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By Roben Farzad | December 04, 2006

The soon-to-be CEO of Bank of New York Mellon Corp. will lead an institution with trillions in assets. Can he meet shareholders' expectations?

Meet Robert Kelly. The chief executive of Mellon Financial (MEL) only started at the company in February, having decamped from Wachovia (WB). But on Dec. 4, by agreeing to sell Mellon to Bank of New York (BK) for $16.5 billion and arranging to become the top guy at soon-to-be Bank of New York Mellon Corp., the 52-year-old Kelly is catapulting himself to the helm of what will become one of the world's largest financial custodians and asset managers.

He'll oversee the combination of two storied financial institutions. Bank of New York's roots go back 222 years to its founding by Alexander Hamilton, the country's first Secretary of the Treasury. Mellon traces its roots to 1869, when it was founded by Judge Thomas Mellon and his sons Andrew W. Mellon, later Secretary of the Treasury under Warren G. Harding, and Richard B. Mellon as T. Mellon & Sons' Bank. Bank of New York made a hostile bid for Mellon in 1998, but was rebuffed. Now, Bank of New York shareholders will get 63% of the new company, and Mellon's 37%.

Investors certainly see loads of promise in the deal, particularly for Bank of New York. The acquirer's stock popped 12% on Monday, even more than Mellon's 7% rise. "I think it's a very promising deal," says Roger F. Hartley, a financial institutions banker with Putnam Lovell NBF Group. "It creates leadership in asset servicing—all the plumbing of the securities business—where there are advantages to scale."

Best Transaction Ever?

Bank of New York Mellon Corp. looks to tote $16.6 trillion in assets under custody, on top of $1.1 trillion in assets under management, making it the nation's 11th largest financial institution, with revenue in the $12 billion range. Kelly spared no hyperbole to celebrate what he said "could be the best financial-services transaction ever from a shareholder

perspective."

The deal caps a rapid rise for Kelly. He grew up in Nova Scotia, a curling and hockey fan, and went to St. Mary's University in Halifax. After getting an MBA in London, he spent 19 years at Toronto-Dominion Bank, leaving after being passed over for the top job. He joined First Union as chief financial officer in 2000 and played a key role in its merger with Wachovia.

He was considered one of the most promising CEO candidates in banking when he joined Mellon on Feb. 13 of this year. The legendary financial institution had come under intense pressure from shareholders, with one investor, Richard Grubman of Highfields Capital Management, writing in a letter to Kelly's predecessor that the bank had suffered "persistent underperformance."

Location, Location

When Kelly arrived, he pledged loyalty to the bank's hometown. He told the Pittsburgh Post-Gazette, "I think Pittsburgh is absolutely critical to the future of Mellon. I see it continuing to be the head office."

While executives at both banks emphasized they would maintain strong ties to the city, Bank of New York Mellon will be based in New York. Outsiders were skeptical that the combined institutions would keep major operations in Pittsburgh over the long term. "They will keep a monument or something there," says Ed Harmon, partner with Thorp Reed and Armstrong and head of the firm's Strategic Transitions practice.

The investment management sector has lately had a penchant for multibillion dollar hookups: BlackRock and Legg Mason took out the investment management arms of Merrill Lynch (MER) and Citigroup (C), respectively. Last month, Bank of America (BAC) took U.S. Trust off Charles Schwab's (SCHW) hands. Tarnished Boston mutual fund house Putnam Investments is on the auction bloc, while neighbor MFS was put in play, until its parent recently changed its mind.

The "Trillion-Dollar Club"

For its part, the BONY-Mellon deal will pull significant cost-cutting levers. The two banks

expect to pare total pretax costs by about $700 million a year, or approximately 8.5% of their estimated combined expense base. Some 10% of a combined 40,000 employees stand to lose their jobs over the next three years. The deal is expected to close in the third quarter of 2007.

Both Bank of New York and Mellon were at a strategic fork in the road, says Hartley: BONY needed to bone up on its modest $150 billion under management, while Mellon wanted to fatten its more than $4 trillion in assets under custody (the combined entity will scale up its global custody business to $17 trillion). Importantly, says Hartley, the deal will get the combined firm into the "trillion-dollar club" of asset managers. "Mellon was faced with a choice," says Thorp Reed and Armstrong's Harmon. "Acquire an asset manager or get out while the bidding is good."

What's perhaps most interesting is how Kelly thought it best to sell before his first anniversary at the company. Kelly, says Harmon, "obviously analyzed Mellon's portfolio and decided against a large, [dilutive] acquisition—the kind that could come back to embarrass him and the board." Instead, he opted to merge the Mellon name into what will become the world's largest asset custodian and trust & asset management player.

And as a consolation prize, Kelly will get to run the whole thing.