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No agreement on short selling rules

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Member states are reportedly holding back from endorsing the EU's proposed ban on certain forms of short selling.

"This will damage London's standing as a major financial centre and will also add to the costs of a government that is trying to make major cuts," said one UK government official. "I cannot see a situation in which the UK will agree to this law."

The European Parliament has voted to ban short selling in sovereign bonds and place restrictions on naked short selling.

The proposed rules would prohibit anyone from being involved in credit default swap (CDS) transactions if they do not already own sovereign debt linked to that CDS, or securities whose price depends heavily on the performance of the country.

MEPs said they don't want to entirely ban naked short selling, but set a very tight deadline for converting a naked short sale into a short sale. By the end of the trading day, any naked short sales undertaken must have been converted. A seller failing to make the conversion on time would incur fines, which the amended text states, "must be sufficiently high to prohibit any profits being made".

Sellers must not only identify from where they plan to borrow the shares in question, but must also have a guarantee that they will indeed be able to borrow them when the time comes. Further reporting requirements will be placed on investment firms.

Italy, the Netherlands and the UK are said to be the countries most opposed to a ban, citing increased funding costs for governments is short selling was not part of the market. Denmark, which has just moved to remove its short selling ban, is also unlikely to support the move, which needs the agreement of both the European Parliament and the governments of the member states before it can be implemented.

The regulation is proposed to come into force in 2012

NEWS**IN**BRIEF

Veneto Banca looks to fund securities lending

Italian firm Veneto Banca has entered into talks with investors regarding the issue of Italian mortgage-backed bonds to finance securities lending transactions.

The company has begun a series of European roadshows to promote the issue, with J.P. Morgan Chase and Natixis acting as joint lead managers.

Veneto Banca plans on purchasing the retained triple A bonds for the purpose of entering into securities lending transactions.

LGPS securities lending continues to grow

Almost 20 per cent of Northern Trust's UK Local Government Pension Schemes are now participating in securities lending, says the bank.

"We see an increasing demand from the Local Government Pension Schemes market for tailored securities lending solutions that combine a strong risk and control environment, excellent revenue performance and transparent reporting," said Mark Snowdon, senior sales and relationship manager for Securities Lending at Northern Trust.

Northern Trust has grown the part of its custody business servicing Local Government Pension Schemes in the UK with the addition of US$10 billion in new client assets in 2010.

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LGPS securities lending continues to grow

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The company now provides custody and related services to 36 per cent of the Local Government Pension Schemes in the UK.

The announcement follows a series of Local Government Pension Schemes wins announced by Northern Trust underpinning its commitment to the Local Government Pension Schemes market, including the US$1.2 billion London Borough of Wandsworth, the US$65 million Shetland Islands Council and the US$2.2 billion West Sussex County Council, as well as most recently the US$5 billion Lothian Pension Scheme.

"Local government pension schemes are faced with a variety of challenges and concerns – such as changes to the state pension age and how to manage their liabilities," said Douglas Gee, UK institutional business development manager for asset servicing at Northern Trust.

"The Local Government Pension Schemes market is a key focus for us at Northern Trust and we understand they, like all our pension scheme clients, are looking for solutions including, and beyond, custody, such as access to expertise and information on pensions, investments and government and regulatory issues, as well as proprietary research into market-related issues such as risk management and fiduciary management – all of which we can provide."

SECP takes action against seven companies

The Securities Markets Division of the Securities and Exchange Commission of Pakistan has taken action against seven non-compliant market participants in February.

Warning letters were issued to three brokerage houses of the Karachi Stock Exchange for indulging in trading activities, which were in conflict with fair market practices.

In another instance, a show cause notice was issued to a listed company for failing to implement the SECP orders. Moreover, warning letters were issued to the three directors of different listed companies for late filing of returns of beneficial ownership.

In an effort to strengthen the regulatory framework of capital markets, the SECP accorded its approval to a number of amendments to the regulations of three stock exchanges, Clearing Company and Depository Company. This includes provisions pertaining to the introduction of new products, ie, margin financing, margin trading and securities lending and borrowing.

State Street announces collateral tracking service

State Street has launched a new Collateral Tracking service that helps asset managers and owners accurately assess and manage counterparty risk. Clients can now receive up-to-date reporting on the location and status of all collateral movements regardless of where the assets are held.

The Collateral Tracking service expands the traditional core custody function of acting on direction from the asset manager to move collateral, including cash or securities, in and out of an account. The enhanced service automates a previously manual process, which required asset owners to contact each broker or investment manager individually to determine the outstanding collateral at any point in time.

With the new service, clients can send their collateral instructions to State Street's proprietary collateral tracking hub, which automatically initiates the process of tracking the status and location of all outstanding collateral. Additionally, the service's fully customisable reporting allows clients to schedule reports to run systematically or upon request, using any combination of date range, advisor, client, counterparty, fund, or product type.

"At State Street, we are constantly developing new products to help monitor and manage risk for our clients," said Patrick Centanni, executive vice president and head of Global Product Management at State Street. "The Collateral Tracking service provides clients with settlement status updates and event monitoring information to increase transparency and mitigate counterparty risk exposure."

"State Street's new collateral tracking capabilities are a core component of our derivatives strategy, which is designed to address the unique challenges our clients face in the derivatives market today," said Jeff Conway, executive vice president and head of Investment Manager Operations Servicing at State Street. "State Street's derivative servicing suite now includes end-to-end OTC and exchange traded derivatives processing, collateral management, and independent valuations."

FBR exits prime brokerage

Investment bank FBR Capital Markets has announced that it is quitting the prime brokerage business. FBR started the service two years ago and says the decision to close it is the result of a turn in market conditions. "The market environment that prompted our entry into that business in the fall of 2009 changed materially, and our ability to successfully start up this business in a reasonable time frame changed with it," explained Richard J. Hendrix, president and chief executive of FBR Capital, during a recent earnings call.

State Street expands services to UK PPF

State Street Corporation has extended its relationship with the UK's Pension Protection Fund (PPF) for a further term to provide services to more than £5 billion in assets. It will also offer securities lending services.

State Street was originally appointed by the PPF in 2005 to provide a range of global custody and administration services, and in 2008 the relationship was retained and extended to include risk analytics, as well as independent valuation of over-the-counter (OTC) derivatives.

Further to last year's formal tender process by the PPF, State Street has been re-appointed for a five-year term effective 1 January 2011 and the range of services provided has been further extended to include securities lending.

"We re-appointed State Street after a comprehensive tendering process as we felt they were best suited at this point in time to provide custody and asset servicing solutions for our growing investment portfolio" said Martin Clarke, executive director of Financial Risk of the PPF. "As we diversify our assets into new areas, it is important we choose an asset servicing provider who can best meet our needs now and for the immediate future."

"We are delighted to have been reappointed by the PPF and to further extend the depth of our relationship with them. Supporting their growth and increasing complexity has resulted in the introduction of a number of new products in their service model," said Mark Westwell, senior vice president of State Street's global services business in Europe, Middle East and Africa. "We will continue to focus on developing solutions to help the PPF meet their strategic objectives. The recent addition of securities lending services is a testament to our ability to support these needs."

ASX and SGX to complete merger

The Board of Directors of Singapore Exchange has lodged a formal application to the Australian Foreign Investment Review Board about the proposed merger of SGX and ASX Limited.

ASX and SGX have also amended the Merger Implementation Agreement entered into on 25 October 2010 to the extent required to reflect the new governance arrangements announced on 15 February 2011.

SGX and ASX will make market announcements and update shareholders as approval processes.

DAP announces Global Prime enhancements

Direct Access Partners, LLC, has announced a major enhancement to the Global Prime Services platform. The comprehensive offering provides an optimal solution for hedge funds with under $500 million in assets under management.

Direct Access Partners is one of a few correspondent brokers to Goldman Sachs Execution and Clearing. Complementing the Global Prime Services platform is a robust offering with Pershing, a unit of Bank of New York. Clients may choose among a broad selection of DMA platforms including Knight Trader and Redi+. Client service is provided by the operations specialists at Direct Access Partners.

"With these enhancements and new leadership, the Direct Access Partners Global Prime Services platform is on par with our world-class institutional trading business," said Ben Chinea, CEO of Direct Access Partners. "Prime clients gain access to our value-added services including corporate access, commission management and access to independent research."

Spearheading the new offering is Brian Stutman, a 12 year veteran of the correspondent prime brokerage industry. Stutman said, "The Direct Access Partners Global Prime Services is perfectly suited to partner with small and mid-sized hedge funds. We have the trading expertise of the NYSE floor, upstairs and DMA platforms, operational expertise combined with unparalleled marketing acumen and relationships of our Capital Alternatives Group. Our partnership approach will help our clients reach their marketing, operational and trading objectives."

Northern Trust rolls out enhanced Passport

Northern Trust has announced that it has deployed a new version of its multi-faceted web portal, Passport, enhanced to address the specialised needs of institutional investors to quickly access and effectively analyse their investment information. The new Passport provides an intuitive experience that eases collaboration and data integration across Northern Trust's global operating platform for asset servicing and asset management.

"Sophisticated global investors know that Northern Trust Passport is a secure, one-stop entry point for asset information, functionality and the market-leading analytical tools they need to oversee large, complex portfolios," said Paul d'Ouville, global head of product management for Corporate & Institutional Services at Northern Trust. "With our new Passport, institutional clients will leverage features that are familiar to Internet users worldwide to organise their desktop for maximum efficiency while maintaining the highest standards of security and data integrity."

Delivered with a refreshed look and feel, aspects of the new Passport design include:

- Task-focused layout utilising "drag and drop" capabilities to customise the user experience.
- "Type-ahead" search functionality for more precise retrieval of data, such as portfolio statements or asset list.
- Dedicated, interactive workspace to define and schedule reports for electronic delivery to the destination of the client's choice.
- In-depth details about reports to ensure accuracy and visual graphics to enable clients to quickly locate the templates needed.

Northern Trust Passport utilises Northern Trust's integrated, global technology infrastructure to deliver key investor information such as asset allocation, transaction history, and market valuation to clients across the world. Passport allows all users, whether the chief investment officer of a US endowment, a UK hedge fund manager or an Asian central bank risk officer, to organise graphic presentation and detailed asset or portfolio reports to meet their needs.

A key risk management tool on Passport is Exposure, which enables clients to quickly collate information about exposure related to a single entity - either issuer or counterparty. Through their

Passport dashboard, clients can immediately retrieve total holdings in any one issuer/counterparty across exposure types, asset types and accounts, including the option to peek-through to holdings in commingled funds. As the new Passport design is rolled out, Northern Trust continues to enhance Exposure and other tools for institutional clients. Exposure recently incorporated direct and indirect positions from securities lending collateral pools, in addition to:

- Direct market exposure through physical securities and
- Counterparty exposure to derivatives transactions.

The tool is available to institutional clients and investment managers on a global basis.

Data retrieval and report generation are critical functions for all clients managing complex portfolios. To deliver these details more efficiently, Passport now displays representative sample images of all reports in the template library along with descriptions and report parameters. Running and scheduling reports is also made easier with the ability to create and save data filters that can auto-populate the report with a single click. And more communication tools on the site allow users to multitask and save time.

Institutional clients can take advantage of the redesigned online learning within Passport that includes step-by-step instruction guides, video tutorials, integrated help topics on each page and enrollment opportunities for instructor-led, interactive training.

"Our upgraded Passport is a product of melding our culture of client-focused development with user-centric design principles, creating a rich, intuitive user experience," said Geordan Capes, global head of Passport product development at Northern Trust. "As investment complexity grows, it is even more important to harness the rapidly changing landscape of technology and build capabilities to enable clients to quickly retrieve the data they need to make smart decisions."

EuroCCP to clear trades for the Spanish MTF, PAVE

EuroCCP, the pan-European cash equities clearing house, has signed a memorandum of understanding (MOU) with PAVE, (Plataforma Alternativa de Valores Españoles), Spain's first multilateral trading facility (MTF), to become the clearing house for PAVE's trading.

The MOU establishes EuroCCP as the first clearing house to provide services to a Spanish trading platform and secures the company's position as a leading clearing house in the Spanish market.

EuroCCP is the European clearing subsidiary of The Depository Trust & Clearing Corporation (DTCC) and currently clears trades in more than 4,000 securities, making it one of the main cash equities clearing houses in Europe, with 26 participant members.

The PAVE trading platform, which was conceived in August 2010, aims to provide liquid, efficient, ultra-fast and secure international trading of Spanish securities. PAVE, expected to become operational in the second half of 2011, will be Spain's first alternative trading platform.

Diana Chan, CEO of EuroCCP, said, "I am delighted that PAVE has chosen EuroCCP as its partner in establishing Spain's first alternative trading platform. PAVE's presence will increase competition, helping price formation and improving efficiency in the Spanish market. We believe our high level of customer service, comprehensive approach towards risk management and competitive pricing model will bring great value to this new MTF and its customers."

Javier Tordable, founding partner and CEO of PAVE, stated: "PAVE seeks to increase liquidity in Spanish equities and bring international traders to the market. As such, it is vital that we develop a relationship with a clearing house that will help us to achieve our ambitions. Despite strong competition, EuroCCP has demonstrated that it is the most efficient CCP to provide clearing services for trades executed on PAVE."

OCC volume increases 35 per cent

Total OCC cleared volume in February reached 357,275,834 contracts. This represents a 35 per cent increase over the February 2010 volume of 264,435,951 contracts.

OCC year-to-date total contract volume is up 28 per cent from 2010 with 738,833,911 contracts.

Options: Exchange-listed options trading in the US for the month of February was up 35 per cent over February 2010. February is typically one of the lower trading volume months of the year, but February 2011 is the eighth highest monthly volume on record.

Year-to-date average daily contract volume for equity options is up 27 per cent from 2010 with 17,609,178 contracts.

Futures: Futures cleared by OCC in February rose to 3,061,598, a 53 per cent increase over February of last year. Equity futures volume reached 177,910 contracts in February, a 40 per cent decrease over the same month last year where were 296,470 contracts were traded. Index and other futures volume came in at 2,883,439 this month and show a year-to-date average of 148,580 daily contracts.

Securities lending: OCC's stock loan programme, including OTC and AQS, saw a 67 per cent increase in new loan activity over February 2010 with 64,098 new loan transactions in February. Year-to-date securities lending activity is up 76 per cent from 2010 with 136,592 new loan transactions in 2011. OCC's stock loan programme had an average daily notional value of $12,411,274,208.

Penson files figures

Penson Worldwide Inc. has filed its annual report for 2010.

For the year ended December 31, 2010, the firm generated net revenues of $288.3 million. Clearing and commission fees, net interest income, technology revenues and other revenues comprised 53 per cent, 24 per cent, seven per cent and 16 per cent of net revenues, respectively. Approximately 40 per cent of securities correspondents generate both clearing and technology revenue. In addition, some customers generate revenue from both securities and futures trading.

As an integral part of the securities clearing relationships, Penson maintains a significant margin lending business with correspondents and their customers. Under these margin lending arrangements, Penson extends credit to its correspondents and their customers so that they may purchase securities on margin.

As is typical in margin lending arrangements, Penson extends credit for a portion of the purchase price of the securities, which is collateralised by existing securities and cash in the accounts of the correspondents and their customers. Penson also earns interest income from both securities and futures operations by investing customers' cash and it engages in securities lending activities as a means of financing the business and generating additional interest income. Over the past year, net interest revenues increased from $65.9 million in 2009 to $68.5 million in 2010, representing approximately 23 per cent and 24 per cent of aggregate net revenues, respectively.

DealReporter expands Middle East platform

DealReporter has launched an enhanced Middle East service that offers exclusive reporting of regional corporate transactions actively traded by regional and international buysiders, as well as enhanced analytics and boosted aggregation of local news sources.

The Middle East news service adds to dealReporter's global news output that provides proprietary scoops on equity and credit-related situations for an institutional investor audience.

The expanded Middle East platform now provides in-depth coverage of a spectrum of actionable liquidity events in both equity and credit, as well as project and Islamic finance. The company's network of sources in touch with deal developments, allows it to publish exclusive intelligence on non-public transaction talks.

A Dubai-based team of reporters generates intelligence on key special situations ranging from rights issues and private placements to dividend changes, significant business events and asset disposals. Corporate governance and shareholder activism, demergers and legal actions are central to this coverage area, as is DealReporter's focus on convertible bond arbitrage.

The expansion of dealReporter Middle East's debt capital market coverage tracks the development of the regional credit market and now encompasses both bond and sukuk issues, secondary market trading, as well as corporate refinancing and balance sheet restructuring. The addition of project finance intelligence complements this content set by providing financing updates on projects with a value of USD 1 billion or more.

"Our niche focus reduces the scope for information overload while at the same time ensuring our readers don't miss essential updates on key regional situations," dealReporter Middle East editor Victoria Robson said. "We also benefit from access to dealReporter's global network of journalists with whom we collaborate to provide market moving information on a variety of cross-border situations."

"dealReporter Middle East will become the only platform in the region capable of providing proprietary news coverage for both the equity and credit markets," dealReporter global editor in chief Yanita Morris added. "Our team of highly specialised regional reporters have extensive experience covering complex restructuring cases, as well as time sensitive ECM transactions and M&A deals. This is an exciting and an unmatched service tailored to sophisticated investors and other financial professionals looking for a competitive edge in a truly unique market."

Clearstream announces February figures

In February 2011, the value of assets under custody held on behalf of customers registered an increase of six per cent to €11.3 trillion (compared to €10.7 trillion in February 2010). Securities held under custody in Clearstream's international business experienced a rise of four per cent from €5.7 trillion in February 2010 to € 6.0 trillion in February 2011 while domestic German securities held under custody increased by eight per cent from €5.0 trillion in February 2010 to € 5.4 trillion in February 2011.

In February 2011, 3.3 million international settlement transactions were processed, a 19 per cent increase over February 2010 (2.8 million). Of all international transactions, 72 per cent were OTC transactions and 28 per cent were registered as stock exchange transactions.

On the German domestic market, settlement transactions reached 7.4 million, 22 per cent more than in February 2010 (6.0 million). Of these transactions, 68 per cent were stock exchange transactions and 32 per cent OTC transactions.

For Global Securities Financing (GSF) services, the monthly average outstanding reached € 536.4 billion. The combined services, which include triparty repo, securities lending and collateral management, collectively experienced a rise of 10 per cent over February 2010 (€488.6 billion).

In the Investment Funds services, 0,49 million transactions were processed, a 36 per cent increase over February 2010 (0.36 million).

SGX activity on the rise

Trading on Singapore Exchange's derivatives and securities markets increased in February from a year earlier.

In the securities market:

Securities turnover grew 32 per cent year on year to $31.5 billion with an SDAV of $1.7 billion.

ETF trading tripled to $628 million from a year earlier. Five Asian sectoral ETFs were added in February, offering customers the region's most comprehensive suite of sectoral ETFs. The additions bring to 80 the total number of ETFs on SGX.

In the derivatives and commodities markets:

Derivatives volume was 5.2 million contracts, up 39 per cent from the previous year. The average daily volume was 300,493 contracts.

Nifty index futures volume grew 55 per cent year on year to 1.1 million contracts while FTSE A50 futures activity continued to increase with volume of 221,729 contracts in February.

AsiaClear volume in February doubled to 15,571 contracts from a year earlier.

The OTC financial derivatives clearing business, which began in November, showed good traction with a notional US$24.2 billion of interest rate swaps cleared from the launch to end-February. In February alone, a notional US$10.2 billion of swaps were cleared.

New statistics added to this report include data on securities on loan under the CDP Securities Borrowing and Lending programme and trading statistics for LME-SGX metal futures.

Eurex continues to grow

In February 2011, the international derivatives exchanges of Eurex Group recorded an average daily volume of 10.3 million contracts (Feb 2010: 10.6 million). Of those, 7.1 million were Eurex contracts (Feb 2010: 7.45 million), and 3.2 million contracts (Feb 2010: 3.15 million) were traded at the US-based International Securities Exchange (ISE).

In total, 142.1 million contracts were traded at Eurex and 61.0 million at the ISE. In its largest product segment – equity index derivatives – Eurex Exchange achieved 58.4 million contracts (Feb 2010: 67.1 million), thereof 28.1 million were index futures and 30.3 million were index options. Futures on the EURO STOXX 50 Index stood at 23.9 million contracts and 23.6 million on the options of this index. Futures on the DAX index totaled 2.6 million contracts while the DAX options reached another 5.5 million contracts.

The electronic trading platform Eurex Bonds, which rounds out Eurex's fixed-income product range, traded 8.1 billion euros (single counting) in February, compared to 8.6 billion euros in February 2010. In January 2011, volume was 14.6 billion euros.

Asia

After retrenching during the financial crisis, Asian markets are returning to the securities lending market in numbers

BEN WILKIE REPORTS

As the markets tumbled in the past few years, Asian asset owners - like their counterparts across the world - took a look at their participation in the securities lending industry and, in many cases, reduced their exposure or withdrew from the market.

While securities lending itself was causing few problems, the collateral reinvestment was proving trickier. While there were few losses, managers took the decision that the rewards were far outweighed by the risks.

Compared to European or North American markets, those in Asia fared relatively well. The established markets saw comparatively small falls in their values, while the emerging growth markets continued pretty much as they were - the levels of growth dropped slightly, but they kept on growing.

The one major exception was Australia, which saw its markets tumble and many securities lending players either withdraw from the market or reduce their exposure. Legal suits are ongoing, but most of the major players have gradually edged their way back into the market.

But that is starting to change. The past year has seen securities lending agents report revenues of up to 25 per cent more than the year before, and the big beasts in the institutional finance world are making sure their presence is felt in the biggest markets. At the recent PASLA conference in Singapore, over 80 per cent of delegates predict that revenue for the market is only going to grow.

The same conference held the view that Taiwan will be leading the way in terms of revenue generation, with Hong Kong not far behind. Prospects in Japan are less positive, although growth is still expected. India remains a market many eyes are on, although active participation is limited - there still appears to be a lack of understanding of how the market works and a reluctance to be a frontiersman when it comes to entering the market.

But while there is significant excitement about the market, concerns remain about risk. Over 90 per cent of attendees said that risk has risen up their agenda since the financial crisis, and the amount of time spent working through risk profiles and working to understand the levels of risk.

The figures certainly look good. The MSCI Far East Index has risen by around eight per cent over the past year, compared to virtually flat figures for Europe and Asia.

Collateral strategies have changed, however. Cash is becoming less popular, in part due to the reinvestment strategies used in the past - it was

not uncommon for beneficial owners and their service partners to put the cash into mortgage-related assets, including those in the sub-prime categories, which caused so many problems during the crisis. Now, the preference appears to be fixed income, US Treasuries and other low-risk assets. EU bonds are becoming increasingly popular, despite some of the member countries' well-documented fiscal problems.

> Pittam: Asia stands out as a region where the income from securities lending is gently rising

"Clients are reviewing all aspects of their programme and this includes the duration of investments derived from cash collateral," says one player. "There is a greater focus on maintaining overnight liquidity and the defensive management of cash. The duration of loans generally has fallen as borrowers come under balance sheet pressure and need to more finely calibrate the use of precious balance sheet resource."

CCPs

There does not seem to be a huge appetite for the introduction of CCPs within the region, even though the market predicted to grow the fastest - Taiwan - already has one in place, while India has a de facto CCP model. "We don't see that the added costs and administrative burden that will be placed upon us [from the use of a CCP] is worth the reduced risk that it will bring," is the comment of one agent lender, who says that his views are shared across both the beneficial owner and borrower communities.

The players

In the past six months, there has been huge investment from some of the major players into the region. Data Explorers opened its Hong Kong office at the end of the third quarter 2010, and now publishes data in both Mandarin and Hindi. Equilend's new Hong Kong office is already servicing the company's existing clients in the region, with high expectations for plenty of new business from local players.

Jules Pittam, managing director, Data Explorers, said at the time of the office opening: "Asia stands out as a region where the income from securities lending is gently rising. We have long term relationships with clients across Asia and Japan who use our daily global content to support their investment decisions and manage risk. We are excited to formalise our presence in the region ... and are pleased to welcome Emmie Osawa to the team."

Banks such as Barclays - which has almost doubled its securities finance workforce in the region - and HSBC, which is opening a branch of its custody and prime brokerage operations with its prime services platform, are just two global operators who are making a play for the market.

"The number of firms setting up offices in the region is increasing, due in large part to the belief that it is leading the global economic recovery. Institutional investors in Asia have not been as impacted as in other areas and markets here have long-term growth prospects."

The feeling now - as in other areas of institutional finance - is that if you don't have a strong presence in Asia, then you're nowhere. This is highlighted by the continuing rumours - strongly and repeatedly denied by the bank - that HSBC is set to move its headquarters back to the region.

Over the past couple of years, Data Explorers estimates the numbers of securities available for lending has increased by as much as 20 per cent, compared to declines elsewhere in the world. Hedge funds are also setting up shop, with Algebris Investments opening a Singapore office last year and Marshall Wace forming a joint venture with Asia specialist GaveKal Holdings in 2008.

In part, this is down to the activity within the market compared to elsewhere. IPOs, moribund in Western markets, are booming here, accounting for over 70 per cent of global volume throughout most of 2010 according to Dealogic, and seven of the world's top 10 deals, in value terms, occurring in Asia.

The financial crisis has also had one further effect. While it's unfair to describe the changes in service providers as a flight to quality, beneficial owners have certainly made the decision that in this market, bigger is better. They have looked to the HSBCs and J.P. Morgans of the world to be their partners in the securities lending market, rather than using smaller domestic providers.

"These smaller firms have been the unwitting victims of the market turmoil," says one fund manager. "Our risk assessments mean that while the relationships we have built up mean we have always been happy with the service and we never really had any problems with their size, but the risk managers are looking at global footprints and spreading the risk. They are also looking at the borrower funds themselves much more closely and if these global organisations have relationships with the hedge funds going across borders, we are more comfortable with that."

Regulation

Asia is by no means a single market; there is a significant amount of variation about the rules on securities lending. Mature markets, such as Australia, Hong Kong and Taiwan, have a well-established regulatory infrastructure. But the story is very different elsewhere. India's securities lending regulation still has to be fully tested and few players are willing to make real investments in the market. In Pakistan, the ink is not yet dry on the new rules surrounding securities lending, although the feedback from both the local market and international participants has been broadly positive.

> While it's unfair to describe the changes in service providers as a flight to quality, beneficial owners have certainly made the decision that in this market, bigger is better.

China, meanwhile, is the market that everyone is waiting for. Some time ago, the country's government allowed a pilot scheme to assess the viability of securities lending, but little has happened since then, mainly as a result of the financial crisis. Most of the major global banks, as well as China's existing local players, have made great strides in terms of building China's financial infrastructure over recent years, so if and when securities lending is permitted, the market will be ready.

"It's certainly a market for the future," says Brian Lamb, CEO of EquiLend. "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**

Euro trades

Introducing the first part of our look at the ERC-ICMA semi-annual survey of the European repo market

RESEARCH REPORT

On December 8, 2010, the European Repo Council (ERC) of the International Capital Market Association (ICMA) conducted the 20th in its series of semi-annual surveys of the repo market in Europe.

The ICMA survey was actively supported by the ACI – The Financial Markets Association, and has been welcomed by the European Central Bank and European Commission.

The survey was managed and the results analysed on behalf of ICMA by the author at the ICMA Centre at Reading University in England, under the guidance of the ERC Steering Committee.

What the survey asked

The survey asked financial institutions operating in a number of European financial centres for the value of the cash side of repo and reverse repo contracts still outstanding at close of business on Wednesday, December 8, 2010.

The questionnaire also asked these institutions to analyse their business in terms of the currency, the type of counterparty, contract and repo rate, the remaining term to maturity, the method of settlement and the origin of collateral. In addition, institutions were asked about securities lending and borrowing conducted on their repo desks.

Separate returns were made directly by the principal automatic repo trading systems (ATS) and triparty repo agents in Europe, and an aggregate return was made directly by the London-based Wholesale Market Brokers' Association (WMBA).

The response to the survey

The latest survey was completed by 57 offices of 55 financial groups. This is the same number of institutions that participated in June 2010. Three institutions which participated in the last survey dropped out of the latest survey but three rejoined. 46 institutions were based in 14 European countries, as well as in North America (6) and Japan (5).

44 institutions were based in 13 of the 27 member states of the EU (no institutions from Finland, Portugal and Sweden, and only one former Ac-

cession State, participated in the latest survey), and 39 were based in 11 of the 17 countries in the eurozone.

However, although some institutions were based in one country, much of their business was conducted in others. Many institutions provided data for their entire European repo business. Others provided separate returns for one or more (but not necessarily all) of their European offices.

Survey results

The total value, at close of business on December 8, 2010, of repos and reverse repos outstanding on the books of the 57 institutions, which participated in the latest survey fell back to EUR 5,908 billion. This was significantly lower than the figure of EUR 6,979 billion recorded in June 2010 (-15.3 per cent) but above the December 2009 total of EUR 5,582 billion (+5.8 per cent) and close to the level at June 2006.

Of the sample of 57 institutions, 30 were net lenders, compared to 27 (of 57) in the last survey. Aggregate net borrowing (repo) exceeded aggregate net lending (reverse repo), but by much less than in June 2010.

It is important to remember that the survey measures the value of outstanding transactions at close of business on the survey date.

Measuring the stock of transactions at one date, rather than the flow between two dates, permits deeper analysis but is difficult to reconcile with the flow numbers published by other sources. As the survey is a 'snapshot' of the market, it can miss peaks and troughs in business between survey dates, especially of very short-term transactions. In addition, the values measured by the survey are gross figures, which mean that they have not been adjusted for the double counting of transactions between pairs of survey participants. Nor does the survey measure the value of repos transacted with central banks, as part of official monetary policy operations. Central bank intervention has of course been massive during the recent market difficulties.

In order to gauge the year-on-year growth of the European repo market (or at least of that segment represented by the institutions which have participated in the survey), it is not valid to simply compare the total value of repos and reverse repos with the same figures in previous surveys. Some of the changes represent the entry and exit of institutions into and out of the survey, mergers between banks and the reorganization of repo books within banks.

To overcome the problem caused by changes in the sample of survey participants, comparisons are made of the aggregate outstanding contracts reported only by a subsample of institutions which have participated in several surveys.

The repo books of the 49 institutions that participated in all of the last three surveys shrank by 16.8 per cent over the six months from the June 2010 survey, while the surveyed business of the 53 institutions that also participated in the December 2009 survey (but not necessarily in the June 2010 survey) contracted by 15.2 per cent year-on- year. Of the 57 institutions in the latest survey, the repo books of 25 expanded or remained unchanged, compared to 29 out of 57 in the last survey.

The sharp fall in the total value of transactions mainly reflects the unwinding of a set of very large and somewhat specialised transactions that were recorded in the June 2010 survey. In other words, much of the dramatic growth seen in the last survey and much of the retreat in the latest survey was driven by exceptional factors.

The share of CCP-cleared repo business is still below the record set in December 2008, shortly after the collapse of Lehman Brothers

Beneath these unusual swings in activity, there is still a discernible trend towards recovery in the repo market.

The sharp fall in the share of direct trading (to 51.5 per cent from 57.2 per cent) and the equally sharp rise in the share of electronic trading (to 28.3 per cent from 22.5 per cent) reflect the unwinding of the exceptional transactions recorded in the June 2010 survey. Within the diminishing share of direct trading, tri-party repo made significant gains to 11.5 per cent (accounting for the settlement of 22.3 per cent of directly-negotiated repo compared with 13.8 per cent in June 2010).

Although the number of survey participants reporting tri-party business jumped to 37 from 30, this did not appear to distort the survey, as the strength of tri-party repo was also confirmed by the independent data provided directly by the major tri-party agents in Europe, which showed growth of 27.6 per cent to EUR 960billion.

The share of voice-brokers was virtually unchanged, showing that they have been able to retain at least some of the gains in market share made during the crisis, when they benefited from the general search for liquidity. However, whether the trend decline in the share of voice-broking has been halted or just delayed is uncertain. Data provided directly by the WMBA showed a decline of 2.8 per cent in voice-brokered business to EUR 653 billion.

The strength of the recovery in the share of electronic trading reflected the unwinding of the exceptional transactions recorded in June 2010 but also strong organic growth. Data provided directly by the principal automated trading systems (ATS) operating in Europe – BrokerTec, Eurex Repo and MTS – showed that the value of electronic trading grew by 10.3 per cent to a record EUR 1,001 billion from EUR 904 billion in June 2010. The previous peak was EUR 961.1 billion in June 2007. Among other things, electronic trading has been boosted by the revival of the repo market in Spain, as banks there re-gained access to money market funding by turning to electronic trading backed by the new local CCP services introduced in the second half of 2010 by LCH-Clearnet Ltd and MEFF. The directly-reported share of electronic trading in Spanish collateral increased to 7.0 per cent from 3.8 per cent. Increasing use of electronic trading has also been reported in Italy and Portugal.

The share of anonymous electronic trading recovered to a record 18.5 per cent from 13.7 per cent in the last survey. However, according to the data provided directly by the principal European ATSs, anonymous electronic trading grew by just 4.6 per cent to EUR 829 billion, while non-anonymous trading grew by 20.3 per cent to EUR 133 billion, probably reflecting the revival of the Spanish repo market.

Domestic and intra-eurozone tri-party business expanded most rapidly (20.6 per cent to 24.2 per cent and 46.8 per cent to 48.5 per cent, respectively), largely at the expense of business into and out of the eurozone (32.6 per cent to 27.3 per cent). Once again, these changes may simply reflect the unwinding of the exceptional transactions recorded in the June 2010 survey, which appear to have been into the eurozone from outside.

The importance of CCPs in the repo market continues to grow (to 32.3 per cent from 22.4 per cent). While the bulk of CCP-cleared repo business continues to be executed electronically (18.5 per cent of total repo reported in the survey, compared to 13.7 per cent in June 2010), significant volumes are negotiated directly between parties or through voicebrokers and registered with CCPs after the trade (13.8 per cent of total repo reported in the survey, compared with 8.7 per cent in June 2010). However, the share of CCP-cleared repo business is still below the record set in December 2008, shortly after the collapse of Lehman Brothers, when as much as 33.2 per cent of the total surveyed business was cleared through CCPs (17.6 per cent electronically-negotiated and 15.6 per cent directly or via voicebrokers). **SLT**

Local default

State and local governments' fiscal challenges lead to opportunities on both the short and long side, says SunGard's Andrew Shinn

DATA PROFILE

Compared to other asset classes, municipal bonds have had a relatively short relationship with the securities lending market. Before 1982, when muni bonds were issued as bearer bonds, institutions did not lend them. Bearer bonds were not registered with DTC, and lending complicated the matter of receiving interest payments. After the US Congress passed a bill in 1982, however, muni bonds were no longer issued as bearer bonds and it became possible to lend them.

Initially, the securities lending market for muni bonds was not large. The muni bond market was not very volatile, and there was little demand to short. Recently, however, this has changed, because state and local governments are faced with massive fiscal deficits. From 2004 through 2007, as incomes and property values increased, tax revenues were high and state and local governments increased benefits and social programmes. With the downturn, tax revenues decreased significantly – as much as 35 per cent in the case of Vallejo, California. With fewer tax dollars, governments have been forced to either cut spending or raise taxes. In Vallejo, the city decided that it would not raise taxes, but it also couldn't convince its police and fire pension fund to accept reductions in benefits, so the city declared bankruptcy.

In addition to Vallejo's bankruptcy, muni bond investors were also spooked when Meredith Whitney predicted that there would be 50 to 100 local government defaults measuring hundreds of billions of dollars over the next few years. This led investors to withdraw billions of dollars from muni bond funds and muni bond ETFs over the past few months. According to the Investment Company Institute, from November 2010 through end of February 2011, there has been a $38 billion net outflow from muni bond funds.

It seems that muni bond investors have a right to be concerned. Newt Gingrich has been calling for legislation that would allow states to declare bankruptcy in order to renegotiate pension fund liabilities. Also, there's the fear that if more cities declare bankruptcy, the stigma will wear off and many more cities and local governments will follow Vallejo's lead. Furthermore, some monoline insurers have exited the muni bond insurance market, so investors have less protection in the case of a default.

On the other hand, there is much more evidence that argues against massive municipal defaults. When looking at the situation from a state or local government's point of view, there are many costs and not too many benefits to declaring bankruptcy.

> Since most state and local governments have the ability to pay, the next question is whether they have the willingness to pay

First, the amount of money that state and local governments have borrowed from the municipal bond market is not that great compared to GDP and tax revenues. On average, muni bond interest payments are less than 10 per cent of tax revenue. So when Vallejo's tax revenue declined from $29 million to $20 million in 2009, it wasn't as if the city had zero dollars to pay interest to bond holders. Instead, it was a decision as to who would receive the $20 million. Just as muni bond interest payments are not a large percentage of tax revenues, the average muni bond outstanding debt for states is less than three per cent of state GDP.

Since most state and local governments have the ability to pay, the next question is whether they have the willingness to pay. For states, there is no choice, because it is illegal for a state to declare bankruptcy. Newt Gingrich notwithstanding, it doesn't look like the federal government is going to change the law and allow states to go bankrupt any time soon. For local governments, declaring bankruptcy doesn't do much to help them. Of the stakeholders in the situation (bondholders, pensioners, current public employees, tax payers, and citizens), none are helped by a bankruptcy. Instead, additional legal costs are incurred.

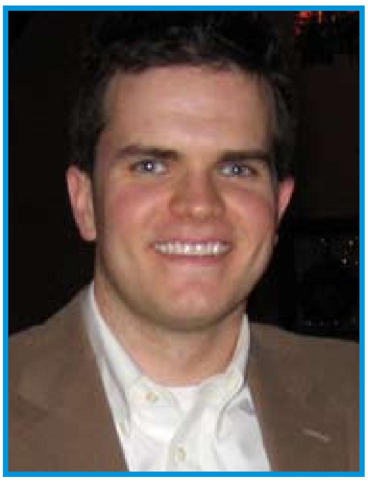
The surprising thing is that in most cases of default, local governments end up making muni bondholders whole in the end. When Orange County declared bankruptcy in the 1990s after an official lost millions on bad derivatives bets, the county ended up paying bondholders every last penny. One reason for this is that muni bond investors are local citizens. Politicians don't want to leave local citizen bond holders with the check because it will hurt politicians' chances for re-election.

Nonetheless, over the past few months the muni bond market has taken a hit. This has created opportunities for short sellers who were quick to short muni bond funds back in November and December, as well as those funds that purchased muni bonds after the decline.

SunGard's Astec data shows that most shorting activity has been in muni bond ETFs such as MUB, the iShares S&P National AMT-Free Municipal Bond Fund. The cost-to-borrow shares of MUB are currently 1500 bps. The cost-to-borrow had been 400 bps in November and December 2010 but increased significantly on January 20, 2011. MUB's share price has declined by five per cent since early November 2010. Since its low on January 14, 2011, however, the share price has rebounded by 2.5 per cent.

TFI, the SPDR Nuveen Barclays Capital Municipal Bond Fund ETF, is the most borrowed muni bond ETF in Lending Pit with 370,000 shares outstanding. The cost-to-borrow shares of TFI is 300 bps.

Unless there's another prediction of mass defaults in the muni market, it looks like the market has stabilised for now. And even if more small retail investors sell, hedge funds will no doubt be waiting on the other side to take advantage of the bargains. **SLT**



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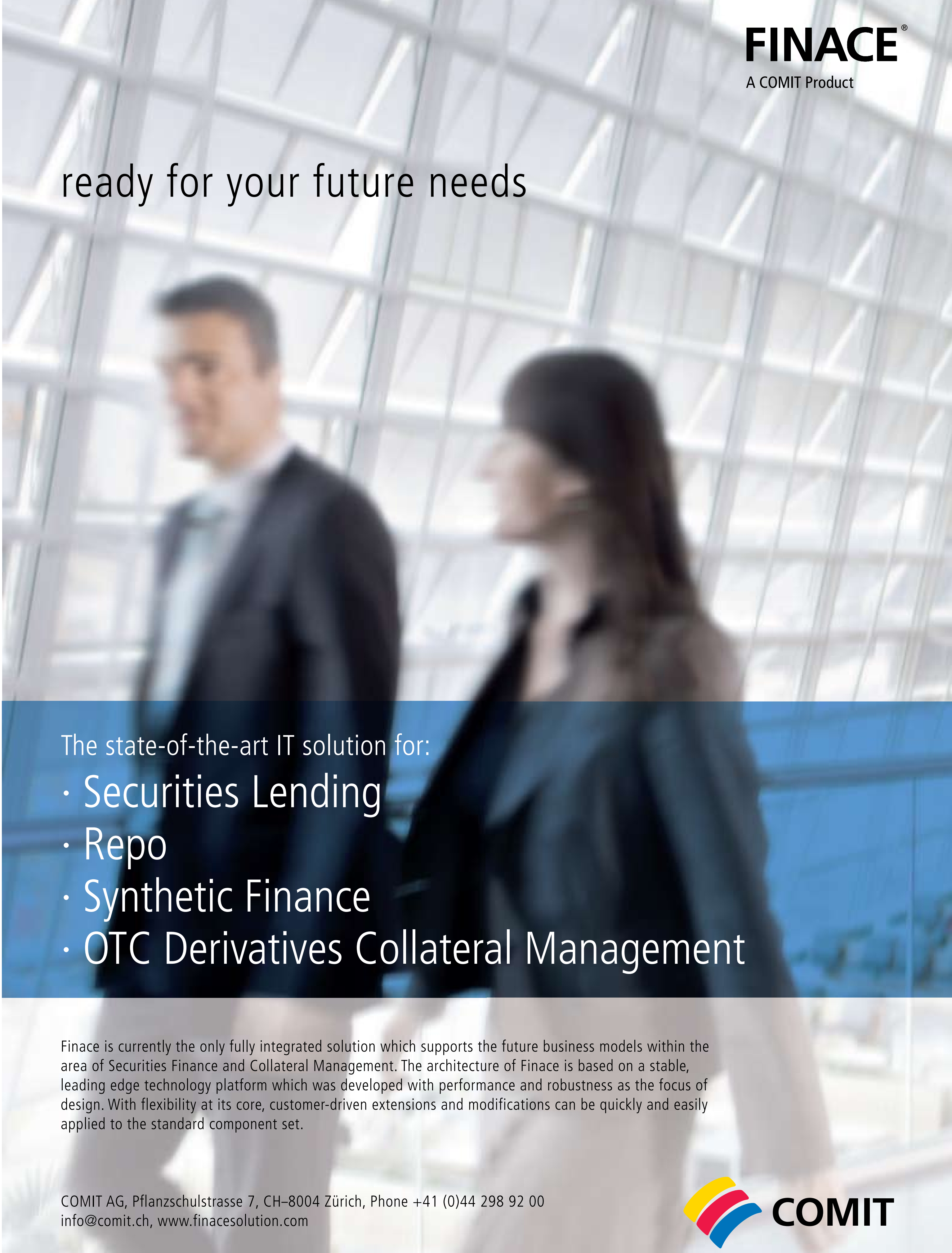
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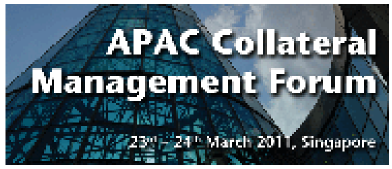
APAC Collateral Management Forum



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

Network Management 2011
NeMa

Date: 15-16 June 2011
Location: Dubrovnik
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

dataexplorers

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

Stuart Hendel will join Bank of America Merrill Lynch as managing director and head of global prime brokerage.

In this role, Hendel will be responsible for leading the continued expansion of the company's prime brokerage businesses on a global basis. Hendel, who is expected to join the company in June, will be based in New York and report to Tom Patrick and Mike Stewart, co-heads of Global Equities. Additionally, the Global Futures and Derivatives Clearing Services group will report to Hendel and Denis Manelski. Manelski will also continue as head of Global Short Rates Trading.

"Financing and prime brokerage services are an integral part of our client offering, and we have made substantial progress adding clients and balances in the last several years," said Mike Stewart. "Under Stu's leadership, we look to aggressively build on that success and establish the industry's leading prime brokerage platform."

"A well-respected industry veteran with outstanding client relationships, Stu has a proven track record of managing and expanding global prime brokerage businesses," said Tom Patrick. "We are very pleased to welcome him as a member of our leadership team."

Hendel began his financial career at Morgan Stanley, where he held a number of leadership roles before moving to multi-strategy hedge fund Eton Park in 2004, where he was a founding partner. In 2007, he returned to Morgan Stanley as global head of Prime Brokerage, and since 2009, he has been head of Global Prime Services at UBS.

BTIG, a global financial services firm specialising in institutional trading and related brokerage services has named **Joseph Curro** and **Robert Hymans** as global co-heads of event driven strategies.

These appointments are part of BTIG's strategy of growing and building its platform in areas where it can add superior value and service to its clients. Together, Curro and Hymans will lead the Event Driven Team and focus on its continued growth across BTIG's global platform. The Event Driven Team includes six people in the US and three in London, including analysts focusing on special situations. The team plans to add additional resources over the next 12 months.

"As the economic and corporate environment improves, we have seen a considerable uptick in M&A activity and expect to see substantial deal flow, special situations and other corporate activity in 2011, all of which will create opportunities for our clients," Curro said. Hymans went on to add: "Our team has superior knowledge and experience identifying these event-driven opportunities, and we feel we add unmatched value to our clients."

Curro and Hymans have been at BTIG for three years as managing directors specialising in event-driven strategies. They have more than 25 years of combined experience. Prior to BTIG, they were both at Cantor Fitzgerald and Lehman Brothers before that, where they were instrumental in the development of the Risk Arbitrage/Event Driven Desks. Curro began his career at Lehman Brothers in 2000, and Hymans at Bear Stearns in 1993 prior to joining Lehman Brothers in 1996.

"Joe and Bob have been instrumental in establishing BTIG's Event Driven desk and service," said Steven Starker, co-founder of BTIG. "Our clients value and respect their deep knowledge and skills when maneuvering in difficult and volatile trading opportunities."

BTIG's Event Driven Team caters to hedge funds and mutual funds that use arbitrage strategies focusing on mergers and acquisitions, spin-offs, activist situations, bankruptcy, distressed, and other special situations.

The California Public Employees' Retirement System has announced the appointment of CalPERS executive **Larry Jensen** as chief risk officer, a new position created to improve the pension fund's overall risk management programme.

Jensen has been interim chief risk officer since October 1, 2010, when he was appointed to head the new Office of Enterprise Risk Management and to independently assess risk for CalPERS. He oversees four primary functions: Enterprise Risk Management, Enterprise Compliance, Enterprise Privacy and Security, and Business Continuity/Disaster Recovery.

"Larry Jensen has done an excellent job in his interim role," said CalPERS chief executive officer Anne Stausboll. "He's very familiar with CalPERS operations and has extensive experience in evaluating administrative and fiscal operations, pension, health and investment programs."

Jensen reports to Steve Kessler, deputy executive officer for operations; chief executive officer Anne Stausboll; and the CalPERS Board.

Prior to his interim appointment last year, Jensen served as the assistant executive officer for the Administrative Services Branch since January 2010. He joined the CalPERS Office of Audit Services in June 1995 and became Chief Auditor in 2002.

As chief risk officer, Jensen will serve as an independent adviser and consultant to the Board's Ad Hoc Risk Committee. He will oversee risk intelligence gathering to support decision-making and help evaluate executives' risk management performance.

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