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India launches securities lending platform

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The National Stock Exchange of India is set to launch a dedicated platform for lending and borrowing stock, in a move that is being encouraged by the regulator Sebi.

Speaking to the UK's Financial Times, an official for the NSE said: "What we are trying to build in India is a framework for securities lending. Without lending and borrowing of stock, there is no short selling."

Despite the collapse of Lehman Brothers and the recent moves by the German Government, Indian regulators have not banned short selling at any time during the recent turmoil. However, the country's securities lending market remains in its infancy.

Short selling has been permitted for the past two years, but there have been restrictions since that time. Initially participants were permitted to borrow stocks for a maximum of seven days - this was later extended to 30 days and is now set at a maximum of one year.

"Much of the borrowing and lending activity happened in the OTC market, which wasn't suitable for institutional investors," Pramod Gubbi, head of sales at Execution Noble in Mumbai told the Financial Times.

"Not everyone is comfortable in the OTC market because there is always a counter-party risk," he said. "If you are borrowing the stock there is no guarantee for the lender you will give it back. If there is an exchange in between, I will be more confident of lending my stock in the knowledge that the exchange will help me get it back."

NEWSINBRIEF

LSE tops trading costs

Trading platform fees dominate the cost of trading on the London Stock Exchange, making it far more expensive than its national competitors, says research.

The study, carried out by economics consultancy Oxera on behalf of Euroclear UK and Ireland, shows that for large volume traders, the trading platform fee at the LSE accounts for 83 per cent of trading costs and, at 23.8 pence is considerably more expensive than its rivals, BATS and Chi-X, which both charge three pence. With a total cost of 28.5 pence compared to 7.3 pence for the other platforms, the LSE is three times more expensive.

OPES Prime director faces further charges

Laurie Emini, a director of Opes Prime Stockbroking Limited (OPSL) has been charged with further offences arising from the investigation by the Australian Securities and Investments Commission (ASIC) into the company's collapse.

Emini has been charged with 22 offences of breaching his duties as a director of OPSL and another company of which he was a director, Leveraged Capital Pty Ltd.

ASIC has alleged that on a number of occasions between July 2006 and February 2008, Emini caused the false recording of securities in the records of OPSL and Leveraged Capital so that securities were recorded as being held by more than one client at the same time.

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INSIDE SECURITIESLENDINGTIMES

Interactive Data announces enhancements to Corporate Actions Service

Interactive Data Corporation has announced new enhancements to its global Corporate Actions Service. The provider has introduced new technology and internal workflow to deliver comprehensive global corporate actions and related information throughout the day that it says can help firms with their trading strategies and more effectively manage their risk exposure across the enterprise.

The service now offers intra-day delivery every hour throughout the trading day. It is delivered via a choice of intelligent interfaces in a consistent XML format across all instruments and corporate actions announcements, including message-based publishing. The platform is designed to streamline client integration, enabling clients to easily import, track and process corporate actions. The navigation allows the user to select attributes for specific business functions, with features that can show the audit trail – key for operational risk management.

The Corporate Actions Service provides a wide range of global content, including corporate actions, dividends and capital events information for more than 65,000 companies operating in over 90 countries. And with the ever-increasing flow of information, the new platform has been designed to integrate new types of corporate actions, including complex instruments. Cross-referencing support across industry identification standards including CUSIP®, ISIN and SEDOL is provided.

"Firms need timely corporate actions data across the organisation to help understand and analyse risk exposure, to help support investment strategy, trading operations and client notifications, as well as for portfolio administration and accounting functions," said Robin Simpson, managing director, Reference Data. "Our Corporate Actions Service integrates a vast range of global data into a consistent presentation with flexible delivery and easy client integration. Clients can choose the types of data and security coverage they wish to receive and the frequency at which they wish to receive it."

SunGard launches MarketMap in the US

SunGard has launched MarketMap, a multi-asset, market data, analysis and information services solution in the US. MarketMap provides data from 160 global exchanges, news feeds and over-the-counter (OTC) sources.

It has been designed to help firms reduce market data infrastructure costs, gain transparency into exchange data usage and improve efficiencies by allowing easy distribution of data to internal employees, branches or external customers. It can also incorporate proprietary data and integrate market data with trade analytics, execution, processing and other applications.

Paul Zubulake, senior analyst at Aite Group, said: "The industry is experiencing an extreme surge in market data from all areas, with equity options showing the most significant increase. With certain over-the-counter products potentially going electronic, this will mean additional market data to process and analyse. How firms handle that market data is going to be very important in terms of the efficiencies of their networks and infrastructures to handle that flow of information."

Oliver Muhr, senior vice president, SunGard's global trading business, said: "Market data is becoming a larger and larger cost, creating greater urgency among firms to reduce the cost of infrastructure while ensuring end-consumers get the data they require when and where it is needed. As a SaaS solution with unique SMART and integration capabilities, MarketMap helps firms improve efficiencies and processes while containing the costs of their market data infrastructure."

MarketMap displays information and provides decision support tools for research, analysis, portfolio management, asset management, advisory functions and trading across the financial services industry. It has been customised for the US market with enhancements such as the integration of broker research, local news from Dow Jones newswires, and US-specific data sets, such as data on US fixed income securities. MarketMap will also be integrated with other SunGard trading and processing solutions to help firms reduce data and integration costs while increasing efficiency of data delivery for specific uses.

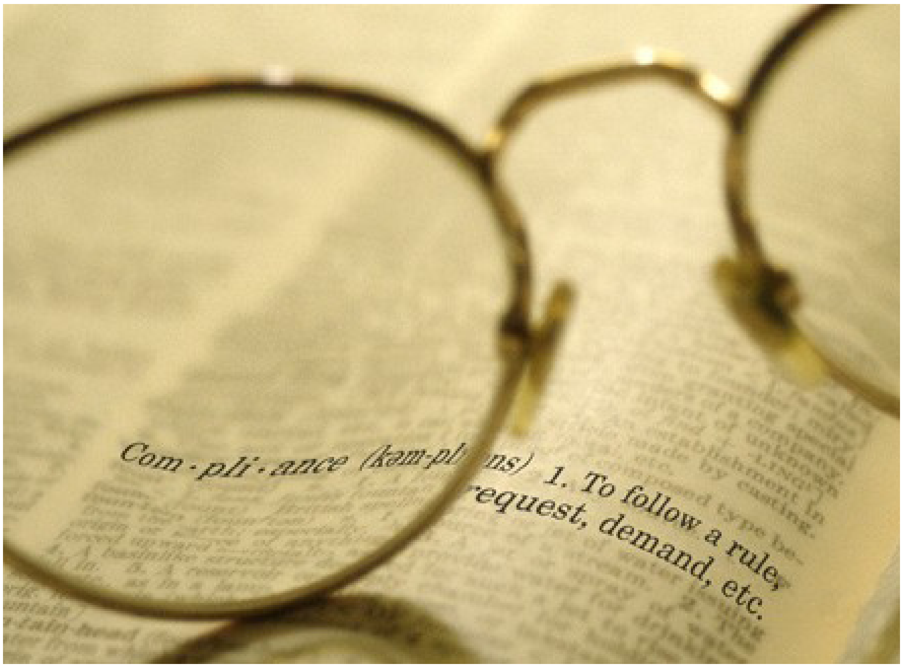
PE allocations to 'hold steady or rise'

Nearly four out of five private equity investors, or limited partners, say their allocations to the asset class would remain at current levels or increase in the coming years, while most private equity firms, or general partners, were optimistic about their future, according to new research released by BNY Mellon and Private Equity International.

The paper, entitled "Private Equity Faces the Future: Candid Views from the Market," explores the changing relationships between limited partners (LPs) and general partners (GPs) and how this evolving dynamic will impact the market.

While economic events of 2008-2009 tested assumptions about private equity performance as well as long-standing relations between LPs and GPs, research shows private equity clearly remains an attractive asset class. Still, both sides are focused on negotiating ways to address the demands for more clarity on returns, information about investments, and lower fees.

"While LPs want more private equity, they also want 'better' private equity, which means aligning their interests with GPs, as well as improved transparency and reporting," said Brian Ruane, chief executive officer of BNY Mellon's Alternative Investment Services group. "In turn, GPs need to adapt to this new environment, which started taking shape even before the credit crisis, by building a sophisticated infrastructure to service investors throughout the economic cycle."



Regulatory Round Up

The Financial Industry Regulatory Authority (FINRA) has issued a Regulatory Notice soliciting comments on a rule proposal designed to enhance oversight of broker-dealers' "back-office" operations by expanding registration requirements to individuals engaging in, or supervising, activities related to sales and trading support, and handling of customer assets.

Traditionally, FINRA's long-standing registration requirements have applied to individuals who provide advice to customers and effect securities transactions, such as brokers, investment bankers and traders. The new proposal would extend registration, testing and continuing education beyond the frontline sales force to certain operations staff who support broker-dealers' businesses. These employees perform an integral role inside the firms, and their actions can have meaningful connections to the safety of customer funds, accounts and transactions, and the overall integrity of firm books and records.

Firm employees who may be required to register under the new proposal include individuals responsible for the development and approval of valuation models; employees who manage trade confirmations, account statements, trade settlement and margin; or employees who oversee stock loan/securities lending, prime brokerage, receipt and delivery of securities, and/or financial regulatory reporting.

The proposal would provide reasonable assurance that these individuals understand their professional responsibilities, including key regulatory and control themes, as well as the importance of identifying and escalating red flags that may harm a firm, its customers, or the integrity of the marketplace or the public. **The Securities and Exchange Commission (SEC)** has previously indicated its support for the establishment of a qualification examination for back-office staff to heighten awareness of operating in a regulated environment and to demonstrate a basic understanding of the securities industry.

Testing for the new registration category would be composed of three segments: professional conduct and ethics, essential product and market knowledge, and knowledge associated with operational activities. The examination would test for general securities industry knowledge and awareness of the fact that the securities industry is heavily regulated. The continuing education components associated with the new registration category would provide competency training specific to the work performed by staff that support broker-dealer's business.

The proposal includes an exception for back-office employees who currently maintain certain other FINRA registrations or have maintained one during the two years immediately prior to registering as an operations professional. Before becoming effective, a proposed rule change must be approved by the SEC.

Germany has banned naked short-selling in shares of the country's 10 most important financial institutions. The ban will also apply to credit default swaps (CDS) on euro government bonds as well as euro government bonds.

The German Finance Ministry did not specify the names of the 10 institutions covered by the ban on naked short selling.

The move is set to be followed by Dutch authorities, with other European Union states following the moves closely, although Poland appears to be going in the opposite direction.

European Union officials have proposed that member states tax banks to raise money for a fund that would be used to manage future financial crises. The measures have met lukewarm approval from member states and banks, although the general consensus appears to be that some form of additional taxation is both a necessity and an inevitability. On a national level, some levies have already been introduced.

OPES Prime director faces further charges

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The result of this false recording was that the records of OPSL and Leveraged Capital were not a true reflection of the state of those companies' securities holdings and consequently, their respective financial positions. The value of these securities was in excess of $50 million.

ASIC alleged that in causing the false recordings to be made, Emini was intentionally dishonest and failed to exercise and discharge his duties in good faith in the best interests of OPSL and Leveraged Capital.

In January 2010, Emini was charged with four separate offences of breaching his duties as a director of OPSL and associated companies. His co-directors of OPSL, Julian Smith and Anthony Blumberg were also charged with those offences.

Emini, Smith and Blumberg appeared in Melbourne Magistrates Court last week in relation to the matter. They were ordered to attend the committal proceedings listed for 28 February 2011 and bail was extended for Messrs Smith and Blumberg.

Each offence carries a maximum penalty of five years imprisonment.

In Association

Chris Kunkle has taken the helm of the securities lending division of the RMA just as the market appears to be back on the up. But there's still plenty of work to do

SLT EXCLUSIVE

In February this year, Chris Kunkle took over from Curtis Knight as director, securities lending and market risk at the Risk Management Association (RMA). As a long term contributor to the work of the RMA, Kunkle spoke to ***Securities Lending Times*** about the work the association does, the issues the industry faces, and his hopes and plans for the future.

SLT: When you took over, what were your key priorities and objectives for the RMA?

Kunkle: I've been part of sub-committees and three executive committees at the RMA since 1994 so I've been keyed in on the areas the RMA focuses on for some time. This means it was easy for me to hit the ground running. I've also been on the other side, working for the banks and financial institutions, so I've got a good view of what the market needs.

Our first objective is to build on our work of creating communication and co-ordination between the various associations, organisations, regulators and businesses within the industry. We're working with various other associations such as PASLA and ISLA to educate regulators and members. In the last two years, there has been issue after issue that the financial markets have needed to deal with and we have been approached by regulators and institutions to increase the levels of education and understanding of the market.

SLT: The RMA is clear that it does not lobby for change. How does this affect your relationships with stakeholders?

Kunkle: Not being a lobbying organisation is a comfort to our members and the entities we deal with. The real positive is that we are seen as being less biased - our job is to get accurate information out there, whichever organisation wants it. The information is for everyone - brokers, participants, regulators and so on - and people come to the RMA because of our knowledge and experience.

SLT: How much is securities lending understood by the authorities?

Kunkle: The regulators are really trying to learn. We put on training courses for the examination staff at the OCC and the Fed, and we are doing a lot of work to educate the SEC about securities lending.

SLT: Compared to instruments such as derivatives and MBS, securities lending has flown under the radar somewhat during the recent turmoil. Is this a good thing?

Kunkle: Information is a good thing. I would hesitate to say we've been under the radar. For instance, in January 2006 the Wall Street Journal published an article critical of one aspect of securities lending and we spent some time challenging the article and educating clients and regulators.

Sophisticated clients like pension funds, public funds, endowments and mutual funds do have a good understanding of securities lending and no-one sees this as a risk-free business. They know there is an element of risk but they also understand there are ways to mitigate this - as evidenced by what happened when Lehman collapsed.

SLT: How have the events of the past couple of years affected the industry?

Kunkle: I believe the market in the US has moved from being more volume-based in the past to being value-based today. Specials and stocks with key needs are being borrowed and appropriately paid for in terms of the intrinsic value of the stock. Reinvestment is now a secondary activity.

There has been a contraction in the markets and I don't know if it will ever return to the levels we once saw. But I don't know if that's a bad thing. We are already on a slow upswing and as rates get increased, then the market will grow further.

SLT: The RMA has suggested that some of the new Basel rules may actually increase the risk within the market. Is this down to a lack of understanding of how the market works?

Kunkle: No, I don't think it's a lack of understanding. RMA has a capital working group (not affiliated with Securities Lending) that offers suggestions on proposed legislation after all the banks have met and with Basel III we just want considerations made that will keep reporting fair.

They are simply suggestions; we are not lobbying for change. But as international regulators look at the issues within our sphere we look to provide an insight into what those regulations will mean to the industry.

SLT: Within the US, cash remains the most popular form of collateral. What are your views on this?

Kunkle: You have to look at how the market has developed. In Europe, there weren't the same restrictions on collateral as in the US. In the US, SEC Rule 15c3-3 restricts the collateral that a borrower is able to provide in a lending transaction. After the liquidity crisis, the market did look at the UK model, but regulators and some clients are still learning about different collateral issues in order to gain comfort or acceptance of it. But as the Lehman collapse demonstrated, it worked well on both sides.

The RMA Executive Committee is currently working on a White Paper with a couple of external organisations on this issue. There are benefits to the US market to provide highly liquid stocks as collateral and we want to explore the impacts of any changes to rule 15c3-3. This paper will be circulated throughout the industry, including to the regulators.

SLT: And finally, what are your ambitions for the future?

Kunkle: My first ambition is to build on our relationships and communication links with associations, members, clients and regulators in the industry. We can take the lead in communicating with other organisations and communicating to the industry as a whole. Globally, all the institutions working in the market are working toward similar goals so our ability to communicate information is key.

Secondly, we want to ensure regulators have all the information they need to make the right decisions. Regulators look to us because we are not biased, so we can help them look at all the facts on an independent basis. **SLT**

Chris Kunkle is a graduate of Wittenberg University in Ohio. His career has been spent at such banks as JPMorgan and Wachovia, and Kunkle has long been a public representative of the securities lending industry. He has worked with the US Internal Revenue Service, the US Treasury Department, the Securities and Exchange Commission and, in the UK, the Inland Revenue Service.

Hong Kong

There has been a real flight to quality in this hub, but the markets are still reporting positive figures despite the downturn

BEN WILKIE REPORTS

Compared to other territories, the securities lending industry in Hong Kong has not been hit as hard by the credit crunch, and business is picking up in the first half of this year. But the number of participants has fallen, in part due to increased conservatism amongst lenders, and consolidation has meant that the big firms have got bigger, while smaller companies have disappeared from the radar.

“At the end of 2008 there was a lot of fear in the market and, while it never really stopped, the vast majority of trades were carried out on an almost risk-free basis - anything that wasn’t as conservative as possible was ruled out by all the big name firms,” says one representative of a large global bank.

“But it was more about a fear of what may happen, instead of a reaction to what actually was happening in Hong Kong and once we realised it wasn’t going to be as bad as we all thought, the market opened up a bit. 2010 has been better than 2009, and hopefully 2011 will be better than 2010. We’re still fairly risk averse, we’re keeping an eye on what happens in Europe, and particularly what happens in China and there’s still a long way to go before the market is entirely comfortable again.”

Many of the big players have said they will keep their base here as a gateway to the Chinese market

This flight to quality was reflected in the stocks that were most popular, with the largest global and Chinese stocks taking up a disproportionate share of the market. Indeed the problems affecting the banking sector and Western economies meant that traders almost invariably looked to the East.

“The collapse of Lehman pushed traders’ minds in a different direction,” says one expert. “Hong Kong has of course always had one eye on our neighbour but until 2008 we also had a big investment in Europe and the US. The pendulum has truly swung to China now, and I don’t know if it will ever switch back.”

But this is reflective of the financial markets as a whole - the chief executive of HSBC, Michael Geoghan, has recently relocated to Hong Kong from London, arguing that most of the growth is going to come from this region. But it also leaves Hong Kong in some jeopardy, as the Chinese markets begin to flex their securities lending muscles.

At the moment, Hong Kong is on top, and is likely to remain that way for some time. In part this is due to the regulatory environment for securities lending - although discussions are ongoing regarding short selling regulations, there were no temporary bans. The Chinese regulators are looking at securities lending as a

Security rankings by total daily return

Rank	Stock description	Security type
1	Industrial and Commercial Bank of China Ltd	HK Equity (HSI)
2	Bank of China Ltd	HK Equity (HSI)
3	Bank of China Ltd	HK Equity (others)
4	Alibaba.com Ltd	HK Equity (others)
5	Bank of Communications Co Ltd	HK Equity (HSI)
6	China Construction Bank Corp	HK Equity (HSI)
7	China Zhongwang Holdings Ltd	HK Equity (others)
8	China Merchants Bank Co Ltd	HK Equity (others)
9	HSBC Holdings Plc	HK Equity (HSI)
10	Byd Co Ltd	HK Equiy (others)

means to increase liquidity, but still have some way to go.

But it's not just the securities lending environment that favours Hong Kong. Already, all the big international players have a major footprint on the island, and indeed many have privately said they will keep their base here as a gateway to the Chinese market, even if they do increase their presence on the mainland. Hong Kong is up there with London and New York as one of the three major banking hubs and it seems unlikely that mainland China even wants that to change, let alone encourages it.

"Hong Kong has the history, the infrastructure and the legacy of plenty of companies established here," says one expert. "I know the Chinese are aiming to have a huge presence of their own in this market but I don't believe it will take over Hong Kong's activities. Everything is already set up, people like living here and there is a huge appetite for growth in this market."

The territory is also an attractive taxation environment for the securities lending market, with an exemption from Hong Kong profits tax for stock borrowing and lending transactions. It allows disposals and reacquisition of 'specified securities' under certain agreements to be exempt from the tax.

Essentially the conditions under which companies are exempt mean the lending agreement must be used by the borrower for a specified purpose and stock of the same description must be returned to the lender within a specified period. The lender must also receive compensation for any distributions received by the borrower. **SLT**

View from the top

As Securities Lending Times launches its first issue, our editorial advisory panel discuss the market and highlight the key issues affecting the securities lending business. In the first of a regular series, our industry leaders look at how the market has recovered and point to the vital changes we have seen, and those we still have to overcome

Justin Lawson, Publisher

BNY MELLON
ASSET SERVICING

Rob Coxon
Head of international securities lending

BNY Mellon Asset Servicing offers clients worldwide a broad spectrum of specialised asset servicing capabilities, including custody and fund services, securities lending, performance and analytics, and execution services. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation. BNY Mellon 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. It has $22.4 trillion in assets under custody and administration, $1.1 trillion in assets under management, services $11.8 trillion in outstanding debt and processes global payments averaging $1.5 trillion per day.

BROWN BROTHERS HARRIMAN

Keith Haberlin
Head of securities lending, EMEA

With 100 per cent client referenceability, compelling economics, and no collateral impairment, Brown Brothers Harriman has proven that a securities lending programme can deliver outstanding performance and robust risk management. Ranked the #1 Global Provider in the 2009 and 2010 Global Custodian Securities Lending Surveys, we provide customised third party and custodial securities lending solutions to many of the world's most sophisticated global institutional investors.

EQUILEND

Brian P. Lamb
Chief executive officer

EquiLend is a leading provider of trading services for the securities finance industry. EquiLend facilitates straight-through processing by using a common standards-based protocol and infrastructure, which automates formerly manual trading processes. Used by borrowers and lenders throughout the world, the EquiLend platform allows for greater efficiency and enables firms to scale their business globally. Using EquiLend's complete end-to-end services, including pre- and post-trade, reduces the risk of potential errors. The platform eliminates the need to maintain costly point-to-point connections while allowing firms to drive down unit costs, allowing firms to expand business, move into different markets, increase trading volumes, all without additional spend. This makes the EquiLend platform a cost-efficient choice for all institutions, regardless of size.

eSECLENDING
SECURITIES FINANCE TRUST COMPANY
CELEBRATING 10 YEARS

Peter Bassler
Managing director

eSecLending is recognised as a leading global securities lending agent servicing sophisticated institutional investors worldwide. The company's approach has introduced investment management practices to the securities lending industry, offering beneficial owners an alternative to the custodial lending model. Its philosophy is focused on providing clients with complete program customisation, optimal intrinsic returns, high touch client service and comprehensive risk management. Its process is to begin each client's programme with a competitive auction to determine the optimal route to market for different portfolios or asset classes, whether it is via agency exclusives or traditional agency lending. This differentiated approach facilitates best execution while delivering greater transparency and control, allowing clients to more effectively monitor and mitigate risks.

Northern Trust

Sunil Daswani
International head of client relations

Northern Trust is a leading provider of asset management and asset servicing solutions for corporations and institutions worldwide.

Northern Trust began lending securities for its clients in 1981, and today offers 24-hour trading in close to 50 markets across four trading locations. Its aim is to optimise returns to clients' portfolios through customised lending programmes in the context of thoughtful risk management, and without impacting clients' investment strategies.

STATE STREET.

Peter Economou
Executive vice president, global head of securities finance

State Street Corporation (NYSE: STT) is one of the world's leading providers of financial services to institutional investors, including investment servicing, investment management and investment research and trading. With $19 trillion in assets under custody and administration and $1.9 trillion in assets under management at March 31, 2010, State Street operates in 25 countries and more than 100 geographic markets worldwide.

SUNGARD®

Craig Costigan
Executive vice president, general manager SunGard Securities Finance Software division

SunGard is the third largest provider of business application software, and customers all over the world rely on SunGard to fulfill their securities finance business needs. SunGard provides a comprehensive suite of securities finance solutions, from trade initiation through to final return; including order routing, trading, position management, operations, accounting, settlement, transaction analytics and benchmarking and trade automation services. With over 20 years experience SunGard has a global linked community of securities finance users. 17 out of the world's top 20 banks use one or more products from SunGard's suite of solutions for securities finance. SunGard's securities finance technology suite includes Apex, Astec Analytics, Global One, Loanet and Martini.

QUADRISERV

Greg DePetris
Co-founder

Quadriserv is a leader in delivering transformational market structure changes to the securities lending industry. Quadriserv, through its wholly owned subsidiary, Automated Equity Finance Markets, Inc, has developed the AQS® market for securities lending. AQS, through its relationship with The Options Clearing Corporation, has created a centralised market for securities lending transactions. As a FINRA member broker-dealer and a SEC regulated Alternative Trading System (ATS), AQS aims to maximise liquidity, access, credit and transparency, while mitigating systemic risk, through a fully automated trading environment.

SLT: Following a turbulent couple of years, how has the industry picked up since the beginning of the year? What lessons has it learned?

Keith Haberlin: Though certainly a challenge to many programmes, the credit crisis and the Lehman default led to some very positive developments for the securities lending industry, specifically the renewed focus on fundamentals. There is a more widespread understanding of the components of securities lending revenues, and an acknowledgment that, as with any investment activity, there is a trade-off between risk and return. Beneficial owners have placed more focus on the importance of collateral reinvestment and counterparty credit monitoring practices, alongside general programme oversight.

Importantly, the move back to fundamentals has meant a move to derive returns from the intrinsic value of assets as opposed to collateral reinvestment, and many beneficial owners have recognised a need for specialist providers. While previously agents may have been selected based on an existing custody relationship or the ease of using one provider for multiple services, agents are now being selected based upon their merits as a lending agent, which makes more sense both from a performance and risk perspective.

Rob Coxon: Certainly, increasing numbers of clients are returning to securities lending, having previously scaled back or in some cases suspended their involvement. Re-entrants are typically adopting stricter parameters if they are in cash, or indeed even on a non-cash collateral basis. They are typically either restricting collateral acceptability types, putting on lending caps per counterparty and per asset type, or restricting lending to certain counterparts. If they are particularly conservative, they will be holding a significantly higher level of liquidity, with 40-50 per cent in repo. In terms of attitudes, what people are focusing on, the balance has clearly shifted towards mitigating risk ahead of merely chasing returns.

Volumes have normalised back around 2002-2003 levels, and I don't think anyone would dispute that it will be a long time before they once again hit the peaks seen in 2008 and early 2009. But if supply has contracted – which it has, to the tune of 15 to 20 per cent – then borrowing has dropped far more steeply, by as much as 50 per cent, so supply still outstrips demand.

Of course it is not just about volumes, it is also the low spread, low interest rate environment we are in – so there is a definite double-whammy at play. That said, global equities are a bright spot – if you have a diversified portfolio that encompasses GEs, then things are holding up better. But overall there is a strong sense the industry feels the 'storm' is over; mostly their concerns had been exacerbated by the short-selling bans we saw, which have now variously been lifted or clarified – although of course Germany has put such bans back in the headlines.

The lessons to be drawn from all of this are variously: know your counterparty; there has been a clear flight to quality, size matters; ensure you review and are totally familiar with all aspects of your programme, procedural, risk, reward, process and documentation; and a cookie-cutter approach to business conducted on this scale simply doesn't work and only serves to introduce a layer of complexity and operational risk, which runs contrary to the wider goals of the industry.

Peter Economou: Decreased liquidity, increased regulation, deleveraging of hedge funds — the effects of the financial crisis have all changed the face of securities lending. Encouragingly, though, the renewed focus on risk and transparency has ignited a movement toward industry-wide standards, which will transform the way portfolios are built and how risk is managed. This new emphasis will help the industry to develop better programmes, more innovative products, and, ultimately, stronger relationships between agent lenders and beneficial owners.

Peter Bassler: The securities lending market improved significantly over the last several months as the industry continues to evolve and beneficial owners become better educated about securities lending and the associated risks. With liquidity in short term markets continuing to improve, short sale bans lifted across most markets, borrower credit risks and CDS spreads declining, many lenders who had previously suspended their programmes have now returned to the market, and many others are placing a renewed focus on the product and are planning to re-engage in the coming months.

> Haberlin: agents are now being selected based upon their merit as a leading agent

The market perception of lending continues to shift toward viewing the product as an investment and trading function rather than a back office custodial product. When you evaluate the activity, it is clear to see that it encompasses two separate and distinct skill sets; lending (financing and repo activity) and collateral management (investment management function). Each performed differently following the events of 2008. While most cash collateral portfolios experienced significant challenges, the lending component withstood the Lehman default, which is largely attributed to the fact that securities lending is a collateralised transaction. As a result, beneficial owners are now, more than ever, focusing on generating returns from the lending side of the transaction (intrinsic earnings) rather than potential returns from the reinvestment of cash collateral.

Agents' client service models were tested during the crisis and those who took the approach of open and timely communication fared better than those who were slow to respond. Many agents have been enhancing their offering since the crisis with a particular focus of interpretation of data, risk management analytics and overall programme reporting. In addition, developing a customised programme structure in accordance with each beneficial owner's specific objectives and risk/return tolerances is essential to a successful partnership. Some lenders may want intrinsic only returns while others may have the goal of achieving high balances. Once the strategy and parameters are defined and the lender and agent are in agreement, agents must monitor revenue attribution and programme compliance to ensure client imposed guidelines are adhered to and programme goals are aligned. This is an important part of programme oversight.

Greg DePetris: The turbulence of the past few years highlighted a series of common challenges that many industry participants faced, and has trended into a down market for securities lending generally (on a volume and activity basis). Down markets are historically a good time for reflection, introspection and retrenching or repositioning around new ideas. The industry appears to have come to terms with the fact that there are dramatic misconceptions among outsiders when it comes to what securities lending is and how it works, and is beginning to take steps to address those issues.

Craig Costigan: Indeed turbulent times, and still ongoing, although from the market data to which we have access (Astec and Loanet) we can see that volumes are gradually on the up, as are returns from securities lending programmes. In the last year beneficial owners were paid $14 billion plus in revenue by their securities lending programmes, so there is still sizeable income to be made, which is particularly welcome in these low interest times.

As to lessons learned, number one has to be the practical demonstration of the fact that this is a truly global business, and that impact in one part of the world has a profound knock-on effect in others. The need to have a more global view of key business indicators in order to put the management in a better position to respond to major changes in market conditions has never been as clearly understood. This means that many firms are reviewing their structure, processes and IT solutions in order to put them in a stronger position to respond more effectively to changing global demands. Within the securities lending world the presence of counterparty risk, and also re-investment risk have been more evident than ever before, resulting in an increased focus on risk mitigation through collateral management and the importance of intrinsic value lending has been re-established.

Sunil Daswani: The first quarter of 2010 brought stability to the securities lending markets. We anticipate continued market stabilisation as markets are widely anticipated to normalise for the remainder of the year. From an equity perspective, the seasonal demand for European equities has been robust over the past several months with strong spreads on high intrinsic value securities. Further, the loans for traditional general collateral have gradually increased. From a fixed income perspective, we continue to see an ongoing softness in the demand for government / sovereign debt issues due to the record debt issuance over the past 18 months.

There were two key themes to come out of the economic crisis that started in the summer of 2008 both from a risk agenda perspective: a need for better client reporting and a need to re-educate many industry participants. To respond to these changes, Northern Trust introduced several reporting enhancements including a new Securities Lending Block on their Northern Trust Passport® homepage which allows for quick access to key information about our client's lending programmes with a particular focus on the provision of risk-related information.

> Costigan: this is a truly global business, and that impact in one part of the world has a profound knock-on effect in others

In terms of education, Northern Trust places a strong emphasis on regularly meeting clients to discuss their changing needs and focus, their performance in the lending programme and providing an update on the current market environment. Following the financial crisis, these regular meetings have become critical to ensuring our clients understand the risks and rewards of their securities lending programme. Additionally, we write and publish regular market updates, trading commentaries and thought leadership articles to clients around the world. This education process continues today and includes focus on key industry conferences, active industry groups such as the Pan-Asian Securities Lending Association (PASLA) and the International Securities Lending Association (ISLA).

Whilst there remains a degree of uncertainty in the industry, the changes that resulted in the post-Lehman period are encouraging for the future of securities lending.

SLT: What are your predictions for the industry for the rest of the year?

Coxon: In a nutshell, more of the same. GC volumes will continue to grow steadily, with an increased appetite around Euro cash collateral as opposed to US Dollar cash. Corporate activity will remain low-key, which will mean a lower than average number of 'specials'. Conversely, there will be more 'exclusives' coming to market, notably in new emerging markets such as Taiwan. I also expect to see the trend for securities to pay scrip dividends to continue, which will fuel lending opportunities. Also, keep an eye on ETF lending – it's a business that seems to have suffered from a perceived lack of liquidity, and although that is changing, demand still appears to outstrip supply right now and returns are attractive.

Haberlin: While supply has returned to the market, demand is temporarily down as volatility, short interest, leverage and M&A activity remain below pre-crisis levels. However, when demand factors like hedge fund leverage and M&A activity increase, returns will be extremely interesting for lenders.

The other significant factor that will have a bearing on demand and supply is regulation. Regulators have taken the time to better understand the business and have acknowledged the importance of lending to the capital markets. I hope any new regulation will not be unduly burdensome for the supply side of our business as after all, they have a choice whether to lend or not. As regulations impacting broker dealers and hedge funds become clearer this should remove some of the current uncertainty, which is undoubtedly behind the reduced demand to borrow securities.

Bassler: The securities lending landscape continues to evolve. The impact of SEC imposed short selling restrictions, amendments to Rule 2a-7 and GMSLA modifications remains uncertain as we looks toward the end of 2010. Borrower demand has increased in areas such as emerging markets, ETFs and M&A activity in certain markets. Supply continues to increase as certain beneficial owners are re-engaging after temporarily suspending their programmes. We have also seen record volume of RFP/RFI activity in the market and based on discussions with beneficial owners and consultants, many more searches are expected over the next 12-18 months.

As previously noted, the industry is showing a renewed focus on intrinsic returns and developing customised solutions for clients. The increased focus on counterparty risk management and view of securities lending as an investment management product rather than an operational function tied to custody has encouraged beneficial owners to more explore alternative routes to market. As a result of these trends, we expect to see increased unbundling of securities lending, custody, and cash management. These trends have already been underway for several years but we expect they will only accelerate as a result the increased focus on securities lending.

Economou: With risk and transparency now at the forefront of investors' minds, the securities lending industry will return to a back-to-basics approach — transforming everything from risk models and reporting to investment approaches and customer relationships. Beneficial owners will dedicate additional time and resources to regularly re-evaluate their lending programmes, including risk exposure, counterparty restrictions and indemnification arrangements. Discussions about risk will take center stage, with revenue as a secondary focus.

From this point on, beneficial owners want to be assured of an agent lender's ability to identify and measure a variety of risks — specifically counterparty risk and collateral investment risk — while having the flexibility to tailor their programmes. With this in mind, greater value will be placed on transparency in their lending activities and collateral portfolios.

Lack of this kind of transparency has made it difficult for beneficial owners to assess the potential for exposure to latent risks and to carry out their internal processes. To that end, there is an urgent need to implement a single, market-wide standard on reporting metrics, particularly risk reporting. In addition to requiring an agent lender to measure risk and performance, beneficial owners want them to provide an in-depth analysis of the counterparties with whom they do business.

DePetris: We're seeing our Members experience a gradual move through and out of the down cycle. While the market continues to gyrate, we'd expect the likely release of client-facing products and services from multiple sources that speak to the topical buzzwords of the last two years: transparency, efficiency and risk mitigation. Secondly, we'd predict that there becomes more of a consensus view around the definition of a 'risk-adjusted return' from securities lending, and continued pressure from end-users to view the lending process more and more as an asset management function.

> Bassler: beneficial owners are re-engaging after temporarily suspending their programmes

Costigan: The changes, and challenges, will continue, although it is our sense that organisations are now more on the offensive than the defensive, and are looking at how to re-align their business to take advantage of new opportunities. Asia is clearly and area of extended interest and many organisations are gearing themselves up for expansion in the different Asian countries, many using HK as a regional hub, not only for trading activity but also from an operations perspective.

The fact that further regulation is on the way no-one would question. How that will look is still not clear, and in counterpoint to the previous statement regarding the global nature of the business, one of the difficulties is that regulators in the different areas of the world still feel it necessary to add their own interpretation to globally agreed 'standards' and this can lead to process and system challenges with adherence to regulatory requirements. As a solutions developer who already facilitates much of the extensive regulation around customer protection in the US markets (particularly relevant to broker/dealers and margin account management), we understand well the complexities and nuances that exist in demonstrating regulatory compliance. We anticipate that naked-short restrictions, short sale reporting, circuit breakers, the need to maintain liquidity and collateral buffers and other regulatory controls become more mainstream in the securities lending markets around the globe.

The increased focus on risk, which clearly extends to many types of risk but which, following high profile defaults in the market, counterparty risk comes under particular scrutiny, means that there is great strain on many banks collateral management programmes, and this has highlighted the need for a new approach. The rise in instrument complexity and trading volumes has signalled the need to update the techniques and systems used to manage the collateral process. Firms are shifting from a reactive approach to a far more proactive and predictive approach in order to prevent disputes and to foresee and respond quickly to potential risks and exposures. We are also seeing collateral management coming into focus from the perspective of balance sheet preservation and best use of assets, propelling collateral management into becoming a profit centre rather than the traditional cost centre and operational support role that it previously occupied.

Economou: discussions about risk will take centre stage, with revenue as a secondary focus

Sunil Daswani: For the remainder of 2010, risk management remains the focus. Northern Trust will remain diligent in monitoring market and political conditions, and particularly watchful of signs of increasing interest rates. We are conscious of the need to capitalise on the intrinsic demand for our clients' securities while maintaining adequate spreads through our cash reinvestment practices for those clients who accept cash as collateral.

We are also closely monitoring several key indicators of potential future demand, including the balance sheets of borrowers and corporate events such as mergers & acquisitions (M&A), capital raising and initial public offerings (IPO). Feedback suggests that improved access to capital, record levels of cash on balance sheets earning low interest levels, and increasing market confidence could all be the catalysts for an increase in M&A and IPO activity throughout the remainder of 2010 and beyond. This activity has historically been a strong source of borrower demand and could help build loan balances at enhanced lending spreads.

With regard to supply, the initial decline of availability in late 2008 has generally reversed course as some clients have resumed lending and new clients have joined the lending programme at Northern Trust.

SLT: What are the key issues that you feel Securities Lending Times should be covering over the coming months?

Daswani: Securities Lending Times should focus on the main topics of interest over the past 18 months, including the various forms of acceptable non-cash collateral and the importance of the Global Master Securities Lending Agreement, but it should also focus on the future changes to the industry such as cash collateral indemnification, emerging markets, and political and economic instability.

Bassler: The industry would benefit from more coverage of the following:
- Regulations affecting the industry
- Developments in non-traditional lending markets
- General industry trends
- Organisational news of key firms
- Discussion on how beneficial owners evaluate and select agents.

Haberlin: The business case for a CCP, impact of regulations on the industry and the future for collateral types.

Coxon: The overuse and misunderstanding of the word indemnification. Read your contract. One size doesn't fit all and consultants and clients need to engage with their providers much more fully to work through the issues and merits of what is on offer.

The shift back to discretionary programmemes.

The decoupling of securities lending from the overall revenue dynamic of a relationship – will we return to a holistic market level for the pricing of lending services where added protection is priced as well?

Some other issues: the move towards an intrinsic value approach to lending; the trend to outsource to custodian or specialist third-party lenders; the growing demand for tri-party; the emergence of a core coterie of 'key' prime brokers on the demand side.

Economou: I would like to look at:
- Consolidation of smaller lenders
- The changing regulatory environment and new requirements for disclosure, transparency, risk calculation and infrastructure.

DePetris: Through the editorial and issues selection process, it would be ideal if a publication such as this could contribute toward helping the industry craft a simplified, standardised narrative message to the broader financial industry and the public generally.
- Clear definition of the multiple routes to market for borrowers and lenders
- Clear definition of risks, returns and the variable effects of each given a particular route to market
- Clear explanation of the positive and necessary effects of both lending and borrowing on financial market liquidity generally.

Costigan: There are a number of issues:
- Electronic market places/central counterparties – do the benefits outweigh the effort?
- What changes in market practice does new regulation bring (per jurisdiction)?
- Data transparency is here – is the industry making best use of it?
- Is Collateral Manawgement a cost centre or a profit centre?

Daswani: the initial decline of availability in late 2008 has generally reversed course

The changed, and converging, roles of the prime broker and global custodian
Does the industry have the IT solutions it requires to service its needs?
Has the time come for industry associations to play a more pro-active role?
How has the risk/reward balance changed and how can it be demonstrated?
What impact have recent changes had on the structure of financial institutions…and how does the structure of a global bank look today?
New Basel II Liquidity measures, how are these being addressed? **SLT**

Securities Lending Times will be covering the issues raised over the coming weeks

The 19th Annual International Securities Lending Conference

Date: 22-24 June 2010
Location: Berlin, Germany
Website: www.afme.eu/isla2010

ISLAs' International Securities Lending Conference will be held from 22 to 24 June 2010 in Berlin. Now in its 19th year, this is the only event of its kind in Europe attracting in excess of 400 senior market participants from banks, broker dealers, asset managers, pension funds, hedge funds and policy makers.

IMN's 2nd Annual East Coast Beneficial Owners' Securities Lending Summit

Date: 28-29 June 2010
Location: Boston, MA
Website: www.imn.org/seclending2010_slt

In February 2010, IMN`s Sixteen Annual Beneficial Owners' Securities Lending Summit attracted over 115 Beneficial Owners to North San Diego, California, where they candidly discussed the profound effect that global events have had on their Securities Lending programs.

IMN's 15th Anniversary European Securities Lending Summit

Date: 20-21 September 2010
Location: London
Website: www.imn.org

In September 2009, more than 250 attendees and 60 Beneficial Owners participated in IMN's 14th Annual Beneficial Owner Securities Lending Summit. Leading European decision-makers discussed important issues confronting Beneficial Owners and the Securities Lending industry at large.

27th Annual RMA Conference on Securities Lending

Date: 12-14 October 2010
Location: Boca Raton Resort & Spa in Boca Raton, Florida
Website: www.rmahq.org

The Boca Raton Resort has always been one of our premier conference locations. It was the site of the very first RMA Conference and continues to be the foremost favorite venue. We know you'll enjoy the newly renovated Boca Beach Club. It is quite a dramatic transformation!

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60 Second Resumé

John P Giovinazzo

Meet John P Giovinazzo from New Jersey, a highly motivated, goal-oriented stock loan professional with experience on the trading desk who is widely recognised for having creative solutions to securities lending problems.

What industry qualifications or relevant certification do you hold?

I was NASD licensed with a Series 7, Series 6, and Series 63 through to February 2010.

What was your last position in the industry and what did you enjoy most about it?

As bad as the market has been, I was fortunate to briefly land a consulting position at UBS covering CNS buy-ins. I really enjoyed the ability to creatively solve problems, create PnL, and prevent risk exposure. For example, in preventing a buy-in, you are potentially unlocking sources of supply when you discover and question the long holders on the other side. Additionally, this position allows you to turn an expensive PnL fail to receive into a profitable loan because you track down and determine demand for a particular security.

What area are you looking to get back into?

I have pending opportunities on two stock loan desks. I am fortunate to have made some connections over the years with contacts that have provided assistance and I sincerely appreciate their continued efforts

.

What do you feel you could bring to a future role?

I am one of the most unique problem solvers in the industry. Indeed, traders are typically told that operations cannot solve their problem and many traders think they have to move their book by two or three hundred basis points to solve a challenging problem. That's not always the case and someone with my unique background can potentially solve creative stock loan problems using unconventional methods that are less costly.

And that's just the beginning. My proven track record and creative thinking is a clear indication that I can create more profit opportunities for a securities lending desk. I just need to have the opportunity.

What do you feel the industry needs most?

Clearly there are inefficiencies in the pricing of securities lending transactions. For all the talk of transparency, this will mean very little if supply is pushed at rates that are higher or lower simply based on calls coming in. While this is some measure to gauge market interest, it is haphazard at best. There are ways to increase efficiency that are just not being utilised and as long as liquidity issues are not present for a given name, profits are clearly being missed by some prime brokers relative to those that are capitalising on such mispricings.

Contact John

Please extend a LinkedIn connection and I will send you my cell phone number.

Industry Appointments

Patric Foley-Brickley has been appointed as a director of **Amaces**. He will have responsibility for business development and relationship management. Foley-Brickley's primary focus will be institutional investors based in Europe and the Middle East. He has in the past held senior business development positions at Citibank and JP Morgan.

Vasundhara Pradeep has been appointed head of prime consulting Asia Pacific at **Credit Suisse**. Pradeep will lead Credit Suisse's efforts to provide its hedge fund clients with consultancy services in business-critical areas such as infrastructure, technology and talent. She joins Credit Suisse as a director, based in Hong Kong, and will report regionally to Kevin Meehan, head of prime services coverage Asia Pacific, and globally to Jeremy Siegel, global head of prime consulting, in New York. Pradeep joins Credit Suisse from UBS, where she had been a director in prime brokerage sales and business consulting.

Dr Hua He has taken on the new role of head of equities, China at **Nomura**. Dr He moves to the role from the position of head of equity research, Asia ex-Japan. Dr. He will be responsible for all China-related equities business activities, from both a product and client perspective, and will report to Rachid Bouzouba and Zhizhong Yang, chairman and CEO, China Region. He will also retain his current role as head of fixed income research, Asia ex-Japan.

Prime Fund Solutions (PFS), the prime brokerage division of Fortis Bank Nederland, soon to be Credit Suisse has made a series of new appointments. New members of the team include; **Jay Moghe, Martin Lui, Jason Ganz and Stephen Kane**.

Jay Moghe has joined PFS' Singapore office as deputy managing director in charge of sales and relationship management. Beginning his career in London, but now settled in Singapore, Moghe has over 20 years of experience in financial markets, the last eight of which have been within the hedge fund space. Moghe previously founded Asian Alternative Consulting after senior positions at OPAM/Stork Capital and APS Asset management.

Martin Lui has taken on the role of director of client services and operations in Singapore. Lui also has over 20 years of financial services experience, most recently in the Alternative Fund Services division of Citibank N.A in Singapore.

Jason Ganz has been appointed vice president of sales and relationship management in the New York office. Ganz previously worked at Sungard in the securities finance group following four years at Banc of America Securities prime brokerage business.

Stephen Kane will be managing the continuing development of middle office services for PFS' single manager hedge fund clients. Kane was a founding partner of OpHedge Investment Services after a successful career working at a number of large hedge fund firms including Oak Hill Platinum Partners and Long Term Capital Management.

Send your latest recruits to editor@securitieslendingtimes.com