



Dealing in change

THE FRIDAY INTERVIEW

Joe Duffy
chief executive
BNY Mellon (Ireland)

SIMON CARSWELL

THE FIRST thing that catches the eye entering the Dublin offices of Bank of New York Mellon is the layers of graffiti below on Windmill Lane left by adoring U2 fans paying homage next to the famous studios.

So synonymous is the graffiti with Windmill Lane that Joe Duffy, the Irish chief executive of BNY Mellon, asked a few of the local artists at work on the street below – the youngest being 12 – to put some of their art on large canvases to adorn walls of the offices inside.

They were surprised with the request, he said, painting for corporate offices rather than on brickwork under the darkness of night.

Duffy believes that the graffiti art on Windmill Lane is a good analogy for the BNY Mellon business in Ireland – just as the street tapestries below constantly change, so too does the bank. It has to change to attract business and move up the value chain, he said.

BNY Mellon's Irish operations are complex to understand – they include asset servicing and administration companies, a bank company and a firm called Pershing (a broker-dealer and intermediary for US clearing and Irish brokerages).

Accounts filed for 2008 suggest that combined revenues for BNY Mellon locally were in excess of \$200 million (€150 million).

One firm, BNY Mellon Security Services (Ireland), formerly called BNY Securities Services (Ireland), reported a pre-tax profit of \$18.7 million on a turnover of \$164.6 million in 2008, while another, BNY Financial Services, had a pre-tax profit of \$6.2 million on a turnover of \$33.8 million for the same year.

Duffy says the Irish company could almost

double the amount of revenues at the firm by capturing business that is covered elsewhere, including for Irish customers in the wider BNY Mellon group.

The group became the largest custodian of assets – ahead of JP Morgan Chase – when Bank of New York acquired Mellon Financial Corporation in 2007.

The giant has doubled the assets it oversees in the past five years.

The company is the largest fund administration firm and asset custodian in Ireland, employing 1,200 staff at Windmill Lane and Harcourt Street in Dublin and also in Cork.

A further 500 staff have been added to the Irish workforce, with BNY Mellon's \$2.3 billion acquisition of PNC Financial Services Group in February which brings hedge fund and mutual fund clients into the New York-based group's growing customer base.

All told, Duffy has 1,700 staff falling under his management.

One of the bigger developments for the Irish business in recent years was the securing of a banking licence last year – an application process that started three years ago, said Duffy.

"The banking licence gives us the opportunity to do almost anything we want to do in a financial context from a place where we have decided that we have got the right sort of workforce and skillsets and a lot of stability," he says.

Duffy points out that the Irish operation is not just in competition with rival financial firms but more so with other divisions of BNY Mellon around the globe.

"Look at Microsoft – they have just over 1,000, or 1 per cent of their global employees here, yet a quarter of their revenue globally is recognised here," he said.

"We have more employees here and revenue from Ireland and Irish clients that isn't captured here. That was largely because we didn't have a banking licence."

He uses depository receipts as an example of the kind of business that BNY Mellon can capture in revenues through Ireland.

Companies issue the receipts to raise funding – it is a form of debt or equity that is

ON THE RECORD



Name: Joe Duffy.

Age: 42.

Position: CEO of Bank of New York Mellon (Ireland).

Home: Rathfarnham, Dublin.

Family: Five children.

Education: Commerce, UCD.

Career: Worked for PricewaterhouseCoopers, Deutsche Bank and JP Morgan before joining what is now BNY Mellon in 2006.

Hobbies: "Anything outdoors."

Something to expect: Sharing a broadcaster's name helps in booking restaurants.

Something to surprise: He has seen investors move into "safe havens" such as German and Irish Government bonds.

traded. Both AIB and Bank of Ireland have American Depository Receipts (ADR) being traded on the New York Stock Exchange.

Duffy says that BNY Mellon has about 85 per cent of the depository receipt business in Ireland but has to service this out of the group's operations in the US and the UK.

"If we are able to conduct that business here that would be us moving up a value chain," he said.

The banking licence allows BNY Mellon to handle both ADRs and global depository receipts because dividends can be paid on the receipts - which involves handling cash.

The company has engaged in talks with the Financial Regulator to allow it to become more involved in this business - not just for Irish companies but others too.

"At the moment, our business services this out of New York. If we set up a centre for doing it here and impose a different operating model for doing it globally, then we could service Europe," he said.

"There would be significant revenue streams flowing here if we were able to service this business."

Duffy isn't concerned about the beefed-up regulatory powers expected in Ireland because BNY Mellon's Irish operations already meet the "most rigorous standards globally".

"We have dialogue at all times with regulators. We are always bringing things to the regulator rather than the regulator bringing things to us.

"Our businesses aren't the sort of businesses that are going to fall foul of regulators."

Being part of such a large global corporation has given Duffy an unique insight into the international view of Ireland and the financial hole the country finds itself in.

In February 2009 - as Ireland's borrowing costs spiralled amid concerns about the state of the domestic banks following the nationalisation of Anglo - BNY Mellon in New York decided to run scenarios around the risk of a sovereign state defaulting, said Duffy.

"So we ran scenario tests using Ireland as a case study," he said.

The company concluded that the only difficulty facing its Irish operations under this scenario was finding a local bank through which BNY Mellon could pay its staff - such was the international nature of the Irish business.

"The fact that Ireland was chosen was not my choice. The exercise was conducted in New York with lots of businesses globally participating - in our global risk assessment Ireland was coming out near the top this time last year because of the risks," he said.

Much has changed since then and Duffy's vantage point has also allowed BNY Mellon to spot a positive change in Ireland's favour.

"Being an administrator of so many assets and having so many assets under custody, we are able to look at what our customers are buying and selling," he said.

"This gives you a picture of where money is flowing toward - the safe havens since December in Europe have been German and

Irish Government bonds."

Describing this as a "complete reversal" of the view of Ireland a year ago, Duffy said that it didn't surprise him being here and seeing the Government's tough budgetary changes.

"Perhaps it is too early to make a final call as money flows go quickly. It is important that we do stay on track and that we do stay committed to the programme for reform we have entered into."

BNY Mellon's role in money and credit market transactions and providing what was essentially intra-day credit to cover them allowed Duffy to see the huge stresses that almost overcame the global financial system at the height of the crisis in the autumn of 2008 following the collapse of US bank Lehman Brothers.

Debt servicing accounts for about 30 per cent of BNY Mellon's Irish businesses, he said, and Duffy was regularly taking nervous calls late at night and over weekends about whether any particular company would be able to pay.

"You could say that it was a fascinating time or that it was a bloody awful time," said Duffy.

When a company can't pay, BNY Mellon moves to its "pay protect" insurance and the firm will not give out cash until it sees some securities come in to cover them.

"The street never sees that strain - this is minute-by-minute stuff and it never gets noticed in the mainstream financial markets," he said.

The collapse of one institution - for example, Lehman Brothers - was "quite containable", said Duffy, but the strain caused by the wider market concerns over Ireland and Europe was "much more difficult".

This strain was still out there, he said, given the concerns about Greece and other euro-zone states.

Dublin's time zone means the Asia markets are open when the business day begins in Ireland and the US markets open later on, making BNY Mellon in Ireland very busy 24 hours a day, seven days a week.

"The downside is you are here for everybody. That involves lots of compromises on 'me time', work time and family time with 'me time' losing out most," he said.

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