CLIENT PROFILE
Credit Suisse Securities (Japan) Limited

LINE OF BUSINESS
Securities and Investment Banking

FOUNDED
Established in Japan in 1972

IMPLEMENTED SOLUTION
I-STAR/SC

TIMELINE
June 2010 – March 2011

The Japan-based office branch of Credit Suisse, one of the world's largest financial firms, found itself facing increased costs linked to outsourcing of its custody business operations. By implementing NRI's I-STAR/SC custody business solution, the firm reduced costs and succeeded in streamlining its business process by reducing failed trades.

CHALLENGE

When overseas investors trade securities on the Japanese market, they must have a standing proxy in Japan to which management of securities and receipt of dividends are entrusted. The work of handling this processing within Japan on behalf of overseas investors is called the custody business.

In response to global growth and the increase of overseas investor clients in Japan, Credit Suisse outsourced their custody business to a domestic financial institution as a "standing proxy bank." Essentially, Credit Suisse handled its securities trading operations in-house while outsourcing its custody operations.

However, following the Lehman shock, the industry underwent a number of major changes including heightened client inflow. Clients poured in from U.S. investment banks to European investment banks. Credit Suisse was also a recipient of this inflow, which resulted in a surge of orders from overseas investors.

The various forms of trading also evolved. As a result of the growth in electronic trading, DMA and algorithmic trades increased. Compared to traditional trading, DMA and algorithmic trades are comprised of many small-unit orders. Thus, there is now a significant increase in processing volumes of orders and executions.

For Credit Suisse, these factors became a significant burden. Payment to the standing proxy bank is calculated according to the number of processed requests and as a result, the firm faced a sudden increase in costs.

"There were problems with outsourcing the custody business in addition to costs," said Keiji Fujita, VP, Head of Equity Settlements, Operations, Credit Suisse. "Even if we wanted to revise the business operation process, since the custody business was handled by another company, the most we could do was submit a request. Revision of the business operations process was a step that we had been considering for quite some time prior. However, the recent surge in custody business costs prompted us to switch to finding a way to process in-house."

Keiji Fujita *VP, Head of Equity Settlements, Operations, Credit Suisse Securities (Japan)*

For more information, visit: www.nri.com

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I-STAR/SC FEATURES

- Scalability to handle increasing volume of large transactions

- Realized cost reduction by offering self-clearing service via a hosted application infrastructure

- Enhanced risk mitigation by shortening settlement time and reducing trade fails

APPROACH

The issue with handling the custody business in-house was the overall cost of development. If the firm were to build a new system from scratch, it would require hiring of personnel, as well as capital outlay. Moreover, if the development became prolonged, this would only compound the costs involved.

Therefore, the major issue was to what extent a system could be built within a short period of time while controlling investment costs. To tackle this challenge, NRI proposed the development of I-STAR/SC. Credit Suisse has been using NRI's I-STAR wholesale securities back-office system solution for more than 25 years. I-STAR/SC would be a natural complement to existing processes.

"When I heard that NRI was planning a custody solution, I became excited because up to that time there were no custody business solutions on the market in Japan," said Clay Oh, Director, Project Integration, Operations, Credit Suisse. "Even if we were to have handled development ourselves, we would still have needed to link the system to I-STAR, which we have used for many years."

"Credit Suisse is a global enterprise, and so we considered using a common global solution. However, the Japanese market has a unique set of conditions. Ultimately, we determined that it would be best to use the solution provided by NRI, which is thoroughly versed in Japan's financial conditions and has a proven track record."

Clay Oh *Director, Project Integration, Operations, Credit Suisse Securities (Japan)*

Confirmation of business requirements commenced in June 2010. Following a two-month migration period from the beginning of 2011, I-STAR/SC was fully implemented in Credit Suisse. Throughout this time, Mr. Oh and his staff met regularly with the NRI development team to exchange opinions, which resulted in an even higher-quality I-STAR/SC solution.

"The development was completed in an extremely short period of time, and we have been pleased that there has been absolutely no impact on our clients," continued Mr. Oh.

"In the progression of this development project, we listened to the requests of Credit Suisse while reflecting the opinions of actual users," said Yohei Sawai, Systems Engineer, GWS IT Solution Systems Development Department, NRI. "One example of this was increasing the amount of data able to be processed at one time. We worked to devise means of improving work efficiency by considering, 'how efficiently operations can be performed' as opposed to simply 'functions required for operations'."

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WHAT IS I-STAR/SC?

I-STAR/SC is a hosted application infrastructure custody business system solution. Custody operations are required when overseas investors make securities trades within Japan, and when operations performed in Japan on behalf of the investor include "securities management," "settlement management," "dividend/ principal receipt management," and "dividend receipt reports."

I-STAR/SC provides the functions necessary for custody business through linkage with the I-STAR system series. In order to adopt the international standard SWIFT as the protocol, the system platform has a general-purpose architecture, which enables linkage with a variety of overseas systems.

I-STAR/SC will provide your company, which is considering self-clearing for nonresident settlement operations, with the following six benefits:

Quick launch of self-clearing business
Functions required for self-clearing custody operations will be provided as an ASP service, enabling full implementation with a short lead time.

Improved settlement service
Real-time linkage to the I-STAR settlement system, enabling flexible settlement control and satisfying the needs of your end client.

No modifications required for linkage to overseas office systems
SWIFT data exchanged with local custodians can be used as is.

Reliability backed by performance
The system has been used by multiple institutions since April 2011.

Packaged corporate action functions
Asset service will be provided as a basic function. In addition, we will provide our optional IDS service that offers automatic event data linkage upon implementation.

No external connection migration risk
Since you will be able to continue using the I-STAR settlement system, there is no need to switchover to an external institution connection.

RESULTS

By implementing I-STAR/SC, Credit Suisse was able to eliminate the costs of outsourcing to a standing proxy bank.

"For customers, their most important need is for settlements to be completed without incident, and for there to be no fails (unsettled securities transactions). In actuality, however fails do occur due to such factors as an inability to complete processing on time," said Mr. Oh. "As a result of implementing I-STAR/SC, we are now able to process in shorter time periods than before, and ultimately fails have been significantly reduced. This is probably the biggest benefit of implementation."

Credit Suisse was also able to streamline internal operations. The main issue with custody business operations was how smoothly the sharp increase of trades could be processed. Normal trades can be processed automatically, but occasionally, irregular trades also arise which I-STAR/SC has been configured to handle.

"In order to streamline operations, we needed to reduce manual processing as much as possible. Otherwise, we would find ourselves unable to respond to the surge in trade volume. Implementing I-STAR/SC also simplified these practices. Previously, settlement would involve back-and-forth communications with clients and the standing proxy bank, and in some cases, back-and-forth with overseas Credit Suisse offices. Now this work is completed simply by making entries into I-STAR/SC. This has reduced the workload on the personnel in charge of these tasks." (Mr. Fujita).

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RESULTS (con't.)

In securities trading, the speed of information is also of the essence. As a result of implementing I-STAR/SC, the speed of accessing information has been accelerated.

"The ability to store information where it is visible from within the company has also been a major benefit. For example, in securities trading, a trade is settled three business days following trade execution, but when outsourcing to an external standing proxy bank, we were unable to acquire detailed information until the day prior to settlement. We had no way of even knowing if settlement appeared that it could be made without complication. However, thanks to using I-STAR/SC, we are now able to grasp the status at an early stage. This enables us to quickly respond even when a problem does arise." (Mr. Fujita).

Credit Suisse was able to achieve results by managing its custody business internally. In the future, in order to grow the custody business, Mr. Fujita hopes that the number of users increases.

"Since I-STAR/SC is provided as a hosted application infrastructure service, I hope it will come to be used by more and more securities firms. An increase of users should result in further functional improvements and lower costs." (Mr. Fujita)

"I believe our system is the world's first that handles custody business in a hosted application environment," said Keisuke Unoki, Sales Manager, GWS IT Solutions Department, NRI. *"Because many financial firms build their systems using proprietary specifications, there is no standardization. I hope that I-STAR/SC will become the de facto standard and become an axis of standardization that will contribute to streamlining of the custody business industry as a whole."*

Girish Anthur, who supervises investment bank back-office systems from Singapore for the entire Asia Pacific region, hopes for continued industry adoption of I-STAR/SC.

"The I-STAR/SC project went extremely well. I hope this business will continue to grow for the industry as a whole."

Girish Anthur *Director, Information Technology, Credit Suisse*

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This case study is translated from Japanese. Please see the original at: http://www.nri.co.jp/nriss/solution/istarsc/pdf/istarsc.pdf

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