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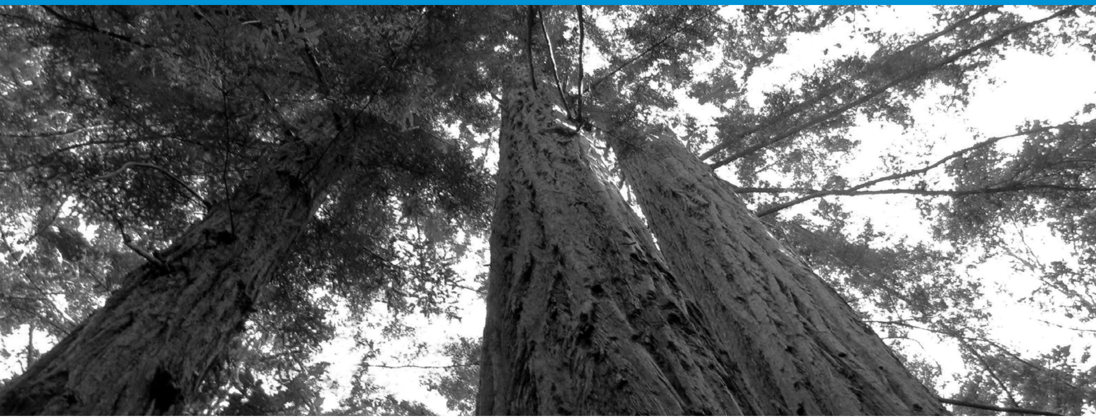

Citi unveils socially responsible securities lending solution

NEW YORK 06.05.2011

Citi has added socially responsible investment solutions to its securities lending cash collateral investment programme.

Securities lending clients will now be able to elect to invest cash collateral under socially responsible investment (SRI) principles that consider environment, social and governance (ESG) factors. According to Eurosif, as of December 31, 2010, more than $11 trillion of assets are managed globally in a strategy of socially responsible investing. Without an SRI capability, firms that manage SRI strategies struggled to participate in securities lending programmes.

Citi's new capability creates a solution that helps clients optimise portfolio performance while meeting their SRI goals. Citi's solution was developed in partnership with Sustainalytics – an ESG research firm – and enables SRI clients to apply customised multi-dimensional ESG screens to create a universe of eligible securities for investment.

"Money managers are increasingly incorporating ESG factors into their investment analysis, decision-making and portfolio construction process, creating new demands for investing products and services," said Tim Douglas, global head, securities finance, Global Transaction Services, Citibank. "We are responding to our clients' needs with a solution that supports SRI requirements."

Citi's new SRI offering is available to securities lenders through OpenLend, a boutique service to enhance portfolio performance by delivering an open architecture that provides access to agency, third-party, hybrid and exclusives lending.

"Sustainalytics is excited about working with Citi to support its pioneering ESG cash collateral management offering," said Michael Jantzi, CEO of Sustainalytics. "Our organisations share a common commitment to innovation and creating solutions that allow clients to integrate ESG into a broad range of their investment activities."

NEWSINBRIEF

Data Explorers and Nasdaq launch optimised index

The NASDAQ OMX Group and Data Explorers have launched the NASDAQ-100 Data Explorers Optimised Index (NASDAQ:NDXOPT).

The new index is an optimised version of the NASDAQ-100 Index, comprised of 100 of the world's largest, most dynamic non-financial companies. The NASDAQ-100 Data Explorers Optimised Index offers a tradable benchmark that will enhance liquidity and protect both the long and short investor.

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SEC seeks public comment on short sale disclosure

The Securities and Exchange Commission (SEC) has published on its website a request for public comment on the feasibility, benefits, and costs of two short selling disclosure regimes as a part of a study mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Section 417 of the Dodd-Frank Act directs the SEC's Division of Risk, Strategy and Financial Innovation to study two short sale disclosure regimes.

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INSIDE SECURITIESLENDINGTIMES

Data Explorers and Nasdaq launch optimised index

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The new index is unique because it screens out stocks that are either lacking in liquidity or relatively expensive to borrow in the stock lending market based on analytics from Data Explorers.

The optimised version of the NASDAQ-100 Index retains the return and volatility characteristics of the original index, with enhanced liquidity to support both the long and short sides of the trade.

John Jacobs, NASDAQ OMX executive vice president commented: "The launch of the NASDAQ-100 Data Explorers Optimised Index offers investors the liquidity of the NASDAQ-100 Index components but with extra measures of liquidity. The inclusion of information from Data Explorers, the world's premier provider of stock loan data, reflects our constant innovation to improve the usability and effectiveness of our indexes."

The constituents of the NASDAQ-100 Index are screened quarterly using methodology created by Data Explorers to identify stocks that are either lacking in liquidity or relatively expensive to borrow. The company analyses daily stock lending and short interest information covering more than 3 million daily transactions, collected from the world's leading investment banks, prime brokers, lending agents, beneficial owners and hedge funds. Prior to the launch, the NASDAQ-100 Data Explorers Optimised Index screened out 18 stocks per the index methodology.

Donal Smith, CEO, Data Explorers added: "We believe the application of our screening methodology to the NASDAQ-100 Data Explorers Optimised Index will help investors improve liquidity and manage risk. We are confident this new index will become a model for the construction of other new indices and the basis of exchange-traded products."

The NASDAQ-100 Index is the initial index universe for the NASDAQ Data Explorers Optimised series. Over the coming months, NASDAQ OMX and Data Explorers will launch additional indexes based on the optimised methodology.

SEC seeks public comment on short sale disclosure

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A transactions reporting regime would add short sale-related marks to the consolidated tape in a voluntary pilot programme. A position reporting regime would entail real time reporting of investors' short positions either to the public or to regulators only. The Commission is required to submit a report on the study to Congress by July 21, 2011.

To better inform the study, the request seeks public comment on both the existing uses of short selling in securities markets and the adequacy or inadequacy of the information regarding short sales available today. The request also seeks public comment on the likely effect of these possible future reporting regimes on the securities markets, including their feasibility, benefits, and costs.

The public comment period will remain open for 45 days following publication of the request in the Federal Register.

Clearstream and Euroclear set new securities framework

Euroclear Bank and Clearstream have developed a new industry framework to increase transparency and efficiency for the issuance and asset servicing of international securities in collaboration with the International Securities Market Advisory Group (ISMAG).

The framework sets standards for these securities, issued in and primarily deposited with the ICSDs, with outstanding levels close to €9 trillion. Major issuers and industry participants like BNP Paribas Securities Services, Citibank Issuer Services, European Investment Bank and KfW are supporting the initiative and the associated best practice implementation process.

International securities issuance is becoming more complex, with increasing challenges to reconcile legal and operational requirements. The new international securities standards are the result of a three-year programme led under the auspices of ISMAG to identify and encourage best practices in issuance and asset servicing operations throughout the entire value chain. ISMAG's recommendations aim to reduce the inefficiencies, costs and risks in issuing and servicing securities while increasing transparency on the use of the new standards for the benefit of the issuer and investor communities.

The ICSDs, following a detailed consultation process with market experts, have documented the best practices of some "best in class" parties for operational processes related to new issues, corporate actions and income, and made them available in the form of recommendations in the International Securities Operational "Market Practice Book" (MPB) to promote wider implementation in a cooperative dialogue with the market.

John Gubert, chairman of ISMAG, said: "The regulatory developments since the financial crisis call for more transparency and accountability in the market. Likewise, investors have growing expectations in terms of service quality levels. Greater operational clarity, improved end-to-end communication between parties in the value chain, and higher operational efficiency, driven by ISMAG, will translate into increased performance levels and reduced processing risks for the industry. The recommendations for best market practices are now final. The focus is on increasing awareness and implementation of the new standards as well as changes in behaviour by all relevant parties, including issuers, their agents and the legal community."

Issuers and agents can adhere voluntarily to the relevant recommendations in connection with all, or some, categories of securities by signing letters of representation that are part of the MPB. Compliant securities will be awarded the ISMAG Adherence Label. Accordingly, securities and institutions that earn the label will be published by Clearstream and Euroclear Bank, whose customers will benefit from increased transparency and visibility of the issuers and agents adhering to the framework.

ISMAG, composed of representatives from many institutions and trade associations, will continue to meet on a regular basis to oversee the implementation of the standards and to consider any future enhancements to the new framework.

OneChicago unveils OCX.NoDivRisk

OneChicago, LLC, has renamed one of its security futures products to OCX.NoDivRisk from OCX.NoDiv. The exchange believes the new identifier for the product suite, which removes dividend risk, better reflects its value to investors.

The OCX.NoDivRisk product suite, launched in Q4 2010, addresses customer's concerns regarding dividend risk when trading security futures. Traditional security futures, like other equity derivatives, requires end users to forecast dividends in determining the desired trade prices. Any dividend forecast errors impact the ultimate profitability of the trade.

The OCX.NoDivRisk product suite removes the dividend risk from the security futures by treating all distributions as corporate events and adjusting the product on ex-date by the amount of the dividend.

"OCX.NoDivRisk is the first exchange-traded equity derivative without embedded dividend risk.

The No Dividend Risk aspect makes the OCX. NoDivRisk product suite a pure financing transaction," said David Downey, CEO of OneChicago. "OTC equity derivative participants can use the OCX.NoDivRisk Exchange for Physical (EFP) transactions today to obtain similar results achieved through equity financing tools, such as equity swaps and equity repo transactions, in an exchange traded, central counterparty environment, rather than waiting for swap execution facilities (SEFs) to launch. This strategy is consistent with Dodd-Frank's intent of moving OTC transactions to exchanges."

NorthPoint prime services division enhances offering

NorthPoint's prime services and technologies business has enhanced its offering for traditional mutual funds that are looking to employ alternative investments, including trading in shorts, options and futures as part of their overall strategy. NorthPoint has seen a significant uptick in demand for these kinds of solutions and these latest enhancements are designed to meet the needs of this growing customer segment.

The NorthPoint platform now offers a solution that leverages several ConvergEx platforms, including the Eze OMS and RealTick, to monitor mutual funds' collateral needs and liaise with fund administrators and custody banks to ensure those needs are met in a timely manner. This includes upgrading customers' current execution and reporting infrastructure to accommodate regulatory requirements and operational considerations.

Additionally, NorthPoint will offer mutual fund customers its expertise in navigating and securing the often complex tri-party agreements between the fund, trust banks and clearing firms, so the fund remains compliant with the Investment Company Act of 1940.

"In order to compete with the growing number of hedge funds, mutual fund managers are increasingly looking to offer a variety of investment choices, including offering funds with hedged strategies," said Doug Nelson, chief executive officer of ConvergEx's NorthPoint. "We are very pleased to offer these services to help our customers employ new strategies and stay ahead of their competition."

DEER warns on illegal short selling

Deer Consumer Products has said it has received additional evidence of continuing illegal short selling in DEER stock.

The company believes its common stock has been manipulated in collusion among naked short sellers, which may include US and offshore based hedge funds/individuals that distribute false and fabricated information concerning the company via various websites and blogs, including SeekingAlpha.com.

In what appears to be a part of this attempted manipulation, a purported class action complaint was filed against the company by The Rosen Law Firm. This complaint is based upon the false and defamatory reports concerning the company that were authored by a fictitious character - "Alfred Little" and published by Seeking Alpha.

Litigation counsel for DEER has notified The Rosen Law Firm that the complaint contains numerous false and inaccurate allegations and the company will seek sanctions against the plaintiff and The Rosen Law Firm if the complaint is not withdrawn in its entirety.

During the months of March and April 2011, the company believes that an attempted market manipulation scheme by illegal short sellers acting in collusion caused DEER's share price to plunge from more than $11 per share on March 21 to as low as $6.12 on April 4 on heavy daily volume, causing a temporary loss of approximately $165 million in market capitalisation for DEER's shareholders.

DEER has repeatedly confirmed that its filings with the Securities and Exchange Commission, including its latest annual report, 10-K filing with audited financials are accurate and are in full compliance with SEC disclosure requirements.

DEER has also affirmed its 2011 earnings guidance and a dividend policy.

In addition, DEER paid initial quarterly cash dividend of $0.05 per share on April 14 to shareholders of record on March 31. DEER has hosted numerous visits by independent research analysts, institutional investors and global investment banks.

Naked short selling relief announced in Oz

The Australian Securities and Investments Commission (ASIC) has made a minor amendment to ASIC Class Order [CO 09/774] Naked short selling relief for market makers, which will allow licensed market makers to short sell securities in the S&P/ASX300 index, in order to hedge risk. Previously, this was only allowed for securities that appeared in the S&P/ASX200 index.

While section 1020B of the Corporations Act 2001 prohibits naked short selling, licensed market makers have been afforded relief to enable them to mitigate the risks involved in their market making activities.

The remaining conditions in [CO 09/774] remain unchanged.

The amended class order commenced on 19 April 2011.

OCC securities lending volumes continue to rise

OCC has released its latest figures showing that overall cleared volumes reached 338,562,433 contracts in April, representing a seven per cent decrease from the April 2010 volume of 363,275,500 contracts. This volume decline was primarily in options contracts as futures and securities lending volumes continued to rise in April. OCC's year-to-date total volume is up 16 percent with 1,498,862,398 contracts.

Options: Exchange-listed options trading volume reached 335,425,947 contracts in April, a seven per cent decrease from April 2010. Average daily options trading volume in April was 16,771,298 contracts, two per cent lower than

April 2010, which had one more trading day. Year-to-date options trading volume is up 16 per cent with 1,485,309,264 contracts.

Futures: Futures cleared by OCC reached 3,136,486 contracts in April, up 24 per cent from 2010. Equity futures came in at 331,209 contracts this month and show a year-to-date average of 14,081 daily contracts. Index and other futures reached 2,804,859 contracts, up 43 per cent from 2010. OCC is averaging 165,282 futures contracts per day in 2011, up 54 per cent from 2010.

Securities lending: OCC's stock loan programme, including OTC and AQS, saw a 20 per cent increase in new loan activity over April 2010 with 59,404 new loan transactions in April. Year-to-date securities lending activity is up 52 per cent from 2010 with 266,762 new loan transactions in 2011. OCC's stock loan programme had an average daily notional value of $12,370,987,799.

CalPERS criticises Goldman's Lehman plan

The California Public Employees' Retirement System (CalPERS) has criticised the plan filed by Goldman Sachs and others for the liquidation of Lehman Brothers Holdings Inc. (LBHI).

"This plan treats members of pension funds, including retirees who hold LBHI bonds through their pension plans, unfairly," said Joseph Dear, CalPERS chief investment officer. "We're disappointed that Goldman Sachs and other big banks are proposing to reward themselves at the expense of bondholders. We want a fair outcome for all stakeholders, which is why the Ad Hoc Group of Lehman Brothers Creditors filed its competing plan in December 2010."

The fund argues that the liquidation plan filed in December by the ad hoc group of bondholders, which includes CalPERS, would more fairly repay creditors for losses suffered following the collapse of Lehman Brothers in September 2008.

BNY Mellon introduces tri-party repo services

BNY Mellon has introduced a series of new services that will improve the infrastructure, operations and systems supporting its tri-party repo clients.

The new capabilities are designed to support the Tri-Party Infrastructure Reform Task Force recommendations, including the recommendation that enhancements be made to achieve the "practical elimination" of intraday credit provided by the company to its clients.

The bank has already introduced an auto cash substitution capability for both Fed and DTCC securities that provides dealers with easy access to the securities they need for daily trading. With Auto Collateral Request and Auto Collateral Exchange – two new features on the company's sophisticated technology platform – BNY Mellon retrieves only those securities required for the settlement of trades. Since being introduced, these processes have already reduced intraday credit exposures by more than 10 per cent.

"We are aggressively working to implement all of our new capabilities while continuing to fully support our clients' operational, technology and funding needs," said James Malgieri, CEO of BNY Mellon Broker-Dealer Services.

"These actions are designed to fully satisfy the Task Force's objectives and we firmly believe they will lead to greater transparency and confidence in the tri-party market for all market participants, including dealers, investors and regulators."

EquiLend introduces bidding to AutoBorrow service

EquiLend has introduced bidding to its AutoBorrow messaging service.

The bid functionality expands opportunities for counterparts to trade at any level in an automated fashion. The percentages of warm and special volumes on EquiLend have increased 65 per cent since the same period last year.

Brian Lamb, CEO of EquiLend, stated: "As the leading securities lending trading platform we are pleased to continue to meet market demand for new trading tools. This feature will continue to make EquiLend the platform of choice for any type of trade."

OneChicago reports April volume

OneChicago has reported that 331,209 security futures contracts traded at the exchange in April 2011.

Open interest stood at 450,409 contracts at the end of April 2011.

• 49 per cent of April 2011 month-end open interest was in OCX.NoDiv products. The OCX.NoDiv product suite was launched in October 2010 as an innovative equity finance tool, which removes dividend risk from the security futures. OneChicago currently lists 924 OCX.NoDiv products.

• 308,531 EFPs and blocks were traded. April's block and EFP activity represented more than $1.4 billion in notional value. Institutional sized volume increased 197 per cent over April 2010.

• 58,076 April futures valued at $278 million were taken to delivery, validating the use of single stock futures as an equity finance product. The April open interest represented 15 per cent of all existing open interest on expiration day.

• OneChicago introduced the trading community to its new fee structure effective May 1, 2011, which highlights the financing benefit of single stock futures.

Japan extends short selling rules

The Japanese FSA has extended the temporary measures regarding restrictions on short selling and purchase of own stocks by listed companies.

The rules that prohibit short selling at prices no higher than the latest market price, as well as those requiring exchanges to make daily announcements on their aggregate price of short selling regarding all securities and aggregate price of short selling by sector were put in place in October 2008. Naked short selling was banned at the same time.

But over the past year, the rules have gradually been relaxed and were due to expire at the end of April. However, the FSA has decided to extend the restrictions until the end of the month.

SunGard launches Valdi Order Validator

SunGard has launched an ultra low latency, real-time order validation engine, Valdi Order Validator, to help meet the needs of brokers offering sponsored access (SPA) or direct market access (DMA) solutions. Valdi Order Validator provides customers with a risk control platform that helps manage risk without compromising speed. It is a distributed system, providing a centralised view of trading activity and control over multiple routes and access points, supporting co'location at several venues and exchanges.

As electronic trading increases and new regulations are being put into place, brokerage firms require effective risk systems to help them process complex information and comply with regulations. Valdi Order Validator helps broker-dealers and clearing firms monitor and manage trading exposure in real-time to help prevent potential violations of trading limits and position exposure.

Larry Tabb, founder and chief executive officer of Tabb Group, said, "Regulatory rule changes will affect sponsoring and executing brokers by limiting their ability to delegate controls to other parties, requiring them to provide real-time order-level checking. As a result, trading firms will benefit from a provider that offers all of the trading tools needed to manage, execute and clear trades as well as provide real-time risk management. This approach will help firms achieve real-time order-level checking while streamlining the trading lifecycle."

Raj Mahajan, president of SunGard's global trading business, said, "Regulatory changes are occurring rapidly and SunGard is committed to helping customers maximise their ability to manage risk. With Valdi Order Validator, SunGard is helping customers protect their firms by effectively monitoring their order flow and by providing a single view across all clients trading activity in a real-time controllable environment."

Aggressive fund changes name

Midas Special Fund, a mutual fund investing aggressively for capital appreciation, has changed its name to Midas Magic, Inc. The fund will continue to be available under its current ticker symbol, MISEX.

The fund exercises a flexible strategy in the selection of securities, and is not limited by the issuer's location, size, or market capitalisation. The fund invests in equity and fixed income securities of new and seasoned US and foreign issuers with no minimum rating, and may employ aggressive and speculative investment techniques, such as selling securities short and borrowing money for investment purposes, a practice known as "leveraging" and may invest defensively in short term, liquid, high grade securities, and money market instruments.

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Greece

Greece has had a rough time of it in recent years, but this is creating strong opportunities for the global players

BEN WILKIE REPORTS

With the possible exception of Iceland, Greece has suffered the most as a result of the financial crisis - although, perhaps suffered is the wrong word, as many experts feel the governments of the past decade or so have brought the problems on to themselves.

When the country became the 12th member of the euro community in 2001, the authorities promised they had instituted a range of financial reforms that they said brought the economy in line with that of the other nations using the currency. But within three years, the cracks started to appear, and analysts realised that Greece had never met the conditions for euro entry - the government then admitted the deficit had never been below the three per cent threshold since 1999, as was the rule for euro entry. This news led to a number of austerity measures in 2005, although in part this was to help the country pay for the huge costs of the 2004 Olympics.

All seemed well for a couple of years, the economy grew and industry thrived. But the respite was short-lived. By 2009, the economy was contracting and the national debt had risen by over a third in five years. The new government expected the deficit to hit six per cent and new prime minister George Papandreou described the Greek economy as being in 'intensive care'. Finance ministers across the eurozone expressed concern about the rising debt, and credit agencies cut Greece's rating, exacerbating the crisis by pushing up the cost of borrowing.

Throughout the end of 2009 and the beginning of 2010, the government attempted to make good the economy, but the plans were hit by a wave of national strikes as tens of thousands of Greeks lost their jobs at the same time as prices for life's essentials rose dramatically. Despite television appeals for unity, the strikes continued, often leading to violence.

While the rest of Europe looked on in alarm, most nations were at that point not prepared to bail Greece out. German Chancellor Angela Merkel said the problems were Greece's to solve, and there was no real plan within the European Union for what to do if a country within the eurozone were to default. The blame for the crisis then moved to the banks, who were having a pretty tough time with their reputation globally anyway. The US Fed started an enquiry into whether Goldman Sachs helped hide the scale of the Greek government's borrowing by using derivatives contracts, and the prime minister called for a crackdown on speculators.

Finally, in April 2010, Greece asked for, and was given, international financial support. The eurozone countries provided EUR30 billion, with the IMF adding a further EUR15 billion. But even this wasn't enough, the country's credit rating was downgraded to junk status by Standard & Poor's, and a final rescue package totalling around EUR110 billion was agreed by the EC, IMF and European Central Bank in May last year.

So, problem solved? Well, not really. Within Greece, there was a huge outpouring of public anger at the scale of the cutbacks Greece had to implement, and as unemployment rose, state revenues fell while costs increased. The global downturn also hit Greece hard, with fewer tourists contributing to the country's coffers and shipping - another one of the country's major industries - losing ground to Asian providers.

So although the focus now may be on Ireland and Portugal, as well as other shaky countries within the EU - and of course the huge debts the US and UK have run up - Greece is certainly not out of the mire. Many commentators predict the country will have to default on its debts to get its economy under control, pushing the cost of borrowing up even higher. And there remains anger that - unlike Ireland, Portugal and others, which were the victims of both mismanagement and circumstances - the Greek authorities simply lied about their economy. While unlikely, some anti-federalists believe the Greek crisis could bring down the whole euro project. More realistically, Greece may have to withdraw from the single currency, which would have huge ramifications both internationally and domestically.

Securities lending

So how does this affect securities lending? Short selling was banned for a couple of months at the height of the crisis, but the restrictions have since been lifted - naked short selling remains forbidden, however.

During the sovereign debt crisis, the local repo market seized up as investors grew increasingly concerned about counterparty risk and the likelihood of default by the Greek government. This left many holders of government securities stranded. At the end of last year, the European Repo Council unveiled a number of suggestions for getting the market moving again. These included:

- A standing repo facility for primary dealers at the Greek debt management office (PDMA) or Bank of Greece along the lines of the facilities offered by the debt management agencies in Belgium, Netherlands, Portugal and the UK, lending temporary issues of securities which are scarce in the market (phantom/synthetic bonds). This would relieve the illiquidity of the Greek market and remove the need for the forced auction. An alternative in the form of a bond exchange was also mooted.

- Interposing a CCP in a reformed daily repo auction to clear unsettled short positions. However, as credit issues would prevent Greek banks gaining access to an existing CCP, it was suggested that the PDMA act as a credit intermediary. Market users appeared to be willing to accept Greek sovereign risk in order to resolve settlement problems. It was generally accepted that the implicit borrowing fee needed to be high, in order to attract securities lenders (repo sellers), but only if the fee was capped and not disproportionate (in contrast to the forced auction). Initial suggestions were for a fee of 5-10 per cent.

- Encouraging the ECB to recycle the Greek government securities that it is holding back into the market (while recognising that the ECB only has the power to recycle the securities that it has purchased since May 2010).

Maybe because they had other worries on their hands, the Greek authorities have so far been slow to act. The ERC is still waiting to hear if any of the proposals have been submitted to the country's parliament, and the difficulties remain.

So that's the bad news. But for the international players in the securities lending field, there has been huge opportunity. Because the Greek banks - regardless of their financial strength - have been tarred by the same brush as their government, investors are looking to those providers from outside the country to carry out their transactions.

At the height of the crisis last year, Citi launched agency securities lending in the country. J.P. Morgan has been in the market since 2008 and has picked up several new clients over the past year or so, while other major European and international banks also have a significant presence. "If you want a securities lending programme in Greece at the moment, you don't go to the locals any more," says one fund manager. "You go to the multinationals. They have the same levels of expertise, but they also have the global reach, which means access to more liquidity and reduced risk."

According to Data Explorers, the volume of Greek government bonds owned by funds that permit securities lending is a bellwether for institutional ownership. The data shows that these funds went as underweight (compared to their benchmark) as they could or sold their holdings entirely, mainly during the April to July period last year, when the first bail out took place. Until very recently, there was little movement. In the last few days their holdings of Greek Government debt dipped below USD 8 billion for the first time.

Clearly, mutual funds are negative on the outlook for Greek debt overall and have sought to deploy their funds elsewhere. It is interesting to note that short sellers are not active, with demand to borrow Greek sovereign debt trending lower. This is not a short selling story.

Data Explorers focused on the standout mover, the 3.9 per cent 20 August 2011 issue (ISIN:GR0114019442). A recent spike in the demand to borrow this issue means that a record USD 300 million is borrowed while the institutional ownership fell significantly in late January. Some people are presumably forecasting that Greece will struggle to redeem this bond given how close we are to its final maturity. **SLT**

Tax changes implemented

Effective May 2, 2011, the Hellenic Exchanges (HELEX) have moved responsibility of the collection of sales tax from trading members of the Athens Stock Exchange (ATHEX) to the local subcustodian.

On exchange trades:

Following the 'unbundling of services' concept which resulted from the Markets in Financial Instruments Directive (Mi FID) and European Code of Conduct requirements, the responsibility for collection of sales tax has been given to the local subcustodian.

Effective May 2, 2011, clients booking trades directly via an ATHEX member or an international broker dealer should not calculate and include the sales tax in their settlement instruction amount as the sales tax will be collected separately by RBC Dexia's local subcustodian

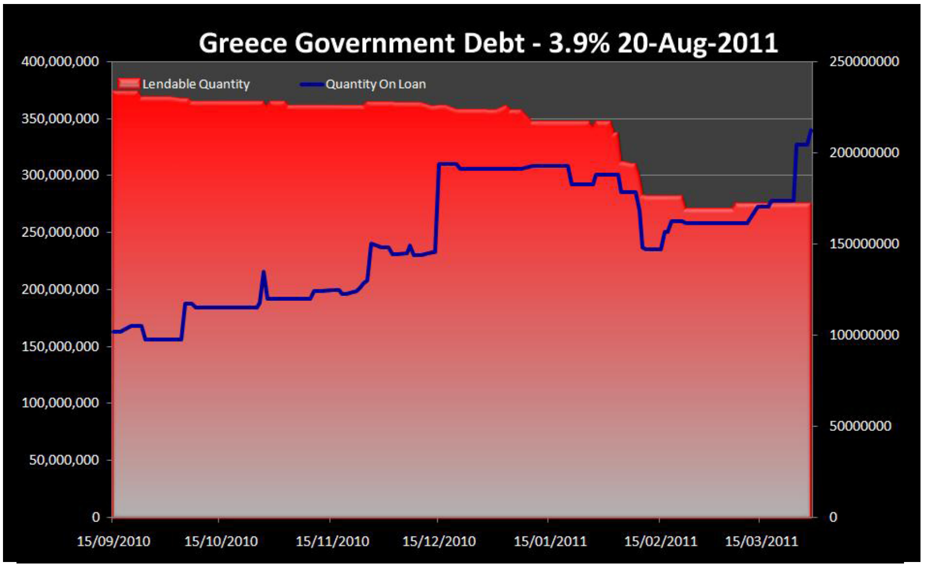
Over the counter (OTC) trades:

With the exception of the increase in sales tax (from 0.15 per cent to 0.20 per cent), there is no additional impact to OTC trades as tax collection is already the responsibility of the local subcustodian

Sales tax collection:

The value of the sales tax will be debited from client accounts in respect of the previous month's activity on the third working day. For example, clients will be debited on June 3, 2011 for trading activity in May 2011.

Chart source: Data Explorers



Big interview

Following a number of significant changes at Cantor's Prime Services division, Noel Kimmel and Allen Wolkow explain how the business has evolved

BEN WILKIE REPORTS

SLT: How do you see the securities lending market overall at the moment?

Noel Kimmel: We've seen a fair amount of recovery, although the issues that we had as a result of the financial crisis have not fully subsided. There remain issues where beneficial owners have concerns - reinvestment is an issue where clients continue to feel vulnerable and there are issues around safety and soundness, counterparty risk and the return of assets/collateral.

These issues are no longer at the forefront of people's minds like they were two years ago, but it is still a factor.

The industry remains very active, but it is also being hindered by the overall low level of interest rates, which leads to extreme negative rates for hard to borrow securities and anemic reinvestment levels.

SLT: Why have you decided that now is the right time to push securities lending services?

Kimmel: For the 15 years Cantor has had stock loan and securities lending capabilities, and we were active in the market as a function of our trading and sales business.

When I joined Cantor in 2009 to build the Prime Services division, our idea was to reorganise the securities lending effort as part of our Prime Services business. I wanted to make it more client-focused, and dedicated to understanding how we can benefit clients' needs in the securities lending market - whether that's sourcing stocks for their short positions, working on rates or simply advising them on securities lending.

SLT: What will your main focus be on?

Kimmel: We're trying to create a single point of contact for clients where we can locate and source hard to borrow stocks and finance positions. One of the most interesting developments is that the traditional sources of hard to borrows are changing - hedge funds often find themselves in possession of the stocks that are most in demand, so we are going to be able to tailor our service to cater to that area of the market.

Allen Wolkow: We can perform these functions whether our clients prime with us or not - we have the ability to provide an alternative and we also concentrate on providing hedge funds more personalised service regardless of their AUM or securities lending reach.

SLT: How will the securities lending team fit into the Prime Services division?

Kimmel: The securities lending team is fully integrated into our Prime Services platform, interfacing with most clients on a daily basis. Our mandate is to serve our clients providing them with accurate market color and optimal rates.

SLT: Will existing clients of PCS Dunbar notice any difference now they have moved to Cantor?

Wolkow: I've been involved on the hedge fund side of the industry for over 25 years and there are always two questions that a fund will ask, regardless of the provider it uses: how can you help me when it comes to capital introduction; and how can we borrow specials? This hasn't changed, and our job will be to continue to help them with those issues.

SLT: Is the size of the firm now a big issue? Are clients happier with a larger organisation rather than a bespoke provider?

Kimmel: Cantor is uniquely positioned to serve its clients, especially the middle-market hedge fund universe which we are focused on. The firm's global footprint and comprehensive capabilities give us an advantage over other mid-size level smaller competitors. We're able to provide personalised service regardless of the size of the fund.

SLT: How do you see the future, both for the industry and for Cantor's securities lending operations?

Kimmel: We're very excited about Cantor's enhanced capability as it differentiates us from our competitors. The fact is, we have an independent securities lending team within Prime Services focused on our clients' needs. Since Cantor does not have a proprietary trading effort, we trade on behalf of our clients. This means our securities lending effort is perfectly aligned with our clients' interests. We've been in the business for a long time, but the focus remains the same.

Wolkow: The current market environment is seeing more and more hedge fund start ups and more start ups means more securities lending. And as they grow, and rates change, the market will only increase. And that is going hand in hand with how we plan to grow. **SLT**

Noel Kimmel
Senior managing director and global head of prime services

Allen Wolkow
Managing director of Cantor Prime Service's equity securities lending division

Expert view

In the final part of our interview, Rule Financial's Kevin Neville and Alec Nelson discuss the future of the market

BEN WILKIE

SLT: What do you think about the short selling restrictions we have seen over the past couple of years?

Neville: I think it's just nonsense. I always use the example of selling the Mona Lisa; it's a long price, you can't sell it short, it can only go up in value. Likewise, house prices always trend upwards because you can't sell them short. And because you can't sell them short there is no genuine price discovery process. If you sell, you do so because you need the cash - you don't sell because it's the wrong price. For price discovery, selling short is crucial.

Nelson: There seems to be a lack of understanding of the markets by governments and regulators. Enormous media pressure encouraged them to be seen to act, and restricting short-selling was an easy target – it feels like it was a knee-jerk response to the market situation at the time.

Neville: Poland introduced short selling when everyone else was taking it away and it had no negative effect on the market. Their stock exchange saw that short-selling is a key part of creating liquidity – it facilitates derivatives hedging, which in turn should enable and encourage more futures and options business, new products and more market makers.

SLT: What about the introduction of Central Counterparties (CCPs)?

Nelson: At the moment I'm fairly neutral about them. They will add another set of costs to the equation. I understand the pros, in terms of better balance sheet treatment, standardised clearing and settlement, theoretically no counterparty risk and so on. But I think they will reduce flexibility, especially with collateral, and I wonder about the level of trades that will still be completed outside of the CCPs.

Neville: You put equity trades through the exchange, but if you want decent volume in equity trades, you do that OTC, through a broker. Name me a market and I'll show you a very large voice market - FX is $2 billion on exchange and $200 billion on voice so there's always an OTC market. But with most asset classes the reporting goes through the exchange so there is a certain visibility.

With securities lending, there is no clear visibility of what goes on - it generally means that if you can't see the information then the price is skewed. And things like custodial services get offered for free because the custodian has the inventory and makes up the difference. So I think clearing fees will increase the cost, but it will also mean that custodial fees and the like, will also be charged. And I think that is right - the granularity of charging gets spread out over the classes of services.

Nelson: You also need to consider that securities lending growth will depend on how easily the securities in those local markets can be accessed – if the brokers can't physically borrow the securities, they cannot on-lend

SLT: Can an exchange-traded system work well with specials?

Neville: There are loads of specials that go on all the time in other markets - you get Notifications of Interest. There was one stock on the FTSE, DMGT, that never traded. So if you wanted it, you'd have to put a note up on Bloomberg asking if anyone had any of them. So it was exchange traded, but it was a special. I don't see any reason why this can't be the case in securities lending.

Nelson: I think one of the challenges about trading specials are the terms that are negotiated on them. Terms for trades in non-special General Collateral (GC) securities are largely consistent across the market, so they are well suited to the standardisation that comes with trading on an exchange. But trading in specials requires more negotiation and "special" terms – the limited trade-terms available on an exchange could limit the negotiation process, making it preferable to trade the special off-exchange.

SLT: Where do you think more growth will come from?

Neville: The Koreas of this world, the Philippines, China and India is where the growth will come from, and to an extent is already coming from. I don't believe there will be phenomenal growth in the UK because as you increase high frequency algo trading, you're just as likely to get in and out of a stock quickly as you are to stay in it. M&A activity is likely to increase and that will be great, but it's South and East Asia where the opportunities lie.

China is a whole different ballgame. At some point that will open and the beneficial owners will have some fun there, as there is real investment potential; and if there's real investment, there are real opportunities for shorts as well.

Nelson: You also need to consider that securities lending growth will depend on how easily the securities in those local markets can be accessed – if the brokers can't physically borrow the securities, they cannot on-lend (physically or synthetically) to the investors. Volatile markets have traditionally been good for speculators and therefore securities lending; but there are so many variables it is difficult to predict.

SLT: Is there anything that could kick start the market, or is it slow and steady growth?

Nelson: There still seems to be a lot of caution and conservatism at the moment, with the markets still seeming to lack any particular direction. World events and media hysteria, rather than fundamentals still seem to have too big an impact on stock markets. Until the global economy settles down and recovery is more fully on its way, I think markets will remain fairly steady. There are also some significant events coming that will have an unknown impact – I'm thinking of looming regulations such as Dodd-Frank and Basel III, and the introduction of central clearing counterparties (CCP's) to the OTC derivatives world. If nothing else, these changes are all likely to affect the availability of assets used as collateral by the securities lending world.

Neville: The Koreas of this world, the Philippines, China and India is where the growth will come from

Neville: Convertibles are on their way up, causing a bit of a stir. It looks like the environment is improving for corporates to go out and raise a bit of money and often they will do that through convertibles. Trading is cyclical anyway, so at any one time there are particular fund areas to be in and areas where investors are less interested. As stock borrowing and lending is dependent on a certain type of trade, you have to wait for that type of trade to become flavour of the month. **SLT**

Kevin Neville
Head of prime services
Rule Financial

Kevin joined Rule Financial in April 2008. He brings unrivalled front office experience, along with deep understanding of all asset classes and trading methods. Before joining Rule Financial, Kevin gained extensive practical experience from a number of investment banking roles, including; Head of Design for the London Stock Exchange, running the Equity Derivatives Proprietary trading desk for NatWest Markets, Head of Equity Arbitrage at HSBC, and managing a mid-sized hedge fund.

Alec joined Rule in 2007. During his time at Rule Financial, Alec Nelson has consulted on business landscape, architecture and strategy for a number of leading investment banks. Before joining Rule Financial, Alec worked at Morgan Stanley for nineteen years, where he was responsible for the International Securities Lending, Prime Brokerage and Treasury systems. Working closely with the Front Office, Finance and Operations, he understands the tremendous value that global, integrated, 24x7 systems can bring to such clients.

Alec Nelson
Head of securities finance
Rule Financial

Exploiting inefficiencies

Leveraged ETFs provide a number of opportunities, says SunGard Astec Analytics' Andrew Shinn

DATA PROFILE

Most successful entrepreneurs say they didn't set out to develop a specific product or service. Instead, they identified a problem and their product grew out of the solution to the inefficiency.

For example, the founders of Recycle Bank noticed that households weren't recycling as much as they could, and municipalities were paying to place those recyclable materials in landfills. In response, Recycle Bank began incentivising households to recycle, and it generates revenue by sharing in municipalities' cost savings from reduced landfill fees.

In a different way, Groupon doesn't solve a problem but rather exploits the inefficiency of gift cards. Consumer Reports, the non-profit organisation that rates and tests consumer goods, warns shoppers against buying gift certificates because a significant percentage of gift cards are never redeemed. Groupon offers an incentive to wary consumers in the form of discounts. However, even though Groupon targets value-oriented consumers rather than gift givers, a significant percentage of its gift certificates still end up unredeemed. Businesses participate despite the discount. If 30 per cent of gift certificates are never used, a business can still provide a product or service at cost, and realise a 15 per cent margin after splitting half of the 30 per cent with Groupon. Aside from the 15 per cent margin, Groupon's certificates are enticing to businesses that want to be introduced to new customers.

Just as entrepreneurs spot inefficiencies in waste management or gift cards, hedge funds do the same in the stock market. For instance, doubly-leveraged ETFs track an index, such as the Dow Jones Industrial Average, but aim to double its performance. Over the course of a single day, a doubly-leveraged ETF works well, making them a great tool for day traders. But many retail investors purchase leveraged ETFs and hold them for long periods of time. The long-term performance of a leveraged ETF steadily decays compared to its index. A doubly-leveraged ETF may actually underperform its underlying index, even if the underlying index is up for the year.

That's because volatility kills the leveraged ETF. If an index and a leveraged ETF both start at 100, and the index declines by 10 per cent in one day, the doubly-leveraged ETF will decline to 80. So far, so good. However, when the index increases from 90 back to 100 (an 11.1 per cent increase), the doubly leveraged ETF increases by 22.2 per cent from 80 to 97.78. When the index increases by 10 per cent from 100 to 110, the doubly-leveraged ETF increases 20 per cent, from 97.78 to 117.33. This erosion of performance builds up every day, and the higher the volatility in the underlying index, the greater the decay.

Another problem with leveraged ETFs is that ETF operators must purchase additional securities when share prices are high and sell holdings when share prices are relatively lower. It would be difficult to design a more flawed investment system.

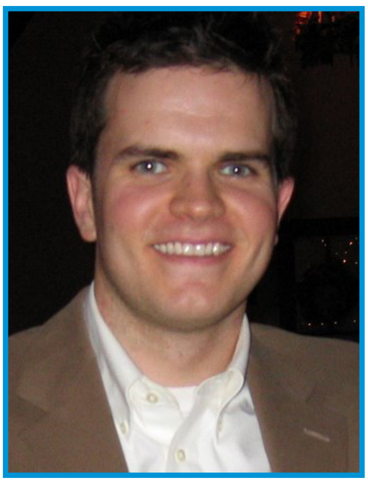
For instance, if a leveraged ETF has $1 million of investor money and borrows another $1 million to lever up to two-to-one, it will purchase $2 million worth of securities that represent an underlying index. If the underlying index increases from 100 to 110, then the total value of the portfolio increases by 10 per cent to $2.2 million. The debt of $1 million doesn't change, so the investors realise the full $200,000 in additional value of the portfolio and their equity portion increases by 20 per cent to $1.2 million. However, because the ETF must always be levered in a two-to-one ratio, the ETF operator must borrow another $200,000 so that debt equals equity. The operator will then purchase additional securities to increase the portfolio value to $2.4 million.

That's all well and good. But when the index falls from 110 to 100 (-9.1 per cent), the leveraged ETF's portfolio falls from $2.4 million to $2.18 million. The debt remains unchanged at $1.2 million, and the equity portion declines to $980,000. The index is back to 100, yet the investors have lost $20,000. Furthermore, in order to get the portfolio back to a two-to-one leverage ratio, the operator must sell $.22 million worth of securities, right after a market decline.

SunGard's Lending Pit platform shows that many investors are taking advantage of the inefficiencies in leveraged ETFs. For instance, an astute investor can go long twice the value of the index and short the doubly-leveraged ETF. The profit would be the spread between what the doubly-leveraged ETF is supposed to do and what it actually does over time due to erosion. In this scenario, the profit in our first example would be a 20 per cent gain on the index and a loss of 17.33 per cent on the short position in the doubly-leveraged ETF, for a profit of 2.67 per cent. The same problems hurt inverse ETFs as well.

Indeed, levered and inverse ETFs are many of the most shorted ETFs in Lending Pit. Right now, the most expensive ETF to borrow is UWM, ProShares Ultra Russell 2000, which aims to double the daily performance of the Russell 2000. The next most expensive is TNA, which is designed to triple the daily performance of the Russell 2000. Currently, six out of the ten most expensive-to-borrow ETFs in Lending Pit are levered and inverse ETFs. **SLT**

	Ticker	Shares borrowed	Intrinsic rate (per cent)
ProShares Ultra Russell2000	UWM	265,100	4.25
Direxion Daily Small Cap Bull 3X	TNA	333,000	3.84
ProShares UltraShort Oil & Gas	DUG	194,524	3.77
Claymore S&P Global Water Index	CGW	27,400	3.52
Market Vectors-Coal ETF	KOL	622,303	3.31
ProShares UltraShort Emerging Market	EEV	180,800	3.28
ProShares Short SmallCap600	SBB	28,100	3.10
SPDR Nuveen Barclays Capital Municipal Bond	TFI	161,500	2.90
ProShares Short Dow30	DOG	12,400	2.81
SPDR S&P China	GXC	33,600	2.70



Andrew Shinn
Vice president, sales and development
SunGard Astec Analytics

Training and Education

Date	Location	Course	Provider
16-17 May	London	**Repo and Securities Lending Markets and Documentation** European repo has come of age, and day one of this training course describes the main repo products looks at the markets that use them. Day two will cover the important securities lending market and documentation, particularly the new Global Master Securities Lending Agreement 2010.	Marcus Evans
16-17 May	London	**Repo and Securities Lending** This course will offer a start to finish discussion of the key terms of the Global Master Repurchase Agreement and the Global Master Securities Lending Agreement, as well as the agreements used in the US domestic market. Attendees will be taken through the operative terms of the agreements, events of default, and the termination and close-out provisions.	Euromoney Training
18 May	New York	**Securities Lending 201: Principles of Securities Lending** Principles of Securities Lending is designed to give individuals with securities lending experience an advanced understanding of the securities lending industry.	RMA
18 May	New York	**Securities Lending 301: Understanding Collateral Management and its Risk** The Collateral Management course is an intermediate-level course designed for individuals with an understanding of global securities lending transactions and markets.	RMA
16-17 Jun	Singapore	**Collateral Management Market and Documentation** This sophisticated 2-day course will be delivered by three key industry experts who will be covering the key issues of collateral explained from an operational, risk and legal perspective.	Marcus Evans
23-24 Jun	London	**Collateral Management Market and Documentation** This sophisticated 2-day course will be delivered by three key industry experts who will be covering the key issues of collateral explained from an operational, risk and legal perspective.	Marcus Evans
21-22 Jul	Singapore	**Repo and Securities Lending** You will be taken through the operative terms of the agreements, events of default, and the termination and close-out provisions. In addition, the role of custodians and agents will be explored, including a detailed discussion of the tri-party agreements that are used to facilitate these discussions.	Euromoney Training
1-3 Aug	New York	**Repos and Securities Lending: Negotiation and Documentation of New York and English Law Documentation** This course will offer a start to finish discussion of the key terms of the Global Master Repurchase Agreement and the Global Master Securities Lending Agreement, as well as the agreements used in the US domestic market.	Euromoney Training
18-19 Aug	London	**Repo and Securities Lending** This course will offer a start to finish discussion of the key terms of the Global Master Repurchase Agreement and the Global Master Securities Lending Agreement, as well as the agreements used in the US domestic market. Attendees will be taken through the operative terms of the agreements, events of default, and the termination and close-out provisions.	Euromoney Training

New York Securities Financing Forum

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

Gather the world's leading thinkers and doers in securities financing and offer them one day of extraordinary insights and powerful inspiration.

Network Management 2011

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

With over 300 attendees from the Network Management and Securities industry in 2010, NeMa has become the most important event of the year for the network management community - bar none.

ISLA 20th Annual International Securities Lending Conference

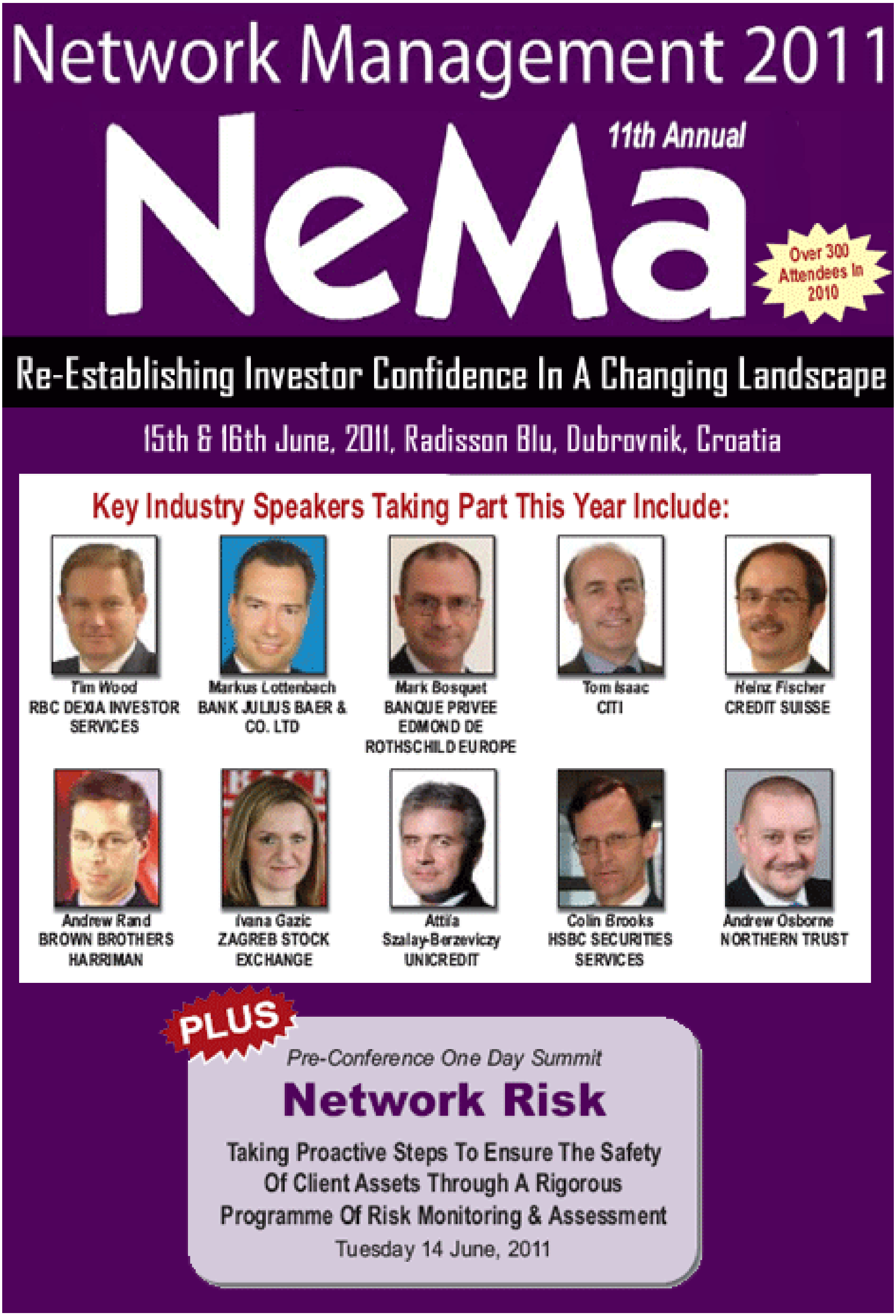
Date: 28th-29th June 2011
Location: Penha Longa (Lisbon/Sintra)
Website: www.afme.eu/isla2011

ISLA is pleased to announce the date and venue for its 20th International Securities Lending Conference. The event will take place between 28th and 30th June 2011 in Penha Longa (Lisbon - Sintra).

16th European Beneficial Owners' Securities Lending Conference

Date: 26-27 September, 2011
Location: London
Website: http://www.imn.org/Conference

For nearly 20 years we have been dedicated to meeting the needs of the European beneficial owner community and are proud to continue assisting beneficial owners in mapping a strategic course to navigate the opportunities and challenges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15th & 16th June, 2011, Radisson Blu, Dubrovnik, Croatia
Key Industry Speakers Taking Part This Year Include:
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Tom Isaac
CITI
Heinz Fischer
CREDIT SUISSE
Andrew Rand
BROWN BROTHERS HARRIMAN
Ivana Gazic
ZAGREB STOCK EXCHANGE
Attila Szalay-Berzeviczy
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Andrew Osborne
NORTHERN TRUST
PLUS
Pre-Conference One Day Summit
Network Risk
Taking Proactive Steps To Ensure The Safety Of Client Assets Through A Rigorous Programme Of Risk Monitoring & Assessment
Tuesday 14 June, 2011

Industry Appointments

Ashley Jarvis has resigned from his position as global head of business and capital consultancy UBS' prime brokerage operations in Hong Kong and will move to Morgan Stanley.

His departure follows that of Asia-Pacific prime brokerage chief David Gray, his boss. Jarvis had been in the role for less than a year. UBS recently named Tim Wannenmacher as the replacement for Gray.

Man Group has appointed **Emmanuel Roman**, chief operating officer, as an executive director and Matthew Lester as a non-executive director with immediate effect.

Roman joined Man as chief operating officer in October 2010 following the completion of the acquisition of GLG Partners. Matthew Lester is chief finance officer of the Royal Mail Group.

Jon Aisbitt, chairman of Man, said: "I am delighted to welcome Manny Roman and Matthew Lester to the Board. Manny's appointment brings us a wealth of trading, operational and business management experience as well as providing a key link between sales, investment management and operations across the Group. Matthew brings to Man substantial relevant experience both from within and outside our sector which will further strengthen the Board's financial management and regulatory expertise

Ken Savio will join Macquarie Securities as a senior managing director and head of in the United States, effective May 16, 2011.

Savio will have management responsibilities across Macquarie's US equities, trading, sales trading, research and derivatives efforts and will work closely with Macquarie's management team to help further drive Macquarie's growth in the region.

With a career history in equities, Mr. Savio brings more than 20 years of experience in building and managing successful equities businesses. He joins after a lengthy career at Bear Stearns in New York, where he held a number of senior management positions, including global head of trading and sales trading, and global head of convertible securities. Most recently, he was head of global equities at Cantor Fitzgerald.

"Ken's appointment follows the very successful growth and operational build out of our US equities platform since the beginning of 2008. Over the past year, we completed 33 ECM deals in the US, of which 11 were bookrun by Macquarie. Having someone of Ken's calibre – particularly his experience in growing a franchise across a range of product lines – makes him ideally placed to drive further Macquarie's forward momentum in the US," said Stevan Vrcelj, group head of Macquarie Securities.

Based in New York, Savio will have reporting lines to Vrcelj, Todd Steinberg, global head of derivatives delta one, and Tim Bishop, president and CEO of Macquarie Capital (USA).

Ashurst has moved to rebuild its US securities practice in London after all three partners in the group handed in their notice earlier this year.

The top 10 City law firm has hired two partners for the team - Linklaters corporate finance partner **Ray Fisher**, who is currently based in the magic circle firm's New York office, and **Jennifer Schneck**, who left Linklaters' London office in 2009. Both joined Ashurst this week.

Fisher was previously head of Linklaters' New York capital markets group and co-head of Latin America and focuses on equity and bond issues, syndicated lending and high-yield. Clients he has worked with include Goldman Sachs, JP Morgan, Merrill Lynch, UBS and Deutsche Bank.

Schneck, meanwhile, has advised on US aspects of stock exchange listings and corporate takeovers, including Securities and Exchange Commission-registered and private placement transactions, investment fund capital raising and general securities law and transactional advice.

Ashurst equity capital markets (ECM) head Nicholas Holmes said: "The new US securities team has strong contacts with our key investment bank clients and will significantly boost our London team as well as the continental European ECM practice as a whole."

Ashurst partners **Daniel Bushner**, **Eric Stuart** and **Marie Elena** Angulo handed in their notice in March and are understood to be in talks with several US firms including Jones Day.

Bushner was London managing partner of legacy New York firm Rogers & Wells until its merger with Clifford Chance (CC). He joined Ashurst in 2004 from CC, with Stuart.

MetLife has appointed **Steve Goulart** as executive vice president and chief investment officer (CIO), effective May 1, 2011. Most recently, Goulart was senior managing director and head of the portfolio management unit of MetLife's investments department. Goulart will report to president and chief executive officer Steven A. Kandarian and become a member of MetLife's executive group.

As CIO, Goulart will oversee MetLife's over $450 billion general account portfolio and more than 650 investment and support professionals in MetLife's investments organisation.

"Steve's experience both inside and outside of MetLife make him well suited to lead our investments department," said Steven Kandarian, president and chief executive officer of MetLife. "I'm confident that under his leadership, the investments department will continue to provide value for our shareholders through solid returns and security for our policyholders through a strong balance sheet."

Goulart, 52, joined MetLife in 2006 to head the company's mergers & acquisitions unit, and in July 2009 was also named treasurer. In these roles, he was responsible for the strategic management of MetLife's financial resources, including capital management and managing the company's relationships with banks and rating agencies, as well as mergers and acquisitions. In both of these key finance positions, Goulart was integral to MetLife's successful $16.4 billion acquisition of Alico in 2010.

Prior to joining MetLife, Goulart was a senior managing director in the financial institutions group and co-head of the insurance practice at Bear Sterns. Before joining Bear Stearns, he served as a managing director in the global insurance group of Morgan Stanley and in the financial institutions group at Merrill Lynch. **SLT**

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Federico Ortega Gilly

Securities Lending Times meets Federico Ortega Gilly, managing director, securities lending at Interacciones

Tell us about your career to date?

I started in December 1993 at Acciones y Valores Banamex (Accival), a local broker dealer in Mexico, which was bought by Citigroup in 2001.

At Accival I started as a trainee on the equity trading desk, then I was sent as a trainee to the trading floor of the Mexican stock Exchange, the Bolsa Mexicana de Valores (BMV), after which I became a junior trader.

Towards the end of 1995 I was assigned to the project of securities lending at Accival. It was a new product in Mexico and its practice was informal and really not regulated, so the idea was to create a market for it. I was responsible for creating the desk at Accival, building all the processes and designing the system. During 1995 and 1996 regulators came up with the first regulation for the securities lending market and asked the Mexican DTC, INDEVAL to create a platform named VALPRE to help with this type of transactions. By January 1997, the regulation was in place and the Valpre system too, so I was fortunate to do the first formal securities lending transaction in Mexico, and do you want to hear the funny side of this? The counterpart to this first trade was GBM (Grupo Bursatil Mexicano), where I ended working some years later.

When in 2001 Citi purchased Banamex and Accival, new possibilities for the business appeared. We had contact with the securities lending desk at Citi in NY and this started to put us out in the map for international securities lending transactions with Mexican stocks. The following years we started to build a relationship with our partners in Citi to help grow the business.

The first securities lending regulation issued in Mexico was very tight and really did not favour the development of the market. Therefore with Accival and other local players and the local associations of broker dealers and banks we engaged with the Central Bank, Banco de Mexico and the local SEC Comision Nacional Bancaria y de Valores (CNBV) in a new project to modernise the regulation - bring it up it to international standards and make the market more accessible not only for local players but also to foreign participants. The new regulation was issued in 2005.

During this same period I began a new project at Accival, designing with our IT team the first electronic system to trade securities lending in Mexico based on web technology, named AcciPresval. The idea was to concentrate in this system securities lending transactions for both equity and fixed income. When the system started to see its first trades I was invited in June 2007 to join GBM as head of the securities lending desk.

At GBM I was responsible for establishing the desk - the bank was already doing transactions, but there was not a desk and this market was not being seen as a business, so my task was to create out of securities lending a business for GBM. I designed a new system for GBM, new processes and I was focused first on satisfying our internal demand for this product as it is the nature of GBM of being an aggressive participant in the Mexican market with a very well established source of clients. I also developed for GBM the international securities lending market for Mexican stocks.

Also in 2007 I was invited by the financial education department of the Asociacion Mexicana de Intermediarios Bursatiles (AMIB), the Mexican broker dealer association, to set up and teach a securities lending course for the first time in Mexico. Since then I have taught this course a couple of times a year.

In 2008 I was invited to participate in the first Latam Securities Lending conference in the Mexico Panel, organised by the RMA.

In October 2010 I left GBM, but what was intended to be some time off with the family turned out to be a short vacation because in December 2010 I was invited to join Interacciones as head of securities lending for both the bank and the broker dealer, where I am starting a new project - the idea is to develop this business at Interacciones and to pursue my goal of putting Mexico on the global securities lending map.

How did you get into the equity finance industry?

Near the end of 1995 when I was working at Accival, I was given the opportunity to be in charge of the securities lending project. For me it was a challenge and an opportunity to do something new because there was no market. We had to start from scratch, not only build the infrastructure and establish processes internally but we needed to create the market and make of the product a business and a source of income.

Was it different to what you expected, if so how?

At the beginning yes, because coming from a trading background before starting in securities lending I was used to a fast moving pace so exercising patience was quite a challenge while the business started. I was eager to start trading again, even though it was in a different market but the goal was to make the first and most active securities lending desk in Mexico. Later of course as we reached our goal I was back in fast pacing mode.

Another challenge was that we needed to teach market participants and clients about securities lending in order to create the market and start building both demand and offer. For us it was clear there was a business in securities lending, but not to everyone so sometimes the obstacles we faced were hard.

But even though we had to build a road on rough soil at the end I can tell you that the results are that we have in Mexico a mature securities lending market, maybe not as big as we want, but we have the infrastructure and the regulation in place to make it growth.

Has anyone helped or inspired you during your career?

It is difficult to mention anyone in particular because I have been very fortunate to have very supportive and inspirational parents as well as the chance to work with very interesting and professional people willing to share knowledge and help you grow as a person and as a professional.

One of the things that I have learned more about and inspires me the most is the human factor because at the end of the day behind that computer screen or that telephone line there is another person, whether it is your client, your partner or a competitor you have someone that represents an opportunity to learn for both parties.

This why I find the human factor inspiring, because one´s actions always leaves a print on others.

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

It was a mixed situation for us. On one hand, those were difficult times, mainly because almost all our international flow was reduced drastically and one of our main goals at that time was to growth the international part of the business. We had to adapt rapidly and make a change in our strategy and fortify our local side of the business.

On the other hand, locally we did not suffer much because contrary to other countries we did not see Mexican financial institutions going out of business or closing certain business lines as some of the foreign financial institutions in Mexico did.

Of course the pace of the business slowed down, of course the environment was tense, but strengthening our local part of the business helped us to sort out the financial turmoil.

What one thing would you change about the industry?

All the administrative processes and time it takes when you want to deal with a new counterpart.

I understand this is the way it is and that you have to go through all of this processes and that you need to comply with policies as well as legal and regulatory requirements, but wouldn't it be great that this could be more expedite?

What are your ambitions?

On the professional side, I really love my job and I am a firm believer that the securities lending market has an enormous potential in Mexico and I want to see it at its full. I saw this market initiated in Mexico and I want to see it earn a place in the global map of securities lending.

On the personal side, enjoy life every day, share all the time that I can with my wife and kids and provide them with the necessary tools and values to face life so they can live it fully.

Outside of work what are your interests and pursuits?

Since I was kid I have had the opportunity to travel and that is something I have always liked and will continue to do because the contact with other people and cultures is something amazing and enriching.

On the sports side I like to follow soccer, especially European soccer, the English Premier League and the Champions League. Also from time to time having a round of golf is something that I really enjoy and it is always challenging.

I also enjoy reading and going to the movies although now I am into children books and movies.

Last but not least, food and wine…. I need to say that I always enjoy a good meal and a good wine. I like to try wines from different regions around the world and like to go wine hunting to stores and seek new experiences. On the food side I enjoy eating out and trying new tastes as well, and from time to time I enjoy preparing a nice meal and then complete it with the wine hunt of the day.

If you were given an unexpected USD 10 million bonus tomorrow what would you do?

Only 10? Not sure if it would be enough….. No seriously, the first think I would do is pay my bills and secure my kids' education. After this, I would save some amount for the future because you never know what can happen and then I would definitely engage in a programme to help children with limited resources to have access to education so they can be better persons and be prepared to help Mexico be a better country.

If you weren't working in this industry what would you be doing?

I have always enjoyed traveling as well as food and wine, so if I was not in this industry I definitely would be involved in something related to that.

For example at a specialised magazine where I could write reviews of restaurants and wineries all around the world, this way I would not only be travelling but also at the same time experiencing new tastes with food and wine.

I certainly can picture myself doing this! **SLT**

Favourites

Food: Roasted leg of Lamb with a nice red wine

Sport: Soccer

Music: 80´s

Movie: The Godfather movies and Gladiator

Book: L´Etranger by Albert Camus

Holiday: Any place and time is good for me as long as my wife and kids are with me.

Celebrity: Both of my kids… They represent an everyday challenge. I am always learning from them, they never cease to amaze and inspire me.