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Citi Launches prime finance business advisory practice

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Citi's Prime Finance division has launched its Business Advisory Practice, combining hedge fund industry research and thought leadership with comprehensive consulting services. The Business Advisory Practice is designed to support hedge fund clients by partnering with them through all phases of their growth and maturity, from start-ups to institutional size funds.

"Through our work with a wide range of hedge funds, extensive industry research and Citi's worldwide presence, Citi Prime Finance has generated significant intellectual capital, with deep operational and technological expertise," said Alan Pace, head of Americas Prime Finance for Citi. "The Business Advisory Practice, by partnering with hedge funds well beyond the one- to two year startup period during which most prime brokers support their clients, provides insight and expertise to funds seeking growth in an increasingly complex business and regulatory environment."

The Business Advisory team has developed a unique framework to understand the evolutionary lifecycle of a hedge fund – the hedge fund maturity model. In developing this new maturity model for continued partnership with hedge funds, Citi conducted more than 75 in-depth interviews with hedge funds over a three year period, documenting patterns of change in the business and identifying changing client needs. Citi Prime Finance's Business Advisory Practice will offer a full range of management and technology consulting, including start-up services, business management services, operational review assessments, technology infrastructure, and client-facing technology support. The Business Advisory Practice will also provide industry analysis and reporting, publishing quarterly white papers on industry topics, sponsoring research and issuing a monthly viewpoint on key market trends and items of interest in the hedge fund arena.

Institutionalised hedge funds, with assets under management of $10 billion or more, have very different needs

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NEWSINBRIEF

Securities lending under spotlight in Senate

The US Senate Special Committee on Ageing is reported to be investigating the securities lending practices of defined benefit and defined contribution pension schemes.

The chairman of the Committee, Herb Kohl, is said to be concerned that plan sponsors have been restricted when looking to withdraw money from their securities lending accounts.

The Committee is also looking into the abilities of funds to withdraw money from stable value funds.

MetLife to build securities lending

MetLife has announced a growth strategy for 2011, which will include growing its securities lending opportunities.

The insurer has announced several financial targets for 2011 as well as its expected results for the fourth quarter and full year 2010.

Members of MetLife's senior management team will review these financial projections with investors and discuss the company's businesses at MetLife's annual investor conference.

2011 Guidance: "In 2011, MetLife will continue to generate strong growth with operating earnings expected to increase

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INSIDE SECURITIESLENDINGTIMES

Citi Launches prime finance business advisory practice

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Institutionalised hedge funds, with assets under management of $10 billion or more, have very different needs from those of start-up funds with less than $1 billion in assets," said Sandy Kaul, who will head the Business Advisory Practice's US operations.

"Citi Prime Finance is well-suited to provide the mix of consulting services, industry insight and thought leadership that hedge funds need right now."

MetLife to build securities lending

continued from p1

38 per cent over 2010 to between $5.1 billion and $5.5 billion ($4.75 to $5.15 per share)," said C. Robert Henrikson, chairman, president & chief executive officer of MetLife, Inc.

"With our leading positions in the US and our expanded global reach resulting from the acquisition of Alico, we are poised to achieve strong results next year and beyond. We plan to grow premiums, fees & other revenues 30 per cent next year to between $45.8 billion and $47.0 billion, invest in our expanding businesses around the world and maintain our disciplined approach to underwriting and expense management.

"Our continuing efforts to increase value for our shareholders will position us to deliver an improved operating return on equity (ROE) of approximately 11 per cent for 2011 and generate further ROE improvements in the years that follow," added Henrikson.

Opes Prime client wins compensation

An Australian businessman is believed to be the first client to win compensation from the country's National Guarantee Fund following the collapse of Opes Prime.

The man deposited around AUS75,000 with the firm a few days before it collapsed. He has been paid out approximately AUS47,000.

Until now, all claims for compensation have been rejected by the National Guarantee Fund because of the way the company was structured - essentially monies paid to Opes Prime became the property of the firm and not the investor.

But in this case, the court found that the way the contract was structured meant that the money was effectively held in trust for the client.

Further claims are still outstanding.

Mitsubishi UFJ Trust downgraded

Mitsubishi UFJ Trust (MUTI) has seen its long term issuer rating downgraded by Moody's from Aa2 to Aa3 in a move that will restrict its securities lending activities.

MUTI was warned in March that its rating may be downgraded as part of Moody's reevaluation of the financial subsidiaries of Japanese banks.

The new rating reflects both the company's standalone financial strength and the relationship between it and its parent, Mitsubishi UFJ Trust and Banking Corporation, which also part-owns MUTI's custodian bank.

New Indian fund to allow securities lending

Tata Mutual Fund has launched a new fund named as Tata Fixed Maturity Plan Series 29 - Scheme B, a close ended debt scheme, where up to 25 per cent of the assets will be available for securities lending.

The investment objective of the scheme is to generate income and / or capital appreciation by investing in wide range of debt and money market instruments having maturity in line with the maturity of the scheme. The maturity of all investments shall be equal to or less than the maturity of the scheme.

The scheme would allocate up to 100 per cent of assets in debt and money market instruments & securitised debt with low to medium risk profile. Not more than 25 per cent of the net assets of the scheme shall be deployed in securities lending.

The scheme would limit its exposure, with regards to securities lending, for a single intermediary, to the extent of five per cent of the total net assets of the scheme at the time of lending. The scheme will have maximum derivative gross notional position of 50 per cent of the net assets of the scheme. Investment in derivative instrument may be done for hedging and portfolio balancing.

Denmark warns against bank short selling

The Danish FSA has warned against possible short selling in Danish banks with share issues. Short selling of Danish banks was banned during the peak of the financial crisis in 2008.

"In connection with publication of the prospectus for the share issue by Fjordbank Mors, the Danish FSA is warning investors against selling bank shares, where delivery depends on a future expectation of allotment of new shares in connection with share issues, as investors risk breaching the ban on short selling Danish bank shares," the Danish FSA said in a statement.

BTIG opens its next generation trading floor in New York

BTIG, LLC, a global broker dealer specialising in institutional trading and related brokerage services, has announced the opening of its new trading desk at 825 Third Avenue.

"BTIG continues to invest in people, technology and services. The newly completed New York trading floor is BTIG's largest trading desk and works in unison with our regional trading desks around the country and our international affiliates around the world," said Scott Kovalik, co-founder of BTIG.

"We engage our clients in ongoing discussions to determine what they need from BTIG to help them succeed. As the markets have shifted and evolved, institutional clients want to trade and access information across the capital structure," said Steven Starker, co-founder of BTIG.

"With our new floor and configuration of business units, a client of BTIG can access our high touch expertise in all products in one place. The integration of these businesses on one open floor in New York benefits every regional office and ultimately every client."

Phase one of BTIG's New York renovation is now complete with the opening of its new, state of the art trading floor on the 6th floor of 825 Third Avenue. The new trading floor has been expanded by more than 60 per cent from prior capacity. Phase two, scheduled for completion in early 2011, is an extensive project to fully renovate and reconfigure the 7th floor at 825 Third Avenue for continued growth in the firm's Prime Brokerage, Corporate Access, Capital Introduction and Business Development divisions.

"To be a leader in trading, we have located all of our execution-based businesses on a single trading floor, allowing for better communication and efficiency," added James Aniello, head of trading. "The power of leveraging market intelligence and the utility of having equities, converts, fixed income, options and international trading sitting together on one floor is tremendous. Our new configuration is a great resource for the clients we are servicing."

BTIG's new trading desk is the latest step in the firm's global expansion. With trading desks in five countries, and sales coverage in 14 cities, BTIG's clients have both global access and local high touch coverage in the markets and regions in which they base their operations.

J.P. Morgan offers greater access in Oz

J.P. Morgan has launched Australia's first tri-party securities lending transaction in a move that is expected to give superannuation funds greater access to the securities lending market.

Tri-party securities collateral management will allow more lenders to accept non-cash collateral against securities or cash lent.

The system has been built to suit the specific requirements of institutions in Australia and New Zealand, said Jane Perry, chief executive officer for J.P. Morgan Treasury & Securities Services for the two countries.

We believe our offering will assist Australian firms in efficiently collateralising exposures in line with overseas practice," she added.

EU wants tougher short selling rules

The European Union has published a draft law that is set to clamp down further on short selling and credit default swaps.

EU policymakers say CDS contracts based on sovereign debt were used by hedge funds to bet on a fall in the price of government bonds, which worsened the Greek debt crisis.

This claim has been denied by the hedge funds, who say the CDS market in Europe is too small to have a material impact on the market. Some countries have vehemently opposed the new legislation, saying the rules are too tough and will detrimentally affect government debt markets.

Eurex sees 20 per cent rise in 2010

At the international derivatives markets of Eurex, an average daily volume of 10.2 million contracts was traded in November (November 2009: 9.4 million).

Thereof, 7.2 million contracts were traded at Eurex (November 2009: 6.3 million) and 3.0 million contracts were traded at the International Securities Exchange (November 2009: 3.1 million). In total, 221.7 million contracts were traded on both exchanges (November 2009: 193.0 million); thereof, 159.0 million contracts at Eurex and 62.7 million contracts at ISE.

At Eurex, the equity index derivatives segment was the most active segment, totaling 71.2 million contracts (November 2009: 64.0 million). Futures on the EURO STOXX 50 reached 30.7

million contracts and options on this index recorded another 27.7 million contracts. The futures on the DAX index reached a turnover of 3.4 million contracts, the DAX option recorded another 6.7 million contracts.

The Eurex segment of equity-based derivatives (equity options and single stock futures) recorded 33.9 million contracts (November 2009: 29.1 million). Thereof, equity options totaled 27.5 million contracts, single stock futures 6.4 million contracts.

Due to the higher volatility of European bond markets, Eurex's interest rate derivatives segment grew by 38 per cent y-o-y and reached 53.2 million contracts, compared with 38.5 million in November 2009. Approximately 21.9 million contracts were traded in the Euro-Bund-Future, 12.1 million contracts in the Euro-Bobl-Future and 11.2 million contracts in the Euro-Schatz Future.

The Euro-BTP-Future set a new monthly record with more than 160,000 contracts, the recently launched Short Term Euro-BTP-Future recorded almost 61,000 contracts.

Dividend derivatives traded roughly 482,000 contracts, an increase of 26 per cent y-o-y. Commodities derivatives totaled at 83,000 contracts, an increase of almost 22 per cent y-o-y. Volatility derivatives totaled at 165,000 contracts.

Eurex Repo, which operates CHF repo, EUR repo and GC Pooling markets, grew by six per cent y-o-y and all markets combined reached an outstanding volume of 259.7 billion euros (November 2009: 205.5 billion euros). The secured money market GC Pooling grew by 25 per cent and achieved a new monthly record, totaling an average outstanding volume of 100.1 billion euros (November 2009: 80.4 billion euros).

Austria extends short selling ban

The Austrian financial market regulator has extended by six months a temporary ban on naked short-selling of the country's four largest publicly listed financial stocks.

The ban, which was introduced in 2008 has been extended to May 31, the Financial Market Authority said in a statement.

The institutions affected by the ban are Raiffeisen Bank International, Erste Group Bank, and insurers Vienna Insurance Group and Uniqa Versicherungen.

Citi wins Global X-Funds mandate

Citi has won a mandate to provide third-party securities lending services for Global X Funds' family of exchange traded funds.

"Citi provided the right combination of leading expertise, risk management capabilities and flexibility to tailor its securities lending programme to the specific characteristics and requirements of Global X Funds," said Bruno Del Ama, CEO, Global X Funds. "The global reach of Citi's transaction services business is a great complement to our global asset management business."

Added Neeraj Sahai, global head, securities and fund services, Citi, said: "We greatly look forward to strengthening our relationship with Global X Funds by leveraging our capabilities both across securities and fund services and across the entire Citi enterprise."

Through OpenLend, Citi provides securities lenders boutique service to enhance their portfolio performance by delivering an open architecture that provides access to agency, third-party, hybrid and exclusives lending.

Securities lending increases 71 per cent at OCC

The Options Clearing Corporation (OCC) has said that total OCC volume reached 354,897,569 contracts in November, with stock loan activities up 71 per cent.

This represents a 33 per cent percent increase over the November 2009 volume of 266,989,810 contracts. OCC year-to-date total volume is up eight per cent with 3,581,480,630 contracts, only 43,540,423 contracts away from last year's annual total. As of the end of November, OCC's year-to-date cleared futures volume is 23,619,380, nearly double the 2009 annual total of 12,383,935 contracts.

Options: Exchange-listed options trading in the US for the month of November was up 33 per cent from the previous year. Index options trading increased five per cent over the previous November with 23,247,409 contracts. Equity options trading volume rose 35 per cent compared to the same month last year with 328,797,894 contracts in November.

Futures: Futures cleared by OCC in November rose to 2,852,266 with an average daily contract volume of 135,822. Index and other futures volume reached 2,632,779 contracts in November, a 74 per cent percent increase over the same month last year where 1,513,317 were traded. Futures cleared by OCC show a year-to-date average daily contract volume of 102,693.

Securities Lending: OCC's stock loan programme, including OTC and AQS, saw a 71 per cent increase in new loan activity over November 2009 with 63,852 new loan transactions in November. Year-to-date securities lending activity is up 66 per cent from 2009 with 587,320 new loan transactions in 2010. OCC's stock loan program had an average daily notional value of $13,115,494,987.

OneChicago volume up 64 per cent

OneChicago has reported that 219,071 security futures contracts traded at the Exchange in November 2010. Exchange for Physical (EFP) volume was up 106 per cent compared to October 2010 and up 40 per cent compared to November 2009. The year-to-date volume was 4,334,148 – a 64 per cent increase from 2009.

Open interest stood at 399,243 contracts at the end of November 2010.

November 2010 Highlights

The new groundbreaking OCX.NoDiv product that removes dividend uncertainty completed its first full month of trading.

Customer's demands lead to 112 new products being listed by month's end. Additional OCX.NoDiv products will be added on a weekly basis. Market makers are making markets in both the outright products and the OCX.NoDiv EFPs.

EFP volume was up 40 per cent compared to November 2009 and up 106 per cent from October 2010.

187,016 EFPs and blocks were traded, encompassing $845 million in notional value.

112,468 November futures valued at $391 million were taken to delivery, highlighting the use of single stock futures as an equity finance product. The November open interest represented 23 per cent of all existing open interest on expiration day.

Hedged Mutual Funds: Investment Trends

A new report from Finadium evaluates the investment strategies and business models of the US hedged mutual fund industry, including long/short, absolute return and market neutral '40 Act funds. This segment is growing rapidly; assets doubled to over $50 billion between June 2009 and October 2010. Fund operators include large mutual fund complexes seeing a new opportunity, hedge funds looking to repackage their offerings, and registered investment advisers marketing internal strategies to a broader audience.

Operationally, hedged mutual funds continue to work out the best routes to access cash for margin and securities for short sales. As retail investors already pay higher than average fees to participate in these funds, managers are incented to look for prime brokers and custodians who can meet their needs in a cost effective, operationally efficient way. Having learned important lessons from 130/30 funds in 2007 and 2008, prime brokers and custodians have responded with new service models for these leveraged funds, and are finding that the services they can offer to hedged mutual funds are relevant to hedge funds and pension plans as well.
Highlights from this report include:

- Hedged mutual funds offer investors the opportunity for hedge fund returns coupled with the security of the mutual fund structure.

- Prime brokers are seen as ideal financing providers to hedged mutual funds, but custodians have worked through a key provision of the Investment Company Act of 1940 to provide leverage to their custody clients.

Finadium projects that another $100 billion of assets will migrate to hedged mutual funds over the next two years, tripling the size of the segment.

Eurex to introduce new pricing model

Eurex will introduce a new pricing model, effective 1 February 2011. The overarching goal is to further increase the attractiveness of the Eurex marketplace by offering incentives for market quality and volume contribution as well as fee reductions in a number of key products.

"The new pricing model is designed to further encourage volumes, enhance order book quality and attract new customers. Our new model will help fuel growth in trading volumes across key product segments," said Andreas Preuss, CEO of Eurex.

The enhancement of order book trading shall support market transparency and price discovery. To achieve this goal, the highest proportion of incentives will be given to market makers in exchange for providing value to the order book.

Additionally, the two current market making schemes will be further differentiated to reward market makers according to their market quality contributions.

Members who provide significant trading volume will benefit from modified rebate schemes for both futures and options products.

The existing fee caps for block trades in options will be replaced by a staggered fee model. Additionally, proprietary traders will receive volume rebates that are valid for both order book and block trades.

Furthermore, end customers will directly benefit from lower transaction fees for a number of key index options, single equity options and single stock futures. For example, transaction fees in DAX options will be reduced from 75 to 50 euro cents and fees for equity options will be reduced from 20 to 10 euro cents.

Other measures under the new pricing model include the removal of the minimum quarterly transaction fee to lower entry barriers for new trading firms.

Additionally, in the first quarter 2011 the contract sizes of selected single equity options and single stock futures will be increased to comply with international standards. As a result, the number of traded contracts is expected to decrease while fees in these products will become more attractive.

On aggregate Eurex participants will benefit from approximately 20 million euros in lower fees annually based on 2010 volume figures. Due to the expected growth in trading activity as result of the new pricing model, Eurex estimates a largely neutral effect on sales revenues.

Pakistan plans settlement automation

The Securities and Exchange Commission of Pakistan (SECP) has approved the project of 'Automation of Securities Settlement', at the Central Depository Company of Pakistan Limited (CDC), which will be effective on December 20.

The project has been finalised in collaboration with the National Clearing Company of Pakistan Limited (NCCPL) and the three Stock Exchanges. The CDC will automate the mechanism for settlement of book-entry securities at the CDC through straight-through processing solution while eliminating the need for any manual intervention.

The mechanism will allow securities to be automatically transferred from the respective sellers' account to the respective buyers' account instead of being routed through the member's main account. The new system while establishing a link between the National Clearing and Settlement System and the Central Depository System will not only bring in more efficiency but also assist in preventing misuse of book entry securities to a large extent.

In order to ensure effective implementation of the project the amendments have already been approved by the SECP to the regulatory framework of the CDC and NCCPL.

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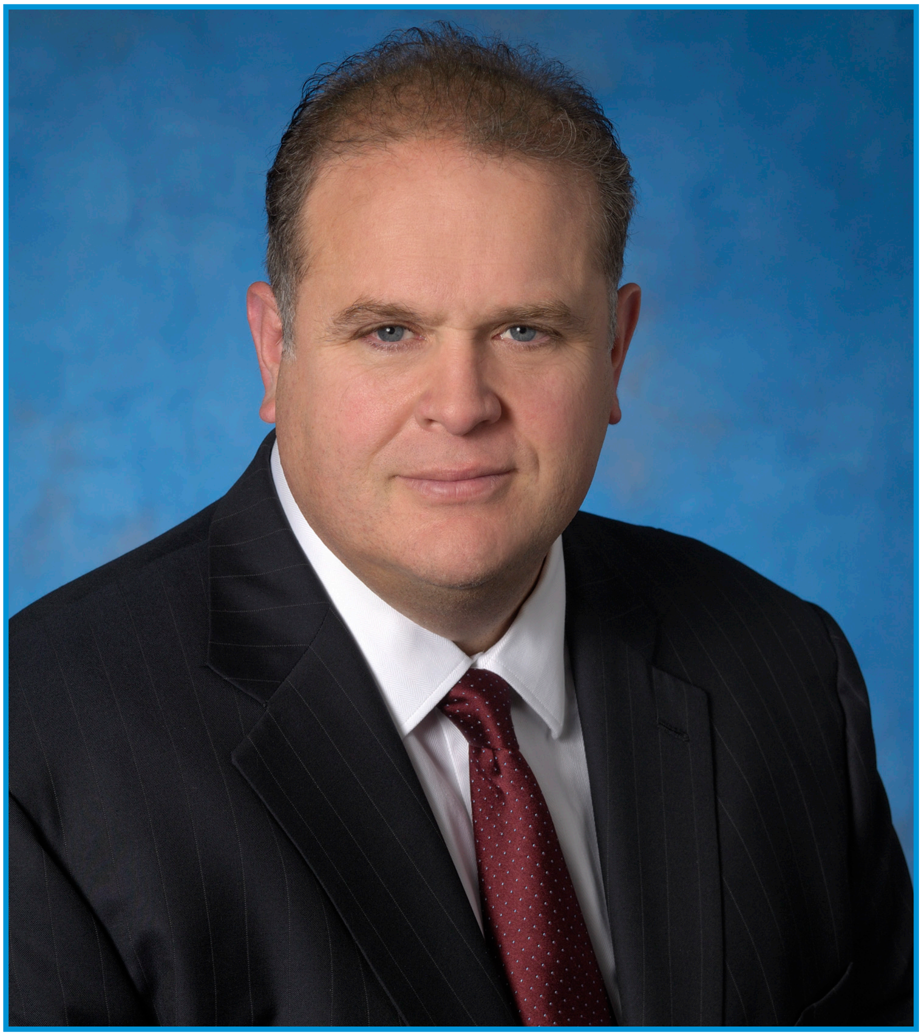


Driving forward

As Rory Zirpolo, principal, portfolio manager, securities lending joins Kellner DiLeo & Company, Securities Lending Times gets his views on the market

BIG INTERVIEW

In November we broke the news that Rory Zirpolo was joining Kellner DiLeo & Co. Here we speak with Zirpolo about his 25 years in the business, the current state of the industry and the challenges ahead at Kellner DiLeo.

SLT: With your experience in the industry what would you see as being the most important lesson to have been learnt from the past couple of years?

Rory Zirpolo: The most important lesson I've learned is that there is no substitute for individual commitment to the group effort. Over the past several years I've been fortunate to have been able to hire, train and motivate a team of professionals with a single common goal: To expertly source equity securities at optimum rates in co-operation with our supply counterparts.

SLT: For those of us who are not too familiar with Kellner DiLeo can you share a brief history?

Zirpolo: Sure. Kellner DiLeo & Co. (KDC) was founded by George Kellner in 1981 originally as a merger arbitrage partnership. Upon registration as a broker-dealer in 1983, KDC entered the securities lending space to serve as an adjunct to the merger arbitrage strategy. In 2002, KDC expanded its investment offering to include a distressed & high income portfolio. In 2009, KDC management launched a matched book securities lending partnership to take advantage of the business' unique return profile.

SLT: What sort of presence does Kellner DiLeo have in the industry? What are its ambitions?

Zirpolo: Kellner DiLeo is known as a nimble player within the hard-to-borrow side of the securities lending business. We have relationships with most of the larger participants in the industry, so we like to be known as a group that hits above its weight. The firm has been in business for nearly 30 years, so both it and George Kellner are highly regarded in the financial community.

SLT: Tell us about the role you are taking on at Kellner DiLeo?

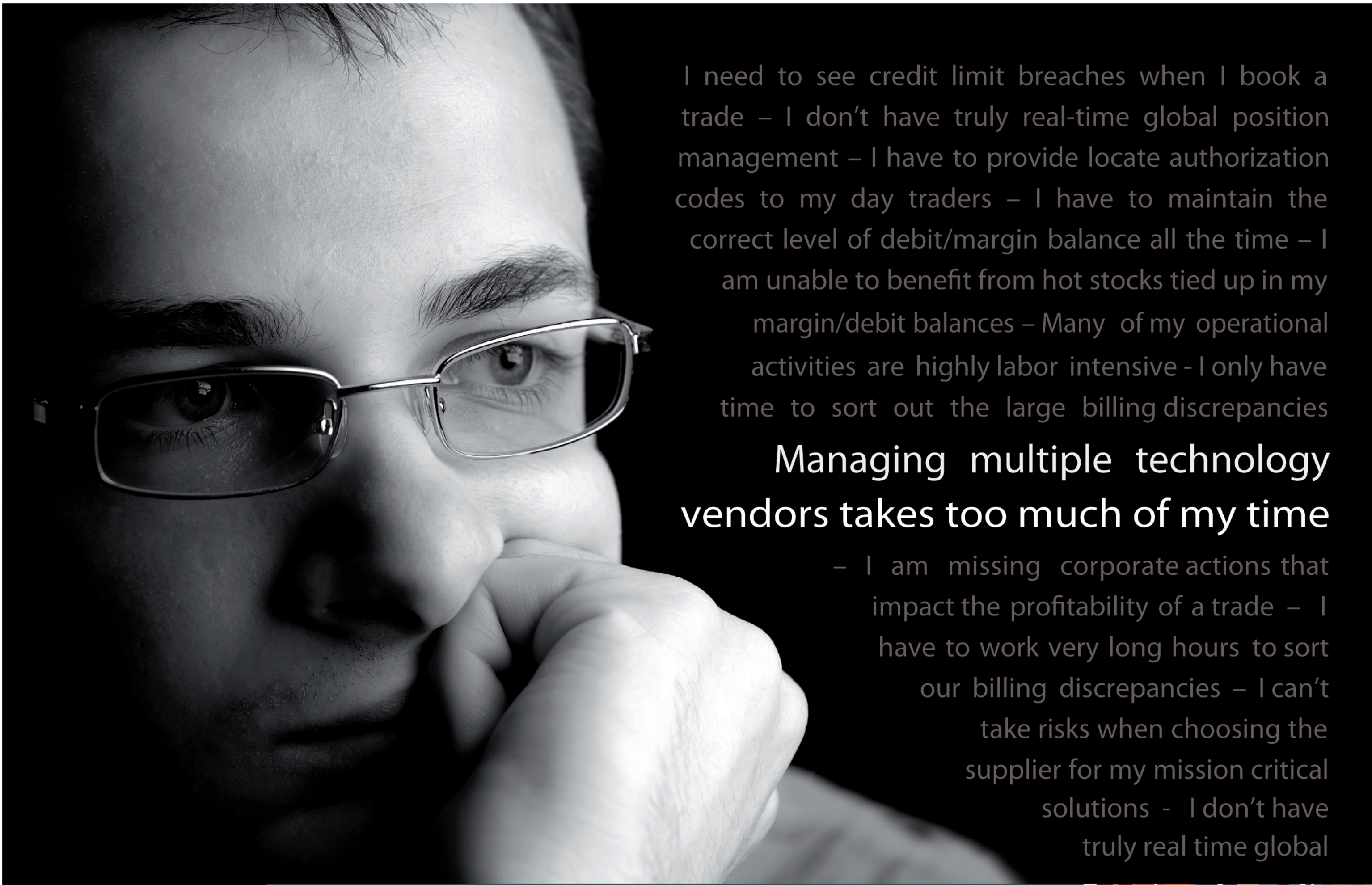
Zirpolo: The focus of the team is to support our borrower and lending clients in achieving their goals: to the extent they are successful KDC will prosper and grow. As manager of the team I'm tasked with furnishing the members with the best technology, information and strategies required to achieve our client goals. These strategies include: building our counterparty network and growing the asset base of the fund.

SLT: Over the past 12 months there has been a lot of talk about CCPs as the way forward. What is your take on this?

Zirpolo: For any type of a CCP model to work, there needs to be an emphasis on liquidity. It doesn't appear that any CCP model or platform has been able to accomplish this. A trading platform that has accomplished this, although not a CCP, is EquiLend.

SLT: Where do you see the industry's key growth areas to be in 2011?

Zirpolo: On the equity side, non-GC (General Collateral) transaction flow. On the international side, we are focused on Asia and especially Hong Kong as a base to access the emerging markets (eg, Korea, Taiwan, and mainland China). **SLT**


I need to see credit limit breaches when I book a trade – I don't have truly real-time global position management – I have to provide locate authorization codes to my day traders – I have to maintain the correct level of debit/margin balance all the time – I am unable to benefit from hot stocks tied up in my margin/debit balances – Many of my operational activities are highly labor intensive - I only have time to sort out the large billing discrepancies
Managing multiple technology vendors takes too much of my time
– I am missing corporate actions that impact the profitability of a trade – I have to work very long hours to sort our billing discrepancies – I can't take risks when choosing the supplier for my mission critical solutions - I don't have truly real time global

South Africa

South Africa has had a good 2010, with available lendable assets returning to their peak levels. But the lack of regulation remains an issue

BEN WILKIE REPORTS

The World Cup earlier this year put a real focus on South Africa, showing it as a modern vibrant nation that - while not without its problems - is a beacon to the rest of the continent. 20 years after Nelson Mandela's release and the beginning of the end of apartheid, the country is increasing its wealth and open for business to the wider world.

While South Africa remains a comparatively small market compared to the Western giants, it has been punching above its weight for some years. While it certainly suffered during the downturn, it has bounced back well, and lendable asset levels are now on a par with those seen three years ago.

New players have entered the market, while many of the existing participants have expanded their offerings. This now means that margins are tighter and many of the specialist desks have had to create new bespoke products to maintain their share of the market.

Education

A lack of knowledge and understanding of how securities lending can influence and benefit the market remains, however. Although the South African market has been growing in recent years, many funds are still wary of securities lending, especially following the downturn.

One of the ways this is being remedied is through education. Local specialist Finsettle has recently teamed up with UK-based training provider FinTuition to help providers in South Africa (and beyond) to gain greater understanding of how securities lending can benefit them.

Regulation

South Africa was one of the few major economies that did not prohibit short selling during the financial crisis. And this was down to the way the market operates. Naked sales are not possible in the market, because all buy and sell transactions are settled contractually on settlement date and cannot be rolled over.

Securities lending as an activity is not formally regulated, and nor are many of the activities of hedge funds. The Financial Services Board of South Africa does oversee collective investment schemes, long term and short term insurance companies and other vehicles, while the Johannesburg Stock Exchange has controls over many of the providers in the market. STRATE, South Africa's central securities depositary also carries out regulatory duties.

Securities lending activities, then, operate under guidelines laid down by the South African Securities Lending Association (SASLA). SASLA works closely with ISLA, and prescribes scrip lending and borrowing activities.

But the lack of formal oversight has restricted the market, say some players, who argue that a lack of structure is putting off overseas investors. Few investors put their money into hedge funds, and - in practice, if not necessarily in theory - only locally registered banks are allowed to deal directly with non-resident investors.

Growth

The lack of regulation means that most industry participants feel that major strides are unlikely at the moment, and organic growth will be slow but steady over the coming years.

But there is one area where securities lending providers are becoming more and more excited. South Africa is now a comparatively mature market, but the Southern African countries are starting to slowly embrace securities lending and related instruments, leaving the providers with the local knowledge in pole position. Several banks have made significant investments in the likes of Botswana and other sub-Saharan nations, and it's expected that growth will be rapid.

In 2009, HSBC launched its SA synthetic DMA platform and expanded its Market Access product to a number of neighbouring countries, including Nigeria, targeting an increasing number of investors with an interest in this part of the world.

"We have high hopes for many of these markets," says a spokesman for one South African bank. "We have given ourselves the opportunity to kickstart the market here - as they become more sophisticated and more funds look to invest in this area of the world, we are going to be able to service the investment that comes in. We don't expect there to be enormous growth straight away, but there will be business and we are in a prime position to take advantage of that."

It's not straightforward, though, as head of business development at Finsettle Ted Hampson explains: "Common challenges are faced by the different exchanges across Africa, which include liquidity in the markets, standard or similar governance and reporting principles, effective and standard settlement cycles at T+?, effective use and/ or adaptation of technology, movement to electronic trading systems, the need to increase bandwidth, education of companies towards listing as a capital raising alternative, consumer education related to investing in a stock exchange, effective available research, education and training of market participants, customer management systems and techniques, navigating the needs of different exchanges, countries and regions as further trust is fostered for all to take advantage of the future opportunities. These common challenges present business opportunities for those with vision...." **SLT**

Security ranking by total return

1 Northam Platinum Ltd
2 Kumba Iron Ore Ltd
3 Anglo Platinum Ltd
4 Massmart Holdings Ltd
5 Nedbank Group
6 Great Basin Gold Ltd
7 Netcare Ltd
8 Gold Fields Limited
9 Steinhoff International Holdings Ltd
10 Bhp Billiton Plc

Source: Data Explorers

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)
Norway Equity	21,252.20	3,160.30	9.87	88.09	8.42	8.85
Norway Equity (OBX)	20,130.60	2,929.20	9.67	83.99	7.83	8.24
Norway Equity (Others)	1,121.60	231.10	13.36	146.18	18.60	19.16
Norway Government Bonds	7,330.70	353.50	6.35	13.31	0.80	1.11
Norway Govt Bonds (Domestic)	3,519.50	144.00	7.10	10.80	0.65	0.89
Norway Govt Bonds (International)	3,811.20	209.50	5.67	16.73	0.95	1.31

SA more competitive than Brazil

A report released by Brazil's National Confederation of Industry (CNI) reveals that South Africa is actually more competitive than the South American nation.

The report also ranks South Africa second out of 14 countries, most of them emerging economies, when it comes to the sophistication of its banking system.

According to "Competition Brazil: A comparison with selected countries", South Africa is slightly more competitive than Brazil with more affordable and available capital, better infrastructure, less taxes and a slightly better macro economic climate than the South American country.

The report compares 14 countries on a range of measures such as availability and cost of manual labour, availability and cost of finance, macro and micro economic climate, education and innovation and technology.

These countries are: Australia, Canada, Russia, Mexico, China, Poland, Spain, India, Korea, Brazil, South Africa, Colombia, Chile and Argentina.

The report makes use of figures from existing global studies such as the World Bank's Doing Business report, the Institute for Management Development's Competitiveness Yearbook and the World Economic Forum's (WEF) Competitiveness Report.

Out of the 14 countries South Africa has the second most sophisticated financial market, just behind Canada and ahead of Australia and Brazil.

South Africa has the second lowest effective business tax rate (business taxes as a percentage of company profits), behind Chile, with businesses in Brazil, Colombia and Argentina being taxed the heaviest.

South Africa is ranked fourth out of 14 countries on the ease of accessing capital, making it easier to access a loan here than in India, Colombia, Brazil, China, Korea, Russia, but more difficult than Australia and Chile.

When it comes to the cost of capital South Africa is ranked fourth out of 13 countries, with financial institutions that are more affordable for local inhabitants than those in Russia, China and Korea, but more expensive than Canada, India, Chile and Australia.

Ranked sixth out of the 14 countries, South Africa's transport infrastructure is better than that of China, India, Mexico, Brazil, Poland but behind that of Korea and Chile.

South Africa is ranked seventh out of the 14 countries with foreign direct investment (FDI) as a percentage of gross domestic product (GDP) in 2008.

Building a European ETF lending programme

Lending European ETFs can offer a valuable opportunity to engage clients and the wider market, provided that a number of key challenges can be overcome, says Ian Hovey at State Street.

MARKET DEVELOPMENT

While there has been a large and growing market in ETF lending in the US for many years, the European market for lending ETFs has been more ad hoc and unstructured. When developing a specific capability for lending European-issued ETFs, it is important to consider a number of factors. For example, is there sufficient supply and demand to make it worthwhile? If so, what internal systems and structures are needed to make it a viable proposition? Moreover, as ETF lending is still a relatively young market in Europe, there are challenges associated with ETFs being listed on a variety of stock exchanges, cleared through several clearing houses, and subject to differing rules across a variety of issuing jurisdictions.

Despite the challenges, the outlook for ETF lending is positive. Demand from ETF borrowers has grown considerably in the last 12 to 18 months. Since the financial crisis and collapse in world stock markets, many investors have sought to de-risk and de-leverage their portfolios by moving into ETFs. This trend has been strongest into equity index-related ETFs, such as FTSE100, EuroStoxx and DAX trackers, followed by commodity ETFs, including metals such as gold, silver, platinum, palladium and soft commodities. Investor appetite exists for ETFs and, with some investors allocating up to five per cent of their portfolios to this type of security, there is a considerable pool of potential supply. Although spreads have fallen significantly in the past year, largely through improved market liquidity, they still compare favourably with the narrower spreads available from traditional equity lending. It is important to emphasise, however, that liquidity in lending European ETFs can still be quite limited and not all holders of ETFs necessarily wish to lend them to the market markers, investment banks and others who wish to borrow them.

Due diligence

When developing an ETF lending programme, the due diligence process is critical to understanding any potential impact on the parties involved. Our approach included sampling a number of ETFs, from various issuers, listed on the major European exchanges, and drilling down into the underlying structure and constitution of funds in order to understand the mechanics of how they worked. This process is particularly important as the underlying funds are structured in many different forms, including Luxembourg SICAVs, French FCPs and Irish UCITS.

Liquidity is another key area. It is necessary to carry out due diligence to determine whether specific ETFs are liquid enough for a lending transaction to be unwound, recalled or repositioned, if necessary, with the minimum of impact. Conducting due diligence on the clearing process is also critical. In the US, a majority of ETFs clear through the DTC. Without a central clearing house in Europe, European ETFs clear according to the arrangements set up by the issuer, the domicile chosen for the fund, and where the fund is listed. It is therefore important to know for administrative purposes where clearing occurs, especially in the case of dual or multiple listings.

Lending system considerations

Enabling ETF lending may require some re-configuration of lending systems. One reason for this is that ETFs are often classified as mutual funds and, given that these security types are not normally lendable, they may not show up in the lending inventory. Agent lenders will typically source lending inventory from their custody platforms and, depending on the level of configuration, may or may not accept mutual fund positions, including ETFs, into their lending systems. We decided to exclude mutual funds from this process to prevent many thousands of non-lendable securities being processed in our systems. This meant we excluded ETFs, as they are classified as mutual funds. Our solution to this problem was to load ETF security data into our lending systems and build a process to collect ETF availability from our custody platform. Once this process is established, it is important to keep the ETF security database updated with newly issued ETFs, in order that future client positions will be automatically collected.

Another configuration that may need reviewing is how individual security positions are reflected within lending systems. For example, a lending client/fund that holds only Japanese equities may be configured to lend only JPY securities. However, if that lending client/fund acquires a Japanese TOPIX ETF, which could be UK listed, it may be necessary to review settings to allow the inventory to appear.

Another issue surrounds dual or multiple listings. Where the same ETF is listed on multiple exchanges, difficulties can exist in both recognising and clearing the security, particularly if ISIN codes are used as the primary identifier. In addition, cross-border settlement mismatches can occur where a borrower assumes that the ETF is listed in one market and cleared through the local system, whereas the lender assumes that the ETF is listed on another exchange. This can be a particular problem for non-US ETFs, especially those with multiple European listings. The issue is not so acute when SEDOL or CUSIP identifiers are used as these are more granular in indicating where the ETF is listed, so it can be more easily identified.

It is also possible to accept ETFs as collateral. Again, careful due diligence and credit assessment of individual ETFs as collateral is essential.

Where we are today

During the financial crisis, securities lending programmes came under intense scrutiny, leading to a significant decline in activity. Risk and transparency are at the forefront of investors' minds, and both borrowers and lenders have adjusted their lending programmes accordingly. Lending clients are looking to agent lenders to provide more reporting and transparency, and many market participants are taking a more conservative approach and selecting providers that have expertise and a proven track record in risk management. Despite more muted levels of activity, there is evidence that ETF lending is an expanding market where demand is steadily growing. The rapid growth in ETF issuance, including newer, active strategies, means that ETFs will continue to occupy a larger space in lending client portfolios, creating a growing pool of lendable assets and a ready appetite for borrowing. As yet, there are relatively few lenders able or willing to lend their ETF securities, but the number is steadily growing. Setting up such a programme may require time and ingenuity, but the potential opportunities are significant.

Ian Hovey is head of securities finance product development for EMEA at State Street.

15th Global Securities Financing Summit

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

The Global Securities Financing Summit is the largest gathering of participants from the international repo and collateral management community in the world.

17th Annual Beneficial Owners' International Securities Lending and Repo Summit

Date: 13-16 February 2011
Location: Scottsdale, Arizona
Website: http://www.imn.org/main/

The largest, only must-attend event for the beneficial owner community 450+ attend annually, including over 125 beneficial owners

APAC Collateral Management Forum

Date: 23-24 March 2011
Location: Singapore
Website: http://www.fleminggulf.com

Fleming Gulf's APAC Collateral Management Forum, Singapore to be held on 23-24 March 2011 in cooperation with collateral management experts, aims to provide comprehensive insights on how to achieve a well managed collateral program in an increasingly complex and volatile market.

Network Management 2011

Date: 15-16 June 2011
Location: TBC
Website: www.icbi-events.com/nema/

Over 300 delegates will be attending the 11th network management conference at a venue to be announced.

European Clearing and Settlement

Date: 29-30 June 2011
Location: London
Website: http://www.icbi-events.com/ecs/

An expected wave of European regulation; more competition; pressure on costs and fees; a new focus on risk – all this and more will covered at ICBI's flagship 17th annual clearing and settlement event.

Industry Appointments

Don MacNeil has joined Kellner DiLeo as senior vice president of the firm's securities lending group. In his new role, MacNeil will focus on ADR and Canadian equity opportunities for the firm's matched book securities lending strategy, KDC Alpha. MacNeil comes to KDC with more than 18 years of experience in the securities lending business.

Most recently, MacNeil served as director of the prime brokerage division for BNP Paribas, and was responsible for daily securities lending coverage of Canadian and ADR securities. Additionally, he was the primary point of contact for BNP's prime brokerage clients.

George Kellner, CEO of Kellner DiLeo & Co., said: "We are delighted that a person of Don's background and extensive experience has joined us as we continue to build out certain key roles within the securities lending team."

Don MacNeil added, "I am pleased to have the opportunity to work with a group of highly regarded industry veterans and look forward to leveraging my experience within the securities lending business to enhance KDC's existing processes and to build out new relationships for the firm."

Michael O'Higgins has been appointed as chair of The Pensions Regulator. He will take up his post from 1 January 2011 for a three-year term.

Minister for Pensions Steve Webb said: "I would like to thank David Norgrove for his considerable contribution as chair since The Pensions Regulator was established. Under his leadership the Regulator has established itself as a vital player in the pensions landscape, protecting members' benefits and ensuring schemes are well administered. I have every confidence that Michael O'Higgins will take this work forward as we introduce automatic enrolment into workplace pensions."

Michael O'Higgins said: "Pensions issues affect everyone, young and old, and are rarely out of the news. I look forward to getting my teeth into the many challenges.

"At the top of my in-tray will be helping employers get to grips with their new duties to auto enrol staff from 2012, that all types of pension scheme are well run with members' interests at the centre, and that risks to members and the Pension Protection Fund are properly managed. I would also like to thank David Norgrove for all the successful work he has done in these areas."

Under revised remuneration arrangements, the salary for the post will be £57,000 for two days a week and there is no entitlement to bonus payments.

David Norgrove, the current chair, will leave The Pensions Regulator on 31 December 2010 when his second term in the post comes to an end.

A recruitment exercise is underway to select The Pensions Regulator's new chief executive. Bill Galvin is the Regulator's acting chief executive. Mr Galvin replaced Tony Hobman in May this year when he left to take up post as chief executive of the Consumer Financial Education Body.

Sophis has appointed **Shoichi Tokunaga** to head its Japanese office in a concerted effort to service the as-yet largely untapped buy-side market as well as continue to serve clients in the sell-side community. Mr Tokunaga has nearly 30 years' experience in the technology and financial services sectors in Japan and London, including 12 years in Reuters in London and Tokyo. More recently he was head of business development (Buy and Sell-side) at Fidessa K.K. and before that president of Thomson Corporation's Brandy International, both in Tokyo.

Sophis has been in Japan since 1998 when it opened its first office in Asia Pacific to support subsidiaries of its European clients. Since then, through its RISQUE product, Sophis has been an established player in the sell-side community which has long seen the need for sophisticated and comprehensive risk management software. More recently, Sophis has been pioneering the introduction of integrated portfolio and risk management platforms amongst buy-side firms, through its highly successful VALUE product.

Corinne Grillet chief operating officer of Sophis Asia, said, "The appointment of Shoichi Tokunaga is a significant step in pushing our business in Japan to the next level, developing business locally and in particular developing the buy-side market, where we already have made some headway, gaining new clients. Shoichi brings with him experience in this industry which is hard to rival and we are delighted to welcome him to our regional management team. He is already starting to make an impact in the market."

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.

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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.