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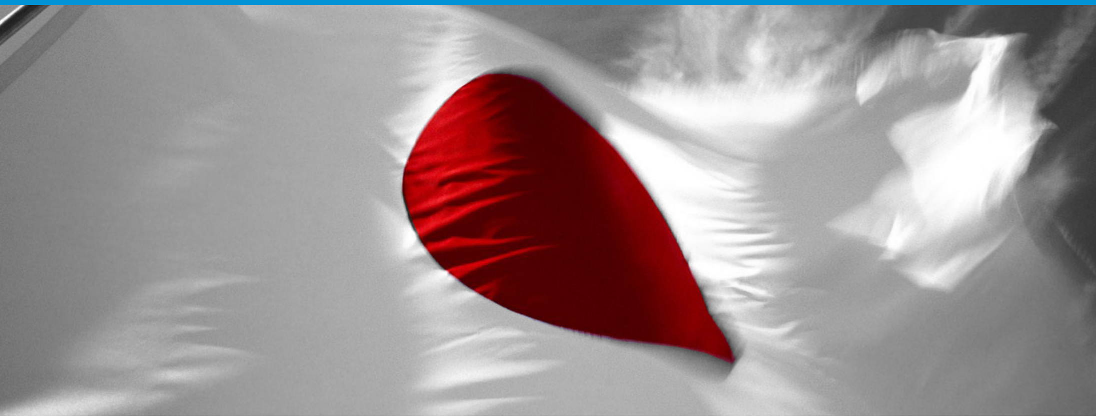

Tokyo reforms short selling rules

JAPAN 29 11.2010

The Tokyo Stock Exchange has announced a series of reforms that it hopes will enhance the functionality of the Japanese securities market and increase overseas investment.

Barriers that prevent overseas investors from participating are set to be removed or relaxed.

The exchange plans to bring its rules in line with those of other international exchanges, including relaxing the rules on short selling. The exchange has recognised that short selling regulations are considered very strict in comparison to other exchanges, and will recommend a change in disclosure requirements to fit in with expectations of European and US firms.

This will include short selling bans only coming into place in the event of a sharp market decline.

The TSE has also said it will explore ways of tightening controls on the surveillance of suspicious trading - there have been concerns and allegations surrounding insider trading in recent times.

"While TSE does not expect all measures in the paper to yield immediate results, the current situation is considered a prime opportunity to enhance the functions of the Japanese securities market for the future," said the TSE in a statement. "TSE will work together with market-related parties for making the necessary improvements to the markets environment."

Trading hours are also set to change in 2011 - the morning session will increase by 30 minutes, while trading break will be shortened to 15 minutes from its current 30 minutes.

The TSE is currently gathering evidence and conducting research on the changes, which are likely to be introduced next year.

NEWSINBRIEF

BlackRock to build securities lending

BlackRock is to launch a stock lending programme that will see 37 of its retail funds lend their assets.

The programme, which starts on January 17 2011, will include the UK Absolute Alpha, UK Dynamic, Special Situations, UK, Cautious Portfolio and UK Income funds amongst others. The total value of assets is over £7 billion.

Under the new programme, 60 per cent of the income from securities lending will go to the funds, with the remaining 40 per cent going to the lending agent BlackRock Advisers. Funds which are already lending securities will receive a 70 per cent cut, in line with existing agreements.

PPF to allow securities lending and repo

The UK's Pension Protection Fund (PPF) has updated its statement of investment principles, which will allow it to carry out securities lending and repo transactions.

The PPF's main purpose is to provide compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover the Pension Protection Fund level of compensation.

The PPF has emphasised that it will continue to maintain a low-risk approach to investments.

INSIDE SECURITIESLENDINGTIMES

Euroclear UK & Ireland and IFDS strengthen investment-fund processing

Euroclear and International Financial Data Services (IFDS) have announced that IFDS will use Euroclear to process its clients' investment fund transactions. For the first time, the IFDS fund management community of users will be able to benefit from EUI's fully automated services for the settlement of fund units and applicable cash movements.

Yannic Weber, CEO of Euroclear UK & Ireland, said: "We are delighted to be working with IFDS and extend an industry-designed solution for funds processing to their clients. Thanks to the great deal of support from the distribution community, coupled with the strong representation of IFDS clients in the UK market, we believe this is evidence of a solid value proposition. The system we have developed provides counterparties with the certainty they need regarding movement of not just the cash on intended settlement date, but also that the fund unit positions are updated in the register in parallel."

Matthew Brown, chief administration officer at IFDS, commented: "We continually look at ways to improve operational efficiency in the services we provide in all areas of transaction processing. We support initiatives that automate and standardise processes that help to lower cost and risk. IFDS is pleased to be working with Euroclear UK & Ireland in this regard, helping our users to settle fund transactions using an automated solution."

Gary O'Brien, investment support at Old Mutual Asset Managers UK (OMAM), commented: "We are committed to working with our operational partners in the development of solutions in order to improve the efficiency of the transaction process. OMAM is pleased to be working with IFDS and Euroclear UK & Ireland in this development which will benefit both our clients and us."

IFDS provides administration and technology solutions to over 50 per cent of the UK asset management market. IFDS clients include: Artemis Fund Managers, Aviva Investors Fund Services, F&C Fund Management, Gartmore Fund Managers, Henderson Global Investors, IFDS Managers, Jupiter Unit Trust Managers, Liverpool Victoria Portfolio Managers, Martin Currie Unit Trusts, M&G Investments, Neptune Investment Management, Old Mutual Fund Managers, Rathbone Unit Trust Management, Royal London Unit Trust Managers and Schroder Investments.

Eurex Clearing, Eurex Repo and Clearstream to optimise use of collateral

Eurex Clearing, Eurex Repo and Clearstream have announced that as of 26 November Eurex Clearing customers participating in the GC Pooling trading at Eurex Repo will be in a position to re-use GC Pooling collateral to fulfil their overall Eurex Clearing margin obligations.

Eurex Clearing members can make use of the new offering via their existing infrastructure. The Eurex Clearing member only has to set an exposure amount while the allocation of the individual collateral securities will be managed by Clearstream's collateral management system Xemac up to the defined exposure amount.

Thomas Book, member of the Executive Board of Eurex, said: "Eurex Clearing members now have an additional option to fulfil their margin obligations by accessing and re-using the multi-billion euros repo collateral pool created by trading on Eurex Repo. With this new offering we continue to meet the demand of our customers for an efficient use of collateral, reducing the operational costs and operational effort of our clearing members while maintaining the integrity of the clearinghouse."

Marcel Naas, managing director of Eurex Repo, said: "We continue to observe a growing need for secured money market transactions in an environment where collateral is scarce. Eurex Repo now expands the re-use possibility of collateral: cash providers can allocate collateral they received from cash takers to Eurex Clearing in the scope of the GC Pooling ECB basket consisting of high-grade ECB-eligible instruments."

Stefan Lepp, member of the Clearstream Executive Board, said: "This initiative is another step to grow and improve our Global Risk Management and Liquidity Hub. As the leading service provider in the area of integrated and international collateral and liquidity management, Clearstream continues to follow its global securities financing strategy to provide its customers the service to cover their global exposure through a consolidated and optimised collateral pool."

Overall, Eurex Repo markets have all seen tremendous growth in 2010 and reached in September a new average outstanding volume record of a total of €255.3 billion. The fastest growing market is GC Pooling, which achieved an average outstanding volume of €93 billion in October 2010 compared to €75 billion in October 2009. The current record was on 28 September 2010 with a daily outstanding volume of €109 billion. Simultaneously, the number of users has increased from 35 in January 2010 to currently 49. GC Pooling consists of a Euro and a US Dollar segment.

BoA to launch yuan prime brokerage services

Bank of America Merrill Lynch's prime brokerage has launched two Chinese yuan services in a move to attract more hedge fund business to the region.

The firm now accepts yuan deposits and yuan-denominated securities.

"Large international hedge funds used to use non-deliverable yuan forward contracts to make such bets," Merrill's Ben Williams told Bloomberg News. "These new services allow them to make the same bets through the potentially cheaper offshore yuan market."
He added, "given investor demand and the increasing focus on China, we're likely to see the

development of yuan share classes among both regional and global hedge funds."

Eurex to launch Canadian single stock future

Eurex, the international derivatives exchange, has announced that it will launch single stock futures on leading Canadian companies on 25 November 2010. The new listings reflect customer demand for expanded offerings in the rapidly growing equity derivatives segment.

The futures contracts will be based on shares of Bank of Montreal, BCE, Canadian Imperial Bank of Commerce and Sun Life Financial. "Single stock futures have quickly become one of our fastest growing product segments. The contracts give customers greater flexibility in executing trading strategies in more than 750 names in Europe and internationally. The new Canadian listings will provide members with further trading opportunities in the North American market," said Michael Peters, member of the Eurex Executive Board.

Eurex first introduced single stock futures on companies included in the DAX, EURO STOXX 50 and SMI indices in October 2005. Since then the product suite has expanded to include stocks in additional European countries, the US, and emerging markets Russia and Brazil. Volumes have risen steadily in recent years; for example, the US single stock futures have grown nearly fourfold to more than 498,000 contracts as of end of October 2010 compared to the same period of 2009.

The specifications of the new contracts will follow the US listings. Each contract represents 100 shares denominated in US dollar and is cash settled. They will have expiry dates up to three years for the next 13 calendar months, plus the two following annual contract months out of the December cycle. The Eurex Block Trade facility also is allowed for the Canadian single stock futures.

BNY Mellon transacts $500m over EquiLend's Trade$_2$O Service

EquiLend has announced that BNY Mellon utilised its service, Trade$_2$O, for over $500 million in trades last week of international equities.

Trade$_2$O provides a simple and fast way for traders to negotiate and agree trade terms for all types of securities.

Rob Coxon, head of international securities lending at BNY Mellon Asset Servicing, said: "Trade$_2$O has proved an exceptionally beneficial tool, allowing us to benefit from the very efficient and streamlined execution of trades across all asset classes. As long-term supporters of EquiLend, BNY Mellon is pleased to see it continuing to set the pace in respect of innovative trading services."

"We are pleased to see the momentum building with Trade$_2$O," says Laurence Marshall, managing director of EquiLend Europe. "It is exciting to watch the continued growth in volumes over Trade$_2$O and indeed the full suite of trading services across the EquiLend platform."

Data Explorers launches securities lending quarterly reviews

Data Explorers has announced that its new Securities Lending Quarterly Review for Q3 2010 is available to download at www.dataexplorers.com/Q3-2010.

The Securities Lending Review is a 50 page book, published each quarter, that presents a unique analysis of global securities lending activity in the major markets around the world. It includes Data Explorers securities financing insight as well as analysis to depict global supply, demand and returns by geographical region including Asia, the Americas and EMEA.

The Q3 2010 Review includes:
- A review of securities lending activity across ASIA, authored by the Pan-Asia Securities Lending Association (PASLA)

- Securities lending data and macro sentiment commentary about the supply, demand and returns for 16 individual markets

- Key take-aways following the inaugural Data Explorers Asia Forum where it was revealed that Hong Kong eclipsed Japan for the first time in terms of securities lending revenues

- An analysis of the regulatory constraints facing securities lending activity in Australia by the Australian Securities Lending Association (ASLA)

- Securities lending tax considerations by Deloitte.

An annual subscription to receive four print editions of the Securities Quarterly Review costs £100. More information can be found at www.dataexplorers.com/Q3-2010.

EquiLend sign up Daiwa Capital Markets

Daiwa Capital Markets ("Daiwa"), one of Japan's leading investment banks, has signed up to use EquiLend services in Japan.

Daiwa is the first local Japanese entity to use the EquiLend platform in Asia since EquiLend announced it was expanding its presence in the Asian Securities Lending marketplace by the opening of an office in Hong Kong – Q1 2011. Daiwa is set to begin transacting with EquiLend's AutoBorrow trading service.

"We are delighted to be able to support Daiwa with our robust securities finance platform," stated Brian Lamb, CEO, EquiLend. "It underscores the growth of the industry in Asia and the demand for innovative technology solutions that EquiLend has to offer."

"We look forward to utilising EquiLend's market leading services which will help bring further scale to our growing securities finance business," commented Charles Day, London-based global head of equity finance within Daiwa's Derivatives Division.

Algorithmics enhances Algo Risk Service

Algorithmics has announced that it has enhanced the customisation capability of its award winning Algo Risk Service, a hosted risk management, portfolio analytics and decision support tool, by adding eight new service extensions.

Unlike standard ASP services, Algo Risk Service is a managed service that has a dedicated client environment which offers the configuration flexibility normally associated with an in-house deployment. Algo Risk Service extensions are optional service extensions that complement and augment the award-winning Algo Risk Service, enhancing its already powerful functionality and offering clients the flexibility to customise the service even further. Algo Risk Service extensions give clients of Algo Risk Service access to a range of advanced data management, optimisation, analysis and reporting tools, managed and supported by Algorithmics' industry leading financial engineers and risk practitioners, in an environment uniquely customised to each client's specific business requirements.

Roger Orde, senior director, Algo Risk Service, said: "Since its launch, Algo Risk Service has been recognised as an award winning risk technology solution for buy-side firms. The addition of these new service extensions, available on request, provides even greater flexibility for clients to tailor the service to their unique needs. A good example of this is the introduction of sophisticated, customised scenarios which represent enhancements of the standard scenarios available within the Algo Risk Service. No two portfolios are the same, so the question is why should any two scenarios be the same? The ability to select and apply custom scenarios that better reflect their risk profile makes a lot of a sense for most clients."

The new service extensions for Algo Risk Service have been driven by evolving market requirements and changing client needs. For instance, counterparty credit exposure enables the monitoring, measuring and management of counterparty credit risk, with clients being able to see the impact of changes in portfolio composition on both market and credit exposure.

Dr Andrew Aziz, executive vice president of buy-side solutions, Algorithmics, added: "The Algo Risk Service extensions have been developed based on demand from clients to be able to customise an already flexible product offering to meet very specific and bespoke business requirements and to address differing consumers of risk analytics. For example, a key trend arising out of the recent financial crisis has been the desire to distribute risk reporting more broadly and to make it more relevant to more areas within the business. The new advanced reporting service extension will do just that."

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
- Executive Summary of all counterparty credit risks

Custodians 'biggest threat' to prime brokers

Custodian banks will become the biggest threat to prime brokers if clearing is introduced to foreign exchange, said Jason Vitale, global head of dbClear, FX prime brokerage and clearing at Deutsche Bank.

Vitale said that if the Dodd Frank legislation and Consumer Protection Act includes FX, there will be serious implications for the industry.

"Historically, the prime brokerage industry didn't provide well on collateral segregation – it's an area where a number of banks have fallen short," said Vitale, speaking at the FX Week Europe congress in London.

King joins CIBC

CIBC World Markets has added **Greg King** to its securities lending desk to focus on enhancing the Canadian Imperial Bank of Commerce (CM) unit's securities lending services and value-added offerings.

King, who will be based in Toronto, was most recently chief operating officer at Toronto-based Omega ATS, an electronic marketplace for trading stocks.

BNY Mellon appoints new Japan country executive

BNY Mellon has appointed Thom Fisher as general manager of the company's Tokyo Branch and country executive for Japan. In his role as country executive, Fisher is the chief strategist, leader and senior representative for the company's business groups with regulators and clients. He will report to Christopher Sturdy, chairman of Asia Pacific, based at the company's regional Asia-Pacific headquarters in Hong Kong.

Malcolm Podmore, who has been serving as general manager since March, will assume the role of deputy general manager, in addition to his role as head of global operations for Japan, and locally report to Fisher.

Fisher has over 35 years experience in the asset management and securities servicing industry having held a wide range of senior management roles at Deutsche Bank, Natwest Securities Limited, Tiger Management, BPB Associates and Morgan Stanley. He was most recently a consultant to Blue Sky Strategy Limited, a UK-based hedge fund manager, specialising in the Middle East.

Fisher has worked extensively in Asia-Pacific during his long career including three years in Singapore as chief infrastructure officer for Asia-Pacific at Deutsche Bank (2003-2006). Whilst at Morgan Stanley in the 1980s, Fisher spent two years in Hong Kong and three years in Tokyo where he was responsible for directing the initiative to be the first foreign firm to trade and self-clear on the Tokyo Stock exchange.

BNY Mellon has been servicing Japanese institutions for almost 100 years and last month celebrated its 40th anniversary in Japan. The company opened its first office in Tokyo in 1970 via the Irving Trust Company (which merged with Bank of New York in 1988) and was granted a branch license in 1973. BNY Mellon provides a wide variety of products and services to Japanese institutional and wholesale marketplace including asset management, securities servicing and corporate trust.

In September 2010, BNY Mellon announced plans to combine its Japanese operations into Marunouchi Trust Tower Main in Tokyo and will relocate to the new building in 2011. The company currently has approximately 240 employees located in Tokyo and plans to increase this by an additional 75 people over the next three years as its business grows.

Asset allocation strategies 'most valuable'

Skill in adjusting exposures to various asset classes over time could be the most valuable part of the investment process for hedge funds and is likely to add more value than either selecting securities or maintaining a static equity exposure. That is the key finding from a recent white paper from Mellon Capital Management Corporation, part of BNY Mellon Asset Management.

"Of the three components, adept asset allocation can be the most important," said Eric S. Goodbar, hedge fund strategist for Mellon Capital, who co-authored the paper with Karsten Jeske, PhD, a senior quantitative analyst at Mellon Capital. "Well-timed asset allocation decisions can lower the correlation of the hedge fund's performance to stocks or bonds. Unfortunately, many hedge fund portfolios have a sizeable static allocation to equities, which increases the correlation of the hedge fund portfolio with the performance of equities."

Hedge fund managers who lower the correlation of their investment portfolio to the performance of traditional equity investments are more likely to avoid worse performance in down markets than those maintaining a static equity exposure, according to the paper.

Jeske said, "We believe raising the impact of asset allocation and lowering the static exposures to stocks and bonds can reduce the risk in the portfolio and position it so it better reflects the skills of the portfolio manager instead of mirroring the moves of the markets."

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Driving forward

With 10 years under his belt at SecFinex, CEO Allen Postlethwaite talks to SLT about the future of the market and the challenges it faces

BIG INTERVIEW

SLT: Allen, you have been with SecFinex since day one. How would you describe the past 10 years?

Allen Postlethwaite: Interesting! We were the first to provide traders with an electronic trading system. The lenders were very keen right from the start, not really surprising as we provided a central portal where they could show availability to all their borrowers, so a more efficient way to distribute. The biggest challenge was getting traders off the telephone and using the screens, especially on our anonymous market, but perseverance paid off and for some it became part of their daily routine. Now of course electronic trading is an accepted way of doing business.

SLT: With regulators pushing for more and more transparency does this mean the time has now come for SecFinex?

Postlethwaite: Change in the securities industry rarely happens overnight. The gradual migration of securities lending into a market and CCP structure has been on the industry's agenda for several years, but there was no impetus to drive it forward. What the increased focus on transparency does is help accelerate the process, and yes SecFinex is well positioned.

SLT: As a strong advocate for CCPs have you seen a greater appetite for information, membership and overall business since we first spoke for Issue 2 in June?

Postlethwaite: Absolutely. We are currently engaging with a number of agent lenders, holding detailed workshops with them. The recent paper published by Roy Zimmerhansl and Andy Howieson generated further interest from the market and resulted in requests for information. We have a major GCM working towards providing their services in Q1 2011 and we are having detailed discussions with two others.

SLT: A number of people at the ISLA Conference earlier this year voiced the view that the only way the market will take to CCPs will be with a mixture of carrot and stick. What are your thoughts on this?

Postlethwaite: I understand the sentiment but I do not believe that this is the full picture. The real driver for market and CCP structures is enlightened self interest. While such structures will indeed mean some changes in the way business is done, they will also allow the expansion of the market without run-away risk. As such I believe that the financial returns for both borrowers and lenders will be increased in a CCP world All that is necessary is a clear understanding of a centrally cleared marketplace proposition.

SLT: Will the expected increasing usage of CCPs mean more competition from new entrants to the market?

Postlethwaite: I would be shocked if SecFinex remained as the sole MTF for stock lending for more than a year or so. Product diversity is one of the major elements of competition between exchanges and MTFs and so it is inevitable that other stock lending markets will emerge. We at SecFinex have always maintained that such a move would enhance our business and we are happy to back our products against any that might emerge. That no other market has yet been launched in Europe is more of a testimony to the complexity of the stock lending world rather than a comment on the desirability of such markets.

SLT: There have been criticisms that the increased capital requirements of Basel III are too harsh. How do you feel about this?

Postlethwaite: I think that there is a legitimate concern in the market that the increase in the common stock element of capital under Basel III may create considerable difficulties – especially in the short term as banks scramble to tap the capital markets. However it may be the liquidity requirements, which are still to be finalised, that will have the greatest market impact. There is little doubt in my mind that one effect of recent CRD changes and the forthcoming Basel III changes will be to force a large proportion of business which is currently done OTC into CCP structures. Many CCPs are not yet geared up to take on the challenge of clearing multiple OTC instruments and are likely to struggle in some areas, but as SecFinex is already positioned with a CCP backed product, stock lending can be among the first major OTC markets to move to CCP under the new regulatory regime.

SLT: Do you see any European markets closing in on London as the continent's financial capital, particularly within the securities lending industry?

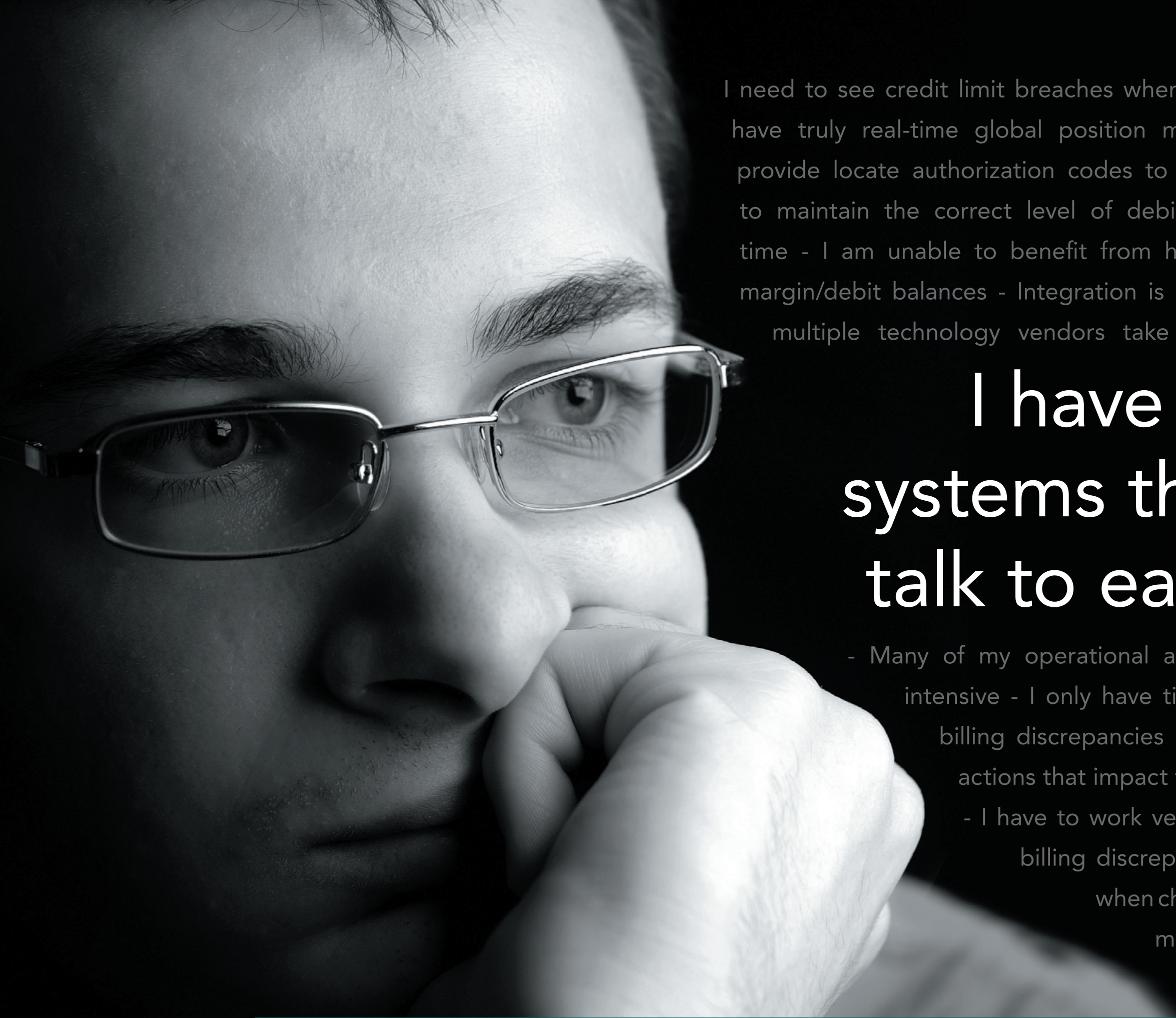
Postlethwaite: Not really, no. I think it's more a case of the UK not making it uncompetitive to do business here through taxation or regulation; it's ours to lose so let's hope that doesn't happen.

SLT: There has been a lack of demand from hedge funds in 2010, the market has been relatively flat, so where do you see the industry heading in 2011 and what are the future plans for SecFinex?

Postlethwaite: The general consensus at recent industry events is that it will be a very long time before we get back to the levels we saw two years ago, if ever. It is my personal belief that for this market to grow at all, it needs to embrace a CCP model. The post Lehman world is focused on counterparty risk as we can see from the forthcoming, CRD changes, Basel III capital requirements and Solvency 2 implementation. Additionally regulators are determined to reduce the opacity and bi-lateral risk of OTC markets, as can be seen from the impending EMIR legislation. Together these changes are converging to create a 'perfect storm' which will drive market participants to a CCP solution.

At SecFinex our focus remains on Europe. We will continue to build up participation in the CCP model and further develop the product functionality based on market feedback. We have already received some useful comments about product build out which we are considering incorporating during 2011. We are also planning to launch the UK market with SIX x-clear as the central clearer, so we certainly will not be idle. **SLT**

Allen Postlethwaite
CEO
SecFinex



Netherlands

As one of the most advanced securities lending markets in Europe, the Netherlands has faced the downturn better than most. But there's still some work to do before it returns to its peak.

BEN WILKIE REPORTS

The Dutch equity market is currently the fifth-largest in Europe, some achievement for a relatively small country. But it's not surprising; as one of the world's most advanced countries when it comes to pension funds, there is a huge amount of investment opportunity.

However, there have been significant changes since the start of the financial crisis. By the end of 2008, many money market funds were reporting losses on securities lending collateral of at least EUR10 million, with rumours that some had lost considerably more. While some funds threatened legal action or provider change, some of the service providers went the extra mile to help the market. Northern Trust, for example, came up with strategies to help clients whose assets were invested in certain instruments that had been affected by the turmoil.

But no-one was unhurt. The Netherlands saw an almost total lack of liquidity across all asset classes, and a complete loss of confidence in the financial markets in general, with securities lending hit hard.

Over the last couple of years, however, the market has begun to recover. The Netherlands has always been thought of as a relatively stable jurisdiction, and while there were losses at the start of the downturn, investors are making a cautious return.

Regulation

Short selling became a major issue, at least in the eyes of those who didn't understand its benefits, in the early days of the financial crisis. As a result, regulators instituted a temporary ban, which was repealed from June 1 2009. This, however, was replaced by a temporary rule that required any short positions in Dutch financial institutions to be automatically reported to the Netherlands Authority for Financial Markets (AFM). Market makers are exempt from the rules.

The AFM also tightened up the rules on many financial transactions that, while generally not directly aimed at the securities lending market, certainly had an impact.

2009 was relatively quiet, but increased dividend activity - particularly from Royal Dutch Shell - and some takeover speculation has increased the opportunities in the market.

Confidence

According to Data Explorers, the strength of securities lending within the country is also pretty good, with supply outweighing demand in the Netherlands by a factor of seven, compared to a European average of nine. But education remains an issue.

"We have a lot of pension funds in the Netherlands, and many of them are not of a large size," says one prime broker in the country. "They are naturally quite conservative in the sense they don't like to work in areas they don't fully understand. And because securities lending is a relatively small part of their business, they haven't taken the time to get a real knowledge of it. If we want more firms to participate in securities lending, we need to get them to know more about it."

The market is dominated by the global oil giant Royal Dutch Shell, but there are other firms that are seeing interest from securities lending participants. Crucell NV, a pharmaceutical firm, faced a takeover bid earlier this year, leading to a flurry of activity, while banking group Binck-Bank and construction firm BAM Groep are also popular.

However, not everyone remains so confident. Stichting Pensioenfonds Vopak, a hybrid DC/DB pension fund with assets of around EUR 630 million, continued to transact securities lending deals throughout the crisis, but has recently pulled out.

"We had been undertaking securities lending for around 10 years before we stopped it in August," says Cees Blokzijl, pensions director at the fund, speaking to IPE. "Over a decade ago it was brought to us as an additional return without risk. Of course, the financial crisis showed that risks are involved, but 10 years ago they were very limited.

"The last tranche of securities lending in our passive mandate has just ended. Our euro equities contained some restrictions, meaning we were not able to get rid of the securities lending within that portfolio. But our passive asset manager lifted those restrictions and as a result we terminated securities lending.

"However, that does not mean that we are not going to undertake securities lending again. We will probably look at it from another perspective though, particularly with regard to risk management.

"There is no guarantee that we will enter the market again but it will probably be a discussion point in the investment proposal for 2011.

"While the passive asset manager was responsible for securities lending in our passive mandates, our former fiduciary manager undertook the lending programme in our active portfolio. We used to lend both equities and bonds – we had a long bond portfolio, which we used for securities lending, as well as our equity portfolio in Europe and North America. The amount that could be lent was at the discretion of the fiduciary manager.

"The securities lending programme in our active portfolio stopped when we changed our fiduciary manager in spring 2009.

"We were not affected by negative returns with respect to securities lending. All our collateral was very well placed, posted daily and we therefore did not lose any money with our securities lending. Nevertheless, the risks that popped up during the crisis made us review it. Before we enter the market again we will now have to have the full picture about the risks and how we are going to manage them.

"A lot of Dutch funds used to have a securities lending programme but have re-evaluated it – and many of them, like us, have downgraded or stopped it altogether."

These comments have been backed up by research from J.P. Morgan, which was looking at the role of the custodian in the Dutch funds market. The survey found that 84 per cent of the pension funds canvassed either did not participate in securities lending at all, or have recently stopped lending securities.

There were three reasons for this, says J.P. Morgan's Roel van de Wiel: "First, some participants have suffered significant collateral shortfall without any proper indemnification policy in place from their securities lending provider when lending fixed income securities and accepting equities as collateral. Some securities lending providers have made their clients whole for this collateral shortfall. This has put pressure on the financial stability of some local custodians with securities lending programmes and some of the survey participants have indicated that they will not reenter such programmes.

"The second reason is exposure to securities lending related commingled cash collateral reinvestment vehicles, which has led to significant and unexpected unrealised losses due to investments in instruments that were not well understood in terms of risks. Some pension funds believe that switching custodians or securities lending provider in the short term is not possible without realising these losses.

"The final reason is the unforeseen risk related to allowing an external investment manager to execute securities lending from their investment pools without clear and communicated securities lending guidelines — including the lack of indemnification against any potential collateral shortfall.

"Respondents have also indicated that there are many misconceptions harboured by their investment committees and boards of trustees about the role of securities lending in modern capital markets and how to overcome and mitigate the associated risks. Some of them believe securities lending providers should reeducate the market."

The future

With such a large pension fund pool of assets, the securities lending market in the Netherlands should have a positive future. But as in much of the rest of the world, education about how the system works is vital if the assets available is to grow.

The Netherlands has long been a popular destination for international players, with hedge funds keeping a watching eye. It's been punching above its weight for many years, and is likely to continue to do so. **SLT**

Securities lending market statistics

	As at end September 2010		Group Average Results Quarter Ended September 2010			
Asset Class	Lendable Assets (USD m)	Total Balance (USD m)	Utilisation (%)	SL Fee (bp)	Securities Lending Return to Lendable (bp)	Total Return to Lendable (bp)
Netherlands Equity	87,030.10	14,653.60	10.21	44.48	5.53	5.85
Netherlands Equity (AEX)	79,938.50	14,079.70	10.39	43.26	5.55	5.87
Netherlands Equity (AMX)	5,116.30	471.40	9.40	59.34	5.66	5.98
Netherlands Equity (Others)	1,975.20	102.50	5.27	93.62	4.64	4.75
Netherlands Government Bonds	84,399.50	29,427.60	29.57	5.80	2.57	3.61
Netherlands Govt Bonds (Domestic)	70,612.60	27,257.60	32.35	5.46	2.73	3.83
Netherlands Govt Bonds (International)	13,786.90	2,170.00	13.02	12.20	1.58	2.30

Security ranking by total return

1 Arcelormittal
2 Royal Dutch Shell
3 Koninklijke Kpn
4 Tomtom
5 Unilever
6 Koninklijke Philips Electronics
7 Heineken
8 Reed Elsevier
9 Tnt
10 Koninklijke Dsm

Source: Data Explorers

House builders stand out

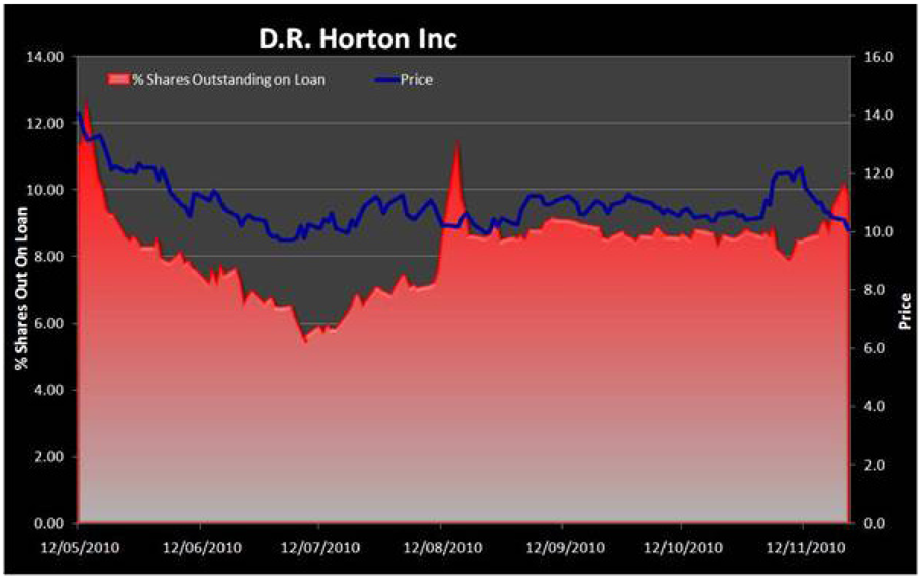
Will Duff Gordon examines the fortunes of the construction market

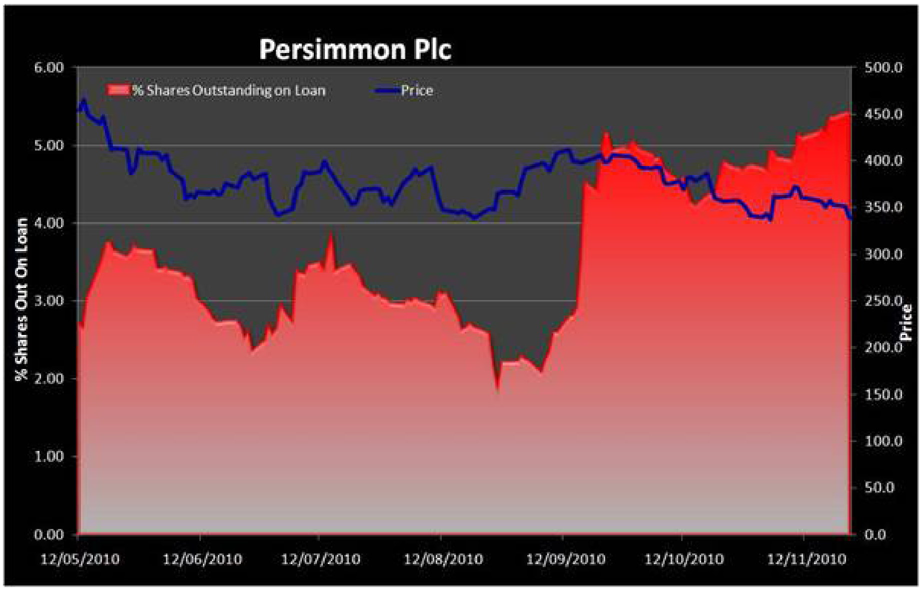
STOCK FOCUS

Little things appease small minds and we are particularly pleased with a new screen showing which shares have hit a new 52-week high in terms of short selling. This new arrow in our quiver has thrown up a trend hitherto missed – demand to borrow the main listed house builders is very strong at present.

US and UK house builders have survived the financial crisis, and in the main, purged themselves of most debt leaving them less leveraged and fit for a future of more modest demand. However, investors are borrowing shares in names like DR Horton, because demand for new homes in the US is not rebounding as many would hope. US macroeconomic data is mixed, but one thing is sure: confidence is low and is not being encouraged by further quantitative easing from the Fed. DR Horton sees just under 10 per cent of its shares on loan, which is a day or two off its annual high.

Lennar is the name with an actual short interest figure at its 52-week high at 13 per cent of total shares. Along with most of the US house builders, they build homes and lend people money. Beazer Homes USA has an equivalent figure of 15 per cent while the smaller KB Home is 16 per cent. To prove that this is a nationwide view, we also look at the west coast specialist, Standard Pacific to see that they have eight per cent of their shares on loan. While lower than the others, it is around four times the average for US equities.





The rather more upmarket house builder, Toll Brothers are less in demand from short sellers at six per cent of shares borrowed. Pulte Group, who partly focus on first time and second time buyers, have nine per cent of their shares on loan. This is much lower than it has been, but the number has been recently rising and the shares have been suffering.

Against the backdrop of the latest round of potential bank renationalisation in Europe, are the UK equivalents in the same boat? Only two firms: Persimmon and Bovis Homes, seem to fit the bill, and even then the scale of demand to borrow is far below that of the US names. Counter balancing this fact is that there are far fewer funds which actively short UK equities compared to US equities, so the numbers are likely to be smaller anyway.

Short selling in Persimmon is miles lower than it was in the credit crisis and it has been slowly declining over the past two years. But, this switched around in early September when stock on loan more than doubled from two per cent to five per cent, and has since been rising to 5.5 per cent today. The increase took place earlier in the year with Bovis Homes, but there has been some short covering recently as the price has fallen from 380p to 330p since October.

In Asia there have been recent developments to cool their property market, which could slow down the price increases in the likes of Sino-Ocean Land and Agile Properties. In the latter, short selling has climbed back to levels last seen in June. This was the last time people expected a cooling off of China's rampant property market. For Sino-Ocean there has been dramatic short covering, but it remains quite high at four per cent of all shares while the price is falling. **SLT**

Will Duff Gordon
Media director
Data Explorers

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Location: London
Website: www.icbi-events.com/globalcustodyforum

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60 Second Resumé

Mike Cosgrave

Meet Mike Cosgrave, an experienced senior professional who has paid his dues in the securities lending industry

Contact Mike Cosgrave
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mobile: +353 86 835 2244

Tell me a little about yourself

I am an experienced securities finance professional with a solid reputation and track record in building agency securities lending businesses, most notably at Bank of Ireland in Dublin (1996-2007), but also State Street in London (1989-1994). I was a founding member and past chairman of ISLA and with industry working groups and regulators was directly involved in the creation of the taxation and legal frameworks within which the securities financing market operates today, both in the UK and Ireland.

What industry qualifications or relevant certification do you hold?

My background is in accounting, but as such I have no formal qualification in that discipline.

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

My last position was that of director and head of securities lending at Bank of Ireland Securities Services, a division of the Bank of Ireland Group. What I enjoyed most about that role was being innovative in the way in which we delivered solutions, managed the business we conducted with and the overall expectations of both our institutional lender client base and the investment banking and prime brokerage community with whom we had borrowing relationships. In addition to this building a solid reputation and successfully competing with many similar, and larger, lending agents was also very satisfying.

What sort of role are you looking for?

Given my background I believe my wide-ranging knowledge, network, reputation and track record would equip me very well to contribute in a very positive way to any securities lending or borrowing organisation, particularly in the areas of business development, innovation and bottom line growth. In addition I would also see that my experience could be very useful in assisting technology service providers to “bridge the gap” between their clients’ needs and their own capabilities in terms of their efforts to provide their clients with state of the art and relevant technology solutions.

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

In addition to the knowledge, network, reputation and track record I would bring an enthusiasm, commitment for excellence and a strong desire to exceed both internal and external expectations. Because of the fact that I have been involved in many different aspects of the business over the years I also believe that the maturity and understanding I have gained in that time equips me very well to effect a positive influence.

What do you feel the industry needs most?

The industry has gone through huge change in recent years, but perhaps what the industry needs most now can be narrowed down to primarily three things for me. Firstly, there needs to be a continuing re-affirmation by regulatory bodies across the globe that the practice of securities lending and borrowing, while not entirely risk free, is an important and necessary element of any well functioning securities market. Secondly, the issue surrounding disclosure/transparency needs to be somehow addressed to the satisfaction of all market participants. And while this is not an easy task, it continues to hamper the creation of a more “open” market. I believe the more open the market the more we will see new beneficial owners entering the market, which has got to be good for all market practitioners. Thirdly, the industry needs to continue innovating, creating new ways of connecting and delivering information and technology. **SLT**