SECURITIES**LENDING**TIMES

www.securitieslendingtimes.com

ISSUE018
01.02.2011
TUESDAY

Rule Financial launches new clearing service solutions

LONDON 27.01.2011

Rule Financial has launched three new OTC clearing service solutions for market participants facing new OTC derivatives regulation.

The service solutions support banks, investment managers and central counterparties (CCPs) and are designed to meet both the business and technical challenges of reform.

As the industry grapples with regulatory reforms, such as the Dodd-Frank Act in the United States, the European Market Infrastructure Regulation (EMIR) and the global Basel III reforms, Rule Financial believes the three new service solutions will help resolve the business, operations and IT challenges that clients face in light of the new requirements.

'OTC clearing: margin analytics accelerator': This suite provides an out-of-the-box solution for clients wishing to actively perform pre-acceptance risk checks on client trades that are subject to clearing. This enables optimal margining and accurate exposure management.

'OTC clearing: strategic build-out': This service supports clients designing a new and bespoke operating model that can cope with the required changes to products, processes, controls and technology platforms. The business architecture and road-mapping methods, which are also part of the service, ensure that the implementation approach is in line with the overall business goals of the organisation, accelerating the time-to-market.

'OTC clearing: vendor implementation': This service is focused on the evaluation of internal and vendor solutions to maximise the opportunities that OTC derivatives clearing presents. Rule Financial has a history of successful partner alliances with the leading platforms used by the majority of OTC clearing houses and many clearing brokers. Allied to this, Rule Financial's 13 years of focus on wholesale and investment banking has enabled the firm to develop state-of-the-art blueprints to benchmark and determine client requirements for making the right platform choices.

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NEWS**IN**BRIEF

DB selected by MOSERS for securities lending

Missouri State Employees' Retirement System (MOSERS) has selected Deutsche Bank to provide securities lending services.

MOSERS has been a long-term participant in securities lending and both parties have said they want the new agreement to be the basis for a long relationship.

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BNP Paribas automates with BondLend

BondLend has announced that BNP Paribas is the first broker dealer to use straight-through processing for its fixed income mark-to-market service. Straight-through processing facilitates reconciliation actions on BondLend's comparison services to be automatically updated in BNP Paribas' proprietary system.

Steven B. Misischia, managing director of fixed income trading operations at BNP Paribas stated, "Using BondLend's Mark-to-Market Comparison service has increased our operational efficiency and will exponentially continue to do so as more lenders and dealers enroll. We are self-assured that Mark-to-Market Comparison will impart the same automated straight-through process for Fed eligible securities, as has existed in the equities and corporate bond markets for at least 20 years."

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INSIDE SECURITIES**LENDING**TIMES

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Rule Financial launches new clearing service solutions

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Commenting on the launch of the service solutions, Harjap Bal, principal consultant at Rule Financial, said, "Our derivatives and markets specialists each have more than 15 years of investment banking expertise, and our direct experience of 15 OTC derivatives clearing engagements over the past 18 months has enabled us to shape best practise solutions and resolve the common and emerging challenges experienced by our clients across the entire OTC derivatives landscape."

Kevin Neville, head of prime services & securities finance at Rule Financial, said: "The imminent regulations are presenting a major challenge for many market participants who are considering their operating model and profitability in a dramatically changing landscape. The launch of our new service solutions let aspiring clearing service providers know that they are not alone in facing these challenges. With the help of Rule Financial, clients will be able to leverage our experience and lessons learned, to fast-track their OTC clearing projects, to comply with upcoming regulations and to maximise the benefits."

BNP Paribas automates with BondLend

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He continued, "BondLend's Mark-to-Market Comparison has eliminated hours of phone calls, email correspondence and money variance reconciliations, allowing BNP Paribas to reallocate internal resources. We look forward to working with the BondLend team to further this initiative and to continue to be innovative in creating efficiencies and straight-through processing within the industry."

Brian. P. Lamb, CEO of BondLend, commented, "We are very excited to see the continued increased usage of our fixed income comparison services which provides extensive operational efficiencies and automation to our clients. We've received an overwhelmingly positive response from the fixed income community and look forward to continuing to create innovative technology solutions for them."

Many lenders within the fixed income community, including BNY Mellon and Credit Suisse, are also benefiting from using BondLend's Mark-to-Market comparison service daily.

DB selected by MOSERS for securities lending

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"We are delighted to partner with MOSERS and look forward to a long-term, mutually beneficial relationship," said Tim Smollen, head of Deutsche Bank Agency Lending. "Our leading-edge approach addresses the evolving needs of investors who are demanding greater sophistication from their providers."

"Deutsche Bank offers financial strength, global expertise and multiple routes to market," said Tyson Rehfeld, MOSERS' investment officer of public debt. "Overall, they offered the best approach, conveying skill and sensitivity around protecting principal."

Kellner DiLeo opts for EquiLend

EquiLend, has announced that Kellner DiLeo & Co., (KDC), has signed on to use its services. KDC will utilise EquiLend's post trade services to facilitate automation and efficient maintenance of their securities financing positions.

Brian Lamb, CEO of EquiLend stated, "We are pleased to welcome Kellner Dileo to the platform. EquiLend's suite of post trade services contributes to operational efficiencies, timely reconciliation and risk mitigation for our clients." He continued, "KDC's new head of securities lending, Rory Zirpolo, is a past client and we very much look forward to continuing our relationship with both Rory and KDC for many years to come."

Rory Zirpolo, portfolio manager of KDC commented, "As a former board member of EquiLend, I am delighted to re-engage with this world-class group of securities lending professionals. Kellner DiLeo is actively developing partnerships within the business to augment our existing platforms, and today represents a key building block in that process."

Japanese FSA extends short selling restrictions

The Japanese Financial Services Authority has extended the temporary restrictions on short selling to April 30, 2011.

The following regulatory measures on short selling are currently in place, with regard to all listed stocks in Japan:

1) An "uptick rule requirement" which prohibits, in principle, short selling at prices no higher than the latest market price;

2) Requirements for traders to verify and flag whether or not the transactions in question are short selling; and

3) Request the exchanges to make daily announcements on their aggregate price of short selling regarding all securities and aggregate price of short selling by sector.

Regarding the purchase of own stocks by listed companies, taking into consideration the of situation Japan's capital markets, the following restrictions have been temporarily relaxed over the period from October 14, 2008, to January 31, 2011:

1)Upper limit on the daily purchase volume

The limit will be raised from the current 25 per cent to 100 per cent of average daily trading volume during the four weeks immediately preceding the repurchase.

2)Timing of purchase

Companies are currently required to repurchase their own stocks during hours other than the 30 minutes immediately before the close of trading. This restriction will be lifted.

First transactions on EquiLend via OCC

EquiLend clients have utilised the EquiLend platform to execute equity trade transactions which were centrally cleared via the OCC (Options Clearing Corporation).

These transactions illustrate that EquiLend's automated securities finance platform can be used as a vehicle to facilitate central counterparty (CCP) transactions. Executing trades over the trading platform, EquiLend's broker clients centrally cleared the transaction via the OCC who bares the credit risk for the transaction.

Brian Lamb, CEO of EquiLend stated: "These trades illustrate that EquiLend has the mechanism in place to facilitate central counterparty transactions for the securities finance industry. The CCP model has been discussed extensively for years and we are delighted to respond to our clients' desire to move forward in this space using EquiLend's key platform drivers: liquidity, efficiency and risk mitigation. The success of any CCP is measured in its liquidity and therefore EquiLend is the benchmark choice for clients who are looking to execute trading transactions, whether it is bilaterally or via a central counterparty."

South Carolina to sue BNY Mellon

The Treasurer's Office of the state of South Carolina has commenced legal action against BNY Mellon.

The lawsuit aims to recover losses that it says were the result of the bank's failure to adhere to investment guidelines in its securities lending programme. Curtis Loftis, the state treasurer, says he aims to recover approximately $200 million.

"Our contract called for investments limited to conservative, high quality instruments," Loftis said. "The bank inappropriately invested in mortgage backed securities comprised of sub prime mortgages with maturity dates greater than allowed. Also, the bank invested in certain debt instruments in the now bankrupt Lehman Brothers investment bank. Because of the contract violations, the State has suffered a $200 million dollar loss.

"We allege that the Bank of New York Mellon has violated its agreement with the State of South Carolina, and breached its fiduciary duties. We have filed suit in order to bring this matter to an orderly, lawful conclusion."

New securities lending report from Finadium

A new report from Finadium shows that US plan sponsors continue to work on the complex challenge of defining best practices with their securities lending, collateral management and custody providers. Now in its fourth year, the Finadium annual plan sponsor survey is based on interviews and annual reports of 98 US plan sponsors with over US$2.23 trillion in assets. This report is an unbiased look at the attitudes and decision drivers of these institutions in the asset servicing markets today.

Plan sponsors report a new level of nuanced thinking about the importance of securities lending and collateral management. Having learned hard lessons in 2008 and 2009, lending is now seen primarily as an investment product with the risks and rewards that entails, and sponsors have moved on to other questions including revenue allocation and lending from commingled funds. In custody, plan sponsors recognise that reporting, performance measurement and accounting services are not free, and that the bill paid today rarely reflects the true cost of service delivery. Other highlights from this report include:

Liquidity in cash reinvestment markets is becoming a concern as new regulations constrict the availability of certain types of assets.

Plan sponsors are not against the idea of a securities lending agent lending to an affiliated prime broker, but are conscious of the credit risks this entails and would like greater transparency than they now receive about the process.

There appears to have been a reversal of plan sponsor interest towards separating securities lending and collateral management in the RFP. Bundling custody and securities lending however has become more attractive than in prior years.

More important than revenues, communication and client relationship management are now the most important criteria for what makes a good securities lending agent.

This report contains substantial data on plan sponsor attitudes, decision drivers and future plans in the asset servicing markets.

Clearstream increases collateral range

Clearstream has added investments funds to its portfolio of asset classes eligible for collateral use. Clearstream customers can now leverage investment funds shares that are settled via and held by Clearstream to collateralise money market transactions in line with the product range offered through the company's Global Liquidity Hub.

Clearstream estimates that around 700 billion euros will be made available as collateral based on the most liquid money market funds managed in Luxembourg and Dublin. With this new asset class, Clearstream has added an additional element to its Global Liquidity Hub strategy which reaches across continents, timezones and a wide coverage of collateral types. This goes hand-in-hand with Clearstream's ongoing extension towards a global exposure coverage service steered out of the company's collateral management facility which allows customers to further optimise their use of accessible collateral.

Stefan Lepp, member of the executive board and head of global securities financing (GSF) at Clearstream, said: "We are constantly improving the number of asset classes eligible as collateral for our Global Liquidity Hub while at the same time expanding the number of links towards infrastructure providers across the globe. Our global extension allows for a new level of collateral op-

timisation by leveraging a centralised collateral pool servicing, for example, global margin calls in line with local market requirements."

Philippe Seyll, member of the executive board and head of investment funds services, said: "Together with Deutsche Börse, we have just launched our new funds trading on exchange offering, making more than 80,000 investment funds available for stock exchange trading over time. As funds units can now be priced and monetised immediately, they can also be used as collateral if pooled at Clearstream."

Clearstream offers a wide range of collateral management services together with a suite of securities lending products under its GSF services. In December 2010, the GSF monthly average outstanding volume reached an all-time high of 576 billion euros, which demonstrates the growing importance of secured financing and a centralised liquidity hub. The assets held under custody in the Investment Funds Services also reached a record figure of 212.4 billion euros in December 2010.

Clearstream has long focused on securities financing mechanisms, which provide much of the liquidity to the world's capital market. Clearstream's Global Liquidity and Risk Management Hub for the industry allows the company to offer a highly automated, smooth and safe environment for its customers – borrowers, lenders, and those dealing with bonds, cash, equities or funds – or any participant collateralising those assets.

Restoring investor confidence after the 2007 market liquidity failure has been a priority in the last couple of years. The post-crisis environment has sharply increased the need for security and is therefore questioning the capacity to supply enough collateral in the form of traditional financial instruments. Collateral management has traditionally been supported by more established asset classes such as government securities or even cash.

Trio team up to automate OTC transactions

The Depository Trust & Clearing Corporation (DTCC), MarkitSERV and AcadiaSoft have announced that they are working to deliver a joint solution for improving communication related to setting and maintaining the collateral required between counterparties to over-the-counter (OTC) derivative transactions. The solution is the first step taken by the three companies to develop a multi-functional collateral processing platform for the OTC derivative market.

Through this collaboration, the three organisations are helping the industry fulfill commitments to bring greater transparency and reduce operational risk associated with processing bilateral collateral agreements.

Beginning later in the first quarter of 2011, the MarkitSERV portal will provide clients with integrated access to the AcadiaSoft Messaging Platform, an online service that facilitates and manages communications required for collateral calls. The new service will enable buy- and sell-side counterparties to manage information electronically on exposures, commitments and adjustments to collateral and create an audit trail of all communication about margining. AcadiaSoft's tools are more efficient and reliable than existing processes for communicating about collateral which takes place primarily over telephone and email.

To the extent messages about collateral are used to satisfy collateral and related reporting requirements under the Dodd-Frank Act, they can be processed through DTCC's Trade Information Warehouse facilities and regulatory reporting interface.

Jeff Gooch, CEO of MarkitSERV, said: "Clients are searching for ways to streamline the multiple post-trade requirements relating to derivatives transactions and by linking AcadiaSoft's technology and DTCC's capabilities to MarkitSERV, we provide our clients with a single comprehensive platform to manage collateral alongside trade processing workflow, portfolio reconciliation and valuations."

Craig Welch, co-founder of AcadiaSoft, said: "Making our innovative service available to the buy side via MarkitSERV is a great milestone for AcadiaSoft. We anticipate that requirements for central clearing will make effective collateral management an even more critical function and we are pleased to offer our solution in conjunction with MarkitSERV and DTCC."

Peter Axilrod, managing director, DTCC derivatives services and product development, said: "This alliance leverages our organisations' expertise in providing market participants with the first component required for straight-through-processing for collateral. DTCC remains committed to partnering with complementary service providers to bring to market a host of automated solutions that continue to increase transparency and successively take more risk out of bilateral collateral processing and the OTC derivatives market as a whole."

The total value of collateral circulated in the OTC derivatives market was estimated at US$3.2 trillion at the end of 2009 versus US$200 billion in 1999, according to the International Swaps and Derivatives Association. Despite the significant growth in these arrangements over the past decade, processing of OTC derivatives collateral has remained predominantly manual and fragmented, raising industry and regulator concerns about the operational risks involved in these types of transactions.

HKEx adds to short selling list

The Stock Exchange of Hong Kong has added Chongqing Rural Commercial Bank Co Ltd to the list of stocks eligible for short selling.

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US results round-up

ConvergEx Group has announced that **NorthPoint Trading Partners** grew at a record pace in 2010, one year since ConvergEx acquired the prime services business.

During a time when there was a great deal of consolidation in the prime services space, NorthPoint's revenues were up over 50 per cent and its clients' AUM grew by nearly 25 per cent, year over year.

"These results are a testament to the powerful combination that was formed when ConvergEx and NorthPoint teamed up. Very shortly after the acquisition, we were able to give our clients access to ConvergEx's broad range of proprietary technologies, making NorthPoint's offering the most comprehensive in the prime services industry," said Douglas Nelson, chief executive officer of NorthPoint Trading Partners.

"And as ConvergEx continues to roll out more technologies like the recently acquired RealTick execution platform or the real-time portfolio margining software from LDB Consulting, NorthPoint's clients can look forward to having an even greater number of state-of-the-art tools at their disposal."

"Throughout this rapid growth, we have remained committed to maintaining the highest level of customer service and have increased our staff to keep pace," said Michael DeJarnette, president of NorthPoint Trading Partners. "This means our clients get the advantage of working with one team, while having access to technologies that offer a substantial edge."

The Bank of New York Mellon Corporation has reported fourth quarter income from continuing operations applicable to common shareholders of $690 million, or $0.55 per common share, compared with $712 million, or $0.59 per common share, in the fourth quarter of 2009 and $625 million, or $0.51 per common share, in the third quarter of 2010.

"We delivered 12 per cent growth in fee revenue this quarter, reflecting improving markets, the underlying strength of our business model and continued investment in our businesses. Asset quality was exceptionally strong throughout the year and our regulatory capital ratios grew, reflecting our strong capital generation. I would like to thank our staff for all that they have accomplished for our clients and shareholders during the past year," said Robert P. Kelly, chairman and chief executive officer of BNY Mellon.

Net income from continuing operations applicable to common shareholders totaled $2.584 billion, or $2.11 per common share, for the full-year 2010 compared to a net loss of $1.097 billion, or $0.93 per common share, for the full-year 2009. Net income applicable to common shareholders, including discontinued operations, for the full-year 2010 totaled $2.518 billion, or $2.05 per common share, compared to a net loss of $1.367 billion, or $1.16 per common share, for the full-year 2009.

Citigroup returned to profit with net income for full year 2010 was $10.6 billion, or $0.35 per diluted share, compared to a net loss of $1.6 billion, or $0.80 per share, in the full year 2009.

Citigroup revenues in the fourth quarter 2010 were $18.4 billion and included negative CVA of $1.1 billion. Excluding CVA, revenues of $19.5 billion were down six per cent from the prior quarter, principally driven by lower securities and banking revenues and lower gains on sale of AFS securities in corporate/other.

Citicorp's net income remained strong in 2010 at $14.9 billion, while Citi Holdings net loss decreased 52 per cent, from $8.9 billion to $4.2 billion, when compared to 2009. Citi Holdings' assets stood at $359 billion at the end of 2010, down from $487 billion at the end of 2009. This performance helped Citi to continue to improve its capital strength, as its Tier 1 Common ratio increased from 9.6 per cent to 10.7 per cent over the course of the year.

"2010 was a year full of milestones and was critical for the turnaround of this institution," said Vikram Pandit, chief executive officer of Citigroup. "Our goal was to achieve consistent profitability and I am very pleased that with our fourth consecutive profitable quarter, we earned $10.6 billion for the year.

"Our core businesses in Citicorp, with its deep roots in both the developed and emerging markets, performed well throughout the year while we made targeted investments in talent and technology. At the same time, we continued to wind down Citi Holdings in an economically rational manner, reducing assets by $128 billion in 2010 alone. Holdings' total assets have declined by more than half from their peak in 2008 to $359 billion and now stand at less than 20 per cent of our balance sheet.

"We have the right strategy for our company's present and future and are executing it with discipline. Although the economic environment remains uncertain, our future path is clear: As America's global bank, we've built a foundation capable of producing sustained profitability and our next goal is to achieve responsible growth," concluded Pandit.

Raymond James Financial reported a 90 percent increase from the prior year's quarterly net income to $81,723,000 or $0.65 per diluted share, for its first fiscal quarter ended December 31, 2010. In comparison, the firm earned $42,903,000, or $0.35 per diluted share, for the first quarter of fiscal 2010. This quarter's net revenue of $813,829,000 is an 18 percent increase over last year's first fiscal quarter.

"We continue to see a slow, but steady, improvement in the economy which augurs well for continued growth in our earnings potential," said CEO Paul Reilly. "We occupy an increasingly unique position in our industry and see many opportunities to leverage our brand, and continue to increase the strength and market position of Raymond James in each of our business segments."

Morgan Stanley has reported income of $4.5 billion, or $2.44 per diluted share, compared with income of $1.3 billion, or a loss of $0.82 per diluted share, a year ago. Net revenues were $31.6 billion for the year compared with $23.4 billion a year ago. Net revenues in the current year included negative revenue of $873 million, or $0.30 per diluted share, related to Morgan Stanley's debt-related credit spreads.

James P. Gorman, president and chief executive officer, said, "Morgan Stanley delivered improved performance across most of our businesses during the fourth quarter, and the strength of our premier client franchise was evidenced by participation in virtually every major transaction that helped raise capital for governments and leading corporations across the globe. Despite this year's challenging markets, we delivered strong results in Investment Banking enhancing our leadership positions in M&A, global equity and IPOs based on the strength of our banking, capital markets and equities teams. While we made progress in building out our Fixed income business through investments in both people and technology, there is more to be done to drive revenue and market share growth."

Northern Trust reported fourth quarter net income per common share of $.64, compared with net income per common share of $.82 in the fourth quarter of 2009 and $.64 per common share in the third quarter of 2010.

The company reported net income was $157.1 million in the current quarter, compared with net income of $200.3 million in the prior year's fourth quarter and $155.6 million in the third quarter of 2010. Return on average common equity was 9.1 per cent in the current quarter, compared to 12.5 per cent in the prior year's fourth quarter and 9.2 per cent in the third quarter.

Frederick H. Waddell, chairman and chief executive officer, said, "Our results for the fourth quarter and the full year have been constrained by the persistent low interest rate environment, which has negatively impacted net interest income and trust fee levels. The adverse market conditions have not, however, limited our ability to continue to grow and attract new business in our targeted markets. As we move into 2011, we are confident that our strategic positioning, strong balance sheet and capital levels position us for profitable growth."

Trust, investment and other servicing fees from Corporate & Institutional Services (C&IS) decreased $60.1 million, or 18 per cent, from the year-ago quarter's $328.7 million to $268.6 million in the current quarter, primarily reflecting the decline in securities lending revenue, partially offset by higher custody and fund administration fees.

BlackRock, Inc. reported fourth quarter 2010 net income of $657 million, up $401 million from a year ago and up $106 million compared to third quarter 2010.

"We closed 2010 with strong earnings for the quarter and the year, attractive investment performance and growing new business momentum," remarked Laurence D. Fink, chairman and CEO of BlackRock. "Away from merger-related outflows, new business was robust, with a combined $96.6 billion in fourth quarter net flows and net wins in the pipeline. These flows spanned all regions and all client channels and reflect the diversity of our platform and the breadth of our global new business effort."

Spain

Despite the country's financial woes, a vibrant securities lending market still exists in Spain, even though short selling rules are some of the toughest in the Western world

BEN WILKIE REPORTS

Spain has been hard hit by the global economic downturn. The country has long had a significant focus on the property market - anyone who visits one of the Costas will know that new developments have been springing up rapidly, with deals for ex-pats from across Europe luring them to a life of sun, sea and relaxation.

But it wasn't just in the resorts that the building boom was felt. Spain's major cities have also rebuilt their residential and commercial property portfolios, with price rises in double digits for many years. Then it stopped. And while price falls may not have been similar to those of Detroit or some other American industrial towns, they have still been pretty calamitous. Developments have been left unfinished and those that are complete often stand virtually empty.

This of course has had an effect on the banking industry. The Spanish banking environment is relatively conservative, leaving the multinationals - the Santanders and the BBVAs - in prime position to take advantage of the slowdown in the world markets. But the local banks, which had greater focus on the domestic housing market, have struggled.

Just in the last couple of weeks, the Government announced plans to pour billions more euros into its troubled savings banks and force them to be more open about their lending practices. In a first step, "Spain is preparing to issue EUR 3 billion in debt in coming days," says one source. "Government officials are putting plans in place to eventually raise as much as EUR 30 billion, though the final tally may well be less."

Securities lending

Securities lending is common practice in Spain. Every loan executed in the Spanish market must be communicated to Iberclear who keeps control of loans outstanding for the purpose of returning to the original owner, when the loan is paid back, the same Register Reference (RR) numbers that were originally submitted. Although security loan accounts are kept separately within the position of each of the participants for the type of security in question, Iberclear attributes the possible economic rights that might be accrued during the term of the loan to the borrower, who is obliged by his contract to compensate the lender outside the system.

Stock lending enables shares to be transferred for an agreed period in return for a commission.

The advantages of this product, for the lender as well as the borrower, lie behind the surge in stock lending since it was established in October 1992.

The lender can obtain an extra return from stable portfolios and the borrower can carry out hedging operations in the futures and options markets, adopt selling positions in the open market in the face of downward trends and cover positions in shares where there is a debtor balance at the time of settlement.

If the stock from a stock lending trade is intended to be used to cover a short sale in the market, the stock needs to be in place, and the sale settled before 15:00 on value date. A two-day grace period is granted after trade date to receive stock from loan to cover a sale. Therefore, if stock is received from a loan on TD+3 but the sale is not settled before 15:00, then a short sale fine of -200 bp would be applied. If the loan settles on TD+4, then a 10bp fine would be applied after 15:00. If not settled before 15.00 on TD+4, the trade is bought in by the CSD.

Short selling

Short selling is forbidden in the Spanish market. Even in an intraday basis. Financial intermediaries are not required to verify themselves or their clients' global position and can accept an express declaration from clients stating that they are not executing a naked short selling operation. This declaration can also be general; in this case intermediaries are not obliged to ask for the client's declaration for every single operation.

The CNMV introduced new measures on short selling, effective from June 10, 2010.

The requirements are as follows:

Investors will be required to disclose their short positions on any stock or cuota participativa (non-voting stocks issued by Spanish savings banks), admitted to trading in Spanish official secondary markets (currently this only applies to certain financial companies).

Investors will be required to disclose to the CNMV when the short position exceeds 0.2 per cent of the outstanding capital admitted to trading. In addition, investors will also have to declare changes in a previously communicated position when it falls below that percentage. Finally, whenever an already communicated position trespasses (downwards or upwards) one tenth of a percentage point of the issued shares, an update will have to be provided. Currently the threshold is 0.25 per cent.

All notifications about short positions that exceed 0.5 per cent of the outstanding capital will be published on the CNMV website, including the identity of the holder.

CNMV will also publish the aggregated amount of short positions that are communicated but not individually posted (since they are above 0.2 per cent but below 0.5 per cent).

Investors holding a short position above 0.2 per cent when these measures come into effect are obliged to communicate their positions to the CNMV under the new requirements.

The future

Spain's economic viability remains in doubt for some investors, but the government has put in place a series of austerity measures designed to pull the country out of the mire.

What will help the market is Spain's investment in the growing economies of Latin America, where historic ties mean the banking sector in many of these countries is dominated by Iberian banks. So while Spain struggles today, tomorrow still looks bright. **SLT**

US securities lending panel debate

The biggest market in the world has seen its share of trials and tribulations over the past couple of years. Our panel examines the issues

Ben Wilkie, editor

Barbara Eelens
ABN AMRO, Global Markets
Director

With a rich history dating back to 1720, ABN AMRO is a highly respected and stable banking partner for our clients. We are proud of our heritage and excited by our potential. The bank employs more than 30,000 people and has an international reach across 28 countries.

ABN AMRO Securities provides a platform to conduct securities financing and related activities in the United States where we offer our clients the ability to enhance returns while managing risks. We act as principal in all transactions and specialise in exclusive fixed fee agreements and tailor made securities finance solutions. ABN AMRO Securities is self-clearing, and a member of FICC and NSCC.

Missy Seidel
Brown Brothers Harriman
Securities lending
global product head

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

Michael H. Johnson
Penson
Senior vice president – global securities lending, Penson Worldwide

David Kennett
Penson
Director - head of equity finance – Europe and Asia, Penson Financial Services

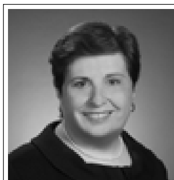
The Penson Worldwide group of companies provides execution, clearing, custody, settlement and technology infrastructure products and services to financial services firms and others servicing the global financial services industry. With a global presence underscored by local expertise, Penson is a leading provider of global securities lending services.

Headquartered in Dallas, Texas, Penson has served the clearing needs of the global financial services industry since 1995.

James Slater
BNY Mellon
Managing director & chief operating officer

BNY Mellon offers clients worldwide a broad spectrum of specialised capabilities, including custody and fund services, securities lending, performance and analytics, and execution services.

BNY Mellon is a global financial services company focused on helping clients manage and service their financial assets, operating in 36 countries and serving more than 100 markets. BNY Mellon is a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing superior asset management and wealth management, asset servicing, issuer services, clearing services and treasury services through a worldwide client-focused team. It has $25.0 trillion in assets under custody and administration and $1.17 trillion in assets under management, services $12.0 trillion in outstanding debt and processes global payments averaging $1.6 trillion per day. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation.



Karen O'Connor
eSecLending
Co-chief executive officer

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

Anne M. Sylvester
J.P. Morgan
Head of regional technical sales and client management for financing and markets products

J.P. Morgan Worldwide Securities Services is a premier securities servicing provider that helps institutional investors, alternative asset managers, broker dealers and equity issuers optimise efficiency, mitigate risk and enhance revenue. Worldwide Securities Services leverages the firm's unparalleled scale, leading technology and deep industry expertise to service investments around the world. It has $15.9 trillion in assets under custody and $7.1 trillion in assets under administration.

Nick Bonn

State Street

Executive vice president and global head of securities finance

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

Chris Doell

Northern Trust

Senior vice president and head of securities lending client relations for North America

Northern Trust began lending securities on behalf of its clients in 1981 and was one of the first banks to lend securities internationally in 1988. Northern Trust aims to provide clients with flexible lending options and an opportunity for optimising returns for loaned securities. Today, it actively lends in 50 different equity and fixed income markets worldwide and continually reviews and expands into additional markets to help benefit clients, seeking to optimise returns through a customised lending programme in the context of thoughtful risk management.

Rory Zirpolo

Kellner DiLeo & Company

Principal, director of securities lending

KDC Alpha is a matched book trading partnership that replicates the prime brokerage industry's proprietary matched book trading business. KDC Alpha's strategy has generated a positive return each month since inception and is designed to outperform other alternative investment strategies over multiple market cycles. KDC Alpha's performance has demonstrated low correlation to equity and fixed income markets and is especially attractive as an enhancement/hedge overlay for equities, fixed income, ETFs, MLPs, registered mutual funds and precious metal portfolios. KDC Alpha's returns are positively correlated to rising interest rates and volatility.

Greg W. DePetris

Quadriserv

Co-founder

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

Chris Kunkle

RMA

Director, securities lending and market risk

SLT: Considering the experiences your company has had over the past couple of years, how has your securities lending strategy changed, if at all?

Anne Sylvester: The big sea change that we have witnessed in the post-crisis market environment is that oversight, transparency and risk control have become paramount. In a sense, the Lehman crisis proved that our model was efficient in unwinding borrower defaults. It gave lending clients the comfort to know that the mechanism does work in difficult situations and market disruptions. This has been one of the biggest shifts since the crisis. Clients are far more interested in a dedicated separate account type platform and this is where they determine the parameters governing their reinvestment portfolio. It gives them a lot of transparency, oversight and involvement in the process.

Missy Seidel: BBH embraced intrinsic value lending before it was considered "en vogue," and because we stayed true to our founding philosophy, our programme and our clients suffered no realised or unrealised losses, no collateral impairment, and no liquidity or redemption restrictions. We've always focused on working with clients to co-create programmes that meet their long-term best interests, and we'll stick with that strategy going forward.

Greg DePetris: Our strategy remains the same – responding to the needs of the market in the areas of transparency, credit, and automation. Of course these needs change and advance over time, so the challenge is responding to those conditions whether it means delivering transaction data in real time, improving credit limit management, or increasing the level of straight-through processing. We continue to evolve with our clients and address their needs in a changing environment.

Barbara Eelens: Our securities lending strategy endured the financial crisis without incurring any losses for ABN (previously Fortis Bank Netherlands) or any of our clients as we have always focused on the intrinsic value of underlying securities rather than on the money to be made via a cash reinvestment programme and we will continue to do so in the future. In addition, our willingness and ability to post various types of non-cash collateral, thus removing any reinvestment risk a client, proved to be a very valuable differentiator.

Michael Johnson: Our strategy is very simple: Provide the best service to all of our clients, including internal and external. We understand the nature of trading strategies and therefore build systems to help our clients receive the best information. We have also focused on our service level and the ability to interact with other clients on a global basis. We have concentrated on hiring the best available personal around the globe, and now have securities lending operations in Dallas, New York, Toronto, London and Hong Kong. Our strong global management team has been very effective in seeing trends and taking advantage of them quickly. All this has enabled us to better service our customers.

David Kennett: Ultimately we have had good success in true globalisation of our securities lending and matched book business. This has enabled us to take advantage of internal synergies, diversify our business streams, and offer a broad range of securities with the ability to switch focus in geographical markets as clients' demands change.

James Slater: Broadly, our clients have made adjustments to reinvestment guidelines and lending strategies, in many cases reducing the risk of their programme. At the same time clients have asked for more reporting and risk/performance analytics. All of this has lead to an increased focus on intrinsic-based lending strategies.

Kunkle: If there's another market downturn and large cap names start trading tighter then liquidity could again be an issue in a minority of cases

Nick Bonn: Overall, when looking at our programme, I think State Street largely avoided the credit problems that many programmes experienced. In June we announced some important steps that, when taken together, really unlock liquidity for our clients that had been locked up because of longer duration securities in our collateral pools. Our model for lending is different from our competitors because we combine the best of integrated lending and re-investment with the best of outsourcing re-investment. The credit team within our reinvestment programme is dedicated to money markets, which is a competitive advantage for our clients. Finally, I think going forward lending mandates will not stick to a defined formula. Agent lenders will have to deal with client managed cash, non-cash collateral and other non-standard structures. This flexibility will have to extend to pricing structures, guarantees, and alternative forms of collateral.

Chris Kunkle: In the business (remember, we are an association) two things occurred. First, the methodology of lending has become more intrinsically driven - firms are aiming to get more specials and less general collateral out to borrowers.

Second, firms are continually working to help their clients understand how they are reinvested. They are taking extra steps to help their clients understand the various benefits and risks of securities lending.

Has the intrinsic methodology removed liquidity from the market? In most cases, what drives liquidity is the availability of special stocks. The fixed income market is flat because interest rates are flat. But for the most part liquidity is still in the equity markets because firms are intrinsically lending those securities. You're not having trouble with large cap stocks, your IBM or your Microsofts. But when you're lending general collateral for a lower rate, that's not specifically creating liquidity. Intrinsic lending is not a bad thing and perhaps this shift makes the securities lending market a bit better.

If there's another market downturn and large cap names start trading tighter (eg, Citi circa 2008) then liquidity could again be an issue in a minority of cases.

Chris Doell: "Over the last several years, in considering our securities lending strategy at Northern Trust, we have really aspired to remain focused on our core strengths and offer clients a stable and rewarding lending experience. At a time when stability and consistency is so difficult to find across the financial markets, we have looked to make adjustments, while avoiding potentially disruptive overhauls, to our securities lending strategy.

This means we have sought out innovative ways to extract the optimal intrinsic value for our client's assets by building ever stronger connectivity with our borrower counterparties. We have expanded our suite of lending markets to take advantage of the globalisation trends affecting our industry, and we have equipped our clients with increasingly powerful tools for monitoring and actively managing the level of risk to be taken in their lending programmes.

These changes are meaningful, but they also remain highly aligned with our long-term identity as a lending agent focused on providing exceptional client service, dedicated to extracting the greatest amount of intrinsic value, and stringently managing risk.

Rory Zirpolo: As we are a matched book securities lending partnership, we do not have exposure to reinvestment risk. Accordingly, the core of our strategy has not changed over the past few years. However, the availability of hard to borrow securities has declined along with overall short interest in the markets. The combination of investors deploying less capital on the short side of the market and the current near zero interest rate environment has compressed our spreads as well as the strategy's profitability. Looking forward, we intend to expand the counterparty network with which we trade, especially globally.

Karen O'Connor: eSecLending has always viewed securities lending as an investment management function rather than a back office or operational function. With the evolution of the industry since the credit crisis, it is a philosophy that is becoming more prevalent within the market.

We remain committed to our auction process and using it as a tool to help determine which route to market is optimal for our clients' assets whether through agency exclusives or discretionary lending. In addition, we have rolled out a new product in the treasury and financing space, which is designed to support large institutional investors in managing the operations around their treasury management functions, leveraging our securities lending expertise and capabilities.

SLT: How much impact is the Dodd Frank act having on the market? How much work are you having to do internally to ensure you are compliant?

Eelens: It goes without saying that Dodd-Frank will substantially affect all financial institutions, but the degree of impact varies - being particularly tough on big US domiciled banks. Having said that, the bill will ensure that there is less risk based leverage in the financial system, producing however the side effect of creating downward pressure on industry profitability and upward pressure on capital requirements. On a day-to-day basis we are focused on implementing the various regulatory requirements including but not limited to reporting, record keeping, collateral management, capital and liquidity.

Zirpolo: Although we may not be directly affected by the requirements of the Act, we do expect the Act to have an impact on securities lending volumes by virtue of the stricter capital, credit, and concentration limits being imposed on banks and their affiliates.

Sylvester: The impact of Dodd Frank is still unknown to a large degree. The regulation is actually a framework in which various, more specific, rules will be written. At the moment there are still hundreds of rule makings and studies assigned to close to a dozen regulatory bodies. JPM is actively working with our government relations group and several industry organisations to keep abreast of the latest developments. Additionally, JPM is consolidating this information and assessing the potential impacts across the range of our products.

Johnson: The continued dialogue that our industry representatives have with the SEC has been quite successful

Seidel: All market participants have been focused on Dodd-Frank this year, specifically in terms of analysing the rules, identifying issues to be resolved in future rule-makings, and clarifying the potential areas of impact on the lending market. There is still significant uncertainty around the impact, particularly as 250 rulemakings are to be completed over the next two years. The largest impact on the market may in fact be indirect - that is, the impact to borrowing demand that stems from uncertainty surrounding the final form of Dodd-Frank.

The current focus is on the upcoming rule-makings, including regulation aimed at increasing transparency in the securities lending market. The study of a mandatory haircut on secured claims, while not currently slated for a rule-making, could also significantly impact the market if it this were to change. Creation of the Orderly Liquidation Authority is probably the most important aspect of Dodd-Frank for lending thus far. While it has minimal impact on a day-to-day basis, the OLA could obviously have a substantial effect on how the securities lending market functions during a time of stress. Given the new provisions, it makes sense for all market participants to do a full review of legal and risk parameters, and for beneficial owners to discuss with their agents how the new rules could impact their programmes in the unlikely event of a default scenario.

Johnson: We are always reviewing the impact of regulatory changes. Our systemic approach and years of experience enable us the flexibility to comply with new rules and requests quickly and efficiently. We built a great foundation with Reg SHO and have the ability to adhere to changes quite simply.

Slater: The Dodd Frank Act has little direct impact on agent lending programmes. That said, we continue to monitor legislative and regulatory developments to better understand how it might affect our clients, borrowers and broader markets.

DePetris: Since we are already compliant with Dodd Frank the impact, by and large, has not been readily observable. However, we expect changes in the wider securities lending market as policy reforms begin to take shape. For example, how formal SEC jurisdiction addressing open regulatory questions should add confidence to the industry understanding of best practices. Additionally, we think the mandate that requires the SEC to promulgate rules for more transparency within two years of the enactment of the regulation will bring meaningful improvement to market quality.

Kunkle: It is certainly groundbreaking legislation, something we haven't seen since after the Great Depression. It's affecting both banking and brokering. So it's having an effect on securities lending, but it's a much bigger impact for banks - I know of some banks that have a multiple-page documents, each page having several items explaining the changes.

Last November, the RMA put on a Dodd-Frank forum for the membership, alongside the Debevoise and Plimpton law firm in New York. We invited the SIFMA SLC membership and we had over 100 participants.

Through this July a number of rules have to be in effect, and this will be followed by further implementation during the following year. Banks within the RMA have a pretty strong understanding of what they need to do. Things may change [in the legislation] but they're already working very hard. I think we'll handle it.

The thing about Dodd Frank is that banks have to implement it. It doesn't matter if they're big or small, whether they are affiliates of international banks, or small community organisations. As far as securities lending goes, from an RMA perspective it really only affects about 20 agents. At present, if prepared for, I don't think it's going to put anyone out of business as every bank that does agent lending is of a substantial size.

Doell: Obviously, the entire financial services industry is focused on the roll-out of this new regulation and is watchful of the course it will take. For now, we expect Dodd-Frank will lead to a more detailed framework for securities lending markets than seen before, but it is still too early to suggest how all those details will ultimately be mapped out.

At Northern Trust, we make sure our experts remain heavily engaged with the various specialist industry associations, such as the RMA (Risk Management Association) Committee on Securities Lending, and continue our direct dialogue with regulators and legislative groups to contribute to these important developments.

SLT: Are there any new regulations coming out of the SEC that will affect your business and what is the SEC's current attitude towards securities lending?

Johnson: The continued dialogue that our industry representatives have with the SEC has been quite successful. Transparency is key to aspects of the securities industry, and both sides have worked very hard towards that.

Kunkle: The RMA is working with the SEC, which is tasked with potential legislation on securities lending and securities finance. There is a potential issue here in that they may be legislating in a vacuum. The Fed and OCC meet with us periodically and we work together. The SEC is very quiet about what its intentions are. While the SEC joins in on our periodic meetings with the Fed, we're looking to meet with the SEC to address its concerns, and to ensure it has a full view of the market.

Bonn: Our clients now have a much better understanding of risk as it relates to securities lending

We don't know if the SEC has started to write new rules, or when it will. We're trying to help assess what it's concerned with. In the US, the Fed and the OCC are really working to educate themselves on securities lending. We have twice done training for the OCC for example, and once for the Fed. And we do have an outreach programme where the SEC is always invited to participate. The SEC is trying to learn - we put on an academic forum each year with the University of North Carolina - it brings in experts from Harvard, Yale and Wharton - and the SEC attends in some capacity usually.

We know that regulation is coming and it may benefit the industry in some areas. But we have to be careful not to over-regulate and make ourselves uncompetitive compared to other markets.

Eelens: It cannot be stressed enough that although there are benefits to a cash reinvestment programme, it should be considered separate from securities lending.

Zirpolo: There has been increased scrutiny from the SEC and FINRA with respect to fully paid securities. Specifically, a number of additional regulations have been implemented to increase the level of disclosure provided to clients.

Sylvester: Under Dodd Frank, the SEC was tasked with rule making regarding securities lending by July 2012. The rules are intended to increase transparency of information relating to securities lending to brokers, dealers, and investors. Further specifics around the rule making request were not defined and at this point, the SEC has not given any indication on what the final rules will look like or focus on. As noted above, we continue to have discussions with various industry and internal groups to assess developments

Seidel: BBH is monitoring a few key regulatory areas, and right now focus is on the rules implementing the Orderly Liquidation Authority, the SEC's upcoming rule-making to address the transparency of information available within the lending market, and the anticipated FSOC study of a potential haircut on secured claims.

The SEC is required to finalise the transparency rules by mid-2012, so we anticipate a draft rule sometime this year. The study of a mandatory haircut on secured claims is not currently slated for rule-making, but could also significantly impact the market if this were to change. The industry will also be monitoring what new capital burdens may be imposed as a result of Dodd-Frank's express requirement for regulators to address the risk that lending activity poses to the economy as a whole. Of specific concern will be whether the capital requirements of Dodd-Frank will be additive to those expected under Basel III, or whether there will be a coordinated approach to additional capital rules. As always, it will be critical for the industry to stay informed about the upcoming rules and to provide insight to the SEC and other regulators about how the proposals could impact the market. BBH continues to stay engaged with regulators through our involvement in the executive committees and boards of RMA, ISLA and other industry associations.

Eelens: There are no specific regulations that we feel will be prohibitive to our business. The SEC recognises securities lending as a liquidity provider and its importance in maintaining an efficient overall market place.

SLT: What enhanced risk management measures are you now taking and how are these holding up? What does the risk/return profile look like?

DePetris: From the outset, we have processed all of our transactions through a Central Clearing Counterparty (The Options Clearing Corp). In our view, the CCP model is the standard for risk management practices as reflected in their high credit ratings (OCC is a AAA rated entity). We are excited to continue delivering the best possible risk management platform to our customers via the CCP platform.

Doell: Given the intensity of the global financial crisis, our team responded with several measures designed to enhance awareness of risk for clients and actively manage and control the overall risk of the programme.

We focused very early on transparency—immediately rolling out several new tools for communication and outreach to our clients and their consultants. We enhanced our credit risk management practice to provide an independent model for assisting our portfolio management teams with decisions surrounding cash collateral reinvestment strategies, including legacy portfolio holdings inherited as part of transitions from other providers.

And we were receptive to client and consultant feedback in developing new investment guidelines for clients – they told us what they would like to see, we listened, consulted with our portfolio management experts, and implemented those guideline changes where appropriate.

These changes were greeted positively by our clients. Today, we find the resulting risk/return profile is highly aligned with client expectations, and our clients tell us they are gratified to have the ability to help customise their participation to fit their specialised risk and return objectives.

Johnson: Credit risk is always a challenge, but we have very competent individuals that drive that function. Using the best tools available within the industry is a must. We are always on the hunt for better ones, to provide us with even more insight to all elements of market and client risk.

Slater: Following the events of 2007 and 2008, clients have reassessed risk appetites. This continues to drive client requests for enhanced reporting and risk/performance analytics. In some cases, clients are tailoring guidelines in such a way as to lower their reinvestment risk while accepting lower returns.

O'Connor: We recognise that not all clients have the same risk profile which is why we treat each client as a separate programme

Zirpolo: In addition to traditional credit analysis and risk management techniques like diversification and active credit monitoring, we have isolated counterparty default risk as the main risk factor that gives securities lending its risk premium. Much of that analysis has centered around loss given default. We are more conscious than ever before about borrowing assets that either reduce that number or add the most value to our book. But being a majority match book business, we couldn't be more excited about our risk/return profile, which has a positive expected value and a very tight distribution – not unlike that of the cash markets.

Seidel: Despite the challenges faced by many investors and by the securities lending industry as a whole, the BBH securities lending programme has performed without incident. While many other lending providers have re-evaluated and modified their programme strategy and risk management practices based on recent market events, the BBH strategy and philosophy have not changed since programme inception and are now resonating more deeply with our clients. We are committed to providing industry-leading returns to our clients while still adhering to our fundamental priorities of risk management. By striking this balance effectively, we have successfully navigated recent market events that adversely affected many other securities lending programmes.

Eelens: Risk management has always been an important component of our programme. Where we previously relied primarily on daily mark-to-market methodology and collateral management, we have expanded our credit management variables to include a market volatility based VAR methodology.

Bonn: Our clients now have a much better understanding of risk as it relates to securities lending, where previously it may have been viewed more as an operational exercise. I would say that securities lending can offer a relatively low level of risk for a relatively moderate rate of return, but it has never been completely without risk. State Street has been investing in risk management staff and products for a number of years now and in 2011 we will offer our clients a standard risk reporting service and a bespoke risk advisory service.

Kunkle: There is a whole new respect for risk management and that has flowed to securities lending. Firms are tightening up their reinvestment guidelines and clients are looking for different solutions in reinvestment. The Fed is looking at agent lenders and how they invest, while companies in and out of securities lending are listening to the market and credit risk people much more than they did three years ago.

I think we always have to be cognisant of what we've done in the past. In the US, we tend to have a short memory. Within securities lending, firms are looking to make sure their clients are protected. I worry about the potential tendency to forget. That said I don't think we'll be back to volume levels of 2007 any time soon.

O'Connor: We recognise that not all clients have the same risk profile which is why we treat each client as a separate programme allowing us to customise based on their specific requirements. We view securities lending as an investment decision and therefore embrace the concept of diversifying exposure by utilising best in class providers across all components of a client's lending programme, including their custodians, lending agents, borrowers, cash collateral mangers and indemnifying insurers.

Counterparty risk continues to be an area of heightened focus for lenders which is why we are proactively taking steps to redefine the controls and protections we have in place for our clients. For some clients, we have implemented enhancements to their risk management programme through the use of the CDS market. We monitor borrowers' creditworthiness and we have instituted a dynamic process whereby additional collateral (above the standards of 102 per cent/105 per cent) is required when a borrower's CDS spread reaches a specific threshold.

SLT: After the Lehman collapse a lot of beneficial owners scaled back or withdrew from lending. What advice would you give to beneficial owners now considering doing securities lending/reentering this market?

Siedel: The most important thing beneficial owners can do is select a lending agent whose interests and programme philosophy are closely aligned with their own - Can an agent generate revenue within their risk profile and does it have a history of doing so? What portion of returns are generated from the demand value of their securities versus from collateral reinvestment? Having just come through the crisis, beneficial owners can compare how different agents fared based upon real evidence. For instance, did the agent's reinvestment vehicles contain impaired assets, did they impose redemption restrictions, have they received any lawsuits related to securities lending? The answers to these types of questions will provide valuable information about the philosophy and risk controls of a lending agent.

Zirpolo: There continue to be opportunities for intrinsic value lending which, if combined with sound risk management procedures, earn respectable risk-adjusted returns for beneficial owners.

Sylvester: We've seen new entrants to the market for a variety of reasons. There were clearly lenders who had suspended their programmes and have now re-entered the market. They had a good experience and were educated. In those areas we saw a very healthy trend of increased scrutiny and oversight from the lenders as a result of the crisis. The new entrants are looking at it from a variety of different perspectives. For example, securities lending might represent additional revenue potential for their overall fund portfolios. The new lenders have read the press, have seen what others experienced and as a result, they are a much more savvy consumer. There seems to be an in-depth understanding of all the intricacies of the programmes.

> Sylvester: Clients are far more interested in a dedicated separate account type platform and this is where they determine the parameters governing their reinvestment portfolio.

Eelens: Beneficial owners mostly suffered via means of their cash reinvestment programme, where they built up exposure to Lehman and other questionable credits on an outright, term basis. It cannot be stressed enough that although there are benefits to a cash reinvestment programme, it should be considered separate from securities lending. First and foremost, it is important to look at the intrinsic value of lending your assets, which can be obtained risk free (via treasury repo for example). Second, closely consider your collateral/re-investment requirements. Collateral is primarily meant to mitigate risk and if you want to produce an additional return above the standard "risk free rate" (treasury repo) on your collateral, it is appropriate to consider this as a separate asset class with its own risk/return metrics. Non-cash collateral programmes by comparison offer a great alternative and are too often overlooked by beneficial owners.

Kennett: From a matched book perspective, we see renewed buoyancy in securities borrowing and lending (SBL) markets and in general a positive opinion from those professionals who trade within it. The market is still focused on the aftermath of the Lehman collapse and is much more stringent in controlling limits, both from a risk and a credit perspective. There is an increased amount of transparency in this market which also makes it more controlled. For beneficial owners, SBL has always represented a strong uplift in yield. We would invite beneficial owners to take comfort in the caution that this market now takes in its normal course of business and re-introduce (at least in part, if not in whole) their security portfolios to lending pools, to take advantage of those increased yields again.

Slater: The securities lending process held up very well through the crisis.

DePetris: Our opinion is that the choice to lend securities is no different than any other investment decision – a simple risk vs. reward tradeoff. The problem, historically, was that there were a limited number of routes to market and thus the risk-reward profile tended to be fairly uniform across the industry. However, today that paradigm is changing. Competition has driven entrepreneurs to create new models for securities lending investors and as a result, the routes to market are now fairly diverse from a risk-return perspective.

Additionally, it is widely accepted that most of the historical securities lending rewards (and risks) were associated with cash reinvestment. However, today's models allow for greater yield on intrinsic value and thus de-emphasise the need to chase yield on the reinvestment leg. We think that any platform that can deliver improved intrinsic value returns will be attractive to securities lenders going forward as it affords a better risk-return profile on their investment.

O'Connor: Securities lending is not for all beneficial owners, as each lender must be aware of the risks involved while generating returns. The credit crisis made more people aware that a securities lending transaction, particularly in the US, is comprised of two distinct functions; securities lending and collateral management. For those beneficial owners interested in entering the market, they should work with their securities lending agent to develop a customised programme structure in accordance with their specific objectives and risk/return tolerances. Once the strategy and parameters are defined and the lender and agent are in agreement, agents must work with their beneficial owners to monitor revenue attribution and programme compliance to ensure the imposed guidelines are adhered to and program goals are aligned. This is an important part of programme oversight.

Slater: The securities lending process held up very well through the crisis. Losses that some investors experienced during the crisis related to what the cash collateral was invested in. The amount of risk taken in reinvesting cash collateral is customisable for the beneficial owner. Reinvestment can be analogised as a risk v. reward continuum. Programmes can be structured with varying degrees of reinvestment risk. Clients should consider their revenue expectations in conjunction with their risk tolerance.

Bonn: We spend a great deal of time working with our clients to ensure they completely understand their securities lending programme and what level of risk they are comfortable with. The advice I would give is to educate yourself and ensure that the firm you are working with is able to provide you with the level of transparency and risk management and reporting that you require. Doell: We feel it is an opportune time for institutional investors to review their securities lending opportunities and determine if a program can be built that suits their risk and return objectives. For organisations evaluating whether to start or expand their lending activity, our advice is to work with an experienced agent like Northern Trust who will take the time to offer a guided tour of the global opportunities available based on their specific lendable base.

Chances are, there are certain assets in each investor's holdings, which are of great value to the borrower community, and we can help clients seek out opportunities to capture the premium borrowers are willing to pay for this access. With all the risk monitoring and management tools available to clients today, providers like Northern Trust are in a great position to help build a programme tailored to meet each client's specific risk tolerance.

O'Connor: Securities lending is not for all beneficial owners, as each lender must be aware of the risks involved

Kunkle: The mutual funds, pension funds and public funds that stopped securities lending did so before the crisis hit because of the short selling restrictions that were introduced in the US. That got a small set of clients nervous, but for the most part lending was reactivated before, even during, the liquidity crisis.

While some funds had collateral reinvestment issues, a majority of clients that temporarily ceased activity have returned to the market. Again I don't think we will see the levels of activity that we had in 2007 because they are lending more intrinsically. Having serviced clients at Wachovia and J.P. Morgan [before joining the RMA] it does bother me that some of these clients seem to have temporary amnesia. I know that when I was at those banks, we thoroughly went through the reinvestment process with the clients.

So then I see an article about certain clients not understanding the risks in securities lending I get somewhat perplexed. There are examples of pension plan heads that have been attending industry conferences such as IMN's Beneficial Owner's Conference for many years. These same people have spoken as experts on securities lending and its risks at these same conferences.

Then the same client, who is mentioning himself/herself as an expert speaker, has a loss incurred by participating in securities lending and they seem to have temporary amnesia. They blame the agent lender, the business in general and everyone else, but they don't speak about how well the business has profited them over time. Then they decide to show up at the next conference as a panelist/expert on the securities lending business. Seems off to me, but it's happening at present. I feel that we as an industry need to "call these people out."

On the other hand there are some people who do need education and help. And for those persons, RMA provides educational classes on Securities Lending (SL101-301).

SLT: What can we expect overall borrower demand for securities to be in 2011? How would this compare to the last two years?

Kennett: From a US domestic perspective, the market has been stand-offish while it gets more comfortable with ever changing short sale rules and costs. The market also is being affected by a lack of M&A deal volume and caution around specific yield enhancement plays in 2010. To a degree, that was also the case in Europe. In 2011, the US and European markets are poised to show greater volume, however. Demand in Asia has continued to be strong. As a result, the loan pools often dry up, and would benefit greatly from restocking. The last two years have seen this market still very much in the aftermath of the Lehman collapse. But as we move away from that and see more robust control and transparency, I believe that confidence and demand will increase.

Zirpolo: We see borrower demand increasing, as underlying hedge fund clients slowly take the brakes off of deleveraging.

Also, with investors more aware of risk than ever before in traditional asset classes, we see them flocking to hedge funds in search of above average returns. This should cause trading volumes

to increase from their lows in 2008/2009 on platforms like Equilend.

Sylvester: 2010 has been a year where most of the factors that could collude against you did so: oversupply in the bond markets, quantitative easing, lower dividend yields, lower hedge fund activity, and minimal M&A and IPO activity. Many of the headwinds came together and impacted at the same time. I don't think 2011 is going to provide a vast amount of relief. There may be more positivity on the equity side but I wouldn't suggest it's going to be substantial.

But it's interesting how the market adapts to these situations. Right now, for lenders willing to lend bonds for more than a year, there is the potential to substantially improve the return. This is because the banks are very keen to borrow securities for longer than a year given new capital requirements coming out of Basel III and other regulatory requirements. Different enhanced revenue trades do exist in the marketplace today for those that are willing to take them up.

But overall from a lending perspective, the recovery has not happened. We may see a modest recovery in 2011, but there is going to be continued pressure on the P&Ls of many market participants. As a result, you may see a classic two tier market, with three, maybe four, very large, dominant providers and a number of niche organisations. Everyone will have their place, but it will be a different, more bifurcated model than it is today. The profitability of the industry will drive that.

Seidel: We expect demand to increase compared with the last two years. Important demand drivers will include hedge fund asset growth and increased leverage, along with increased M&A and convertible bond activity. New markets should open to lending across the globe in some of the emerging economies, and ETF demand should remain solid as it continues to be a cost effective way to access an index.

Doell: today's level of borrower demand is largely consistent with historic norms

Eelens: M&A and capital markets activity is on the rise and we think this will drive an increased number of specials compared to the previous two years. However, given the current Fed fund rate and a fairly flat short term yield curve, demand will continue to prove somewhat challenging. The need for flexible solutions and deep, multi jurisdictional market expertise will become more apparent.

Johnson: In our opinion there is more supply than usage. The activity surrounds a specific pool of hard stocks of interest to traders. Supply in these names can get tight and therefore rates increase. This has made it tougher and has put pressure on the cost of selling short. We anticipate a constant flow for 2011.

Slater: As global economies and financial markets continue to improve, we are expecting a modest increase in demand for equities and corporate bonds this year. However, the US Treasury market continues to be challenged by near zero interest rates and excess liquidity.

Bonn: The effects of the financial crisis, including decreased liquidity, increased regulation and the deleveraging of hedge funds have changed the face of securities lending. However, the renewed focus on risk and transparency has moved the industry towards new standards, which will transform the way portfolios are built and how risk is managed. We are seeing clients return to the market slowly, although they are typically maintaining more conservative lending programmes. I think it is important to acknowledge that the returns we saw in 2008 were unrealistic and we are working with our clients to adjust their programmes accordingly.

Doell: A lot of the industry's attention has been focused on the decline seen in overall borrowing levels from the peak volumes seen before the 2008-2009 global deleveraging phenomenon. But the fact is, today's level of borrower demand is largely consistent with historic norms – and we observe some signs suggesting that borrower demand is poised for marginal growth in 2011.

The European yield enhancement season typically provides a seasonal boost in the level of demand, there is some expectation of increased mergers and acquisition activity globally, and the degree of liquidity gathered by the hedge fund community simply can't be ignored. All of these factors suggest that the end-users of borrowed securities may look to more vigorously put capital to work in 2011, and that in turn suggests that borrower demand may see a marginal uptick in the near future.

SLT: What issues are being raised by you or your clients as we move forward in 2011?

DePetris: Automation is one area that can always improve from a product delivery perspective, and our focus is to continue to build out new features which make interacting with our markets easier. Additionally, we think it's important to connect the discrete securities lending activity to other linked activities that securities lending touches within a firm like treasury or collateral optimisation. In general, it is important that our products deliver value to the entire family of related activities within our customer's business. We're constantly looking for new ways to further leverage our products to benefit our customers.

Zirpolo: Regulation, or better stated, uncertainty about potential future regulation, continues to be a hot topic. Our clients want to understand where the regulatory landscape is headed for securities lending in the major markets, if it will have any negative impact on returns and how we can help them navigate the waters.

Sylvester: While we already have robust reporting tools in place, clients are seeking additional ways of looking at the underlying data. As a result, we are increasingly customising reports and as this trend is set to continue to expand, we will continue to invest in this to meet client needs. We believe that this trend, of lenders requiring more information and in different ways, is one that is set to continue.

Sylvester: We may see a modest recovery in 2011, but there is going to be continued pressure on the P&Ls of many market participants.

Seidel: The regulatory environment is obviously receiving a lot of focus as global regulators create rules designed to promote transparency and control. The full impact of the proposed changes is still unknown but it has placed pressure on both sides of the supply/demand equation. On the supply side, it could alter the way large custodial providers approach securities lending, and on the demand side, it will likely impact how prime brokers and investment banks operate. The combined changes will influence demand trends, the economics of the trade and the industry landscape going forward. BBH has been proactive about discussing the proposals with our clients to ensure they understand the impacts to both sides of the equation, but particularly to their individual programmes. This is something we'll continue to do over the course of the year as more information becomes available and more changes are enacted.

Johnson: We are always looking at supply within the industry and the ability for day traders to attempt their strategies on a continuous basis. The more in-demand stocks make it harder to fulfill everyone's requests, and that is something we look at daily.

Kennett: We are also seeing an increased demand in short cover requests in European, Asian, and emerging markets from clients who would normally keep their strategies inside the US That partly confirms the market opinion that growth is coming in 2011, as investment houses diversify and perhaps even relax their strategies into new markets.

Slater: As in the last few years, the risk to return paradigm continues to be a focal point for many clients as they strive to balance risk, while also understanding the revenue opportunities. How to maximise revenue while limiting risk continues to be the theme.

Zirpolo: we anticipate the more value-added trades to account for a large portion of our revenue

Kunkle: Presently our members are primarily concerned with Dodd Frank, Basel III and what the SEC is thinking. They also want to make sure their staffs and their clients have the best education on securities lending available should those persons wish to avail themselves of such.

SLT: What is your view on the outlook for securities lending for the next 12 months?

Zirpolo: In what is expected to be a near-zero interest rate environment, we anticipate the more value-added trades to account for a large portion of our revenue. However with an expected inflow of hedge fund capital, we expect the market to be deeper than in previous years.

Sylvester: We are starting to see a pick-up in M&A and IPO activity and we are optimistic, particularly if you look at all of the components affecting demand. We do expect some of the triggers to improve in 2011, but to get back to the highest peaks everything has to be back where it was, and that's unlikely to happen for a number of years to come.

Seidel: We expect to see increased opportunity once the regulatory environment stabilises and the economy continues to improve. We expect moderate growth focused in Europe and Asia during the first half of the year, with the US gaining steam in the second half. There should be an increased amount of M&A activity in the US given the large amounts of cash accumulated. Additional clarity on the regulatory front should help reintroduce conviction on the borrowing side.

While the idea of a central counterparty continues, a solution does not appear imminent due to many factors, including indemnification, recall allocation, and credit risk. On the supply side, flexibility and transparency will be prerequisites for beneficial owners. The ability for a lending provider to be flexible and provide a customised programme is critical, and the most nimble providers will be well positioned to gain market share. The trend will continue for more beneficial owners to select lending agents based on their merits and expertise, rather than on custodial or other relationships.

Eelens: In a sentence; customised reporting, transparency, collateral, creditworthiness and platform flexibility are recurring topics.

Johnson: We believe that this will be a year where momentum picks up. The industry has had its changes and more will be forthcoming. Participants are well engaged in the process, and we hope that all these changes will lead to more volume as the year moves forward.

Kennett: We believe this market is poised to show growth this year, driven by a combination of an ever-increasing understanding of why the market faltered before, new controls, and renewed confidence. Even stronger growth than is perhaps expected is in the hands of the beneficial owners and their thinking around increasing the loan pools.

Slater: Aided by stronger financial markets, securities lending opportunities should continue to improve over the next 12 months. We've seen continuing improvement in balances and are seeing positive changes to clients' perceptions of securities lending. Some beneficial owners who exited securities lending programmes during the market crisis have returned and we expect this trend to continue. Overall we're positive about the prospects for 2011.

Kunkle: I'm positive. I think the RMA membership is handling regulatory issues in a productive way. We're working well to continue enhancing our communications and interaction with other associations, such as PASLA, ISLA, ASLA, SIFMA and CaSLA.

We're putting a real focus on education - our members are sending us their new staff to learn about securities lending and this bodes well for the future. Finally, I'm happy that we are having strong interaction with our regulators. All-in-all, pretty good stuff for 2011.

Doell: We believe that the outlook for the next 12 months will be positive. We anticipate that borrower demand may begin to intensify and see signs that the overall market environment will continue to improve.

The entire industry has watched as a number of institutional investors have looked to limit their securities lending participation in recent years. In 2011, we expect to see a reversal of that trend as participants seek ways to capitalise on the intrinsic value for their securities and demand the sort of tools we have built to help them monitor and actively manage the risk profile of their securities lending programme.

Given our positive outlook, we continue our long-term plans of reinvesting in our business, building key technology linkages to support our borrower and client relationships, expanding into new markets and asset categories, and cultivating a stable and experienced team of leaders to guide our business and develop solutions for our clients.

Kennett: We believe this market is poised to show growth this year, driven by a combination of an ever-increasing understanding of why the market faltered before, new controls, and renewed confidence.

O'Connor: The securities lending market is expected to continue improving and there are several factors that we expect will be positive for securities lending participants including rising dividend payouts, increasing M&A activity, growing hedge fund demand, and additional rights offerings and IPOs. We also expect the continued growth of both supply and demand in emerging markets. There are also factors that we expect are likely to remain a drag on returns such as fixed income spreads remaining at historic lows, uncertainty over the ongoing regulatory changes, and concern over the European sovereign debt crisis and ballooning US deficit.

The securities lending market has changed significantly over the past two years therefore all market participants need to be nimble in responding to the new market conditions. Lenders and borrowers have different requirements and intermediaries have to be flexible in supporting both. **SLT**

J.P.Morgan

Staying on top

Paul Wilson explains the unique advantages of J.P. Morgan's securities lending programme

ADVERTISEMENT FEATURE

A strong balance sheet, comprehensive indemnification packages and a highly flexible programme structure – these are just some of the advantages offered by J.P. Morgan's securities lending programme, a programme unique in several respects.

"We have raised the bar in terms of service standards, transparency, client engagement and risk management," said Paul Wilson, international head of client management and sales for financing and markets products at J.P. Morgan. "We are pleased that our clients have recognised the progress and investment we have been making. Our focus on the client includes significant investment and enhancements to our reporting, especially our fourth generation dashboard that provides clients fingertip access to all aspects of their lending activity." Wilson added: "We have transformed the client experience, adding more relationship managers and delivering quarterly, in-depth performance and market reviews."

J. P. Morgan's securities lending programme offers its clients unique advantages derived from the financial strength, trading and markets presence, and extensive global footprint of the firm's overall resources. The programme is built on sound fundamentals, including extensive risk management processes and controls, superior credit expertise, broad market presence, tight operational controls and conservative investment practices.

According to Wilson, J.P. Morgan's securities lending programme is unique in several respects from their competition, including:

A fortress balance sheet: J.P. Morgan is the most financially secure institution in the industry with $2.1 trillion in assets, and stockholder equity of $176.1 billion as of December 31, 2010. The firm's capital strength is significantly larger, by multiples, than many of its competitors, which reinforces J.P. Morgan's ability to support ongoing investments in securities lending, and more importantly, fully honour the indemnification pledges made to lending clients.

One of the most comprehensive indemnification packages in the industry: This covers borrower default, overnight market risk, fails on the return of loaned securities and entitlements to securities on loan.

Highly flexible programme structure: Clients can design a programme that fits their needs and requirements. J.P. Morgan's securities lending programme employs compliance monitoring for adherence to client-specified programme structure and cash collateral investment guidelines.

Customised separate accounts: Clients can utilise their own separate account for the reinvestment of the cash collateral. Investment guidelines are developed in conjunction with the client in order to meet their specific risk/return objective. However, J.P. Morgan provides full support for clients that wish to invest their own cash collateral.

Size and nature of available inventory for lending: J.P. Morgan has significant lendable assets in inventory, representing a prime source of supply for broker/dealers seeking to borrow securities. The size of the firm's lendable base and its expertise in managing cash collateral enhance J.P. Morgan's ability to maximise distribution of securities to a broad borrower base and provide attractive returns to clients.

> Wilson: We have raised the bar in terms of service standards, transparency, client engagement and risk management

Borrower selection and review: Each of the borrowers in J.P. Morgan's programme undergoes a rigorous selection process. Creditworthiness is reviewed on a continuous basis by the credit analysis professionals in the broker-dealer division. J.P. Morgan's extensive banking relationships with borrowers mandate that it engages in frequent, ongoing dialogue with each firm's management to understand their transactions and assess risk.

Maximum distribution of loans: Clients can benefit from high utilisation rates through loan opportunities via Equilend and via bonds borrowed and term loan structures.

Consistent revenue generation for clients: The programme consistently generates substantial lending revenue for clients while ensuring compliance with client programme guidelines and adherence to stringent risk management measures.

Relationship management and service: Dedicated specialist securities lending relationship managers constantly provide clients with insight and technical expertise to assist clients in structuring their lending activities and deliver performance reviews showing how revenues were derived and associated risk levels. Exceptional service levels ensure seamless integration of the client's investment process and operations.

Online reporting: Comprehensive reporting on all lending-related activity is available through J.P. Morgan ACCESS Views Portfolio Reporting. In 2010, J.P. Morgan released the fourth generation of its innovative securities lending dashboard, through the J.P. Morgan ACCESS platform, which provides clients with real-time customised single view access to their accounts and monitors their securities lending activities with improved navigation. J.P. Morgan's securities lending dashboard continues to offer increasingly sophisticated functionality, remaining the most intuitive, flexible and easy-to-use platform in the industry.

Perhaps these unique advantages explain why J.P. Morgan has continued to see "a very healthy growth in our inventory and lending book," says Wilson. Additionally, "this has been driven by exceptional growth in our third party business plus new clients accessing the lending markets for the first time. Despite the subdued demand, clients continue to seek the incremental, relative low risk alpha that securities lending provides." Wilson added, "Clients are realistic that the driver will not be high utilisations, but earnings that are correlated to their programme structures and risk tolerance."

For further information, please contact Paul Wilson, international head of client management and sales for financing and markets products, J.P. Morgan Worldwide Securities Services, on +44 (0) 20 7742 0249 or paul.uk.wilson@jpmorgan.com.

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J.P. Morgan

The future of borrowing demand

Will Duff Gordon analyses the securities lending trends to expect in 2011

EXCLUSIVE

What better way to begin a review of securities lending in 2010 than by lauding the news that hedge funds posted Inflows of $13.0bn in November, the fifth month in a row as well as the heaviest since February 2010, according to TrimTabs Investment Research and BarclayHedge. Despite lacklustre performance numbers when you study these fund managers in aggregate (up seven per cent in 2010 according to Absolute Return versus 11 per cent for the S&P500). Beneficial owners are increasingly convinced that they need to allocate more money to hedge funds for the diversification benefits. More money in hedge funds should be good news for securities finance and the value of stock on loan.

The total sum of equities and bonds on loan has been quite constant throughout 2010 at $1.7 trillion at the start of the year and only a shade higher at $1.8 trillion on December 31st. The gross income from lending shared between beneficial owners and custodians was lower in 2010 than 2009 at $7.61 billion compared to $9.87 billion. In 2008 the income was far higher at $20 billion.

The point to make here is that securities lending continues to be most lucrative during bear markets. 2010 was typified by sometimes savage volatility against a rising market. With most fund managers long, these conditions deterred hedge funds from directional short sellers. Beneficial owners make far more money from their investments going up in value than from the rental value of their securities, so 2010 was a very good year for them with most indices up at least 10 per cent. They are therefore unlikely to be mourning their lower lending income.

It would be nice, of course, if interest rates were such that the custodians could make rather more income from the safe re-investment of cash collateral as opposed to virtually nothing. This is a major reason why lending income is far lower than 2008. On the other hand, given the problems encountered with this aspect of the business during the credit crisis, one imagines that the pension funds are content with the income being generated from intrinsic securities lending, without risk being taken and would not want it any other way.

The subdued demand also gave the securities finance industry the breathing space to try and get their heads around what the new financial landscape will look like. Wave upon wave of regulatory change has been washing ashore and even though many, like Basel III, are years away they still serve to exercise the mind given the emphasis on managing capital and having contingent reserves.

Any department that uses its bank's balance sheet is under the strongest scrutiny and it is the unenviable task of risk managers to try and weigh up the pros and cons of the competing claimants, one of which is securities finance. The irony here is that securities finance is a tool precisely FOR creating liquidity when required and this is not lost on the Fed and ECB whose asset purchase initiatives are a form of repo under another name.

One thing is for sure, more data and transparency will have to be provided to internal overseers in order to win their backing as they attempt to compare the risk of incomparable businesses such as collateralised lending versus commodity finance. Those that can 'stress test' their exposures and explain their risk adjusted returns will be the winners.

The other macro theme to discuss is the nature of borrowing demand, be it via a single stock borrow, a sector swap or an ETF. Prime brokers will tell you that we are on a continual march towards swaps and ETFs. In some ways, this is a tale of two continents.

ETFs are far more prevalent in the US than anywhere else in terms of the scale of securities lending flow. It is increasing faster in Europe, granted, but from a much lower base. The buy side love to borrow these instruments to hedge their portfolio and the supply is limited leading to a perfect storm if you can lend them. The only trouble is that most custodians lack very much inventory in ETFs but one wonders for how much longer if passive investment management wins the argument.

Europe has seen a 210 per cent increase in ETF supply but it is sector swaps that keep the prime brokers the busiest since they are a bespoke basket of names to best hedge a fund's position in the absence of a suitable ETF. If the broker does not have the shares in house that they need to borrow then they will go externally in the normal way to source them.

One topic to cover briefly is the existing tension brought about by a backdrop of few "specials", low interest rates and increasing transparency. Some would argue that this concoction of factors leads to greater market efficiency since the custodians are forced to ensure they are charging the maximum possible lending fee to meet their client's income objectives – even if they are low. This is good news for the beneficial owners whose assets are key to the whole process but less good for intermediaries or the buy side if this leads to "fee inflation". Even more serious would be a scenario where the borrowing fee deters the short sale in the first place. We will be discussing this in some detail at our Forum in London on the 16th March.

The lending market is making a gradual shift away from cash. It is more pronounced in European equities where cash collateral has fallen to 43 per cent today from 56 per cent a year ago. This is hardly surprising given the level of interest rates in the US and Europe and the battering that cash reinvestment has received from losses in less liquid instruments and open law suits.

So let's get to the meat, how much are pension funds generating from securities lending and what has changed? The good news is that the return is up five basis points to 40 basis points and total return to lendable assets is up seven per cent to 5.89 basis points. The contribution to revenue from cash reinvestment activity has fallen from 40 per cent to 22 per cent. This is significant and on the basis that cash carries an additional risk profile, pension funds are generating better returns than they did a year ago with less associated risk. Now that isn't a bad way to start 2011. **SLT**

Will Duff Gordon
Media director
Data Explorers


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Date: 13-16 February 2011
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PASLA/RMA Conference on Asian Securities Lending

Date: 1-3 March 2011
Location: Singapore
Website: www.rmahq.org

This annual event combines the resources of both the Pan Asia Securities Lending Association (PASLA) located in Hong Kong and The Risk Management Association (RMA) located in the US

Industry Appointments

Katie Wildeman is joining Black Knight Media, publisher of Securities Lending Times and Asset Servicing Times. Wildeman, who takes on the role of associate publisher for Securities Lending Times, previously held the same role at ICFA (International Custody & Fund Administration). She has worked in publishing for seven years, the last five of which have been in the financial sector.

Justin Lawson, publisher of Securities Lending Times added: "Katie has a huge amount of experience within the industry and has built up some great relationships. We look forward to welcoming her to the Securities Lending Times team."

David Little has joined the Calypso Technology as director of strategy and business development.

Little will primarily be responsible for identifying new opportunities for development and growth in securities finance and collateral management for Calypso Technology.

David Little will drive innovation for Calypso's securities finance solution, working closely with the company's product managers and sales organisation. He brings over 20 years experience and expertise in IT development to Calypso Technology. He was previously a partner at Rule Financial, a leading consultancy headquartered in London, where he founded, led and expanded the securities finance business unit.

Before moving into financial technology in 1997, Little worked at ICL, where his projects included developing and implementing a secure office automation product for the Ministry of Defence in the UK. He began his career as a geophysicist working in oil exploration, where he gained experience in software engineering, as well as data acquisition and data processing techniques.

He said: "I am very excited to bring my securities finance expertise to Calypso. With their first-class technology offering, Calypso is already one of the most well-known and trusted names in the industry, primed for continued growth. I am excited to come on board to work with the smart, dedicated and visionary people on the Calypso team."

Kishore Bopardikar, president of Calypso said: "With his decades of experience and excellent reputation in the securities finance space, David is a tremendous asset for Calypso. We are truly delighted to have him join our organisation." Bopardikar continued, "Calypso is intensely committed to securities finance and bringing David on board will give us the competitive edge and business savvy to rapidly expand in that area."

Jarred Kessler has joined Cantor Fitzgerald as global head of equities. Kessler, who joins Cantor from Credit Suisse, where he was managing the credit focused equities business, a joint venture between the fixed income and equities divisions, will be responsible for continued growth and expansion for Cantor's global equity capital markets business.

"Jarred's deep knowledge of the marketplace and unwavering commitment to outstanding service and execution make him an ideal choice to take on this role as global head of equities," said Shawn P. Matthews, CEO of Cantor Fitzgerald & Co. "As we continue to expand our equities platform, Jarred's experience and leadership will help to significantly drive the overall growth of our business."

Prior to joining Credit Suisse, Kessler ran similar cross capital structure businesses at Morgan Stanley and Goldman Sachs. He spent approximately 15 years focused on institutional relationships that invest through the capital structure and has worked to develop multi-asset platforms in order to offer clients more seamless access to the firm's products and services.

Ivan G. Seidenberg, chairman and chief executive officer of Verizon, has joined BlackRock's Board of Directors.

"Ivan's distinguished background and experience in navigating Verizon's cutting-edge enterprise will add further depth to our well-rounded group of directors," commented Laurence D. Fink, chairman and CEO of BlackRock. "We are pleased to welcome Ivan to our Board of Directors and look forward to his many contributions."

Canadian Imperial Bank of Commerce has appointed three new staff to its prime brokerage business.

Darren Snelgrove joins from MF Global Canada, and will focus on developing new financial solutions. **Andrew Dac Bang's** responsibility will be sourcing hard to borrow securities, while **Mark MacIsaac** makes up the trio as he moves to the bank's Toronto office from HSBC.

Alan Flanagan has been named head of global product management at BNY Mellon Alternative Investment Services. He will continue to be based in Dublin and reports to Brian Ruane, BNY Mellon AIS chief executive officer.

"The alternatives industry will see continued progress in 2011 and will look to trusted providers like BNY Mellon to service the array of complex new funds, structures and strategies being introduced," said Ruane. "In his new role, Alan will only sharpen our ability to deliver timely, innovative products – such as our asset validation-price verification service – that help fund managers satisfy today's investor audience.

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"Alan will lead a global team focused on leveraging and integrating capabilities across our business – from administration and risk reporting to cash and collateral management. New offerings like prime custody and rising demand for middle-office outsourcing will also drive growth in the years ahead," Ruane added.

Since June, Flanagan has served as interim head of AIS global product management, while continuing in his role managing the group's private equity administration product set.He also was primary lead for the European integration of the PNC Global Investment Servicing business, acquired by BNY Mellon in July 2010, and has been instrumental in developing plans for the BNY Mellon and GIS banking entities in Ireland and Luxembourg.

Flanagan assumes the role previously held by Rick Stanley, who was named executive vice president of BNY Mellon's Global Structured Finance Group last June. Flanagan, a member of the Institute of Chartered Accountants in Ireland, joined BNY Mellon in 2008.