principal trading activities? Do they advertise transition trades prior to execution to firms

that pay commissions to the transition manager? What other conflicts of interest may impact their trading approach? How do they reduce risk during the trading process?

- **Transparency & Reporting:** Is the analysis easy to understand? Do they accurately compare post trade results to pre-trade estimates? How often do they beat their estimate? Do they provide intraday trading and exposure charts? Are variances to the expectations adequately explained?
- **Experience & Client Service:** Efficient administration of an event requires knowledge and communication. Do they have the experience to handle complex events? Talk to references. Do they instill confidence?
- **Maintaining a Mix of Providers:** Diversify your list of approved transition management partners. Does your approved list include agency brokers, custody banks, global brokerage firms and investment advisers?

When looking for a transition management partner, stability, transparency and experience are important factors to consider. Select a firm that is committed to transition management and has your interests at the forefront of their trading strategy.



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