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SECURITIESLENDINGTIMES
www.securitieslendingtimes.com
ISSUE029
05.07.2011
TUESDAY

SunGard Reaches Agreement to Acquire FINACE

Zurich 01.07.2011

SunGard has reached a definitive agreement with Swisscom IT Services, part of leading Swiss telecommunications group Swisscom, to acquire its Zurich-based unit FINACE, a provider of securities lending, repo, synthetic finance and collateral management software.

Closing of the transaction, the terms of which were not disclosed and which is not expected to have a material impact on either firm, is subject to the satisfaction of certain preconditions.

Marcel Walker, member of the executive board of Swisscom IT Services, commented: "We have successfully grown the FINACE offering in Switzerland over the last few years. We believe the proposed sale to SunGard will now help us to create the right environment for the FINACE product to operate more effectively at a global level, particularly across the US, UK and Asia."

Brian Traquair, president of SunGard's position, risk and operations business, said, "FINACE offers a sophisticated solution for securities finance and collateral management operations. The solution, and the specialist expertise and knowledge of the FINACE team, will complement SunGard's existing portfolio of securities finance solutions which includes Apex, Astec, Global One and Loanet. We look forward to working closely with the FINACE team and its customers."

FINACE describes itself as currently the only fully integrated solution which supports the future business model within the area of securities lending, repo and OTC derivatives collateral management. The architecture of Finace is based on a stable, leading edge technology platform, which was developed with performance and robustness as the focus of design. With flexibility at its core, customer-driven extensions and modifications can be quickly and easily applied to the standard component set.

NEWSINBRIEF

RBC Dexia signs on to EquiLend

RBC Dexia Investor Services has signed up to EquiLend. RBC Dexia's Securities Lending desks in London, Toronto, and Sydney are planning to connect to the platform in late 2011.

EquiLend CEO, Brian Lamb, stated: "RBC Dexia's addition to EquiLend continues the stimulating growth we have seen in the Canadian market since our entrance in 2008. We look forward to providing continued scalability to the market through automation, thereby strengthening the offering of our clients' Canadian securities lending programmes."

readmore p3

Calypso launches collateral optimisation solution

Calypso Technology has developed a collateral optimisation solution specifically designed to address major functional gaps in the industry. The new software product is among the first in the industry that directly responds to new challenges in collateral management driven by substantial shifts in the basis markets, regulatory requirements for OTC clearing and associated margins, improved counterparty risk management, more stringent liquidity control, and demand for greater visibility at an enterprise level.

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RBC Dexia signs on to EquiLend

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Yvonne Wyllie, head of securities lending at RBC Dexia, added "The increased automation and efficiency will add numerous benefits as RBC Dexia continues to grow our global business. We look forward to assisting with the expansion of EquiLend's platform in Canada, which continues to be one of our most valuable markets."

Calypso launches collateral optimisation solution

Continued from page 1

"The Calypso solution truly solves the many dimensions of the collateral optimisation puzzle, whether the requirement is short-term tactical or long-term strategic," stated David Little, director, strategy and business development at Calypso Technology. A key component of the solution is a proprietary algorithm that allows users to intuitively manage the collateral allocation process. Firms can rapidly deploy optimisation strategies by simply defining substitution rules, targets, constraints and real-time information governed by traders. Alternatively, users can plug in their own proprietary solvers. Key benefits include:

- Reduced costs for collateral management through improved decision-making
- New business opportunities; e.g. collateral processing services
- A global view of counterparty risk and operational efficiencies
- Enhanced reporting and control levels
- The front office can configure optimisation algorithms and explore opportunities without any additional operational burden for the back office margin call process.

The system provides clear overviews of positions, collateral requirements and allocations. Other functionalities such as the ability to analyse the cost of funding/collateral at the trade level and collateral netting enables businesses to reduce operational costs and to allocate associated transaction costs.

The solution is aimed at both buy and sell-side organisations that are looking to manage their collateral management more efficiently and in real-time. It is integrated with Calypso's proven and leading trade management platform, and leverages Calypso Fast-Track for rapid deployment.

"Collateral management is now a very different game as businesses have become more focused on real-time collateral valuation and availability," commented Little. "The collateral management team has become an integrated part of the front office team, driving business decisions that are made based on real-time market data. This allows the business to be responsive to changes in the market and adapt to new collateral requirements quickly Calypso Technology has again delivered to the market an innovative solution that directly responds to the demands of a dynamic and structured OTC derivatives market landscape."

Deutsche Börse and NYSE Euronext to formalise tie-up

Deutsche Börse and NYSE Euronext have formally notified their planned business combination to the European Commission's Directorate-General for Competition, thereby triggering the formal start of the anti-trust review process in Europe.

The NYSE Euronext Board of Directors has scheduled a special meeting of shareholders on July 7, 2011 where they will ask the NYSE Euronext shareholders to vote to approve the combination with Deutsche Börse. The acceptance period during which shareholders of Deutsche Börse can tender their shares for exchange to the joint holding company of Deutsche Börse and NYSE Euronext (Alpha Beta Netherlands Holding N.V.) will end on July 13, 2011.

The combination of Deutsche Börse and NYSE Euronext creates:

- A genuine transatlantic market infrastructure, positioning Europe as an equal partner to the US in leading the development and harmonisation of effectively regulated capital markets;
- A true, pan- EU equity stock market, with single currency trading and the deepest pool of liquidity in Europe, which thereby advances the European Commission's vision of a single, integrated, pan EU €-denominated capital market;
- Significant benefit for clients and issuers thanks to increased efficiencies and reduced costs from opportunities for post-trade harmonisation.
- The premier global exchange, allowing Europe to strengthen and solidify its role as one of the world's most important financial centers now and into the future.

The transaction is subject to a number of conditions, including approval by the relevant competition and financial, securities and other regulatory authorities in the US and Europe.

Emerging markets 'key to growth'

According to the ISLA emerging markets panel on Wednesday a large gap has evolved between supply and demand in many emerging markets – the largest gap being in Russia and Israel.

25 per cent of lenders and borrowers in the audience believe there will be a 25 per cent increase in emerging market securities lending practices in the next three years

Borrowers believe Brazil is the biggest BRIC country with potential growth – and lenders agreed

Ignoring Russia 'could be a mistake' - $5 billion traded on the cash market and vast activity going on in government planning and IPOs

Taiwan holds a strong potential for agent lenders to enter the securities lending space, with India geared towards the retail area but looking to make offshore borrowers active. There is also a focus for offshore prime brokers to get into this market.

The biggest challenge is China – a guarded place where the securities lending industry needs to encourage stock lending. The industry needs to promote how it encourages liquidity. Pakistan, Mongolia and Vietnam are also on the securities lending radar.

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Securities lending still on the cards in Dubai

The Dubai Financial Market (DFM) says it will continue its relentless efforts to further develop the market infrastructure as planned, despite MSCI's decision to extend the review period for a potential upgrade of the UAE to "Emerging Markets" status to December 2011.

Essa Kazim, managing director and CEO, Dubai Financial Market said: "We are confident that we have set the market on the right track by introducing numerous enhancements including the introduction of the "Delivery versus Payment" (DvP) mechanism. Market participants widely recognised DFM's efforts to lay out the necessary frameworks for various enhancements that led to meeting the upgrade criteria. We will carry on with our market enhancement plans including the introduction of short-selling and securities borrowing and lending whilst market participants assess the developments over the coming months."

"DFM spared no effort and has taken numerous initiatives to lay out the necessary frameworks for various market enhancements. Additionally, we have been actively engaged in productive discussions with various market participants including custodians and institutional investors via a series of meetings held in the global financial centres. The aim of these meetings was not only to explain measures taken, but also to listen to their remarks and feedback on further initiatives to follow in the future," Kazim added.

Eurex launches central clearing service for securities lending

Eurex Clearing will launch a central counterparty (CCP) service for the securities lending market. The new service will cover European markets for loans in equities, ETFs and fixed income securities. The phased roll-out will commence in November 2011, the full scope will be available in the course of 2012.

The new CCP service for securities lending has been designed in close cooperation with key market participants. A core element of the concept is a specific member license for lending participants that enables beneficial owners to participate as clearing members of Eurex Clearing without any margin obligation whereas agent lenders can maintain their current role.

"Our innovative offering preserves the key features of the OTC market for both lending and borrowing counterparties whilst being able to deliver significant capital and operational benefits to all participants", said Thomas Book, member of the Eurex Executive Board and responsible for clearing. "Eurex Clearing is the first clearing house to incorporate the special structure of the securities lending market into a CCP model allowing cash and non-cash collateral as well as providing automated trade flow and loan lifecycle management."

Eurex Clearing's new CCP service for securities lending will provide significant improvements to the current market structure. The clearing house as single counterparty to all trades will reduce counterparty risk exposure and eliminate the need for multiple credit evaluations. Thus, users can achieve a significant reduction in capital allocation associated with bilateral transactions.

Primary dealers access HFF´s securities lending facilities

The Icelandic Housing Financing Fund (HFF) has signed agreements regarding HFF bond issuance and market making in the secondary market which will give primary dealers access to HFF's securities lending facilities.

The objective of the agreements is to enhance HFF´s access to funding and strengthen price formation in the secondary market.

The agreement means:

- Primary dealers have exclusive rights to submit bids at HFF auctions.
- Primary dealers have exclusive access to HFF´s securities lending facilities.

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- Primary dealers are obliged to submit bids at each auction for ISK 600 million at nominal value.
- A primary dealer is a market maker in the secondary market for all HFF bonds and submits a minimum bid of ISK 100 million at nominal value for each bond series at Nasdaq OMX in Iceland.
- A primary dealer is obligated to keep the maximum spread between bid and ask quotes as specified in the agreements.
- A primary dealer is required to renew his/her offers within 10 minutes after they have been accepted. If the primary dealer's total transaction in one series during that day equals ISK 500 million at nominal value, the primary dealer is entitled to diverge from the maximum spread requirement for that particular series for the remainder of that day.

The agreement is valid from July 1st, 2011 to June 30th, 2012. Total compensation paid to all primary dealers is ISK 80 million during the term of the agreement for market making in the secondary market and receive a 0,175 per cent commission for accepted bids in HHF bond auctions.

J.P Morgan launches full prime brokerage offering in Europe

J.P. Morgan has launched a full prime brokerage offering for clients in Europe, the Middle East and Africa. The investment bank now has the local infrastructure in place to serve international and regional clients across the entire spectrum of both cash and synthetic products for the first time.

The build-out of the European platform reflects the firm's wider strategy to invest in Prime Services and offer a full suite of products for hedge fund clients globally.

"This is a key milestone for our international business," said Sandie O'Connor, global head of Prime Services at J.P. Morgan. "These local capabilities will allow our international clients to have integrated access to the broader J.P. Morgan franchise across asset classes, alongside services including equity financing, securities lending, clearing, and settlement."

J.P. Morgan has a dedicated team rolling out the new platform to clients from across its prime brokerage business. In addition, the firm continues to invest in experienced new hires including Christian Erickson who heads a new client experience unit globally, having recently joined from UBS where he was chief operating officer of prime brokerage. His appointment follows other strategic hires made in Europe last year, including Brian Bisesi, formerly of Barclays Capital, who heads sales for prime brokerage in the region; and Kumar Panja, previously with Goldman Sachs, who heads strategic consulting.

"Whether clients are based in Europe or simply operating in the region, our aim is to deliver the high level of service that they have come to expect from J.P. Morgan," said Andrea Angelone, global co-head of prime brokerage. "We have a pipeline of new and existing clients ready to come on board, ranging from large, pedigree start-ups to the more established institutional funds in the industry."

J.P. Morgan boosted its prime brokerage capability when it acquired Bear Stearns in 2008.

Finadium releases new white paper

A new report from Finadium presents the findings from their fourth annual survey of US, Canadian and European asset managers on securities lending, collateral management and custody. This report uncovers best practices in the asset management community including selection and evaluation of service providers and provides data on what drives asset manager thinking in securities lending, collateral management and custody today.

The report features two sections of special interest to asset managers and their advisers: opinions on the European dividend arbitrage trade and the importance of counterparty indemnifications in securities lending. Other highlights include:

- Opinions on central credit counterparties, including how asset managers view their and their service providers' roles in managing counterparty credit risk
- Best practices in collateral management, and if securities lending collateral should be used for revenue generation, financing or both
- Perspectives on the future of revenue from securities lending programs
- Advice for peers on risk and operations in their securities lending and collateral management activities

SunGard to offer same day securities lending data

SunGard is now offering same day securities lending data through SunGard's Astec Analytics Lending Pit solution, designed to help customers improve price discovery, increase profitability and decrease risk.

Broker-dealers and lending agents currently rely on data that is at least one to two days old, making it difficult to monitor the fast moving securities lending market or formulate the optimal trading and investment decisions.

SunGard's Astec Analytics Lending Pit updates global securities-level rate and volume information several times throughout the day, providing customers empirical evidence about the latest market sentiment. In addition, data from Europe, the Middle East, Africa and Asia Pacific is posted around the clock, while US data is streamed in near real-time on a 24-hour basis.

Tim Smith, executive vice president of SunGard's Astec Analytics business unit, said, "In the current securities lending environment, sentiment can change completely in the span of only a few hours. Traditionally, these intraday movements are hard to predict and even harder to fully capitalise on. By providing market data throughout the day, SunGard can help securities lending professionals better understand market activity and make more informed borrowing and lending decisions."

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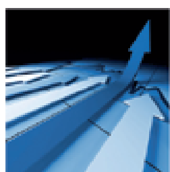

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Big Interview

Securities Lending Times speaks with Rob Ferguson in his first interview since taking on sole charge of the capital markets team

BEN WILKIE REPORTS

SLT: In the past 12 months we have run two news stories in regards to your promotions. In June 2010 you took on cross-functional responsibilities for CIBC Mellon's global securities lending division and became co-head alongside Robert Chiuch and now, head of global securities lending. How did this happen?

Rob Ferguson: I'm thrilled to be given the responsibility of leading CIBC Mellon's global securities lending team. We've got a great group of people and have lots of good work to do. Robert will surely be missed as he has been a significant contributor to the successes we have had globally, but he has also brought up a very strong team that will continue to bring great success for our clients and our company. I think we are very well positioned for the future.

SLT: How do you feel the industry perceives the departures over the past twelve months from CIBC Mellon to BNY Mellon?

Ferguson: I think our clients will recognise these moves as a great testament to the strength of our people and our programme. Both James Slater and Robert Chiuch moved from our team into senior leadership roles at BNY Mellon – Robert as head of its US equity and corporate securities team, while James has since moved from COO to head of BNY Mellon's global securities lending programme. James' and Robert's business-building experience with CIBC Mellon put them in a position to assume these roles, but I think clients are well aware that our strength as a provider is actually built on the depth of our "bench strength." We have a big footprint in Canada's lending markets, and we're much more than one person.

Our clients saw seamless continuity of service with James' departure, and we all expect Robert's transition to be equally smooth. I think that the growth our programme has seen in the past year reflects the confidence our clients have in our services and our programme, and I know I look forward to continuing to expand our client partnerships in the years ahead.

It's worth noting that the CIBC Mellon lending team has very strong ties to our US parent com-

pany and its lending programme. We share best practices and work together closely, so Robert's move to BNY Mellon will help make these already strong ties even stronger – as they did with James' move. These moves also bring the great benefit of a deeper understanding of the Canadian market to our parent, which is very good.

The credit crisis put the focus squarely on managing risk. Whether it be for analysts or members of clients' Boards, people wanted to understand the impact of the Lehman Brothers' collapse on their lending programs

SLT: With over 21 years experience in securities lending what do you think you are bringing to the position?

Ferguson: Two decades in the industry have given me a very strong understanding of the products, technology and client side of lending. I've been with CIBC Mellon since the formation of the joint venture in 1996, and have worked with our securities lending clients and partners for many years. Our team on the borrower side also has the same great strength and depth, so we were very happy to be able to tap Phil Zywot to run our desk as head of trading. Phil will be quite familiar to our clients – he's been with us since 2004.

SLT: How closely do you work with BNY Mellon - is this a match made in heaven?

Ferguson: We've worked closely with the former Mellon Bank from the inception of the joint venture, and we continue to have a very close relationship with BNY Mellon to this day. The relationship brings many benefits to both companies: it brings us a size and scale that we wouldn't otherwise have, while we give their clients access to dedicated expertise on the Canadian marketplace. James and Robert moving south is a clear indication that BNY Mellon recognises the strength of our insights and our programme. We continue to work very closely with BNY Mellon, so I'm confident that these moves will make the great relationship between our companies even stronger.

SLT: Having worked through the worst years on record for securities lending, is CIBC Mellon back trading to pre crisis levels?

Ferguson: The industry certainly isn't back to pre-crisis levels yet; but we're probably back to where we were in 2007. More importantly, we continue to see growth in on-loan balance (both for cash and non-cash collateral), and also in the number of clients participating in lending activities.

From CIBC Mellon's perspective, we're committed to giving our clients strong reporting and information to help them make lending decisions that are right for their businesses. We've seen a "flight to quality," which has earned us many new lending clients as market participants seek out a high-quality lending programme with a stable provider. Clients are definitely looking for value in all aspects of their relationships, including fair spreads, great relationship management and robust technology – all areas of strength for CIBC Mellon and our lending program.

SLT: What are the main changes you are observing in your clients' behaviour in relation to securities lending?

Ferguson: The credit crisis put the focus squarely on managing risk. Whether it be for analysts or members of clients' Boards, people wanted to understand the impact of the Lehman Brothers' collapse on their lending programs. We've seen a movement back to focusing on finding a healthy balance between risk and reward - exactly as it should be. Similarly, prior to Lehman Brothers consultants would put most of their emphasis and analysis on revenue estimates and split, but have since returned risk to its appropriate position as a critical element within a more fulsome view. We continue to support clients and their consultants by providing a variety of reporting to support clients across the spectrum from detailed analysis to Board-level summaries.

SLT: Canada came through the financial crisis relatively unscathed, why is this?

Ferguson: We have endured some pain but have got off lighter than the US and Europeans. There are a few reasons for this. First and foremost, Canada has a strong, well-capitalised and well-regulated banking industry that was able to weather the shocks. Our real estate lending regulations prevented the emergence of the same asset bubble and sub-prime mortgage challenges that affected others, while our federal government's fiscal and monetary policies helped mitigate economic declines. And lastly, we had our share of luck: our resource-based economy has benefitted from historically high commodity prices.

SLT: You chaired the recent inaugural Canadian Securities Lending Association (CASLA) conference. How much work went into that, and how successful do you think it was?

Ferguson: There were a lot of competing events in the market, so we decided on a very aggressive timeline – just three months. There was a lot to do in a short amount of time In terms of lining up the agenda, speakers, sponsors, venue, attendees and many other aspects - particularly as this was a first-time event. Fortunately, we had a strong team working on the event. I'm particularly grateful for the strong efforts of the marketing groups at several member firms and some vendors – everyone came together to put on a very successful event.

Canada has a strong, well-capitalised and well-regulated banking industry that was able to weather the shocks. Our real estate lending regulations prevented the emergence of the same asset bubble and sub-prime mortgage challenges that affected others

Attendance was strong and feedback from event attendees was overwhelmingly positive. The event sponsors were similarly very happy with the event. The conference meant great exposure for CASLA, which saw renewed interest in membership. Like many of the other organisers and attendees, I am looking forward to making the conference an annual event that gets bigger and better each year. **SLT**

Rob Ferguson
Head of global securities lending
CIBC Mellon

Baltic states

The triumvirate of Estonia, Latvia and Lithuania have got the basics right. But are they too small to thrive?

BEN WILKIE REPORTS

The new markets have come along way since freeing themselves from oppression. But many still have more to do.

Only 20 years ago, Baltic states were covered by the monolithic Iron Curtain of Soviet rule. It's hard to believe that now, especially when visiting the countries - the main cities anyway - and it's impressive to see how far they have come in terms of infrastructure and commerce. Estonia, for example, has one of the best broadband infrastructures in the world.

But, as with any country or institution that attempts huge changes in a short space of time, there are issues arising. In some regions, the liquidity of the markets remain low, while in others the regulatory infrastructure still has some way to go before it meets the standards of the developed world.

And there remains the issue of understanding - those who grew up under communist rule had no need to worry about saving for their future, or investing their incomes, and that has led to the younger generation taking control.

The key challenge that remains for the securities lending market, especially in some of the smaller markets, is the limited numbers of stocks available for lending. Some of the exchanges have liquid stocks only in the dozens, leaving little room for manouvre.

But one of the key benefits of working in Eastern Europe is that because everything is so new, there are few legacy issues that affect the market. Most countries looked at models that already worked when designing their markets, so most Western investors and providers will be familiar with the technology, infrastructure and regulatory regime from markets in Germany, the UK and elsewhere.

As most of the most popular Eastern European jurisdictions are also part of the European Union, they are involved in the creation of the new pan-European legislation that will impact the financial services industry. This is expected to help the smaller states, as an increasingly harmonised regulatory regime will, they hope, encourage greater investment into their markets by firms familiar with the rules.

Estonia has become one of the most technologically advanced European states and has a reputation for welcoming international firms to Tallinn. It's also the newest eurozone country, changing currency at the start of the year. It originally planned to adopt the euro on 1 January 2007; however, it did not formally apply when Slovenia did, and of-

ficially changed its target date to 1 January 2008, and later, to 1 January 2011. On 12 May 2010 the European Commission announced that Estonia had met all criteria to join the eurozone. On 8 June 2010, the EU finance ministers agreed that Estonia would be able to join the euro on 1 January 2011. On 13 July 2010, Estonia received the final approval from the ECOFIN to adopt the euro as from 1 January 2011.

This has extended the country's advantage over its neighbours. Since the fall of communism, Estonia has been at the forefront of changing its infrastructure to welcome international business, as well as nurture its own industry. Moving from an industrial base, the country is now one of the leading technology centres, with strong IT capabilities and a burgeoning medical science sector.

When it comes to regulation, Estonia has learned from its more mature neighbours and built a structure that provides reassurance to both local and international players.

The Central Bank of Estonia is independent from all government agencies and directly responsible to the parliament. The BoE is primarily responsible for setting out Estonia's monetary policy framework. The BoE is also responsible for maintaining financial stability in Estonia. In this respect, the BoE in cooperation with the Ministry of Finance and the Financial Supervision Authority, is responsible for preparing regulations affecting the Estonian financial sector. In addition, the BoE operates the Estonian interbank payment system. Next to its core tasks, the BoE has been mandated to prepare Estonia's accession to the European Monetary Union and the adoption of the euro, the European single currency.

The Financial Supervisory Authority is an independent agency with autonomous competence, it conducts financial supervision in the name of the state. FSA analyses and monitors the compliance of subjects of financial supervision with the requirements for financial soundness and own funds, and other obligations prescribed by the Bank of Estonia; makes proposals for the establishment and amendment of Acts and other legislation concerning the financial sector and related supervision, and participate in the drafting of such Acts and legislation; performs the functions arising from the Guarantee Fund Act and the Money Laundering and Terrorist Financing Prevention Act; performs other functions arising from law which are necessary to fulfil the objectives of financial supervision. NASDAQ OMX Tallinn and the FSA co-operate in the course of exercising market supervision.

Meanwhile, the Ministry of Finance is responsible for issuing regulatory acts implementing the laws and controlling market procedures. The main functions of the Ministry of Finance of Estonia are to plan and supervise the implementation of the Government's macroeconomic, fiscal and economic reform policies. This is carried out by preparing legislation, planning state revenues and expenditures, managing and supervising the state budgetary spending process and preparing a framework for economic policy and development.

Securities lending is a small part of its market, simply because there are few local firms that hold interest to international investors, but there is certainly activity in the top 10-15 stocks.

There's no formal securities lending regulation within the Estonian regulatory infrastructure, although short selling is not permitted. Securities lending is allowed, but it's only offered on the OTC market. Local custodians do sometimes practice buy and sellback transactions externally but the market has some way to go before securities lending becomes a common practice. The introduction of the euro as the country's currency at the start of the year, may provide some stimulus. The Tallinn Stock Exchange (TSE) is now part of the OMX Group, which means Nordic investors are well-represented.

The TSE forms part of the NOREX Alliance, a co-operation between independent exchanges, based on the following principles:

use of INET/SAXESS as the joint trading system. INET for cash, equities (shares and fund units) and SAXESS for fixed income securities (bonds)
cross-membership
common regulatory framework (eg harmonised trading hours and membership requirements)
a single point of liquidity, i.e. companies are encouraged to list their securities on only one NOREX Exchange.

Estonia's only problem when it comes to encouraging a financial market is its size. There simply aren't enough stocks to encourage significant investor interest, or the requirement for firms to invest heavily in their own infrastructure in the region and then leverage that infrastructure into building up the market. The connectivity with the OMX Group means that it is more attractive than it maybe would be otherwise, but the country does still need to grow before it becomes a major player.

Neighbouring Latvia, while structurally sound, has a much smaller market, and securities lending is virtually non-existent. Short selling isn't permitted, but foreign investors are welcome.

Lithuania, which makes up the trio of Baltic states is in a similar position, although securities lending transactions are slightly more common. It's still only offered on the OTC market, and custodians can provide lending transactions on a case-by-case basis for more regularly traded securities.

So while Estonia is leading the way, securities lending remains in its infancy within the Baltic states. The market at the moment is simply too small, and it really needs to grow to attract significant investor interest.

Because the three countries are so commonly referred to as the Baltic market, it's possible that closer co-operation between the trio will give them the scale to increase their attractiveness. But they have the basis right, and should prove a good long term bet. **SLT**

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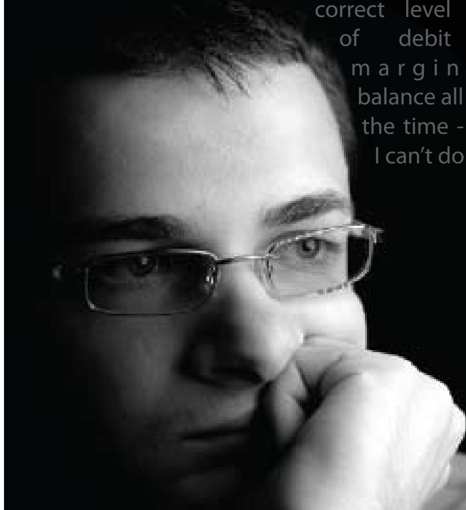

Skool Daze

The next big short could be for-profit education, says SunGard's Andrew Shinn

MARKET PERSPECTIVE

The law of unintended consequences, popularised by sociologist Robert Merton in 1936, states that the actions of people—and especially of government—sometimes have unanticipated effects. This concept has been used to describe everything from the Prohibition Amendment in the US to laws mandating the use of bicycle helmets. It is also a model that helps one better understand much of what happens in business and finance.

There are many examples of the law of unintended consequences over the history of the financial services industry. For instance, Michael Milken single-handedly created the junk bond market and provided financing to higher-risk companies that never would have been able to issue bonds without him. Companies that did not have the business model to support high interest payments were nevertheless issuing millions of dollars in bonds. Many of these companies eventually collapsed under the weight of their bonds and both companies and investors lost.

Angelo Mozilo, former head of Countrywide, said that he felt it was his moral obligation to provide mortgage financing to minorities and low-income Americans so that they could own their own home. Mozilo may have believed that he was doing the right thing by finding new ways to structure loans for people who never before could have owned a home. However, the mortgage loans that he made to many low-income people were unsustainable. When adjustable interest rates reset, many new homeowners could not afford their mortgage payments and were evicted.

Similar things are happening today in the for-profit education industry and it may present short sellers with opportunities.

It's been an interesting few years in the industry as the Department of Education has been investigating whether for-profit education companies are taking advantage of their own students by saddling them with as much government-backed debt as possible and then not enabling them to secure jobs. As a result, many students are unable to pay off their loans. To better understand the current situation, one must go back to 1965 when President Johnson enacted the Higher Education Act. The new law was part of the President's Great Society programme to eliminate poverty, and Title IV of the Act stipulated that the US government would provide students with government-backed financing to enable them to attend college.

Most would agree that enabling students to take out a loan for college is a good thing. The problem is that the incentives stop at enrollment and do not mandate effective teaching or hiring rates. Education companies recognise billions in revenue from government-backed loans

when students take classes, but it matters less whether students can pay off the debt. The Department of Education has tried to align companies' incentives with students' ability to pay back debt by withholding Title IV payments if a significant percentage of a school's graduates are in default. Unfortunately, the Department of Education's new legislation, announced in early June 2011, has not helped to avoid these unintended consequences.

When government is involved, incentives frequently become misaligned. As Donald Rumsfeld explained, "when people spend their own money on themselves, they are careful about how much they spend and about what they spend it on. If people spend their own money on others, they are careful about how much they spend, but not as careful about what they spend it on. If people spend other people's money on themselves, they are not careful about how much they spend, but they are careful about what they spend it on. If people spend other people's money on other people, they are not careful about the amount of money they spend, nor are they careful about what they spend it on. That is government."

Technically, students are paying the cost of going to college. However, because the loans are backed by taxpayers, it's actually officials in the Department of Education who are guaranteeing loans with taxpayers' money to help prospective students. It's a classic case of government (as defined by Rumsfeld).

Furthermore, students are not really spending their own money when signing up for classes. Just as consumers spend less on average when paying for purchases with cash rather than a credit card, keeping student loans in the abstract helps encourage students to spend more than they otherwise would. If student loans were delivered in suitcases of cash and laid out on a kitchen table, students would likely be more prudent when signing up for classes.

The ultimate beneficiary are schools, both non-profit and for-profit. Indeed, many for-profit education companies are taking advantage, just as mortgage companies took advantage of the opportunity to make questionable loans and offload them to investment banks' securitisation departments.

In an argument almost identical to Mozilo's, for-profit education companies make the case that they have a moral obligation to ensure that every American has the opportunity to go to college. But just as Mozilo did a disservice to his low-income mortgage customers who were later evicted, so too are for-profit education companies doing a disservice to students who are unable to pay back their student loans.

The problem in shorting the most troubled for-profit education companies is in the timing

In another similarity, Milken and Mozilo were consumed by the desire to increase market share, and they did whatever was necessary to grow. Some for-profit education companies also go to any length to enroll additional students and meet growth targets, even it means lying to prospective students. According to Education Management Corporation's 2010 annual report, the Government Accountability Office recently "conducted undercover investigations into the enrollment and recruiting practices at fifteen for-profit institutions of higher education…and all fifteen of the for-profit institutions made deceptive statements to the investigators." One of the institutions that made deceptive statements was Education Management.

Another concern is that the default rate on student loans is much higher than anyone wants to admit. For instance, Education Management Corporation recently sold its Education Finance Loan portfolio, but when it did so, it acknowledged that it had reserved funds to cover losses of 50 per cent of the portfolio. Students take out many different government-backed and private loans to pay for school, but when they default they don't just default on the private loans. So if Education Management Corporation was planning for a 50 per cent default rate, the US government-backed loan portfolio should have equal reserves.

There is nothing inherently wrong with the for-profit education model. For-profit educators compete against taxpayer-subsidised state and private universities. As technology enables students to learn at their own pace, teachers may become more like coaches or guides. The move to online courses is one outcome of that trend, and many for-profit education companies are leading the way in online education.

The problem remains the incentive system set up by the Department of Education and Title IV government-backed loans. Now that the problem has been identified, it's a question of whether student debt will reach an unsustainable level, and what the catalyst will be to force the Department of Education to change regulations enough to affect the viability of select for-profit education companies.

Short sellers are active in this market. The problem in shorting the most troubled for-profit education companies is in the timing. Even if an investor realised in 2006 that the subprime bubble was unsustainable, it would not have done him much good to short at that time.

Right now, short sellers are targeting Education Management Corporation (NASDAQ:EDMC). The cost-to-borrow shares of EDMC is 3,600 basis points. Bridgepoint Education (NYSE:BPI) is another popular short. This may have to do with the strong share price performance for both EDMC and BPI over the past couple months, as the Department of Education's regulations were less severe than many had feared. A popular short trade in the past year was Corinthian Colleges (NASDAQ:COCO). The company has lost 77 per cent of its market value since April 2010 and while short interest has remained at roughly the same level for the past year at 24 million shares short, borrowing costs have declined recently. It's possible that new value investors have purchased shares at depressed levels and are more willing to lend to augment their return. **SLT**

	Ticker	Shares borrowed	Intrinsic rate (%)
EDUCATION MGMT CORP	EDMC	2,731,101	36.19
BRIDGEPOINT ED INC	BPI	6,831,961	8.20
CORINTHIAN COLLEGES INC	COCO	20,675,525	2.50
STRAYER ED INC	STRA	1,830,794	1.40
PRINCETON REVIEW INC	REVU	1,309,300	0.69
WASHINGTON POST CO	WPO	736,149	0.46
CAPELLA EDUCATION COMPANY	CPLA	1,047,300	0.21
ITT EDUCATIONAL SERVICES INC	ESI	5,439,142	0.21
LINCOLN EDL SVCS CORP	LINC	592,533	0.10
NATIONAL AMERN UNIV HLDGS IN	NAUH	111,700	0.10

Top ten most expensive-to-borrow for-profit education companies as of June 28, 2011.

Andrew Shinn
Vice president, sales and development
SunGard Astec Analytics

ISLA/AFME 2011

The International Securities Lending Industry is a force for good in our market. It lobbies for better market practices and explains the benefits of securities lending to a suspicious world. It has helped educate professionals in the benefits and uses of securities lending, and has come up with a number of initiatives that helps the market survive and thrive.

But perhaps it shouldn't run conferences. This year's ISLA/AFME conference, held just outside Lisbon, saw the great and the good of the European securities lending - along with a handful of US professionals and even fewer from Asia or South America - attend what has always been an opportunity to network, meet new contacts and renew acquaintances with old colleagues. And in that it was a success - dozens of meetings were held between delegates throughout the three days and the bars and restaurants were buzzing.

The actual conference itself, however, was relatively subdued. This in part was down the content - there was little there that hadn't been discussed at better run events, such as those held by Data Explorers and IMN earlier this year. While regulation, emerging markets and fixed income business are all important topics, nothing new was brought to the table.

The choice of venue didn't help either. A big sprawling resort meant that many of the participants didn't go near the conference section for much of their days, choosing instead to park themselves in the bars and meeting rooms, which often were some distance from where the action was supposed to be taking place.

The organisers were obviously not expecting many people to sit in on the sessions, and laid out the room accordingly. But even so, attendance at times was sparse - with the notable exception of the emerging markets round table - and there were few people milling around in the exhibition area. Little wonder some of the sponsors privately expressed unhappiness with the format and management of the event.

The keynote speaker, Sebastian Coe, began with a self-congratulatory video, after which he started off well. But his speech went on too long, and the longer it went on, the more he showed his ignorance of the audience. And particularly for those delegates based in the UK, it was nothing that hadn't been heard dozens of times already.

Of course, it wasn't all bad. The electronic voting, which had proved such a success last year, was repeated, and many of the responses provided some serious food for thought. But even this has been superceded by the technology used in the Data Explorers conference, which allowed a breakdown of answers according to the type of business the voters were in. And there were several delegates who felt the content of the presentations really gave them new insights into the development and the future of the market.

This conference has always been one where networking takes precedence over the content, and it probably always will be. But that doesn't mean that attention to the content of the agenda can be ignored and in a market where events are competing tooth and claw to make a mark, the mis-steps taken here will surely not go unnoticed.

It's a shame. When it comes to the industry in Europe, the ISLA conference is a must-attend, but the rest of the world seems relatively uninterested. It has what every conference organiser is desperate for, high quality delegates, but it cannot compete with professional conference organisers when it comes to the handling and content of the event. Some might say the organisation has been lazy and complacent. SLT

"Ladies, if you don't turn up in bigger numbers, we'll never get better speakers."

Sebastian Coe on the introduction he received at his first political speech.

Upcoming industry events

12th Annual Collateral Management

Date: 7-9 September 2011
Location: London
Website: http://www.marcusevans.com

This collateral management event, brings together senior figures from the collateral world in order to address key topics including regulatory reform, automisation, optimisation and how to attain best practice in operational procedures.

The Finadium 2011 Conference

Date: 20 September 2011
Location: New York
Website: www.finadium.com

Themes for this year's conference include ETFs in securities lending, transparency in financing for hedge funds and their investors and the impact of CCPs on collateral management. Lunch is provided and networking is encouraged.

Collateral Management & Securities Financing Asia

Date: 21-22 September 2011
Location: Hong Kong
Website: www.collateralmanagementasia.com

Collateral management & securities financing framework is now a top consideration for Asian financial institutions.

16th European Beneficial Owners' Securities Lending Conference

Date: 26-27 September 2011
Location: London
Website: www.imn.org

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.

5th Annual Collateral Management 2011

Date: 5-6 October 2011
Location: Barcelona
Website: http://finance.flemingeurope.com

The Fleming Group brings you Collateral Management, already in it's fifth year. Collateral managers from major European financial institutions will gather in the beautiful city of Barcelona to discuss latest trends and developments.

28th Annual RMA Conference on Securities Lending

Date: 10-13 October
Location: Naples, FL
Website: www.rmahq.org

RMA's Annual Conference on Securities Lending last year held in Boca Raton, Florida at the Boca Raton Resort & Club rebounded from previous years and the effects of the unprecedented financial market events with over 425 securities lending and borrowing professionals from across the industry attended.

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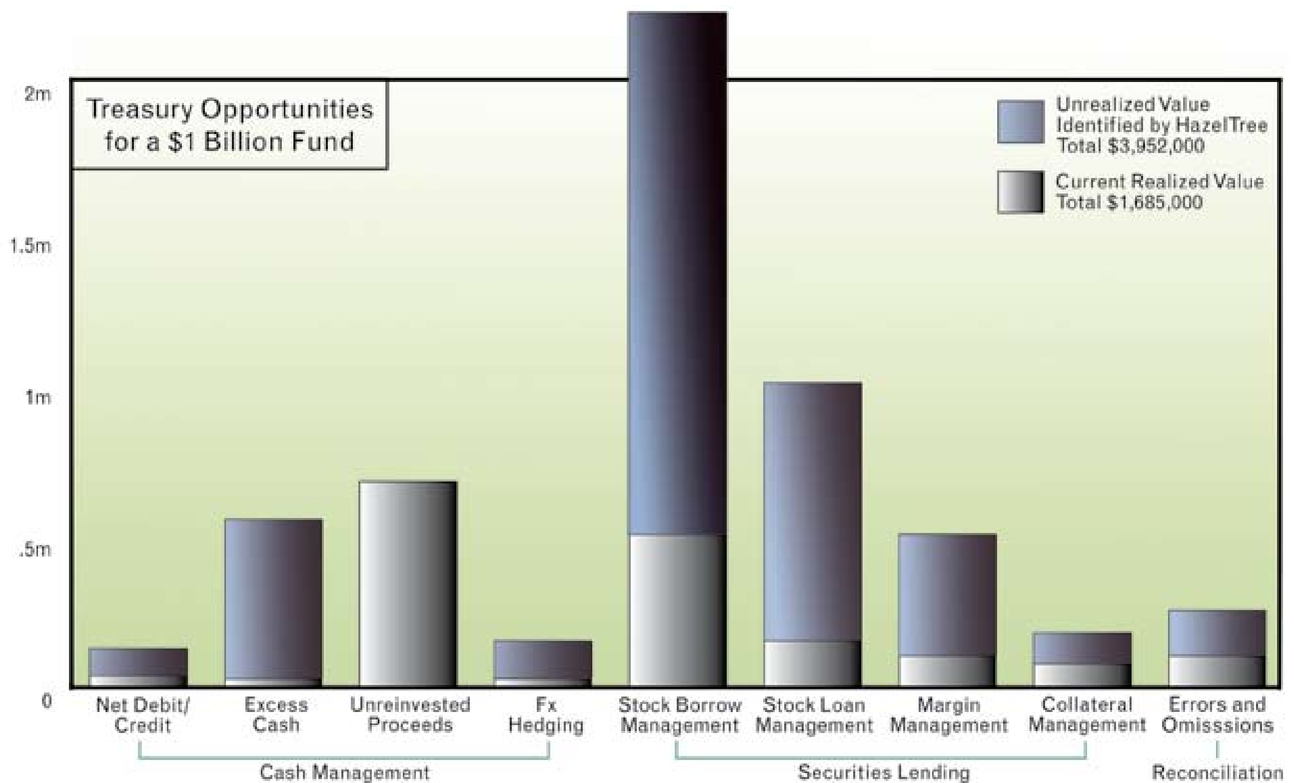

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Training and Education

Date	Location	Course	Provider
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
27-28 Jul	London	**Global Collateral Management** Explaining the rationale and current best-practice functioning of collateral management programmes for financial institutions. The course is therefore suited to individuals who are either starting up a collateral management function or seeking to improve their unit's capability.	FinTuition
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
22 Sep	London	**Risks & Controls in Securities Operations** This course provides a good Risk and Controls awareness for operations. It helps the early identification of risks, an application of appropriate and timely controls, and helps reduce the possible escalation of dangerous situations within normal day-to-day activity.	Investment Education PLC
16–17 Nov	London	**Collateral Management** This course looks at Collateral Management in OTC Derivatives in particular as well as Repos and Securities Lending and Borrowing. Risk identification, control, documentation, types of collateral, gross and net exposure and other practical aspects are covered as well as the conceptual framework and practical problems egg the treatment of corporate actions on a borrowed/lent position.	Investment Education PLC

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Industry Appointments

Rob Ferguson has been named head of global securities lending at CIBC Mellon, taking on sole responsibility for leading CIBC Mellon's capital markets team. Also moving into a new leadership role is **Phil Zywot**, who has been named head of trading and will manage CIBC Mellon's trading desk.

"Rob and Phil have long demonstrated outstanding leadership in helping to build a world-leading securities lending operation that continues to win praise for outstanding service and execution," said Tom Monahan, president and chief executive officer, CIBC Mellon. "Robert Chiuch's new role as a senior leader within BNY Mellon's securities lending operation also positions us well to further strengthen our companies' partnership as we work to support clients around the world. I have no doubt that all three will excel in their new roles."

Ferguson has 21 years of experience in securities lending. He joined CIBC Mellon at the company's inception in 1996, coming from a securities lending software vendor. Ferguson was promoted to vice president, product and client service in 2004 and to co-head of global securities lending in 2010. In 2011, he chaired the Canadian Global Securities Lending conference. Ferguson holds an honours degree in economics from York University.

Zywot has 20 years of financial industry experience, including 15 years in securities lending. Zywot joined CIBC Mellon in 2004, and has held progressively more senior roles at the company's trading desk, working on fixed income, domestic equity and international equity lending. Zywot has an honours degree in economics from the University of Toronto, as well as a derivatives market specialist (DMS) designation from the Canadian Securities Institute. He is also a certified financial planner (CFP).

BNY Mellon Asset Servicing has named **David DiNardo** chief operating officer of its securities lending business and **Robert Chiuch** managing director in the securities lending business, with responsibility for leading the U.S. equity and corporate securities lending team.

DiNardo, who reports to James Slater, global head of securities lending, is responsible for implementing strategic initiatives, coordinating the key functions of the business, and directing the risk and compliance requirements of securities lending.

DiNardo had been a managing director in the group with responsibility for product development and project management. He succeeds Slater, who recently became BNY Mellon's global head of securities lending.

"David DiNardo has done an outstanding job in coordinating our efforts to bring new technology to BNY Mellon's clients, resulting in better service in a wide range of areas including trading, reinvestment and reporting," Slater said. "In his new position, he will play a key role in identifying opportunities for continuing improvements in our operations and further enhancing the experiences of our clients."

DiNardo joined BNY Mellon's securities lending business in 1994 and started in operations then quickly moved into the systems and technology group. He was named manager of that group in 1997. He was awarded bachelor's degrees in finance and mathematical economics by John Carroll University and an MBA and master's degree in information systems by the University of Pittsburgh.

Chiuch, who also reports to Slater, had been co-head of global securities lending at CIBC Mellon, a leading provider of financial services for institutions and corporations that is jointly owned by Canadian Imperial Bank of Commerce and BNY Mellon. He will be based in New York.

Clearstream has appointed a new head of the Representative Office in Japan. As of 1 July 2011, **Takashi Kimori** will succeed Kyoichi Murakawa as chief representative of the Clearstream office in Tokyo. Takashi Kimori's responsibilities will include relationship management of all institutions within Japan and further development of Clearstream's business in Japan. He will report to Philippe Metoudi, member of the Executive Board of Clearstream and head of client relations Asia/Pacific/Middle East/Africa, based in Clearstream's Asia headquarters in Hong Kong.

Philippe Metoudi said: "Since the establishment of the new Japan office in March 2007, Mr Murakawa has been the driving force behind our Japan activities. He has developed the business on site and grown our customer base in Japan. I would like to thank him for his achievements and I am delighted that Mr Murakawa will continue with Clearstream in a position of special adviser. I welcome Takashi Kimori on board. With his depth of industry knowledge and experience in Japan and globally, I am confident that Mr Kimori will continue to extend our business in one of the most important markets in Asia. I am looking forward to working with him to further develop and to realise our growth strategy in Japan."

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Published by Black Knight Media Ltd

16 Bromley Road
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Clearstream has a long-standing presence in Asia and Japan. The company opened its first office in the region in Hong Kong in 1990. In November 2006, Clearstream became the first international central securities depositary to start settling interest-bearing Japanese government bonds outside Japan. Its current Japan office was opened in March 2007. In November 2009, Clearstream inaugurated its Singapore branch – the company's operational hub for Asia. The company also has an office in Dubai since 1995. **SLT**

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