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TUESDAY

IA Englander buys Alaris

NEW YORK 12 11.2010

Brokerage firm Alaris has been acquired by IA Englander. The terms of the transaction, which is subject to review and approval by the Financial Industry Regulatory Authority (FINRA), were not disclosed.

One of the largest independent US derivatives brokerage firms, IA Englander serves clients throughout the United States, Canada, Europe, Asia and Latin America. IA Englander's core options execution business represents a significant share of the daily traded contracts on the American Stock Exchange, the Chicago Board Options Exchange, and NYSE Arca Options.

Alaris provides institutional brokerage services to hedge funds, asset managers, and registered investment advisers across the United States. Through strategic alliances with major securities industry firms, Alaris offers clients a broad selection of services that includes direct access trading, multi-prime brokerage, financing, institutional reporting, capital introductions and agency execution. Alaris will operate as Englander Alaris Prime Services, a division of IA Englander.

"Moving into prime brokerage has been a carefully planned and structured step involving nearly two years of preparation," said Stephen R. Tobias, co-founder and president of IA Englander. "We were determined to enter the market with a highly differentiated service offering that would be the result of working with best-of-breed partners, and Alaris is such a partner. It is a well established, fast growing firm with a very strong management team, an enviable track record and more than 200 clients across the country. It has the same philosophy, the same mindset as we do, and by combining what it has built with our trading technology, you have a platform that becomes very scalable when you consider the services the combined firm will offer.

"In shaping our approach to multi-prime services, building custodial and clearing relationships with major institutions and putting in place risk management systems were key considerations.

read**more p2**

NEWSIN**BRIEF**

Första AP-fonden sues BNY Mellon

Första AP-fonden has filed a lawsuit against Bank of New York Mellon with the Commercial Court in London.

The lawsuit has been filed in response to losses suffered by Första AP-fonden in the region of US$35.5 million (equal to around SEK 230 million) during 2008 as a result of investment decisions taken by BNYM on Forsta AP-fonden's behalf. On 19 November 2009, BNYM made a deduction of approximately US$35.5m from the Fund's managed account in respect of these losses. This deduction, which the Fund considers to have been made wrongfully, is shown in the Fund's annual reports for 2008 and 2009, and in the Fund's earnings for 2008.

read**more p2**

ASIC to improve margin lending disclosure

ASIC has released regulatory guidance that aims to improve protections for retail clients through better disclosure of non-standard margin lending facilities.

Non-standard margin lending facilities are margin lending arrangements that use a type of 'securities lending' agreement instead of a loan agreement. Until 2008, non-standard margin lending facilities were used by companies such as Opes Prime Stockbroking Limited and Tricom Equities Limited.

read**more p2**

INSIDE SECURITIES**LENDING**TIMES

IA Englander buys Alaris

continued from p1

We established relationships with J.P. Morgan, Jeffries and Merrill Lynch, and we sought technology that would allow us to monitor our clients in real time, offering them real time risk management and portfolio management systems. Wrapping this infrastructure around what our firm has always done well – customer service and being the low cost service provider – results in a very attractive service offering."

"This is a tremendously important step for us," said Patrick Boyle, Alaris CEO and co-founder. "IA Englander's trading technology and high profile gives us a service offering that positions us to compete for larger clients. Our success has been based on enhancing what is usually a fairly commoditised platform by introducing prime brokerage with a real concierge approach – everything from helping a start-up manager find other service providers and assisting with marketing materials to providing capital introductions."

ASIC to improve margin lending disclosure

continued from p1

ASIC deputy chairman, Belinda Gibson, said the key difference between standard and non-standard margin lending facilities is that in a non-standard margin lending facility, ownership of the securities under the margin loan passes to the lender and may pass to the lender's financiers. This can create significant risks for investors.

"Given the complexity and risk inherent in non-standard margin lending facilities, investors need to be in a position to assess whether these types of products are likely to be appropriate for their investment objectives, needs and risk profile," said Gibson.

RG 219 Non-standard margin lending facilities: Disclosure to investors outlines the information that ASIC expects a provider to include in a Product Disclosure Statement (PDS) for a non-standard margin lending facility. These requirements include:

How the product differs from a standard margin lending facility an explanation of the transfer of securities from the client to the provider of the facility and the risks associated with that transfer

A clear warning to the client of their responsibility to monitor the margin under the facility, and an explanation of the tax consequences of the transaction, together with a stark warning that the client should seek tax advice before entering into the transaction.

"While this guidance can't prevent investments failing, improved disclosure will help retail clients make better risk–reward decisions," Gibson said.

Första AP-fonden sues BNY Mellon

continued from p1

Första AP-fonden considers that the investment decisions which were taken by BNYM in its capacity as the Fund's securities lending agent, and which related to the investment of collateral in notes issued by Sigma Finance Inc, were negligent and in breach of the Fund's investment guidelines (Sigma went into receivership in October 2008).

"We have been trying to come to an agreement with BNYM for some time, unfortunately without success. We therefore see no option other than to file a lawsuit in order to have this matter resolved by the court. We believe that BNYM have a case to answer and we have confidence in the merits of our position," says Johan Magnusson, managing director of Första AP-fonden.

Eurex to launch new dividend futures

Eurex has announced that it will offer futures contracts based on dividends of leading Swiss companies starting on 30 November 2010. The new contracts are based on dividends from ABB, Compagnie Financière Richemont, Roche Holding, Credit Suisse Group, Nestle, Novartis, Schweizerische Rückversicherungs-Gesellschaft, Swisscom, UBS and Zurich Financial Services. All underlying firms are part of the Swiss blue-chip index SMI.

"The listing of our new Swiss single stock dividend futures reflects the growing demand by investors for exchange-traded and centrally cleared products. Based on the success of our listed dividend futures, our customers have expressed further interest in Swiss-based contracts. Our new offering enables investors to participate in the performance linked to the dividend element of major Swiss companies", said Michael Peters, member of the Eurex Executive Board.

The specifications for the new contracts will be similar to the existing dividend products. In order to offer continuous quoting and thus support trading, a designated market making scheme will be offered from day one for the Swiss single stock dividend futures. Eurex will list annual contracts in Swiss franc in each name from December 2010 out to December 2014.

Introduced in June 2008, Eurex's dividend derivatives product suite trades more than 18,000 contracts daily. Almost 3.8 million contracts have been traded in 2010 so far. Open interest stands at 1.3 million contracts currently, representing more than 8.2 billion euros of notional dividend value.

Merlin to take on Canada

Merlin Securities has launched operations in Canada after receiving approval from the Investment Industry Regulatory Organisation of Canada (IIROC) to operate as a Dealer Member. This has led to the appointment of Daniel Dorenbush as CEO of Merlin Canada Ltd.

Merlin Canada will offer custody and clearing through the National Bank Correspondent Network (NBCN), a subsidiary of National Bank Financial, in addition to Merlin's current roster of US clearing and custodial options.

"We are delighted to have Daniel on board and to be working with NBCN, the Canadian leader in third-party and brokerage services," said Aaron Vermut, co-founder and COO of Merlin and chairman of Merlin Canada Ltd. "As the first and only introducing prime brokerage services company in Canada we see a significant opportunity both for Merlin and for Canadian managers. We have more than 500 hedge fund clients in the

US and one priority – to provide the technology and services that enable our clients grow to their businesses. We look forward to bringing our innovative product suite to Canadian hedge funds."

As CEO, Dorenbush will be responsible for introducing prime brokerage services and technology solutions to Canadian alternative investment managers. Merlin intends to bring its industry leading proprietary portfolio reporting, trading, and technology solutions to this new marketplace.

"The Canadian prime brokerage landscape is very different from that of the United States," said Dorenbush. "Apart from the largest Canadian banks, there are no significant competitors in Canada and certainly none who offer Merlin's combination of cutting-edge technology, trading execution, capital introduction and custody solutions. In this way, Merlin's entry into the market is a potential game-changer. I'm truly excited about the opportunity to provide Canadian managers with the same tools and competitive advantages that Merlin's US clients have."

"Merlin Securities is an acknowledged leader in its domain and we are very pleased to contribute actively to its future success," said David Burnes, executive vice-president and chief operating officer of NBCN. "This decision further establishes NBCN as the leading provider within the Canadian clearing marketplace. NBCN's flexible service model and national footprint work well with Merlin Securities' business model and future growth plans."

The new ICMA region

The International Capital Market Association (ICMA) has launched a new region within its organisational structure, which will be based in Moscow and represent its member financial institutions in Russia and the CIS states. In recognition of the increased importance of financial markets in Russia and the CIS, and in response to the initiative of the Russian government to establish an important financial centre, ICMA's Board has established a new Russia and CIS region of the membership with its own committee.

In the Russian market ICMA has been actively supporting technical advances for a number of years through its close cooperation with the National Securities Market Association (NSMA). Amongst other initiatives, it has assisted the NSMA over the past 10 years in developing the Russian domestic repo market based on its experience in the international repo market and with the Global Master Repurchase Agreement (GMRA), the most widely used documentation for international repo market transactions.

The Association's membership in Russia and the CIS has continued to grow during this time. Speaking to an audience of senior bankers and government officials at an event in Moscow held today to launch this new initiative Hans-Joerg Rudloff, Chairman of ICMA, said: "We believe strongly that, in partnership with our Russian members and the Russian security associations, our long experience in the development of cross-border securities markets can be harnessed to benefit progress in bond markets in this very important and fast growing region." Martin Scheck, chief executive of ICMA commented: "This change to our established regional structure giving prominence to the strategically important market of Russia and the CIS strengthens our commitment to supporting and contributing to well functioning capital markets in the region".

For over 40 years ICMA has played a major role in the development of international capital markets and has a broad membership of 400 market participants with institutions, comprising government issuers, central banks, investments banks, commercial banks, universal banks, private banks, sovereign wealth funds, brokers, asset managers, exchanges and infrastructure providers from 47 countries worldwide. ICMA is the preferred partner for dialogue by regulators and other government entities in charge of the securities business in general and capital markets in particular.

RMA warns SEC against proxy voting changes

The Risk Management Association's (RMA) Committee on Securities Lending has called on the Securities and Exchange Commission to support further study of "empty voting" before making changes to the proxy voting system. The SEC sought comments on its Concept Release on the U.S. Proxy System issued in July 2010.

In response, RMA director of securities lending Christopher Kunkle and executive committee chairman Michael McAuley submitted an interim white paper describing a study being conducted by the Center for the Study of Financial Market Evolution (CSFME). Preliminary results of the study find no evidence to support "empty voting" cited by two academics.

In their October 20 comment letter to the SEC, Kunkle and McCauley referenced additional study being done "to obtain further evidence of this process before embarking on a costly and potentially disruptive revision of the proxy system."

Kunkle and McAuley also commented on an SEC proposal to require disclosure of a shareholders' meeting agenda sufficiently in advance of the record date to permit institutional investors to recall shares on loan. Enough notice should be provided for the securities lending agent to carry out the recall of shares in an orderly manner, they said.

Canadian mandate goes to State Street

State Street Corporation has been appointed by the Workplace Safety and Insurance Board of Ontario (WSIB) to provide a full range of investment services for its Pension Fund, Loss of Retirement Income Fund and Insurance Fund totaling CAD$15 billion in assets.

The Workplace Safety and Insurance Board administers Ontario's no-fault workplace insurance plan for workers and employers and oversees the province's workplace safety education and training system. State Street will provide custody, accounting, securities lending and investment analytics services across the three funds. "We are very pleased to be appointed by WSIB for this new mandate," said Ronald Robertson, senior vice president and managing director of State Street's investment servicing business in Canada. "This mandate exemplifies our commitment to providing Canadian investment managers with a high level of client service, local expertise and the global scale to help meet their investment objectives."

Northern Trust enhances collateral management reporting

Northern Trust has enhanced its collateral management system to provide real-time access and transparent reporting of the daily over-the-counter (OTC) derivative collateral call process. This enhancement allows clients to log into a dashboard to view the current status of exposures, collateral balances and OTC derivative positions, including valuations.

"We understand the concerns our clients have as it relates to counterparty risk and are offering transparency into our systems to provide instant access to critical information," said Judson Baker, product manager for derivatives and collateral management at Northern Trust. "With our dashboard, it's as if a client is looking over the shoulder of the collateral manager as we calculate exposures, communicate with the counterparty, and agree to collateral movements."

The enhancements are available on a global basis to asset owners, such as pensions, endowments, corporate and institutional investors, and to asset managers, including Investment Operations Outsourcing clients. In addition to the dashboard, enhancements will allow clients to run reports on a range of OTC and collateral management issues:

Open OTC derivative positions and valuations;

Collateral balances Credit Support Agreement details;

Summary of all counterparty credit risks.

Northern Trust provides an active collateral management service for an array of derivatives market participants ranging from asset managers to corporations, pension funds and family offices located around the globe. Through this service, Northern Trust performs all functions, including securing a daily independent valuation of the over-the-counter derivatives, counterparty exposure calculation, call notification, resolution of disputes on incoming/outgoing collateral calls, and clearing of collateral movements.

KSE to introduce securities lending

The Karachi Stock Exchange (KSE) has announced that it plans to increase the range of options available to investors, including the introduction of securities lending.

The KSE said that the new products and services, which also include options, stock index futures contracts, market making, exchange traded funds and Islamic equity financing should be available before the end of the financial year.

The KSE said that all the products have been approved internally, but remain subject to approval from the Securities and Exchange Commission of Pakistan.

EquiLend Team Volunteers for NY Cares Day

Team EquiLend turned out to support NY Cares Day, a day where all of New York City comes out to do projects at various public schools; mural painting and gardening. The goal is to beautify and enhance the school environment.

EquiLend was assigned a large outdoor mural. Volunteers from the firm worked through the cold and completed it garnering much appreciation and thanks from local parents, students and teachers.

Not only was it a great team building event, it's always exciting for the kids when they return to school and see previously stark wall adorned with cheerful paintings and murals.

EquiLend NY participates in 4 NY Cares projects annually: New York Cares Day, Hands on New York Day, the Annual Winter Coat drive and Winter Wishes program which grants children their Christmas wishes (toys, clothes, etc).

Brian P. Lamb, CEO, EquiLend

Clearstream's October 2010 figures

In October 2010, the value of assets under custody held on behalf of customers registered an increase of four per cent to €11.0 trillion (compared to €10.6 trillion in October 2009). Securities held under custody in Clearstream's international business experienced a rise of six per cent from €5.5 trillion in October 2009 to €5.8 trillion in October 2010 while domestic German securities held under custody increased by one per cent from €5.1 trillion in October 2009 to € 5.2 trillion in October 2010.

In October 2010, 3.13 million international settlement transactions were processed, an eight per cent increase over October 2009 (2.89 million). Of all international transactions, 75 per cent were OTC transactions and 25 per cent were registered as stock exchange transactions.

On the German domestic market, settlement transactions reached 6.74 million, two per cent more than in October 2009 (6.60 million). Of these transactions, 68 per cent were stock exchange transactions and 32 per cent OTC transactions.

For Global Securities Financing (GSF) services, the monthly average outstanding reached €544.7 billion. The combined services, which include triparty repo securities lending and collateral management, collectively experienced a rise of five per cent over October 2009 (€519.1 billion).

In the Investment Funds services, 437,415 transactions were processed, a 19 per cent increase over October 2009 (368,343).

ICE makes collateral changes

IntercontinentalExchange (NYSE: ICE), has announced that ICE Clear Europe will accept gold bullion as collateral for all energy and credit default swaps (CDS) transactions beginning 22 November.

Acceptable collateral for ICE Clear Europe currently includes cash and government securities. Gold bullion will be permitted for initial margin only and will be accepted by the clearing house by electronic transfer in increments of one troy ounce, and will be priced daily using the London Gold Fixing Price in US Dollars.

In addition, ICE Clear Europe recently introduced a tripartу collateral management arrangement with Euroclear Bank, the international central securities depository, through which European government bonds may be used as collateral to fulfill initial margin requirements. Both the addition of gold bullion collateral and the availability of collateral via Euroclear Bank are intended to enhance the stability and flexibility of the clearing house, particularly during periods of intensive economic stress, while providing alternatives to customers.

“We are pleased to offer these enhancements as the first clearing house in Europe to permit gold bullion as collateral,” said Paul Swann, president of ICE Clear Europe. “By working closely with members, we are continually searching for ways to lead in enhancing risk management practices. Particularly in times of economic change or uncertainty, the addition of gold and Euroclear Bank’s tripartу collateral management services bring additional flexibility and security to the markets we serve globally.”

Yves Poullet, chief executive officer of Euroclear Bank, said: ”As the market continues to move from unsecured to secured transactions, accessing and efficiently managing collateral is becoming increasingly important. Helping clients optimise use of their collateral held with Euroclear Bank is precisely our objective, which is easily achieved when collateralising margin calls from ICE Clear Europe. We are delighted to be of service.”

ICE Clear Europe launched in November 2008 to serve the futures markets of ICE Futures Europe and ICE’s OTC energy markets and today lists more than 330 energy contracts for clearing. In July 2009, ICE Clear Europe introduced clearing for European CDS and has cleared more than €3.7 trillion in gross notional value to date across 130 credit derivative products.

ICE Clear Europe offer the industry’s only real-time risk management methodology, with marks based on price feeds from ICE’s energy markets. The methodology provides calculations of initial margin, realised and unrealised variation margin, and fully revalues all positions throughout the trading day. This provides the clearing house and all clearing members with trade, position, profit and loss and margin reports at five minute intervals, thereby substantially reducing intraday price risk.

Former trader jailed

Salvatore Zangari, a former stock loan trader at Morgan Stanley and Bank of America, has been jailed for a year and a day after pleading guilty to a conspiracy charge over a scheme to steer orders to other brokerage firms in return for kickbacks.

At least 32 traders from 13 brokerages have been prosecuted for offences related to bribes and kickbacks in the stock loan industry over the past couple of years.

“This is what happens when a good person does a bad thing,” said Zangari’s lawyer Randy Zelin. “While the sentence was shorter than recommended by the guidelines, one of the goals of sentencing is deterrence, and the judge, justifiably so, pronounced the sentence to deter future criminal conduct.”

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European results round-up

As firms report their third quarter income, Securities Lending Times takes a look at the main stories

ANALYSIS

Deutsche Bank has reported results for the third quarter and first nine months of 2010. Net income for the quarter was EUR 1.1 billion excluding the charge of EUR 2.3 billion relating to Deutsche Bank's stake in Postbank, versus net income of EUR 1.4 billion in the third quarter 2009.

For the first nine months of 2010, net income was EUR 4.1 billion excluding the charge relating to the bank's stake in Postbank and the related mandatory exchangeable bond. This compares to net income of EUR 3.6 billion in the first nine months of 2009. Including the aforementioned charge net income for the first nine months 2010 was EUR 1.7 billion.
Income before income taxes for the first nine months 2010 was EUR 5.6 billion excluding the Postbank charge, versus EUR 4.4 billion in the prior year. Including the charge income before income taxes for the first nine months 2010 was EUR 3.3 billion.

Dr. Josef Ackermann, chairman of the Management Board, said: "The third quarter results again prove the robustness of its recalibrated business model despite the difficult ongoing macro-economic and market conditions."

Societe Generale has announced its results for the third quarter of 2010, and the first nine months of the year.

Group net income totalled EUR 896 million in Q3 2010 (EUR 3.0 billion in the first nine months of 2010) and reflects, says the bank:

- the healthy commercial momentum of retail banking activities with, in particular, growth in International Retail Banking revenues, - satisfactory results, in a mixed environment for Corporate and Investment Banking, still characterised by the excellent performance of structured financing activities, - the ongoing gradual decline in the Group's cost of risk.

Frederic Oudea, the group's chairman and CEO, stated: "With Group net income of EUR 3.0 billion in the first nine months of the year, Societe Generale has provided further evidence of the soundness of its universal banking model. The businesses' commercial momentum makes us confident of its ability to achieve the objectives of the corporate plan "Ambition SG 2015". We are determined to pursue the transformation of the Group, by capitalising on the quality of its customer franchises, substantially increasing the effectiveness of its operating model, and associating all personnel in the Group's success via a "performance share plan" aimed at all its employees.

The Royal Bank of Scotland has announced third quarter operating profits of £726 million, but including debt charges the Q3 loss totalled £132 million.

The Group said it has made tangible progress against its business and financial targets. Looking at the quarter's highlights, Group operating profit improved by nearly half a billion pounds to £726 million, with the Core Bank's profit improving by 10 per cent to £1.7 billion. Core Return on Equity (ROE) moved higher to 12 per cent, driven by Retail & Commercial's ROE improvement to 14 per cent. Non-Core run down continues ahead of plan, as we reduced assets by £20 billion in the quarter, and Q3 saw significant progress on EU mandated disposals. Core Tier 1 ratio remained strong at 10.2 per cent.

- Income – Group income remained resilient in the third quarter at £7.9 billion as its Retail & Commercial businesses delivered good underlying growth, offsetting markets-related lower revenue in Global Banking & Markets (GBM).
- Costs – The Group maintained good control over costs in the third quarter, with costs at constant exchange rates down 2 per cent year-on-year. its £2.7 billion cost saving programme continues to deliver savings which have been funding investments to strengthen its Core franchises.
- Impairments – Impairments declined in the quarter to £1,953 million, down 21 per cent quarter-on- quarter and 40 per cent year-on-year. The reduction in impairments was spread across the Group, with the most significant improvements in Retail & Commercial and GBM. Non-Core saw impairments decline for the fifth consecutive quarter, although property-related impairments remain elevated.
- Balance sheet – Q3 saw further steady progress in the de-risking of the Group's balance sheet. Non-Core managed a further run-down of £20 billion of assets, £11 billion from sales and £9 billion from run off. Non-Core's total assets were £154 billion at the quarter end.
- Funding and liquidity – The Group's funding and liquidity position improved nicely in Q3 2010, with £18 billion of term debt issuance. Year-to-date issuance of £35 billion is well ahead of its full year £25 billion target. The Group liquidity reserve increased in the quarter to £151 billion.

Japan

It's still the largest Asian market in terms of securities lending, but it may be about to lose its crown

BEN WILKIE REPORTS

Last month, Hong Kong took over from Japan as Asia's largest fees market for stock lenders, with pensions, mutual funds and banks earning USD 245 million from loaning the territory's shares, compared to Japan's USD 241 million. These figures are only one part of the story; while Japan's growth may not be the same as in the rest of the region, it still has twice the volumes of securities on loan as Hong Kong.

The change, which is researched through Data Explorers, came as a result of investor demand for Chinese securities to be used in short sales.

Japan, say some, is on a downward trend - it has not kept up with what the market requires, and is losing ground as the focus has switched to China and the markets that support it. "Japan has been a market that's been fading away for a long time and people are frustrated with it," says Emil Wolter, head of Asian regional strategy at Royal Bank of Scotland.

With the country's annual GDP expected to grow by about 1.4 per cent next year, Japan is likely to continue to fall behind its neighbours - China's GDP is set to rocket by 8.9 per cent in 2011, with Hong Kong about half that. Even South Korea - comparable in many ways in terms of its economic profile - is surging ahead.

Of course, part of the reason for Japan's fall to second place behind Hong Kong is down to the pricing. Nearly half of Hong Kong's shares are charged at an annual 1.5 per cent for loans, compared to less than a third in Japan. Indeed, over half of Japan's stocks are available for loan at an annual rate of 0.5 per cent. So the volumes are still there, it's just that lenders can earn more from other markets. The fees are generally a supply and demand scenario - there are fewer stocks to borrow in Hong Kong, and greater demand to borrow them. Undoubtedly as that market grows, the fee structures will become comparable with other jurisdictions.

Investors

In many ways, Japan is a victim of its own success. Historically, international funds that invest in Asia have divided into two parts - Asia ex Japan, and Japan equities. Because Japan has been known for years as a mature economy with stable economic growth and sensible regulation, the risk profile of the rest of the region did not fit.

But as the returns from the rest of the area have grown, with double digit growth expected even in today's straitened times, investors are pulling out of the less risky but considerably less exciting financial centre. Japan has been hit by the global economic downturn, maybe not as much as its Western counterparts, but comparatively heavily compared to its neighbours.

"The universe of names is increasing and the quality of the companies has increased" for Asian countries outside Japan, says Jesse Lentchner, the Hong Kong-based chief executive officer of BTIG LLC's Asia Pacific operations. "I don't think you'll see an increase in the number of people concentrating on Japan or an increase in the assets chasing performance in Japan."

According to data from US research firm EPFR Global, international investors have been building their stakes in Asian funds, but many have been doing so at the expense of the Japanese markets - a report from the firm in mid-October said that funds that buy Japanese shares have seen net withdrawals in 14 of the past 15 weeks.

Japan is always going to be a vital market in the global financial industry. But its success is also its downfall - because it matured so early, investors going in search of higher returns tend to think of it as too safe a haven

Providers

Perhaps uniquely in Asia - although China may argue its case - the domestic banking industry is generally run by domestic banks. This is not the case for securities lending, however, where all the major players have a base, and even local funds use global banks to carry out their transactions. In fact, for a country which unfairly has a reputation for being insular, the Japanese banking system is remarkably open.

One Japan-based fund manager says that the reason for domestic funds to use global banks is that Japanese firms are simply too old fashioned. “Although the majority of our investments are in the Japanese markets, we do have exposure elsewhere. And we see how efficient our stock exchange is, we see how efficient our clearing and settlement system is and we see how efficiently our business is conducted elsewhere. Then we look at our banks, and it’s as if they haven’t even moved from fax communication yet. We simply have to go with the most efficient provider- margins are low, especially at the moment, and if our administration costs are too high there is no point in us getting involved [in securities lending].

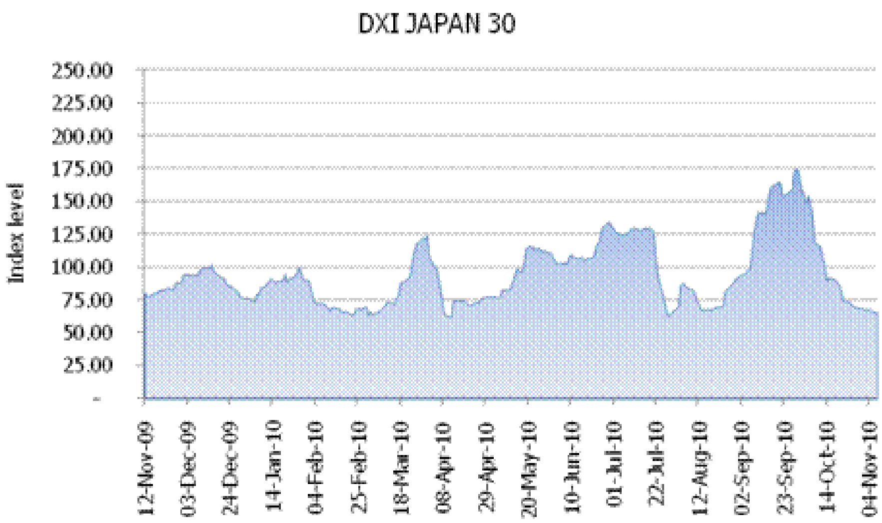
The future

Japan is always going to be a vital market in the global financial industry. But its success is also its downfall - because it matured so early, the investors going in search of higher returns tend to think of it as too safe a haven. The emergence of China in the last decade or so, and the general preference for Hong Kong as the link to China, means that Japan may never again be the regional powerhouse that it once was. But for a market on such firm foundations, it should continue to grow at its own pace. **SLT**

Security rankings by total daily return

Stock	Security type
Resona Holdings Inc	JP Equity (Nikkei 225)
Mitsubishi Motors Corp	JP Equity (Nikkei 225)
Mizuho Financial Group Inc	JP Equity (Nikkei 225)
Gs Yuasa Corp	JP Equity (Nikkei 225)
Japan Airlines Corp	JP Equity (Nikkei 225)
Sumitomo Mitsui Financial Group Inc	JP Equity (Nikkei 225)
Toshiba Corp	JP Equity (Nikkei 225)
Acom Co Ltd	JP Equity (Others)
Promis Co Ltd	JP Equity (Others)
Sharp Corp	JP Equity (Nikkei 225)

Securities on loan 2010



Source: Data Explorers

LATEST NEWS

The Tokyo Stock Exchange and Japan’s Financial Services Agency are reportedly considering rules to curb excessive short selling.

The new regulation is expected to be similar to Regulation M in the US, which prohibits anyone from taking a short position during a restricted period after the announcement of a public offering and then buying that stock in the offering.

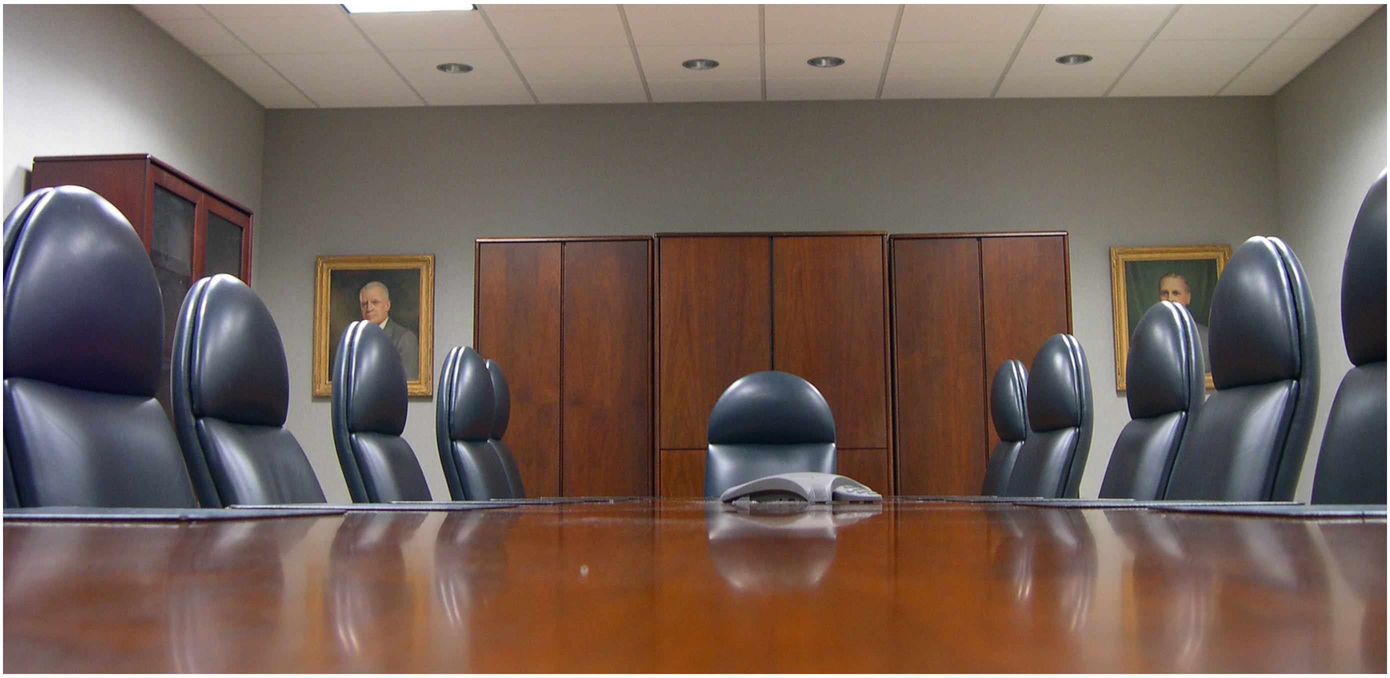
Regulation M is designed to prevent short selling that could artificially depress a stock just before the company prices its offering, reducing the amount of funds it can raise.

The Tokyo Stock Exchange last month said it was looking into a number of complaints about short selling ahead of new issues. The Japanese Securities and Exchange and Surveillance Commission has also been investigating, and has interviewed a number of brokers about suspicious trading patterns.

According to MF Global, the 59 equity offerings in Japan this year underperformed the benchmark by an average of 3.3 per cent in the 14 days until the day before the announcements.

Finsettle Services (Pty) Ltd
Custody Services Provider of the JSE

South Africa focus



Springing back

August Sander, head of securities lending at Sanlam Investment Management, and Koos van Niekerk, CEO at Finsettle, discuss the South African market with *Securities Lending Times*

EXCLUSIVE

SLT: How has the South African securities lending and borrowing market matured over the past couple of years?

August Sander: The South African lending market is relatively small and concentrated and appears to have matured over the past 3-4 years. We have not seen any large lenders or borrowers enter the market in the past couple of years.

Koos van Niekerk: More players have entered the market resulting in a tightening of margins and a significant level of competition. The smaller lending desks need to become "innovative" in the way they source stock and in the services they provide. This against the backdrop of a shrinking of the market in line with international trends.

STRATE has assisted the market to mature by decreasing costs to increase liquidity for business partners of STRATE. Collateral transactions are done "on market" via the STRATE business partner system.

Finsettle recently entered into an agreement with FinTuition (a financial training company based in London), where Finsettle acts as the South African and Sub-Saharan FinTuition representative and partner delivering securities lending and borrowing training to the region. FinTuition was recently appointed by ISLA as its approved securities lending and borrowing training provider.

SLT: What is the regulatory situation within South Africa? Do you have any areas of concern?

van Niekerk: Securities lending and borrowing is not regulated in the South African market. The market however operates on best practice as guided by SASLA.

SASLA is a member of ISLA and prescribes scrip lending and borrowing guidelines.

The STRATE business partner system assists in creating a secure platform to ensure that Securities lending transactions are carefully monitored.

An area of concern is exchange control. In general we believe that the South African exchange control regulations restrict burden cross border transactions.

Finsettle is regulated by the JSE and is a STRATE business partner. We use the SLAMS system to ensure effective and efficient administration of our scrip lending and borrowing transactions handled by our lending desk.

Finsettle Services (Pty) Ltd
Custody Services Provider of the JSE

South Africa focus

We believe that with the current lack of regulation it is imperative for borrowers and lenders to ensure that they deal only with reputable and proven agents.

> Growth of individual providers in the market will hinge on the ability to meet and adapt to changing client requirements while anticipating future requirements

Sander: Securities lending as an industry/ function is not regulated, although certain entities that engage in lending do have regulations/ guidelines pertaining to it. These include collective investment schemes, long term and short term insurance companies, all of which are regulated by the Financial Services Board (FSB).

The flow of transactions does however form part of the normal trading and settlement process as governed and regulated by STRATE, which is the Central Securities Depository. It is worth noting that a "naked sale" is not possible in the SA market, as buy and sell transactions are settled contractually on settlement date and cannot be rolled. This was one of the reasons why short selling was not prohibited on the JSE during the financial crisis.

In addition, certain exchange control regulations require non-resident borrowers to place SA Rand based collateral, and only banks are effectively authorised to deal directly with non-residents.

SLT: Where are the growth opportunities in the market?

Sander: Hedge funds, as an investment product, are not regulated. This means that it is not readily available for investors to participate in, hence the relative slow growth in assets under management. As a result it appears that the only growth in the securities lending market will be organic in the next year.

van Niekerk: We believe that hedge funds are extremely under represented, especially when viewed against the hedge fund activity in the European and US markets. There are significant volumes of stock held by hedge funds waiting to be utilised.

Growth of individual providers in the market will hinge on the ability to meet and adapt to changing client requirements while anticipating future requirements. Service and innovation will continue to set the various businesses apart, as the market place becomes increasingly competitive.

At Finsettle we are continually investigating and implementing ways to adapt and meet our clients changing needs.

SLT: How involved is the South African market in encouraging securities lending activities in neighbouring markets? Where are the real opportunities in central and southern Africa?

van Niekerk: I can't speak on behalf of the market in general, however, Finsettle is actively investigating, evaluating and developing opportunities in neighbouring southern African markets.

It is still too early for us to comment on where the real opportunities lie Our investigations are ongoing but we do believe that opportunities exist.

Sander: I am not aware of any involvement although the JSE is actively pursuing co-operation/ alliance with other exchanges in Africa.

SLT: What are your expectations for the future? How optimistic are you?

Sander: Our experience has been that the lending market is fairly correlated to the equity market in terms of level and trading volume. The increased flow of funds to emerging markets could therefore result in growth in the lending markets as well.

van Niekerk: Currently we believe the size of the securities lending and borrowing market is as follows:

Equities: +/- 60 Billion (ZAR) off from a high of +/- 120 Billion (ZAR) during the first half of 2008.

Bonds: +/- 40 Billion (ZAR) off from a high of +/- 45 Billion (ZAR) during the first half of 2008.

Under the current economic conditions in South Africa we expect the market value to remain as is for the foreseeable future. Having said that, we are confident that the global economy (and that of South Africa) will recover significantly and will result in the value of the securities lending and orrowing market growing beyond the highs of 2008.

Adding weight to our view of market growth, is the attention the emerging markets are receiving from global investors and businesses. As an emerging market (although not included in BRIC) South Africa is definitely gaining attention and investment from global investors.

Finsettle is optimistic about the future of securities lending and borrowing in South Africa and the Southern African region in general.

We believe that we are already positioned to take advantage of expected future increases in volumes, plus we have geared ourselves for the anticipated opportunities within the southern African region.

The future will always surprise and "blind optimism" is dangerous. Finsettle ensures that we remain up to date through our research on the industry from a local, regional and international perspective.

Beyond barriers

The final part of our series on the ICMA White Paper looking at the European repo market looks at the barriers to interconnectivity

ANALYSIS

Set against the list of ideal characteristics for an efficiently interconnected CSD, it is clear that the most significant barriers to interconnectivity between CSDs and ICSDs exist in Greece, Italy and Spain. There are also issues in Italy and Spain about the role of the local CCP, and in Greece about the lack of a CCP.

Constructive dialogue between the CSDs and market users has succeeded in resolving a number of issues, but serious concerns and uncertainties remain unresolved in the opinion of many market users.

Greece

The recent financial crisis in Greece accentuated problems posed by technical and procedural barriers to interconnectivity. The repo market seized up because of the collapse in the credit of Greek counterparties and the Greek government, which increased concern about "wrong way risk" in the repo market for Greek government securities (the positive correlation between the credit risks of repo counterparties and the issuer of collateral securities). The lack of (unused) credit lines to Greek banks and the fear of wrong-way risk have effectively isolated them as borrowing counterparties. The collateral famine may have been made worse by the diversion of Greek securities into the ECB as collateral to access central bank liquidity.

While settlement efficiency has largely been maintained, concern has in the past been expressed that the volume of delivery failures may be understated because local custodian banks reportedly would not enter instructions into the CSD (Bank of Greece) for cash or repo transactions executed outside the electronic trading systems (so-called OTC trades), if they were not certain of delivery. In July 2009, the CSD opened direct links to international electronic trading systems such as BrokerTec, by-passing local custodian banks, so this problem is now limited to non-electronic (so-called "OTC") transactions.

Until February 2009, sellers who failed to deliver in either the cash or repo markets in Greek government securities were forced into a centralised repo auction at the end of the day on the domestic electronic trading system HDAT.

The forced auction can be characterised as an automatic securities lending facility, which is generally a very helpful function. Unfortunately, such facilities need to provide certainty to users about the cost of borrowing. The key objection to the forced auction in Greek government securities was that dealers, including those who went short in the process of market-making, faced potentially unlimited borrowing costs. This problem may explain why the auctions were generally unsuccessful and were suspended.

In November 2009, a facility was introduced by the CSD which recycled failed instructions to the next settlement date for up to 10 days. This initiative came under political attack on the pretext that it was facilitating short-selling of Greek government securities. In the event, recycling was not effective due to the scarcity of securities. In April 2010, the forced auction re-activated, but only for delivery failures on HDAT, which has subsequently suffered a sharp loss of business. Following the outbreak of the financial crisis in Greece, foreign dealers have an added objection to the possibility of having to use the forced auction in that they would not wish to be matched with Greek counterparties, for whom they no longer have credit lines or capacity. These problems have made primary dealers unwilling to quote for fear of going short, thereby severely damaging repo and cash market liquidity.

The first issue to be resolved in the Greek market is how to release the pool of securities trapped in local custodian banks or rendered inaccessible because of credit objections to Greek counterparties. Suggestions include:

A standing repo facility for primary dealers at the Greek debt management office (PDMA) or Bank of Greece along the lines of the facilities offered by the debt management agencies in Belgium, Netherlands, Portugal and the UK, lending temporary issues of securities which are scarce in the market (phantom/synthetic bonds). However, this suggestion could attract opposition, as it could be construed (incorrectly) as feeding speculative short-selling.

An alternative to a standing repo facility, that might be able to avoid accusations of supporting short-selling, would be a bond exchange operated by the PDMA in which phantom/synthetic Greek government securities would be created and exchanged for existing issues held by primary dealers. In order to ensure that no undesirable speculative activity was encouraged, primary dealers would be required to report long and short positions daily. Bond exchanges would also be helpful in restructuring the government yield curve, alleviating pressure on scarce maturities and facilitating secondary market liquidity. Italy and Portugal offer such a facility. This suggestion would of course raise issues of debt management strategy and necessarily require consultation with the cash market.

Interposing a CCP in a reformed daily repo auction to clear unsettled short positions. However, as Greek banks could not gain access to an existing CCP because of credit issues, it has been suggested that the PDMA act as a credit intermediary. Market users appear to be willing to accept Greek sovereign risk in order to resolve settlement problems.

It is generally accepted that the implicit borrowing fee needs to be high, in order to attract securities lenders (repo sellers). However, the fee must be capped and not disproportionate (in contrast to the forced auction). Initial suggestions have been for a fee of five-10 per cent.

An official CCP using collateral swaps. If there are likely to be political objections to the concept of an official CCP intermediating repos because of a mistaken association with short-selling, an alternative would be collateral swaps constructed with back-to-back repos, as this mechanism would require both sides of a swap to be long of Greek securities. However, there could be practical difficulties with this idea, if dealers were unable to deliver to the CCP from their long positions because counterparties from whom they have purchased securities have failed to deliver, or counterparties to whom they have repoed out their securities fail to return the securities at the maturity of the repos.

The ECB should be encouraged to recycle the Greek government securities that it is holding back into the market. However, the ECB only has the power to recycle the securities that it has purchased since May 2010.

In addition to the exceptional problems caused by the financial crisis in Greece, there are underlying issues with the technical operation and business practices of the CSD.

There are no overnight batch-processing cycles, only the daytime RTGS process (although the CSD apparently has the ability to activate netting at any time). This precludes the opportunity to validate and match settlement instructions, and identify and fix potential delivery failures, before or early on the settlement date, as well as the opportunity to match and net off opposite transactions in order to reduce settlement volume and improve settlement efficiency. Market practice has been for custodian banks to pre-match OTC instructions by telephone or exchange of files (see below), but settlement instructions tend to be released by the custodian banks to the CSD only on the settlement date.

The most fundamental problem is the shortness of the settlement cycle of the Greek CSD. The CSD is open from 07:30 to 14:30 CET (local time is CET+1), but the effective window is much shorter.

There is little liquidity in the system in the first two hours, apparently due to the reluctance of custodian banks to pay cash into the RTGS process early in the day, so most settlement takes place after 09:30 CET.

For electronically-negotiated transactions, the settlement window closes earlier because of the deadline imposed by the Hellenic Banking Association (HBA), which represents all custodian banks, in order to meet the CSD deadline of 14:30 CET, of noon CET (compared to 14:30 CET for OTC transactions). HBA has refused requests to extend the electronic deadline to 13:30 CET because of unspecified operational reasons. This leaves little time to input settlement instructions and even less time to resolve potential delivery failures, ties up securities and precludes their re-use for cross-border transactions. In addition, electronic transactions tend to settle at the opening of the settlement cycle.

In contrast, the bulk of OTC instructions - accounting for about 15 per cent of total settlement - take place at the end of the settlement cycle. This may reflect liquidity problems at Greek banks, which cause them to delay settlement as long as possible. It may also arise because of the requirement imposed by local custodian banks for the pre-matching of settlement instructions by telephone before the custodians will input the instructions into the CSD. Telephone pre-matching is not an official requirement but appears to have been adopted in order to avoid delivery failures and thus the forced auction. After the CSD discontinued the forced auction, it opened discussion with local agent banks to encourage them to abandon telephone pre-matching and offered to consider alternatives such as a “hold-and-release” mechanism. Telephone pre-matching of OTC instructions does not appear to have been given up. Local custodian banks agreed that, from September 2009, they would send the majority of settlement instructions to the CSD early in the morning and to provide users with more details on the status of unsettled transactions on a real time basis. The CSD agreed to start settlement at 20:00 CET on S-1. It is unclear to many users whether these changes have been implemented.

The CSD has also agreed to consider an extension to the settlement day, but has been waiting to see if earlier settlement instructions (see above) would help.

The ICSDs have opened or are investigating the possibility of opening accounts directly at the CSD.

There is no shaping of settlement instructions. This practice could reduce the accumulation of delivery failures for primary dealers. It would also reduce the liquidity requirements of settlement by allowing a smoother flow of smaller deliveries to be fed through the settlement system.

Italy

The principal issue with the Italian CSD (Monte Titoli) is the dramatic increase in delivery failures on transactions (mainly repo) cleared through the international CCP, LCH.Clearnet SA, during 2009-10. In May 2010, this reached almost 11 per cent (in terms of value and including delivery failures rolled over from previous days). In contrast, the rate of delivery failures on transactions (mainly cash) cleared through the domestic CCP, CC&G, has hardly changed, despite an apparent 40 per cent rise in settlement volume.

The CSD has reported that settlement efficiency in government securities has fallen from over 99.1 per cent to 97.6 per cent in February 2010 (in terms of value and excluding accumulated delivery failures). As the settlement system has not been changed, the CSD believes the increase in delivery failures was due to a shift in trading behaviour which has been reflected in an increase in uncovered short positions. These almost doubled over the year to May 2010, to reach EUR 200 billion, and buy-in notices in the first two months of 2010 equalled those sent over the whole of 2009. The CSD sees recent settlement problems as exceptional and related to the market conditions which were triggered by the loss of confidence in and consequent sell-off of Italian government securities. In support of this hypothesis, it has been argued that:

Settlement problems have been concentrated in specific issues, often trading at negative rates in the repo market, implying increased short-selling;

The contrast between the delivery failure rates in LCH.Clearnet and CC&G reflects a polarisation of clearing and settlement between international institutions, who tend to use LCH.Clearnet for clearing and ICSDs for settlement, and domestic institutions, who tend to use CC&G for clearing and the CSD for settlement; and that domestic institutions are less active traders and therefore less likely to suffer delivery failures.

LCH.Clearnet has noted that the sharp increase in delivery failures took place around the same time as the start of same-day transactions in CCP-guaranteed repos in November 2009. The same-day repo settlement facility might have increased delivery failures because of the lack of daytime batch-processing (see below), which would otherwise resolve many delivery failures. There is also no shaping of deliveries on the opening leg of same-day repos and the instructions for these transactions have to go straight into the RTGS process from where they are not recycled into the batch-processing cycles. On the other hand, a rise in delivery failures can be detected before same-day repo was introduced.

Some market users suspect that market turbulence revealed flaws in the infrastructure and argue that:

many of the issues suffering settlement problems are off-the-run and there is no coherent economic rationale for short-selling them;

international investors do not in fact use the ICSDs to settle Italian securities, but employ local custodian banks, which means that the higher failure rate at LCH.Clearnet is unlikely to be attributable to a different client base.

It may well be that increased delivery failures do reflect differences in the trading behaviour of domestic and international investors that were accentuated by market difficulties, but that these have become problematic only because of barriers to interconnectivity, which will exclusively affect international investors. While international investors use the CSD rather than the ICSDs for the settlement of Italian securities, it appears that they tend to use LCH.Clearnet rather than CC&G for clearing (although CC&G reportedly does have international members active in repo). So, it is not unreasonable to suggest that the different trading behaviour of domestic and international investors is a factor in the increased delivery failures at LCH.Clearnet. However, the question is why international investors have experienced increased delivery failures. This would suggest difficulties in borrowing from domestic investors, who are naturally long of Italian securities - ie an illiquid securities lending market - and obstacles to identifying and fixing unsettled instructions at the CSD - ie barriers to interconnectivity.

The following interconnectivity issues have been identified with the operation of the CSD:

The major problem at the CSD is that the RTGS and daytime batch processes in its dual settlement system are largely independent. Unsettled instructions are passed from the overnight batch-processing cycle via the daytime batch-processing cycle into the RTGS, where they remain. They are not recycled back into the next overnight batchprocessing cycle, nor does the RTGS process offer technical netting. In the case of overnight repo, the opening leg is settled in the RTGS, while the closing leg is settled in the overnight batch-processing. This means that delivery failures on the opening leg of repo transactions cannot be matched and netted off against the closing leg. It has been reported that the closing leg of some repos have settled while the opening legs have remained unsettled. Delivery failures simply accumulate and, as they are not margined, credit risk increases. The CSD objects to matching on the grounds that it effectively converts a failed repo into a contract for differences with no exchange of securities.

Intervention in the RTGS process by users, to correct, amend or cancel unsettled instructions in order to fix delivery failures is impossible in practice. To cancel a settlement instruction, it is necessary to agree a new transaction with the counterparty and enter this into RTGS. A new transaction requires the user to commit additional funding, which makes the process costly.

Unsettled instructions are recycled within RTGS for up to 10 days. While in theory this is good practice, as it should allow failed instructions for the opening leg of a repo to be matched and netted off against the closing leg, the fact that unsettled instructions are not recycled via the daytime batch-processing, and the difficulties faced by users in trying to fix instructions, mean that the procedure serves no useful purpose. Indeed, it has perverse consequences in that it delays a possible buy-in by up to a further 10 days. If a user tries to avoid a buy-in by borrowing in the market at the end of this period, he will tend to face very high borrowing fees.

The concentration of settlement in the overnight batch-processing cycle (98 per cent by number of instructions, 80 per cent by value) is seen as a sign of settlement efficiency by the CSD and attributed to the attractive advanced functionality of this cycle (multilateral netting and the automatic collateralisation of credit requirements). However, some users suggest it may also be a reflection of the difficulties posed by the RTGS process.

Local custodian banks require very early telephone pre-matching of settlement instructions: by 17:30 CET on S-1 for non-electronic (OTC) transactions in the overnight batch-processing cycle and all day for the RTGS process. This delays the inputting of instructions. It has been claimed that there are tools in the CSD that allow users to perform early matching of transactions by using segregated accounts (Conte Liquidatori) for each customer, but it is unclear whether this is a practical approach. The CSD has been consulting on the possible introduction of new matching facilities (including a hold-and-release facility and bilateral cancellation), which would remove the prima facie need for telephone matching, and is confident it can deliver these improvements quickly. However, there is some concern among users that, as telephone pre-matching in Greece did not cease when the apparent cause (the forced auction) was discontinued, it might not cease in Italy when matching facilities are introduced. Such practices tend to become entrenched in the procedures of local custodian banks.

The finality of the daytime batch-processing cycle is late in the day,13:15 CET, by which time, it might be too late for interconnection with the ICSDs in order to re-use securities.

It has been claimed that there are tools in the CSD that allow users to perform early matching of transactions

The CSD has consulted on the insertion of multiple daytime batchprocesses, and the recycling of instructions into the RTGS process when certain volume and value thresholds are crossed. However, it felt that such changes would not be cost-effective, given that only 1-2 per cent of transactions settle in the daytime batch-processing.

The CSD is unique among CSDs in having different shape sizes for CCP and OTC transactions. It has harmonised shaping at EUR 5 million for all CCP and OTC transactions, except same-day CCP transactions (which remain at EUR 25 million). It estimates that harmonised shaping will reduce delivery failures by 30 per cent.

Access to the RTGS between 16:10 and 18:00 CET is reserved for local custodian banks. This shortens the settlement day for the rest of the market.

There is concern that netting calculations are performed by the CSD, which passes the results to the CCPs, in contrast to other clearing and settlement arrangements under which CCPs perform the netting function and then pass the results to the CSDs for settlement. Concern has been expressed about the blurring of functions between the CSD and CCPs.

Spain

The following interconnectivity issues have been identified with the operation of the CSD (Iberclear):

There is a concentration of settlement activity between 13:00 and 13:30 CET (about 30 per cent), which constrains the ability of users to tackle unsettled transactions or to re-use securities for same-day value. While daytime settlement is available from 07:00, the concentration of settlement in the early afternoon is attributed in part to the practice of certain investment fund participants who are currently unable to instruct transactions earlier on the settlement day due to timing issues relating to their cash positions. The CSD believes it is also due to the same-day trading of government securities during this period, which it sees as a desirable market activity. It also maintains that the remaining 2-21/2 hours of the settlement day and a last batch-processing at 16:45 is adequate to settle other transactions. The CSD and the ICSDs have agreed to examine the issue together.

The finality of the overnight batch-processing cycle, which ends at 20:00 on S-1, was delayed until 07:00 on the settlement date. This was seen as very late and representing a constraint on the re-use of securities. The CSD announced in October 2009 that finality was to be advanced to 00:00 CET on the settlement date.

Between 15:30 and 16:00 CET, access to the settlement process was restricted to users with their own accounts at the CSD settling their own transactions and excluded third-party users. The CSD stressed that the constraint was limited to communication only, as pending third-party trades could settle during this period, as well as in the last batch around 16:45 CET. It also questioned the significance of the issue, suggested that the problem was due to ICSD processes and initially claimed that the required technical changes to open access to all users were too expensive to contemplate and unjustified given the imminence of T2S. The ICSDs argued that the issue was significant, claiming that 15 per cent of transactions remained unsettled at 14:30 and 10 per cent at 16:45. In October 2009, the CSD decided that the settlement system was flexible enough to permit reasonable exceptions upon request. It has also declared itself willing to consider alternatives, including further narrowing of the exclusion period, but has ruled out elimination because of system requirements. The CSD and the ICSDs agreed to discuss the issue. In November 2009, the CSD extended the deadline for third-party instructions to 16:00 and own-account members to 16:15.

Members of the CSD are prohibited from failing to deliver. This makes them reluctant to trade with non-members (who can fail), given that the members would be obliged to borrow in order to cover delivery failures by non-members, which could prove expensive. The fail prohibition on members has the effect of isolating the domestic market in Spanish government securities.

The prohibition on members of the CSD failing necessitates the ownaccount window and a special fails management window at the end of the first settlement cycle, which might be better used to extend the first cycle.

The only foreign institutions able to open third-party or omnibus accounts at the CSD are foreign CSDs. Non-CSD foreign participants can only open own accounts. This compels foreign users to use domestic settlement agents. The CSD claims that opening access to other market users would require a change in national law and it was agreed to revive this issue when proposals for EU securities law reform are made.

The prohibition on members of the CSD failing ensures that delivery failures are kept at low levels, but only through restrictive practices such as obstructing foreign membership of the CSD and providing preferential access to the settlement process to members, in other words, through barriers to interconnectivity. The rate of settlement efficiency that is being achieved may therefore be a fragile metric.

Currently, the only CCP clearing Spanish government securities is MEFFClear, which is operated by the local futures exchange MEFF (Mercado Español de Futuros Financieros). There is a fundamental weakness in the role performed by MEFFClear in that it would apparently withdraw from clearing in the event of a default by a member, leaving other members to cover the loss. In other words, the CCP would cease to be a CCP in the event of a default. For this reason, the CCP is largely, if not entirely, ignored by international financial intermediaries. It is not possible for other CCPs, such as LCH.Clearnet or Eurex Clearing, to clear Spanish government securities because they are not allowed access to the local CSD. **SLT**

Amsterdam Securities Financing and Buyside Breakfast

Date: 17 November 2010
Location: Amsterdam
Website: http://www.dataexplorers.com

Join Data Explorers and ISF at the Dylan Hotel Amsterdam for the Securities Financing and Buyside forum

Global Custody Forum 2010

Date: 30 November -1 December 2010
Location: London
Website: www.icbi-events.com/globalcustodyforum

The only custody conference to bring together leading players from the buy and sell side in the industry to debate the critical issues with representatives from over 20 countries.

15th Global Securities Financing Summit

Date: 19-20 January 2011
Location: Luxembourg
Website: www.clearstream.com

Industry Appointments

Merlin Securities has appointed **Daniel Dorenbush** as CEO of Merlin Canada Ltd after having received approval from the Investment Industry Regulatory Organisation of Canada (IIROC) to operate as a Dealer Member.

“We are delighted to have Daniel on board and to be working with NBCN, the Canadian leader in third-party and brokerage services,” said Aaron Vermut, co-founder and COO of Merlin and chairman of Merlin Canada Ltd. “As the first and only introducing prime brokerage services company in Canada we see a significant opportunity both for Merlin and for Canadian managers. We have more than 500 hedge fund clients in the US and one priority – to provide the technology and services that enable our clients grow to their businesses. We look forward to bringing our innovative product suite to Canadian hedge funds.”

As CEO, Dorenbush will be responsible for introducing prime brokerage services and technology solutions to Canadian alternative investment managers. Merlin intends to bring its industry leading proprietary portfolio reporting, trading, and technology solutions to this new marketplace.

Dorenbush was most recently a New York-based managing director and global head of strategic sales and relationship management in the Hedge Fund Services division at RBC Capital Markets. Prior to this he was based in Toronto as RBC’s global head of prime brokerage. Dorenbush is a CFA Charterholder and received his MBA. from McGill University and his HBA from the University of Toronto.

Maxim Group LLC, a leading full service investment banking, securities and wealth management firm, has announced the appointment of **Steven Simmons** as a senior vice president and head of Maxim’s Prime Services division. Simmons will be responsible for the development and implementation of Maxim’s Prime Brokerage Program dedicated to emerging and growing hedge fund managers, with a key focus on capital introduction services. “Steve’s vast experience in the small prime brokerage arena will compliment Maxim’s efforts to provide cost effective solutions to our hedge fund clients,” said Christopher J. Fiore, president of Maxim Group LLC.

Prior to joining Maxim Group, Simmons was the head of Prime Services Sales and Capital Introduction at Lighthouse Financial Group LLC. Previous to Lighthouse Financial, Simmons held a similar position at Terra Nova Financial. Simmons’ prime brokerage programs have been the recipients of numerous awards. At Lighthouse Financial, his programme received the award for Best Capital Introduction Programme for Small Prime Brokers from Hedge Fund Manager Week Magazine. His programme has also been a three-time recipient of Opal Financial Group’s award for Best Broker for Emerging Managers. Mr. Simmons received a BA in International Relations from Colgate University.

TradeStation Prime Services has added **John Kenealy** to its team. Kenealy will serve as vice president of TradeStation Prime Services and will head up the company’s Chicago office.

Kenealy has more than 15 years of sales and brokerage experience. He joined TradeStation Securities in October 2001 as a sales representative. He most recently served as director of active trader sales for TradeStation.

“John’s unique background in brokerage sales, as well as his thorough understanding of the TradeStation platform and related trading technology, will complement the Prime Services team,” said William Katts, co-head of Tradestation Prime Services. “John will be primarily responsible for developing and servicing prime brokerage clients in the Chicago area and will help to further refine the overall prime services offering.”

Kellner DiLeo & Co. announced today that **Rory Zirpolo** has joined the firm as principal and head of securities lending. In this capacity, Zirpolo serves as the portfolio manager of KDC Alpha, a matched book securities lending portfolio. Zirpolo comes to Kellner DiLeo & Co. with more than 25 years of experience in the securities lending business.

Most recently, Zirpolo served as managing director of prime services at Credit Suisse, where he was responsible for a USD50 billion supply side securities lending business. While at Credit Suisse, the team he led was honored with International Securities Finance’s “best borrower” award in 2010. Zirpolo also chaired the Risk Management Association’s US stock loan conference in 2006, 2007 and 2008. Additionally, Zirpolo served for four years on the board of Equilend, LLC, a consortium founded by the largest participants in the financial services industry to optimise efficiency in the securities finance industry.

George Kellner, CEO of Kellner DiLeo & Co., said: “We are delighted that Rory Zirpolo has agreed to join our firm. His experience, integrity, and management skills are invaluable to the team as we embark on the next stage of building out our fastest growing business. Rory is among the most highly regarded professionals in the securities lending business, and I look forward to a long association with him.”

“I am honoured to have the opportunity to leverage my extensive experience and capabilities in the entrepreneurial environment that Kellner DiLeo embodies” said Zirpolo. “This is a very exciting opportunity for me to join a growing firm in a significant leadership role.”

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Editor: Ben Wilkie
editor@securitieslendingtimes.com
Tel: +44 (0)20 3006 2710

Marketing: Steven Lafferty
design@securitieslendingtimes.com

Publisher: Justin Lawson
justinlawson@securitieslendingtimes.com
Tel: +44 (0)20 8249 0235
Fax: +44 (0)20 8711 5985

Published by Black Knight Media Ltd

16 Bromley Road
Beckenham
Kent
BR3 5JE
UK

Company reg: 0719464

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Investment Technology Group, Inc, have announced that **Minder Cheng** has been appointed to its Board of Directors.

Until July 2010, Cheng served as chief investment officer for index equity and capital markets globally at BlackRock, based in San Francisco. Cheng joined BlackRock at the time of its 2009 merger with Barclays Global Investors, where he worked in a variety of capacities for the prior 10 years, including as CIO of BGI’s Equity and Capital Markets division worldwide, with responsibility for active equity, index equity, transition management, securities lending and cash products, as well as equity, foreign exchange and futures trading activities.

Prior to BGI, Cheng held research, strategy and proprietary trading roles at Convergence Asset Management in Connecticut, Sumitomo Finance International in London, Salomon Brothers in Tokyo, and the New York Stock Exchange in New York.