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Cantor Fitzgerald continues prime services expansion

NEW YORK 10 02.2011

The management team of PCS Dunbar Securities is joining the prime services division of Cantor Fitzgerald. In a move to further increase the firm's growing prime services business and breadth of products, the addition of the PCS Dunbar team expands the company's product reach, offering broader distribution of Cantor's full-service, multi-asset prime brokerage platform.

"The deal marks an important step for our business and Cantor as we continue to increase our client base," said Noel Kimmel, senior managing director and global head of Cantor Prime Services. "We are very pleased to have the PCS Dunbar team joining our platform, as they have a long and impressive track record of building customer relationships and share our focus on delivering a superior, custom-tailored client service experience. As the prime brokerage landscape continues to evolve, we think that further consolidation is likely and Cantor is uniquely positioned to benefit from those trends."

"We are thrilled to join Cantor's team and are very enthusiastic about offering our clients a more robust Prime Services platform along with the broader capabilities of a global investment bank. Cantor Prime Services' significant investment in technology accompanied by their client service focus has proven to be vital in landing some high profile clients," said Harry Freda, formerly the chief executive officer of PCS Dunbar Securities and now a managing director at Cantor.

PCS Dunbar's Purchase, NY location will now operate under the Cantor Fitzgerald name and its members will report into Kimmel in New York City.

Cantor Fitzgerald added nearly a hundred sales and trading professionals in 2010, strengthening Cantor's global presence in response to client interest and demand for broader product and service penetration. Focused on a capital structure-centric business model and cross-market strategy, Cantor Fitzgerald is continuing to grow the fixed income, equity and investment banking businesses.

NEWSINBRIEF

EU short positions proposal 'ineffective'

An EU proposal for the public disclosure of the net short positions of individual managers risks distorting financial markets and is not effective in meeting the needs of companies wishing to raise capital, investors seeking efficient risk management or regulators addressing financial stability, according to an independent study.

The report by Oliver Wyman, the international management consulting firm, was commissioned by the Alternative Investment Management Association (AIMA), the global hedge fund association, and sponsored by Deutsche Bank.

The new study seeks to update the findings from a 2010 report by Oliver Wyman and to analyse the impact of a public disclosure requirement for short selling on trading activity in equity markets.

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First tri-party collateral manager to accept gold

J.P. Morgan has announced it is the only tri-party collateral manager to accept physical gold as collateral to satisfy securities lending and repo obligations with counterparties. This comes as more clients look to use gold as a hedge against inflation and to post as collateral.

"The ability to finance and leverage the broadest range of asset classes is important to our clients.

readmore p3

INSIDE SECURITIESLENDINGTIMES

First tri-party collateral manager to accept gold
continued from p1

"Many clients are holding gold on their balance sheets as an inflation hedge and are looking to make these assets work for them as collateral" said John Rivett, collateral management executive, J.P. Morgan Worldwide Securities Services. "By combining our collateral management and vaulting capabilities, we provide clients with greater flexibility in how they mobilise collateral."

The automated use of gold in collateral management is introduced under J.P. Morgan's Worldwide Securities Services global collateral engine initiative. This initiative enables clients to mobilise collateral inventories across multiple geographies and trading activities, regardless of the underlying obligation, to extract maximum value and manage risk.

The firm expects to accept additional precious metals and commodities as collateral later in the year.

EU short positions proposal 'ineffective'
continued from p1

It comes as European lawmakers continue to consider changes to the European Commission's draft short-selling regulations, which proposes public disclosure of individual managers' net short positions above 0.5 per cent of outstanding share capital. Under the existing timetable, a vote by the European Parliament's Economic and Monetary Affairs Committee on possible amendments to the Commission's original draft regulations could take place on 14 February 2011.

The Oliver Wyman study concludes that a regulatory regime based on the disclosure of individual managers' net short positions above a threshold of 0.5 per cent of outstanding share capital "is not effective in meeting the needs of the public, regulators or industry participants". It finds evidence that such disclosure requirements result in, among other things, lower market liquidity, and an increased likelihood of short squeezes. Overall, the benefits of these disclosure requirements seem negligible in comparison with the increases in the cost of capital and the associated negative impact on the real economy.

The study's authors say market transparency on short positions is desirable and can be achieved more effectively than the current proposals by the publication of either aggregated or anonymous short positions.

The study recommends that European policymakers adopt a regulatory framework in line with other major financial jurisdictions, none of which rely on public disclosure by individual managers. Private disclosure to regulators and public disclosure of, for example, short interest, has proven to be a "balanced" approach, says the study.

"The hedge fund industry supports increasing market transparency through the publication of aggregated short positions. We also support reporting of positions to national regulators. But as the findings of this independent study highlight, there are serious unintended consequences of disclosing individual managers' positions to the market – including a decrease in liquidity, lower returns for end investors including retail investors, and the likelihood that investments will move to other jurisdictions where returns are not constrained by inappropriate regulations," said Andrew Baker, CEO, AIMA.

iShares to increase securities lending reporting

ETF manager iShares is to provide quarterly reporting on securities lending activities in a plan that it says will increase the transparency in the market.

The reporting will give the risk boundaries for securities lending, and show how revenue from securities lending is separated. The first report shows that 60 per cent of revenues are paid to the ETF, while the remaining 40 per cent goes to BlackRock, the parent company of iShares.

"Securities lending and short-selling are vital components of well functioning capital markets," said Stefan Kaiser, director at iShares.

Margin trading arrives at KSE

The Securities and Exchange Commission of Pakistan has approved a leverage product, which will launch at the end of the month.

Rules and procedures for the margin trading system have been forwarded to the Karachi Stock Exchange, and the product is due to be launched shortly.

At the moment, there is no mechanism for shares financing, reducing liquidity on the markets.

ConvergEx Group rolls out Cogent Hedge Trak software

The Cogent Consulting division of ConvergEx Group has released the new Hedge Trak broker review software for hedge funds preparing to register with the Securities and Exchange Commission (SEC) on or before July 21, 2011.

After registration with the SEC, best practice calls for hedge funds to document the process and criteria they use to determine payments for research they receive from brokers and independent research providers. A web-based software, Hedge Trak allows hedge funds to design and run robust broker reviews on a completely self-administered basis.

"Broker reviews are a critical part of the research procurement and payment process," said John Meserve, chief executive officer of ConvergEx Research Solutions. "Hedge Trak gives firms the tools needed to manage reviews in a simple, secure, auditable and historically accurate manner without the operational risk associated with Excel or other manual processes."

"Hedge Trak builds on Cogent's expertise in developing broker review systems for some of the largest hedge funds and long-only firms in the world," said Robin Hodgkins, president of ConvergEx's Cogent Consulting. "Hedge Trak helps hedge funds deliver a complete picture of the value of their research providers to portfolio managers and analysts and can also be used by traders and back-office personnel to manage their broker list."

ConvergEx offers a complete suite of neutral, anonymous and transparent commission management services that encompasses every step of the commission management process from broker vote to third party payment.

OneChicago reports January volume

OneChicago has reported that 166,145 security futures contracts traded at the exchange in January 2011.

Open interest stood at 322,295 contracts at the end of January 2011.

104,738 January futures valued at $358 million were taken to delivery. The January open inter-

est represented 24 per cent of all existing open interest on expiration day.

141,667 EFPs and blocks were traded, representing more than $540 million in notional value.

30 per cent of January 2011 month-end open interest was in OCX.NoDiv products.

The OCX.NoDiv product suite was launched in October 2010 as an equity finance tool, which removes dividend risk from the security futures.

Customer demand has driven the listing of more than 475 OCX.NoDiv products.

OCC volume up 22 per cent

Total OCC cleared contract volume in January reached 381,558,077, a 22 per cent increase from the January 2010 total of 313,538,874.

OCC cleared an average of 19,077,904 contracts per day in January, up 16 per cent compared to January 2010's average daily volume of 16,502,046.

Options: Exchange-listed options trading in the US for the month of January was up 21 per cent from 2010 with 311,561,541 contracts. January 2011 marks the second highest monthly total on record, following only May 2010's record of 405,860,027 contracts. Index options volume in January rose five per cent higher than last year with 23,684,992 contracts in January. The average daily volume for equity options was up 17 per cent from January 2010 with 17,739,776 contracts per day.

Futures: Futures cleared by OCC in January rose to 3,077,571, a 56 per cent increase from January of last year. Index and other futures reached 2,911,179, an 81 per cent increase over January 2010. Equity futures came in at 166,145 this month, a 54 per cent decrease from the same time last year.

Securities lending: OCC's stock loan programme, including OTC and AQS, saw an 84 per cent increase in new loan activity over January 2010 with 72,494 new loan transactions in January. OCC's stock loan programme has an average daily notional value of $13,633,109,469.

EquiLend announces record trading numbers

EquiLend announced this month that the company executed the highest number of trades across their platform since its 2001 inception.

The record trading numbers took place on Wednesday, February 2 with 24,564 trades, (counting one-sided trades), taking place over EquiLend's automated securities finance platform. 43 firms contributed to the volume, with a total value of $19,041,194,894 across 27 different markets.

"We are thrilled to continue the trading momentum that EquiLend has within the industry," stated Brian P. Lamb, CEO of EquiLend. He continued: "Surpassing our record trade number is testament to the ongoing increase in global participation across all trading functions on our platform."

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Hedge funds record seventh consecutive month of positive returns

After ending 2010 with excellent results, the hedge fund industry took a breather in January and delivered a flat to slightly positive performance. The Eurekahedge Hedge Fund Index was up 0.01 per cent in January – a month marked with mixed returns among underlying strategies. The MSCI World Index advanced 1.87 per cent during the month.

Japanese hedge funds delivered the best performance among the main hedge fund regions, gaining 1.36 per cent in January. Managers leveraged on the better-than-expected earnings, corporate activity and a strong yen to outperform the Nikkei 225 which was up 0.09 per cent in the month. Returns from other developed economies were also positive, with the Eurekahedge North American Hedge Fund Index gaining 0.67 per cent while European hedge funds advanced 0.10 per cent during the month. Stronger outlook on the US economy, as well as easing concerns over the European debt situation, drove up the regional markets – the S&P 500 rose 2.26 per cent while the MSCI Europe Index climbed 1.83 per cent in January.

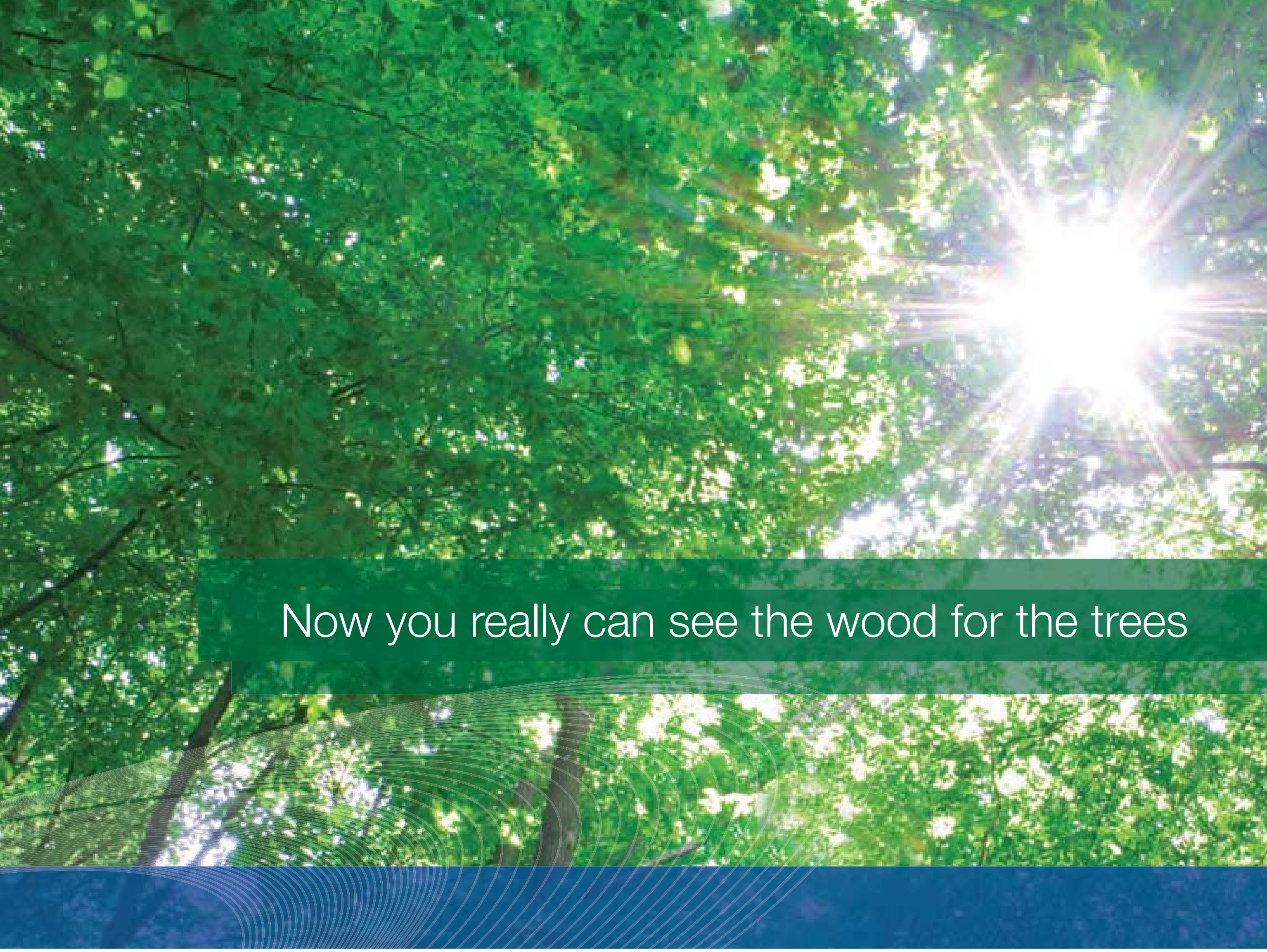
Index	Jan 2011 Est1	2011 Returns	2010 Returns
Eurekahedge Hedge Fund Index	0.01	0.01	10.90
Eurekahedge Fund of Funds Index	-0.28	-0.28	4.41
Eurekahedge Long-Only Absolute Return Fund Index	-0.62	-0.62	14.83
Eurekahedge UCITS Hedge Fund Index	-0.48	-0.48	9.57

Returns from emerging markets hedge funds were mixed as Latin American hedge funds witnessed losses of 0.44 per cent while Asia ex-Japan hedge funds gained 0.24 per cent in January. However, these figures underscore a significant outperformance by the managers as regional market indices ended the month in negative territory. The MSCI EM Latin America Index was down 4.17 per cent while the MSCI AC Asia Pacific Ex Japan Index lost 0.59 per cent in January. The best performance among emerging market mandates was delivered by hedge funds investing in Eastern Europe and Russia, up 2.37 per cent, as managers capitalised on the rallies in underlying markets. The MSCI EM Eastern Europe Index increased by 1.52 per cent while the Russia AK&M Composite Index finished the month with excellent gains of 5.68 per cent.

Index	Jan 2011 Est1	2011 Returns	2010 Returns
Eurekahedge North American Hedge Fund Index	0.67	0.67	13.93
Eurekahedge European Hedge Fund Index	0.10	0.10	9.18
Eurekahedge Eastern Europe & Russia Hedge Fund Index	2.37	2.37	16.94
Eurekahedge Japan Hedge Fund Index	1.36	1.36	8.03
Eurekahedge Emerging Markets Hedge Fund Index	-0.13	-0.13	10.85
Eurekahedge Asia ex-Japan Hedge Fund Index	0.24	0.24	11.15
Eurekahedge Latin American Hedge Fund Index	-0.44	-0.44	9.69

Strategy Indices

Hedge funds employing fixed income strategies stood out with the best performance among the different strategic mandates in January. The Eurekahedge Fixed Income Hedge Fund Index advanced 2.45 per cent during the month while distressed debt managers gained 1.56 per cent as high yields continued their rally into the new year. Managers employing pair trading strategies also witnessed healthy returns – the Eurekahedge Relative Value Hedge Fund Index increased 1.42 per cent in the month while arbitrageurs witnessed positive returns of 1.32 per cent.


Now you really can see the wood for the trees

All exchange

Data Explorers' Will Duff Gordon examines the activity surrounding the consolidation in stock exchanges

SECTOR ANALYSIS

Stock exchanges are back in the news with the announcement of a planned merger between the London Stock Exchange and Canada's TMX group. This comes soon after news of the merger of the Singapore and Australian exchanges.

Short sellers have been active in this sector so it is worth analysing their current behavior. In summary, we see a general picture of reduced short selling. Is this because these firms have been rising with the tide in the ongoing equity rally or due to a change in their fortunes? We will look at LSE (LSE:LSE), TMX (TSE:X), Hong Kong Exchanges & Clearing (HKG:0388), NASDAQ (NASDAQ:NDAQ), Deutsche Boerse (ETR:DB1), Singapore Exchange (STI:S68), NYSE Euronext (NYSE:NYX) and ASX (ASX:ASX).

Having fended off takeover attempts by Deutsche Boerse and NASDAQ, the LSE is now in talks with a small Canadian exchange whose combined entity would only be the 7th biggest player by market value. Will this be the first of many small deals that will combine to create value? Or is it a reflection of the fact that the big exchange players are not "in play" and that the LSE is struggling to grow profits as it currently stands? Short selling is not very high in the LSE at fewer than four per cent of all shares but has been rising since November. With the LSE's share price rising from £6 to £9 in the last eight months it is hardly surprising that the demand to borrow is so low.

TMX Group (TSE:X) shows more noteworthy short interest at 6.5 per cent of shares despite a similar recent rise in their share price. It was as high as 7.8 per cent in November last year. If the merger with the LSE is successful they will form 44 per cent of the group and be the public share exchange for a very large proportion of the world's mining companies.

Whether or not the recent strong share price performance from many stock exchanges is to do with a rising market or in anticipation of takeovers is a moot point. What is more certain is that the shares might well be going sideways or falling without this backdrop given the headwinds facing their businesses. Along with volume being low at present we all see fragmentation of venue when it comes to trading. For instance, one of the "dark pools" where people can trade away from places like the LSE had a record day in early February (of Instinet's total European flow on 2 February, 42 per cent was traded at the mid-price on dark liquidity pools, 39 per cent was traded on the primary markets and 19 per cent was traded on the lit MTFs.)

Demand to borrow the bigger players has recently fallen, NYSE Euronext (NYSE:NYX) (under two per cent) and Deutsche Boerse (ETR:DB1) (1.6 per cent). NASDAQ OMX (NADSAQ:NDAQ) shows recent short covering from four per cent of all shares to three per cent. This is despite the fragmentation of places that investors choose to place their orders and the impending regulation surrounding flash trading, the impact of dark pools, and the challenges brought about in being both for profit public companies as well as public servants in maintaining price efficiency and stability.

Further consolidation could be set to occur in Asia on top of the Singapore Exchange's (STI:S68) agreed takeover of the ASX (ASX:ASX) of Australia. Five per cent of S68 is on loan while it is two per cent for the ASX. This is because electronic trading in this region lags behind Japan and the distances between each financial center as so large as to make connectivity rather expensive. Hong Kong Exchanges and Clearing (HKG:0338) did show some reasonable short selling last year but is now low at 1.5 per cent. **SLT**

Middle East

As many Arab countries aim to become the new face of financial services in the region, there are barriers still to overcome

BEN WILKIE

With billions of dollars worth of black gold buried under the desert sand, the oil rich countries of the Middle East have always had a huge financial impact on the rest of the world. But until recently, most did not have the developed financial infrastructure that was seen in the West.

This has all changed. Dubai was first out of the blocks with plans to transform itself from a sleepy desert city with oil into a global powerhouse, investing in trade, property, tourism and of course finance. Other members of the UAE followed, with Qatar, Oman and others racing to catch up.

The scale of the investments and the speed of the reforms have been mindblowing. Billions have been spent on ensuring the technical infrastructure is in place, while the authorities in each country making the most of existing best practices elsewhere in the world to create and environment in which to trade. Skyscrapers have sprung up to house the people and businesses working there, and a huge investment has been made in promoting the various jurisdictions - Qatar's winning bid for the 2022 football World Cup is proof that virtually no goal is too great and nothing is impossible.

Qatar Exchange has announced that it is planning to introduce short selling

But it hasn't all been plain sailing. The region has suffered during the downturn, with Dubai particularly badly hit. And there are concerns in some quarters that the levels of transparency, as well of the legitimacy of some of the firms working in the space, are not yet up to standards seen elsewhere. There is no doubt, however, that the governments and associations are working hard to get it right.

Qatar Exchange has announced that it is planning to introduce short selling, as well as bond and sukuk trading in the first quarter of this year. The practice is currently banned, as is securities lending.

The exchange, which is part-owned by NYSE Euronext, also says it expect restrictions on foreign ownership in domestic companies to be raised from the current 25 per cent to 49 per cent. Derivatives trading may also be implemented.

Speaking in Beirut at the end of 2010, Saif Al-Mansoori, the exchange's deputy CEO, said:

"We are looking at our weaknesses and are starting to address them one by one", in an attempt to achieve MSCI's designation as an emerging market. It is currently classified a frontier market.

Meanwhile, Abu Dhabi Exchange has asked the market regulator of the UAE for permission to introduce short selling in its markets, with the same ambitions as its neighbour.

An active market for short selling and securities lending represent two of the six criteria required by MSCI to gain emerging market rather than frontier market status.

The lack of short selling was highlighted by Data Explorers recently, which pointed to Dubai listed Emaar Properties, which had a tough time issuing some debt to raise money. The $500 million of convertible bonds had incurred costs of an estimated $50 million over a five year period because of the high coupon (7.5 per cent) the company had to pay to investors since they could not hedge the convertible bond position by selling the equity short. This bond was effectively priced like a corporate not a convertible, with the equity option given away for free.

Other Dubai issued debt with similar yields and popular with institutional investors are various bonds from Dubai Electricity and Water Authority. For example, the bond maturing in Oct 2020 and paying a 7.375 per cent annual yield sees 20 per cent of the issue value in lending programmes (if the issue value is $161 million). A small amount is on loan ($8 million).

"Securities lending is coming to the region, it's just a matter of time," says one representative of a major global bank that has a major footprint in the region. "And as soon as it's permitted, I think you'll see the big majors get involved straight away while the local market builds an understanding of how it all works before they dip their toes in."

The first lenders are expected to engage in synthetic transactions rather than stock loans as happened in Asia. Over time the international investor community, encouraged if the Middle East secured emerging market status, will provide more supply via experienced global custodians. Attractive fees will attract local lenders once the market is established.

Dubai Financial Market and the Qatar Exchange also plan to move to a delivery-versus-payment system this quarter as the bourses seek to boost their chances for inclusion in the MSCI Emerging Markets Index.

The move "is a significant development for the UAE markets and takes a crucial step forward in elevating the UAE markets to Emerging Markets status by the MSCI," the DFM's chief executive officer Essa Kazim said. "This will further promote our markets amongst a larger number of international investment funds."

MSCI cited a dual account structure as one of the reasons for frontier market status of the UAE and Qatar, and kept the countries under review for reclassification. The index provider will revalue its assessment by examining, among others, economic development, trading volumes and market accessibility.

Qatar Exchange has announced that HSBC Holdings, Standard Chartered and Qatar National Bank will begin providing custody services from February in a step toward the delivery-versus-payment mechanism.

> The lack of short selling was highlighted by Data Explorers recently

However, much work needs to be done to bring the UAE's securities exchanges up to a world-class standard, according to analysts and market operators.

"The markets here still have the potential to become a regional hub for capital markets, bringing listings from Iraq and north Africa," said Julien Faye, the head of financial markets at Bain & Company in Dubai. "But for that to happen, regulators need to bring in stronger regulations, transparency, and make it cost-efficient for international investors to trade here."

Axiom Telecom, the mobile phones retailer, is considering a listing on the London Stock Exchange just two months after attempts to float on the Nasdaq Dubai were cancelled because of poor market liquidity, the latest in a series of companies considering listings abroad.

This week, the Dubai oil services company Topaz Energy and Marine also expressed interest in a London listing. Last year, the global ports operator DP World also said it was seeking a dual listing in London.

A steady stream of negative local catalysts wiped out confidence and liquidity on the exchanges over the course of last year, pushing institutional and foreign investors on to the sidelines and causing UAE bourses to underperform compared with their regional peers. Since then, the Securities and Commodities Authority (SCA) has embarked on a plan to revive the markets by introducing regulations aimed at making the market appear more transparent, hoping to bring investor capital back to the exchanges.

"The Abu Dhabi Securities Exchange is in the process of drafting a five-year strategic plan, which would include initiatives to position Abu Dhabi as a capital markets hub," said Elie Ghanem, the head of market and product development at the Abu Dhabi bourse. "The Government of Abu Dhabi has selected the exchange to be a champion of this initiative and it is something we are taking very seriously." The proposal is yet to be reviewed and submitted to the board. **SLT**

Data Explorers recently analysed the state of the market across the region:

We have taken a look at the scale of securities lending across Dubai, Kuwait, Qatar, Israel, Egypt, Bahrain, Abu Dhabi, Doha and Jordan. We can point to some interesting institutional buying of Israeli equities over the summer but low short interest across the board. We will also look at investor appetite for Dubai's recent debt issuance. We look at Delek Group (TLV:DLEKG), Bank Hapoalim (TLV:POLI) and Partner Communications (TLV:PTNR).

It is worth mentioning that short selling is well supported in the Middle East if Abu Dhabi's stock exchange deputy CEO is anything to go by. Mr. Rashed Al-Baloushi was cited by Bloomberg recently saying that the UAE is set to introduce short selling to further enable entry into the MSCI classification as an emerging rather than a frontier market.

We cannot point to any significant short selling taking place across Middle East as a whole. Israel is well set up to allow short trades, but investors are not currently particularly keen! There has been a recent increase in borrowing in Discount Investment Corp and Ormat Industries but borrowing is generally reducing across the TA-25.

If we look at the ratio of securities lending approved inventory (shares held in custody by large funds) to stock on loan, the figure is heavily skewed to their being more supply than demand. The ratio is 35:1 compared to 12:1 in the US and UK.

Of the 840 names we looked at in Middle East, typically one per cent of the shares in issue are held by funds who lend and on average 0.03 per cent is on loan. However, what catches the eye if we look at the Long Short Ratio is the increase in inventory in June this year. This was largely attributable to an increase in Israeli holdings in names like Delek Group (DLEKG), Bank Hapoalim (POLO) and Partner Communications (PTNR).

We were interested to look at whether or not any lending funds had taken up Dubai's recently issued sovereign debt. We can see more of Emirate of Dubai 2020, 2015 and 2013 in lending programmes given they pay interest of between 4.25 per cent and 7.75 per cent.

It seems that foreign investment in companies across Middle East has a long way to go since even the ETF instruments do not offer any real exposure. The popular iShares Emerging Markets ETF (EEM) does not own any Middle Eastern companies and we cannot find any single ETFs based upon some of the countries' names above. This is a shame given the preponderance of easy to understand telecommunications and utilities firms in the UAE and surrounding nations, which pay dividends and offer reasonable prospects for growth.

World focus

Following the opening of EquiLend's Hong Kong office, Securities Lending Times speaks to the company's CEO, Brian Lamb, about his expectations for the market and how the new office will help local clients

INTERVIEW

SLT: How important is the Asian market to EquiLend? What's your history in the market?

Brian Lamb: EquiLend was incorporated 10 years ago and the platform's been live for nine years. The model is a global securities finance and post trade platform and we've always had clients in Asia. We offer our services 24 hours a day, six and a half days a week so we've always been able to service them.

Historically, most of our clients have been in Tokyo and Hong Kong, but we also have a significant base in Australia, Singapore and India, and of course we're looking to expand beyond that.

SLT: How do you see the Asian market at the moment?

Lamb: It's such a fragmented market - each country is different. Australia, for example, had very well-publicised problems three years ago - the securities lending market there suffered considerably in terms of its image, trust and understanding.

Japan, meanwhile, is more mature - it has the world's second-highest trading volumes. It's very efficient and has a lot of scale. The other markets fall somewhere in between and are rife with opportunities in both the trade and post-trade arenas.

SLT: Is the Asian offering any different to that in other markets?

Lamb: The technology we built 10 years ago is the technology we are using now. We don't have a module for Asia, just as we don't have one for Europe or anywhere else. So the service we sell in North America is the same as the one in Europe and Asia, its functionality is exactly the same. And that's what gives our clients the opportunity to scale the business with the same processes.

We do of course tailor the delivery, marketing and selling of the product to the cultural sensibilities of the region.

Andrew McCardle (who is heading up EquiLend's Hong Kong office) is a very bright and engaging professional. He's been with us for four years and knows the product inside out. He knows the Asian market well too, having serviced our Asian clients from the London office for the past couple of years. Having him and the rest of the team on the ground will allow us to build our relationships with clients in the region.

SLT: Why did you pick Hong Kong as a base?

Lamb: It was a difficult decision. Tokyo was a consideration, as was Australia - in fact, had we been choosing three years ago then we may have gone for Sydney. We also looked at Singapore.

We narrowed it down to a decision between Hong Kong and Tokyo and then decided based on the numbers of clients we had in each city and the proximity to other client bases. From Hong Kong it's easy to service Taiwan, China, Korea and so on.

SLT: How important is China to your strategy?

Lamb: It's certainly a market for the future. At the moment though it's not apparent to me that there is any meaningful activity EquiLend's clients are doing in the market for us to necessitate a focus on it.

SLT: Do clients still need a face on the ground in an increasingly electronic market?

Lamb: It's a significant benefit. The business has evolved and is more electronic, but people still maintain a high degree of personal interaction when it comes to business relationships.

Human interaction is important everywhere but it's particularly useful in Asia - the culture is such that many people won't sign up to a service unless they know you have a physical presence in the market. And it's about trust - we're not going anywhere and people know that.

SLT: Will you mainly be servicing existing Asia-based clients in the new office, or do you think this new office will bring a range of new clients?

Lamb: It will be a mixture of both. In the near time, our focus will be on servicing our existing clients and helping them to maximise their potential. But moving forward we of course want to add to our client base.

SLT: How do you see the market in Asia evolving?

Lamb: Everybody wants to talk about CCPs. There's activity going on in the US and Europe, and there are models in Asia, but I would expect that to evolve. The bilateral model will still be around for some time though.

The last three years has forced institutions to identify more efficient solutions for their businesses and scale is a major factor. As spreads are down and people attain some profits, they still need to do more - automation and efficiencies are key. SLT

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PASLA & RMA 8th Annual Conference on Asian Securities Lending

1-3 March 2011 | Ritz-Carlton, Millenia Singapore

Co-sponsored by the Pan Asia Securities Lending Association (H.K.) and the Risk Management Association (USA), the first industry-wide co-sponsored conference in Asia developed by securities lending and borrowing professionals for securities lending and borrowing professionals.

"The opportunity to discuss recent market events and various regulatory actions impacting the securities lending industry is invaluable,"

– *Kirtes Bharit*, Director, Credit Suisse, Hong Kong, Conference Co-Chair

"This conference typically discusses best market practices and standards in the regional markets. As the world of securities lending changes, it will help to define the future and will certainly influence lending markets in the region and worldwide,"

– *Patrick Avitabile*, Managing Director, Citi's Global Transaction Services, New York, Conference Co-Chair.

Keynote Speaker - The Outlook for Global and Asian Equity Markets

Garry Evans, Global Head of Equity Strategy, HSBC, Hong Kong

The business program will include a securities lending tutorial and for the first time a high-level roundtable focusing on operational issues in the current markets. The conference will also include various regional market updates and panel discussions on:

- Hedge Funds
- Fixed Income/Cash Reinvestment
- Dodd-Frank Act and Basel III

Planning to Attend:

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For Event Sponsorship opportunities email Loretta Spingler at LSpingler@rmahq.org

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For more information about the conference or to register visit the RMA website at www.rmahq.org/RMA/SecuritiesLending/ or email Kimberly Gordon at KGordon@rmahq.org

Asia securities lending panel debate

It's been the focus as a growing and vibrant market for years, and Asia has done better than most during the downturn. But what are the issues that remain?

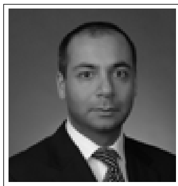
Ben Wilkie, editor

Giselle Awad
eSecLending
Senior vice president, Asia-Pacific

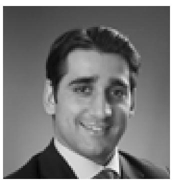
eSecLending is recognised as a leading global securities lending agent servicing sophisticated institutional investors worldwide.

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.



Sunil Daswani
Northern Trust
International head of client relations for securities lending



Zubair Nizami
Northern Trust
Senior securities lending trader

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.

Rob Coxon
BNY Mellon
Head of international securities lending

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

BNY Mellon is 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 trillion in assets under custody and administration and $1.17 trillion in assets under management, services $12 trillion in outstanding debt and processes global payments averaging $1.6 trillion per day.

Richard Meek
Brown Brothers Harriman
Head of securities lending relationship management, Asia Pacific

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.

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.

SLT: How did the Asian securities lending industry fare during the downturn? How would you describe the current state of the industry?

Andrew Cheng: Asia has its fair share of challenges during the downturn; however we have seen that Asia markets rebounded faster than the rest of the regions. For example, from 2009 to 2010; the lendable size of Asian equities increased from $684 billion to $813 billion (+19 per cent), whilst during the same period of time, J.P. Morgan's lendable size increased by over 25 per cent. On-loan balance for Asian equities increased from $87 billion to $119 billion (+37 per cent), whilst J.P. Morgan experienced an increase in excess of this. In 2011 we are generally optimistic for the Asian markets, especially in Hong Kong and Singapore where we expect more IPO activities, higher dividend being paid and generally higher market value. In a recent survey by Data Explorers over 57 per cent of the participants stated that the percentage contribution from Asia securities lending to overall lending revenue will be higher than 2010; only 43 per cent think it will stay at 2010 levels and none of the participants expect a lower revenue contribution. We also continue to see increased demand from Asian investors to lend their securities, attracted by the increased alpha that securities lending offers. We have experienced growth from investors starting lending for the first time as well as in our third party business.

> Nizami: We anticipate the China market moving very quickly in terms of developing a securities lending market in line with international standards

Giselle Awad: All securities lending markets were affected by the global financial crisis; however the Asian securities lending industry fared better than most. The Asian equity markets are continuing to develop and with this comes an increase in market activity. The increase in corporate actions, particularly IPOs and M&A activity has helped boost returns in the Asian region. This in turn results in proprietary desks and hedge fund's increasing their allocation to the Asian markets.

Rob Coxon: Asian markets generally fared well during the downturn with the exception of Australia where a series of restrictions and regulations have depressed the market dramatically from a securities lending standpoint (utilisation down by as much as 72 per cent).

In our experience Asian lenders in the programme similarly made some adjustments to their programmes as was the case in other parts of the world, but we did not see lenders exit the programme entirely. The general sentiment towards the securities lending activity itself seems largely positive in the Asian region.

Richard Meek: As a region, Asia fared relatively well during the financial crisis and didn't experience the same level of downturn that we saw in other regions. With Asia's contribution to global securities lending income increasing year on year and many markets either developing or enhancing their securities borrowing and lending infrastructures, the industry outlook for the region is very positive. We are seeing more trading opportunities in Asia than in the US and Europe, and coupled with the capital flows from West to East, the industry is increasingly focusing on the Asian markets and the revenue generating opportunities resulting from the higher levels of M&A activity and IPOs.

Zubair Nizami: The Asian securities lending industry was certainly not immune to the effects of the global financial crisis. As in other markets, on loan balances declined due to a combination of significant hedge fund deleveraging, a reduction in supply as some beneficial owners restricted their lending programmes, and increased market volatility. As an industry, on loan balances in Asia fell by approximately 66 per cent according to various industry sources, from its peak in April 2008 to its low-point of October 2008. Although the Asian securities lending industry has recovered since then, volumes remain down by approximately 50 per cent.

The main markets affected by lower volumes have been Australia and Japan. Here, temporary bans on short selling, as well as the introduction of more stringent regulations, have resulted in additional barriers to investors looking to facilitate various trading strategies. That said, strong demand exists in Taiwan whilst volumes have remained relatively stable in Hong Kong and South Korea.

SLT: Is it fair to look at Asia as a single region, with many mature markets and an equal number of developing jurisdictions?

Coxon: Asian markets can be broadly tiered into the mature markets such as Japan, Hong Kong, Australia and Singapore and the emerging lending markets of Korea and Taiwan. Japan, Hong Kong and Australia currently dominate the region in terms of available supply. Others such as Malaysia, Indonesia and Philippines are peripheral at this point in time. Of course there is always China which in terms of market capitalisation will be very interesting and should ultimately assume a dominant role in Asia.

Meek: The evolution of securities lending across Asia has been varied and has effectively resulted in a two tier market structure comprising the robust and well-established markets of Hong Kong, Japan, Australia and Singapore and the more emerging markets such as South Korea, Taiwan, Thailand and the Philippines. Whilst there has been some discussion about the creation of a harmonised pan-Asian securities borrowing and lending marketplace, this is considered to be a long term development and in the meantime the diversity of the existing market infrastructure will continue to contribute to the attractive returns being generated in the region.

Nizami: Asia can be assessed as having a relatively equal distribution between "developed" and "developing" securities lending markets. One of the most vibrant developing markets currently is Taiwan. Here, participation by both offshore and onshore lenders has grown over the past few years as a result of the gradual liberalisation of securities borrowing and lending regulations. As more lenders enter this market, overall liquidity in the Taiwanese SBL market is likely to increase.

We anticipate the China market moving very quickly in terms of developing a securities lending market in line with international standards. We know that conversations have been taking place to this effect for some time now.

Cheng: The Asia market is very diverse with different stages of sophistication and depth of securities lending / capital market; each of the jurisdictions may have different regulatory, tax and reporting requirements; the driver for securities lending activities may also differ from one another. We see continued strong demand for Hong Kong, Singapore, Korea and Taiwan, whilst we are actively monitoring developments within China, India and Malaysia as they consider developing SBL model for non-domestic participants

Awad: From a time zone and administrative perspective it is easy to view the market as a single region, however there are certainly differences. There is a clear distinction between the developed markets of Hong Kong, Singapore, Japan and Australia compared to the developing markets of India or China, for example. The same can be said about Europe and Eastern Europe or North American and South American markets.

SLT: Where do you see the biggest growth coming from, both geographically and in terms of instruments traded?

Meek: As Asia becomes increasingly relevant to the global economy, our expectation is for growth in all markets across the region - in the more mature markets, improved market conditions will lead to increased stock market prices, more M&A activity and IPOs and in the emerging markets regulatory and operational environments will continue to evolve and mature. As mentioned, Taiwan, Thailand, and South Korea continue to evolve and provide opportunity.

But of particular interest are the developments in India where the Securities and Exchange Board of India (SEBI) continues to relax regulations to encourage increased participation in its securities borrowing and lending programme and in China where the launch last year of a government backed programme to introduce margin and securities lending is seen as the first step to unlocking potentially significant new supply.

Sunil Daswani: We see key growth in the region as being on the equity side. Taiwan is probably the stand out growth market and remains a key

eSecLending SECURITIES FINANCE TRUST COMPANY J.P.Morgan Northern Trust

priority for both lenders and borrowers. Volumes have grown over the past few years as a result of relaxed regulations, allowing more lenders to enter the market, both offshore and onshore, which in turn has helped improve liquidity and facilitate various trading strategies.

Significant growth potential exists in Malaysia in the short to medium term, as well as in India and Indonesia in the long term.

Cheng: In 2011 the biggest growth in Asia will come from increased corporate activities such as IPOs; we expect Hong Kong and Singapore to have an edge over other markets. From a percentage growth perspective, new markets such as Taiwan should also record good growth in 2011 as more participants enter into the market. We are closely keeping our eyes on developments across India and China – with the significant amount of investment flows into these markets, these markets as they evolve could present significant lending opportunities. Additionally, we continue to see a strong flow of new investors lending securities for the first time and this has fueled much of our growth in the region over the last several years.

Awad: Both the increased focus on Asia by hedge funds and a general growth in asset values means returns will continue to gradually increase in Asia. While Asia is expected to see the most growth, the US and Europe will remain the highest in absolute terms.

Coxon: Hong Kong has seen steady growth and this market remains one to watch given that it now rivals Japan in terms of overall volume. We have high hopes for Korea going forward and we believe that further regulatory developments in Taiwan will certainly help to release more supply into that market too.

It is clear that the general interest around the economic powerhouses that are India and China have fuelled overall interest in Asia and as the global economic balance of power shifts there is no reason to see this trend reverse in the near term and the growth in Asian equity lending and ETF issuance and lending is likely to continue.

SLT: The US and Europe are going through huge regulatory upheavals, but we're not seeing the same levels of change in Asia. What are your views on this?

Coxon: Hong Kong is a prime example of a market that thought long and hard about the regulatory regime it wanted to oversee short selling and lending and borrowing. It is now clear that it achieved a good balance between the need for robust reporting without overtly dampens the ability to trade by onerous disclosure requirements or cumbersome on-shore lending arrangements through depositories or CSDs. The results are clear to see in terms of the growth in the Hong Kong market combined with minimal post-2008 adjustments to the regulatory regime. Compare and contrast this with what has happened in Australia and the European markets and the USA where an interminable debate rages with no logical, useful outcome in sight. This has been detrimental to market evolution and recovery.

I'm concerned that many of the new regulations on short selling in Europe will affect market liquidity and its efficiency, whereas Asia has not over reacted and therefore, should not suffer from issues such as asset bubbles.

Meek: Whilst regulators in Asia will closely monitor regulatory developments in the US and Europe, the existing regulatory regimes in Asia are viewed as being sufficiently robust to ensure transparency and client protection. At the same time, the existing regimes have been supportive of the established securities borrowing and lending business and the benefits it brings to the capital markets, especially in emerging economies.

Coxon: Hong Kong is a prime example of a market that thought long and hard about the regulatory regime it wanted to oversee short selling and lending and borrowing

Daswani: This reflects largely positively on Asia as a market. Lawmakers and regulators in Asia were compelled to restructure their procedures and implement robust regulatory frameworks in the wake of the Asian Financial Crisis of 1998 and, as such, were well prepared for the 2008 crisis and the ensuing market volatility. That said Asia has not been completely immune to regulatory changes, as some jurisdictions have introduced various changes to tighten-up their frameworks.

Cheng: Many Asian markets made significant changes to securities lending regulation during the Asian financial crisis in 1997/1998; much of the regulation still stands and is adequate for current market conditions. That being said, many participants in the Asian markets are the large international names and so many of the best practices operated elsewhere are also operated and leveraged across the Asian region. So for example, the ability to customise the lending programme, support separately managed cash re-investment accounts, provide detailed reporting to aid transparency, all supported by an indemnity backed by a large and stable capital base are essential requirements sought by Asian investors wishing to lend securities

Awad: Asia is seeing less regulatory change as the securities lending markets were established later and therefore already had robust regulatory frameworks in place that addressed securities lending practices in the modern marketplace. In addition, a lot of the markets are in various stages of development and therefore the regulations are being created as the market opens, compared to after the fact.

SLT: As in most other markets, short selling is a major issue. How do you feel regulators in Asia have dealt with short selling?

Nizami: Asia was not completely immune to the introduction of bans on short selling. Australia imposed a temporary suspension, which was completed lifted on all stocks in May 2009 whilst in South Korea an indefinite ban remains in place on the short selling of financial securities. However, some jurisdictions have particularly strong regulatory frameworks in place, such as Hong Kong and Japan. Indeed, Hong Kong's robust short selling mechanism has long been in place and, to its credit, the strength of this framework meant that the Securities and Futures Commission (SFC) did not feel the need to intervene by changing its existing regulations. That said, tighter regulations for short selling have been imposed in Australia and in Singapore, where these exchanges revised their buy-in rules in order to clamp down on any potential market abuse for failed trades.

Additionally, the Australian and Japanese regulators have made additional disclosure of short positions compulsory and sometime in 2011, it is expected that the SFC will announce some additional reporting requirements with regard to short positions.

Cheng: As with the question above, many markets (Hong Kong, Singapore and Japan) already have procedures in place to deal with short selling and only require minimal amendment to deal with current situation. We feel that these markets have implemented sensible rules, which have struck a good balance so as to allow lending to continue, which brings significant liquidity to the markets. In Australia, which has implemented more stringent requirements, we have seen volumes and liquidity be negatively impacted.

Awad: As with the other regions in Asia, the biggest focus is on naked short selling, not the curbing or banning of short selling all together.

Coxon: Even before the credit crisis the Asian

markets, with the exception of Australia, were sensitive to the impact of short selling and unlike Europe already had robust and workable regulations in place. As mentioned above, Hong Kong is a good example of a market that did not introduce knee jerk regulations.

Meek: While Australia tightened regulations, there is general consensus that short selling regulations in the majority of the region were sufficiently robust both in the pre and post financial crisis periods and required little to no revision. As a result markets, such as Hong Kong, have prospered from this consistent approach and we may see Australia receive more pressure to align its rules with the rest of the region.

SLT: How has the focus on risk management changed the industry?

Cheng: Risk management is at the forefront of all lenders' and all participants' minds. The ability to be able to customise each lending programme to the specific needs of each lender is paramount within the industry, and this is true across Asia as it elsewhere. Lenders now demand greater transparency and flexibility across their programme; part if not all of the securities lending function has moved to the front office; more focus on balance sheet strength and risk management culture of the lending agent and last but not least, all lenders are demanding separate cash collateral reinvestment accounts.

Awad: As participants develop a deeper understanding of the industry, they are increasingly recognising that securities lending programmes should be treated with the same level of due diligence as any other investment decision. Participants are also realising that they should have a comprehensive understanding of the risks and rewards inherent in their programmes and feel confident about proper oversight and controls. Subsequently, they have been looking at ways to structure their programmes including the review of alternative providers and routes to market in recognition of the industry's changing landscape.

Many are looking for greater transparency, control and customised solutions built around their unique parameters and goals. Increasingly, they are viewing securities lending as an integral part of the investment management process in generating alpha, with a strong risk management focus, rather than an operational service tied to custody which was the historical norm.

Coxon: The demand for further transparency and risk management is fuelling a procession of consultation papers and debate as to how markets should be regulated. This has caused firms to divert resource to legal risk management and compliance resource to be in a state of preparedness for upcoming changes in regulatory regimes. Securities lending businesses have been similarly affected as borrowers, lenders and intermediaries such as prime brokers and custodians will all be affected.

While the uncertainty prevails firms will continue to focus on trying to predict the future and or review what they do now to try and future-proof their business model and while this environment prevails, recovery will be hampered.

Meek: In line with their global counterparts, post financial crisis, beneficial owners in Asia conducted a thorough review of their securities lending programmes and as such now have a greater understanding of the risks associated with securities lending. Beneficial owners are correctly demanding specific and customised collateral and programme parameters, and as a result some less flexible securities lending providers have been pressured to become more nimble. An approach BBH has embraced since the inception of our programme, beneficial owners in general are now increasingly viewing securities lending as an investment management activity with a risk profile which needs to be appropriately managed. Securities lending agents are now selected on their merits as agents, rather than because of custodial or other relationships.

Daswani: Clearly, the market events of 2007 and 2008 led to a restructuring of parts of the industry. Initially, beneficial owners focused their attention on analysing their lending programmes and scrutinising the risks associated with lending. For some, these reviews resulted in steps being taken to reduce risk, while others chose to suspend their participation.

One of the key areas where some beneficial owners sought to reduce risk was in the reviewing of investment guidelines with respect to the reinvestment of cash collateral. As a result, the use of tighter investment parameters to reduce credit and duration risk, coupled with the low interest rate environment, reduced the yield on cash reinvestment funds. These changes led to a renewed focus on the profitability of lending, thus impacting on some lenders' willingness to participate in trades of low intrinsic value. Accordingly, many beneficial owners are now transforming their programmes to focus on maximising their returns within their risk profile.

It is our experience that borrowers, and particularly hedge funds, are now looking to the future in terms of evolving their trading strategies and risk appetite, following a period of de-leveraging and minimising balance sheet exposure.

Securities lending is an evolving business which we expect to continuously develop forward as the economic environment improves and participants' appetite for risk continues to return. We see that a wider understanding of risk now exists within the beneficial owner community, and that we have emerged as a stronger industry as a result.

SLT: Which non-traditional SBL routes to market (ADRs, GDRs, ETFs etc) are going to prove most successful?

Daswani: ETFs probably carry strong growth potential in the long term. ADRs and GDRs have been traded for some time and represent a relatively mature market for securities lending activity. ETFs on the other hand are still a relatively new product, especially in Asia.

From a demand perspective, ETFs are very popular as they provide ease of exposure to a market or sector without the investor needing to borrow a broad based index or portfolio. In the US, many of the larger ETFs offer high levels of liquidity, and a good depth of lendable supply exists. Borrower demand for ETFs in Europe is also growing, but this market is less mature with fewer offerings.

Daswani: One of the key areas where some beneficial owners sought to reduce risk was in the reviewing of investment guidelines with respect to the reinvestment of cash collateral

In contrast to these markets, Asia has more limited lendable supply. However, strong demand for ETFs has emerged more recently, due in part to their ability to provide investors with exposure to restricted markets such as China.

Cheng: Lending activity and demand to borrow ETFs continues to grow. The borrowing of these securities offers the borrower an efficient means to hedge risk given the also exact correlation with the underlying. We see the demand for ETFs continue to rise over the next several years.

Coxon: ADRs ETFs and GDRs are not so much routes to market, but are asset classes that are traded like any other. Clearly ETFs seem to be in the ascendancy at the moment and we see this trend continuing. This is down to their popularity with investors driven by their ability to offer both long and short exposure to a diverse range of asset classes and geography in one instrument. This is reflected in the steady increase in supply and balances outstanding, especially in the Asian ETF category. **SLT**

Buyer beware

Andrew Shinn, vice president, sales and development at SunGard Astec Analytics, examines the challenging world of hard-to-borrow Chinese stocks

ANALYSIS

As investors seemingly stumble over themselves to ensure that they are adequately represented in the biggest potential market in the world, it appears that the 'caveat emptor' approach is often ignored.

While it has become clear that asking questions and undertaking due diligence are imperative when buying and selling Chinese stocks, it is difficult to get good information about many small-cap Chinese companies. In addition, the nature of reverse takeovers pose added risks to investors and legitimate Chinese companies alike.

Fraud allegations

One of the most expensive stocks on SunGard Astec's Lending Pit recently has been China Media Express (NASDAQ: CCME). The company installs LCD televisions on buses that run between mid-sized cities in China. CCME sells advertising to generate revenue and provides much of the entertainment content as well. CCME has shown outstanding revenue growth over the past few years. The only problem is that some investors, including Citron Research, are accusing the company of being a fraud.

After Citron Research released its report on January 31, CCME's share price declined from \$18 to \$13. Borrowing activity in Lending Pit, however, started to increase well before January 31. From January 19 through January 31, CCME's borrowing cost quintupled from 650 bps to 3,400 bps.

This is not the first time that a Chinese company has been accused of fraud. RINO International (NASDAQ: RINO), which makes products for Chinese steel producers, was also accused of fraud by Muddy Waters, a fund that was short the stock. One of the fund's allegations was that some of RINO's customers were fake. The allegations were eventually proven true when the CEO of RINO admitted that two of its customers did not exist. In addition, the CEO admitted that RINO's financial statements going back to 2008 contained significant material errors.

Likewise, China Education Alliance (NYSE: CEU) fell sharply after a hedge fund released a negative report. The hedge fund, Kerrisdale Capital, hired a private investigator to visit CEU's offices and training centers in China and determined that CEU's business was not legitimate. In addition to empty classrooms, the hedge fund demonstrated how it was impossible for potential customers to purchase educational materials on CEU's websites.

On the other hand, some companies fight back. When Muddy Waters issued another series of reports claiming that Orient Paper (AMEX: ONP) was engaged in fraudulent activity, ONP issued follow-up reports from auditors claiming that it had not overstated revenue. ONP was also helped by some US shareholders who were involved in defending the company against Muddy Waters' allegations. One investor, Rick Pearson, posted video from a visit to one of ONP's factories and it seems that ONP has regained investors' confidence for now. But delving into the world of some of these small-cap Chinese companies demonstrates how difficult it is to get good information.

While reverse takeovers provide benefits to Chinese companies, they pose risks to investors and to those competently-run Chinese companies that suddenly find themselves targets

The risks of Chinese reverse takeovers

In a reverse takeover, a foreign company will purchase a domestically-listed company in order to gain access to domestic capital markets. Because there is a long wait to get listed on the Chinese stock exchanges, Chinese companies have been completing reverse takeovers of US-listed companies for some time now. The US-listed companies have few, if any, assets and are targets solely because of their stock ticker. Once the Chinese company merges with the US-listed firm, the Chinese company makes sure to include the word "China" in the new company name and proceeds to raise additional equity. Compared to an initial public offering, completing a reverse takeover enables a Chinese company to gain access to the US capital markets with minimal disclosure.

While reverse takeovers provide benefits to Chinese companies, they pose risks to investors and to those competently-run Chinese companies that suddenly find themselves targets of negative research reports. However, the risks to investors and companies alike can be dismissed under the 'buyer beware' warning, in which the purchaser assumes the risks. Those Chinese companies that decided to come to America did so with eyes open.

Investors also face risks because of the lack of available information. For example, it is difficult for an investor to determine whether CCME's televisions are installed, working correctly and outperforming the competition on bus routes between mid-sized cities in China. Likewise, when hedge funds allege that televisions are not actually installed, there is no way to confirm the allegations without actually visiting China.

In response to Kerrisdale's report on CEU, the company held a conference call to deny the claims of fraud. However, one analyst said that CEU should do more to defend itself, and suggested that CEU post photos and addresses of all of its facilities. (It is indeed shocking that investors would invest in a company that did not even disclose the address of its facilities.)

Often, investors do not need to visit a company's factories in China to perform due diligence. One of the most damning allegations against CEU was its amazing success in relation to its competitors, such as DL, CEDU and CAST, that had much lower revenue growth. If a company is posting exceptional growth but cannot provide a sound explanation for it, then the growth may be too good to be true.

Another red flag for investors involves statements filed with China's Administration for Industry and Commerce that do not match documents provided to the United States' Securities and Exchange Commission (SEC). Then again, how many Western investors are able to decipher Chinese documents?

This raises the point that those who are purchasing shares of Chinese reverse takeover companies are not investors - they are speculators. Therefore, these speculators should not protest when hedge funds conduct due diligence and issue negative reports. Unfortunately, many long investors protest vigorously to regulatory agencies and claim that hedge funds are manipulating the market with their negative reports.

The impact on securities lending

Participants in securities lending benefit from the revenue gained by lending shares of these small-cap Chinese companies. But fraudulent companies benefit neither securities lending nor the entire capital markets system.

The securities lending industry could also benefit if small investors were able to take both sides of a trade. As a result, there would be a healthy debate about the business models of these Chinese companies since there would be small investors on the short side as well as the long side. Then regulatory agencies such as the SEC would not be deluged by complaints every time a hedge fund published a negative research report. Instead, long and short retail investors would be thankful for such research reports. If an investor changed his mind, he could act accordingly.

Small investors should be more careful when buying shares of Chinese reverse takeover stocks

To balance the scales, small investors need to be able to express short sentiment more easily. Currently, it is nearly impossible for a small investor to short sell a stock that is hard-to-borrow. Assuming the share price is above $5, investors can purchase put options, but options force investors to lock in a time horizon for their trade.

Since there is no easy answer, small investors or speculators should be more careful when buying shares of Chinese reverse-takeover stocks. On the other hand, with the collective punishment that many Chinese reverse takeover stocks have taken in the face of the recent fraud allegations, there are undoubtedly some undervalued stocks available if investors are able to actually conduct due diligence. **SLT**

Andrew Shinn
Vice president, sales and development
SunGard Astec Analytics

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

London Securities Financing Forum

Date: 16 March 2011
Location: London
Website: www.dataexplorers.com

If you are serious about securities financing in Europe, and around the globe, the Securities Financing Forum is the one event that you really must attend. Senior delegates from the industry will be in attendance for a series of panel discussions and high-level networking.

APAC Collateral Management Forum

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

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

Network Management 2011

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

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

New York Securities Financing Forum

Date: 26 May 2011
Location: New York
Website: www.dataexplorers.com

If you are serious about securities financing in Europe, and around the globe, the Securities Financing Forum is the one event that you really must attend. Senior delegates from the industry will be in attendance for a series of panel discussions and high-level networking.

Industry Appointments

Gerard Losurdo has been appointed managing director of securities lending at Albert Fried and **Kim Wilson** as director of its securities lending department.

Losurdo has been hired to manage and expand the firm's existing securities lending programme and coordinate with existing execution, trading, prime brokerage, and clearing businesses to capitalise on operating efficiencies.

Albert Fried, Jr., managing member & CEO, stated: "As our firm matures into an institutionally focused financial services organisation, we realise that securities lending touches and complements all our existing businesses."

Anthony Katsingris, COO, added: "Jerry brings a diverse background and 25 years of experience in securities lending to our firm and we look forward to him and his team becoming an important part of our future".

Prior to joining AF&Co, Losurdo served as managing director of securities lending at Swiss American Securities.

"I'm excited to join the Albert Fried & Company team. The firm's culture and mission statement strive for excellence in customer service; this is a major value add to the success of this offering. With the many cross sale opportunities available at Albert Fried & Co, large scale achievement and growth are assured," he said.

Robert Garrett has joined Merlin Securities as senior partner and chief technology officer. Garrett previously served as global head of execution services technology at Deutsche Bank.

"Merlin's value proposition is, first and foremost, about the quality of the technology solutions we provide to our clients, and Bob will add leadership and strength to our team," said Stephan Vermut, founder and managing partner of Merlin Securities. "Bob has a proven track record of setting the strategic technology direction for major firms and managing the detailed aspects of developing and implementing solutions for sophisticated managers, investors and traders. We're delighted to welcome him aboard."

Garrett joins Merlin from Deutsche Bank, where he was global head of execution services technology, responsible for order management and execution, algorithms and crossing engines across all asset classes. Prior to this, he was global head of equities electronic trading technology. Before Deutsche Bank, Garrett ran the equity derivatives trading platforms (trading and risk) for Bank of America and subsequently headed the company's electronic trading IT organisation. Garrett spent six years as a technology consultant at Sapient, driving strategy and implementation projects. He began his career at AT&T as a systems developer and architect.

Garrett will be a member of Merlin's executive committee and is based in the firm's New York office.

SunGard Astec Analytics has made two appointments to its North American team as it works on building its relationships with beneficial owners in the securities lending space.

Tom Kirdahy has been promoted to senior vice president, sales, for North America. He will have a specific focus on the beneficial owner market, said Tim Smith, executive vice president at the firm.

"Astec Analytics has been built on the back of our relationships with beneficial owners and this is further recognition of that effort," said Smith. "We have increasingly been looking at the qualitative side of the market - we are receiving more requests for a quasi-advisory service and Tom's experience and strengths are in this area."

Joining Kirdahy is **Bill Mauer**, who has moved from PNC to become vice president, North America. "Bill has real expertise in the agent lending and beneficial owner space," said Smith.

State Street Global Markets has announced several transition management appointments to its global Portfolio Solutions Group.

Brian Berg and **Brian Moniz** join as senior transition managers in Boston. Brian Berg joins State Street from Investment Technology Group (ITG), where he was responsible for business development for execution and order management systems as well as account management for key North American institutional clients.

Brian Moniz, who will focus on the interim exposure offering, has held various positions at State Street since joining the firm in 1995. Most recently, Moniz managed the middle office investment team for State Street Global Markets.

In Sydney, **Greg Metzmacher** joins the Portfolio Solutions team as a senior transition manager. Metzmacher is one of Australia's most experienced transition managers and previously held roles at Mellon Transition Management and Citigroup, where he helped establish transition management operations in London and Australia. Prior to joining Citigroup, he was responsible for futures broking and portfolio management at Prudential Bache and Commonwealth Financial Services, respectively.

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Tadateru Makino joins the portfolio solutions team in Tokyo as a senior transition manager. Makino brings over a decade of experience in the transition management business as both a quantitative consultant and in derivative and hedge fund products sales at Nomura and Goldman Sachs. He is a Chartered Member of the Securities Analysts Association of Japan (CMA).

Ronald Yank became an ex officio member of the CalPERS Board of Administration upon his appointment by Governor Jerry Brown as director of the department of personnel administration on January 5, 2011.

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Michelle Riffelmacher

In the first of a new series "A coffee with..." Securities Lending Times gets to know Michelle Riffelmacher from ClearLend Securities, a division of Wells Fargo.

Tell us about your career to date? How did you get into securities lending?

I get asked this question a lot when people learn that I studied environmental policy in college. And I like to tell this story because the simple truth is that I ended up in the business fairly unexpectedly, and almost entirely because my parents were trying to get me out of their office. My mother would ask her patients, "Does anyone want to hire my daughter?"

So the long and short of it was that State Street was hiring following their VSP the summer after I graduated from college. A friend of ours who happened to come into the office was familiar with the STT securities lending division and sent me downtown to interview. I started in operations on the international equity sell desk and then moved over to the US equity trading desk a couple years later where I lent IPOs, warm rate securities, and non-cash equities through the UK. I started at ClearLend last June when I felt it was time for a change, to learn something new...new challenges, new opportunities, new side of the business. I handle the marketing for our division, which has been busy with our re-branding efforts and advertising campaigns. I also work with the New Business Development group learning the sales process and developing their sales materials. Every step of the way has been a valuable experience. I think it's important to keep learning and seek out new challenges, to be proactive in your career.

Has anyone helped or inspired you during your career?

I have had people along the way give me advice, guidance, opportunities. In turn I try to help others as well. I believe it's important to recognise those who have helped you along the way. My parents are probably my biggest inspiration, no one works harder than they do.

How did you find working through the industry's biggest ever crisis?

I had never seen anything like it, and I hope never to again.

If there is one thing you could change about the industry what would it be?

Higher interest rates. Ha.

What are your ambitions?

To be successful.

Outside of work what are your interests and pursuits?

I love love to eat. I love to travel, especially with my family. And I took up golf a few years ago and now I'm addicted. I also watch a lot of sports, most notably the Red Sox and the Patriots. I'm from Boston, the best sports town in the world!

If you weren't working in securities lending what would you be doing?

I'd like Anthony Bourdain's job. **SLT**

Favourites

Food
Pasta (I know that sounds boring but I literally eat it ALL the time)

Sport:
Football

Music
Almost everything outside of Country music

Movie
Remember the Titans

Book:
A People's History of the United States, by Howard Zinn

Holiday:
Christmas

Celebrity:
Dr. Jeffrey Sachs, economist, professor, humanitarian.