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US budget crisis hits securities lending collateral

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The ongoing budget crisis in Washington is having serious effects on the securities lending market, and although a default is still considered unlikely, the fragile confidence of participants could be hit further in the event of a ratings downgrade.

Although few in the industry are prepared to publicly predict what will happen, the expectation amongst many appears to be that a default will be averted at the last minute but a downgrade is virtually inevitable.

Any downgrade will affect the collateral on account - US debt is one of the most common forms of collateral, but losing its AAA rating would technically make most of the collateral agreements in breach.

"We're seeing a lot of our clients looking for much shorter agreements at the moment," said one insider. "They don't want to have to stay in the market any longer than necessary."

Meanwhile the cost of UK debt, which is not under pressure at the moment, is now higher than that of the US, for the first time in several years. General collateral repo rates have also become more expensive, while money market rates have fallen. Stock markets in both the US and internationally have seen heavy falls.

If US debt is downgraded, some industry insiders have speculated there will be a huge rush to find alternative collateral, pushing up the cost of borrowing. But, says one, more important is the issue of liquidity.

"We don't just accept AAA rated collateral, but a lot of our clients have specified that is all they will accept. So when the downgrade occurs, everyone is going to be dumping the same collateral and demanding new stuff. The issue is how long it will take - I think we should be able to reorganise in a week, but there will be a lot of nervous faces in that time."

NEWSINBRIEF

Northern Trust wins securities lending mandate

Northern Trust has been awarded a GBP 4.6 billion mandate to provide global custody, securities lending, transition management, investment risk and analytical services, cash and foreign exchange services to Lancashire County Council, one of the UK's largest local government pension schemes. The mandate encompasses both pension fund and treasury assets.

"Northern Trust will act as our single book of record across our pension fund and treasury assets, which is very attractive to us especially given the mix of investments we use, the different analysis needed and the overall reporting requirements we have," said Mike Jensen, head of pensions and treasury at Lancashire County Council.

readmore p2

NSE plans to start securities lending

The Nigerian Stock Exchange (NSE) has announced plans to begin securities lending and short selling.

Oscar Onyema, chief executive officer, NSE, said the exchange is collaborating with industry participants to ensure a smooth launch of the new instruments.

INSIDE SECURITIESLENDINGTIMES

BNP Paribas CIB unveils global prime brokerage platform

BNP Paribas Corporate and Investment Banking has unveiled its global prime brokerage platform, which provides clients with a global approach to financing, execution and servicing.

The platform will enable the bank to clear and custody assets in nearly every market as well as offer margin financing in 31 markets and in 13 currencies.

The new development by the Global Equities and Commodities Derivatives team, brings products to a broader range of clients, from multi-strategy funds to emerging mid-size specialists, can now trade in non-US securities, receive non-US reporting and gain access to financing in non-US jurisdictions.

"We wanted to come to market with a multifaceted platform that is global in nature and seamless in execution so we've designed it from the bottom up," said Sam Hocking, global head of prime brokerage sales. "In looking at the bigger picture, we have created a platform that will anticipate the global needs of our clients. The on-boarding process is efficient and straightforward and the overall platform is simpler for our clients to use."

BNP Paribas' Prime Brokerage platform encompasses five main activities: Financing Solutions, Technology and Reporting, Global Securities Lending, Global Execution Services and Capital Introduction. The platform also features global securities lending, a global order management system, real-time profit & loss and 24x5 trading capabilities.

BNP Paribas has 350 employees dedicated to the prime brokerage platform. The bank has plans to grow its prime brokerage staff in the US, Asia and Europe over the next year.

"We are growing our business and utilising the global resources of the bank and plan to introduce additional capabilities throughout the year," said Jeff Lowe, head of equities product development.

Northern Trust wins securities lending mandate

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"Other key factors in our decision to appoint Northern Trust were its focus on, and expertise in, asset servicing for pension fund and treasury assets; the fact that it can provide a tailored securities lending programme and transition management capability; and its excellent reputation in the local government pension scheme sector, all of which gave us additional confidence in Northern Trust's ability to understand and meet our requirements now and in the future," added Jensen.

"Local government pension schemes are operating within an ever-changing regulatory, economic and investment environment and face particular opportunities and challenges," said Douglas Gee, institutional business development manager for asset servicing at Northern Trust. "We are able to support these clients not only through the products and services we offer, but also through our Retirement Solutions Practice, which provides insights into the complexities of the regulatory landscape. The local government pension scheme sector in the United Kingdom is a key segment, in which Northern Trust has a great deal of expertise, stretching back many years. We work with 37 percent of UK local government pension schemes, and we are delighted to now be able to name Lancashire County Council amongst our clients."

Lancashire County Council was advised by consultants, Thomas Murray, and follows other local government pension scheme wins announced by Northern Trust this year. These include the GBGBP 3.2 billion (approximately US$5 billion) Lothian Pension Fund, the GBGBP 1.2 billion (approximately US$2 billion) Dyfed Pension Fund and the GBGBP 739 million (approximately US$1.2 billion) London Borough of Wandsworth. In addition to expertise in the local government pension scheme sector, Northern Trust provides custody and related services to more than one third of the top 200 pension funds in the United Kingdom.

"By building our systems from scratch, we are able to offer a sophisticated platform which employs the latest technology and is distinctively different from what is presently offered in the market."

DAP and Paladyne team up

Direct Access Partners and Paladyne Systems have formed a strategic relationship to provide Paladyne's turn-key technology solution, Paladyne FastStart, directly to clients of Direct Access Partners. The combined offering provides emerging to medium-sized fund managers with a cost-effective institutional-grade technology solution that streamlines their trading and operations as well as enhances their ability to address due diligence concerns in today's demanding capital raising environment.

DAP clients will receive a number of key benefits from Paladyne FastStart:

Turn-key technology platform: Paladyne FastStart is a complete front- to back-office technology solution for hedge fund managers including: end-to-end electronic trading, order management, pre/post-trade compliance, real-time P&L monitoring, position keeping and portfolio management, firm-wide reporting and automated reconciliation to 3rd-party counterparties such as prime brokers and fund administrators. Paladyne FastStart is a fully hosted ASP solution including hardware, connectivity, 24x7 IT support and full disaster recovery, which allows hedge funds to operate their businesses at minimal cost with no IT infrastructure requirements.

Broker-neutral platform: Paladyne FastStart provides hedge funds a true multi-prime trading and portfolio management solution that is broker-neutral and provides full operational support for any combination of prime brokers and service provider relationships.

Managed account platform: Paladyne FastStart provides full operational support for managed accounts with flexible trade allocation, compliance monitoring, automated reconciliation, and firm-wide aggregated reporting across all funds and managed accounts.

Ben Chinea, CEO of Direct Access Partners, commented: "Paladyne has set the technology gold standard. We are committed to provide our clients the best value - be it capital raising or trading solutions. The increase of institutional investment in hedge funds requires that our clients have world-class operations and technology solutions. Paladyne is the leading provider to these firms and we are pleased to provide our trading and prime brokerage customers the Paladyne FastStart solution."

Sameer Shalaby, CEO of Paladyne Systems, said: "Direct Access Partners has earned the respect and loyalty of its clients by providing value through its institutional trading and capital raising capabilities. DAP clients who leverage Paladyne are at a distinct competitive advantage in terms of capital raising and operational efficiency."

Pakistan amends CGT rules

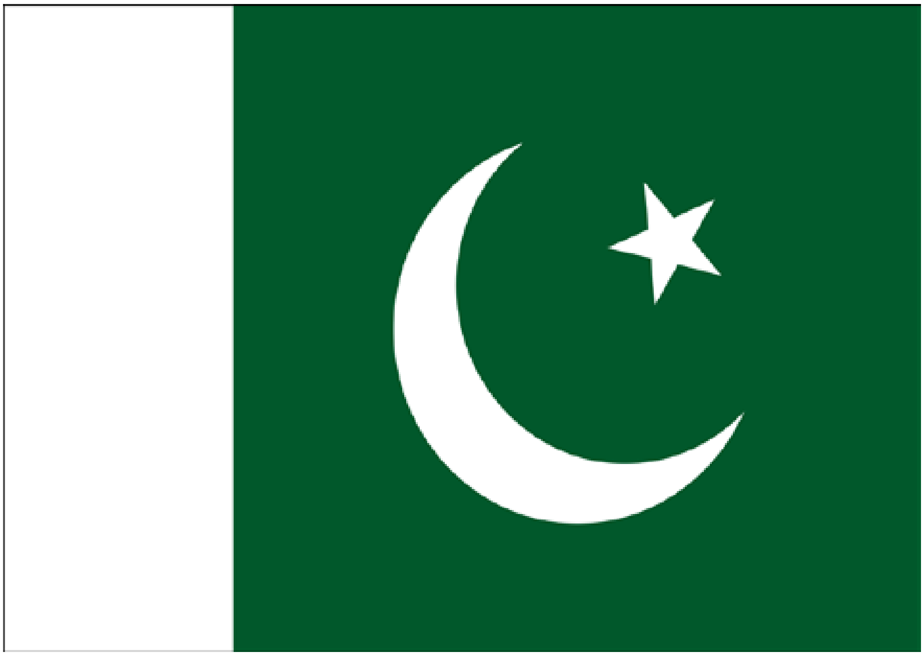
The Pakistani Federal Board of Revenue (FBR) has issued draft amendments to the Income Tax Rules relating to the treatment of the capital gains tax (CGT).

According to the draft rules, for the purpose of calculating CGT, the cost of acquisition of shares will include the borrowing cost when investment is made through the margin trading system or any other leverage product approved by the Securities and Exchange Commission of Pakistan (SECP).

This adjustment bodes positively for the margin trading system, which has so far not lured interest of market participants. Furthermore, profit earned through sale of borrowed shares, under the securities lending and borrowing mechanism, will be treated as capital gain and it will be calculated as the difference between sale and purchase price net of all borrowing costs.

Wash sales by the same investor have been allowed for tax adjustments against the capital gains under the new draft rules; however, the same within related parties continue to be non-adjustable for CGT.

The filing of quarterly CGT for non-individual investors has been increased to 21 days from seven days previously. Moreover, the Federal Board of Revenue will directly obtain information regarding market participants from the National Clearing Company of Pakistan Limited (NCCPL).



Fed chairman Bernanke to go beyond Dodd Frank

Federal Reserve chairman Ben Bernanke has said that US regulators are aiming to increase oversight of certain areas of financial markets beyond that of Dodd Frank.

Bernanke said they are focusing is on the tri-party repo market and money market mutual funds in an attempt to address any structural weaknesses in the markets.

"Regulators are enjoined not only to look for emerging financial risks but also to try to identify structural weaknesses or gaps in the regulatory system, thereby helping the regulatory framework keep pace with financial innovation and other market developments," Bernanke said.

ESMA seeks a review of current UCITS rules

The existing regulatory requirements for UCITS exchange traded funds and structured UCITS are not sufficient, according to ESMA, to take account of the specific features and risks associated with these types of fund.

ESMA has released a discussion paper, which examines the possible measures that could be introduced to mitigate the risk that particularly complex products, which may be difficult to understand and evaluate, are made available to retail investors. In this document, ESMA also raises the potential systemic risk caused by these types of fund and their impact on financial stability. ESMA will use the feedback received to this paper to develop draft guidelines for such funds.

Steven Maijoor, chair of ESMA, said: "Investor protection is one of the core missions of

ESMA. With the publication of this discussion paper, we seek views on policy orientations to improve the transparency and quality of information provided to investors buying UCITS ETFs and structured UCITS. Also, specific safeguards need to be developed for activities like securities lending used by UCITS ETFs or for complex strategies pursued by some structured UCITS. However, in order to preserve the integrity of the UCITS brand and to protect investors, it cannot be excluded that it may be necessary for ESMA to issue warnings to retail investors about the risks of these products or even to limit the distribution of certain of such funds to retail investors. In this context, ESMA may need to ask for appropriate powers for inclusion in the relevant sectoral legislation."

For ETFs, ESMA has identified the following topics for which guidelines should be developed and on which feedback is sought:

Use of an identifier
ESMA believes that UCITS ETFs should use an identifier, in their name and in their fund rules, prospectus and marketing material, which identifies them as an Exchange-Traded Fund.

Index-tracking issues
The Authority is of the view that the prospectus of index-tracking ETFs should contain a clear and comprehensive description of the index to be tracked and the mechanism used to gain exposure to the index.

Synthetic ETFs
ESMA proposes that the information provided to investors in the prospectus of synthetic ETFs should at least include information on the underlying of the investment portfolio or index, the type of collateral which may be received from the counterparty and the risk of counterparty default and the effect on investors' returns.

Securities lending activities
For securities lending activities, ESMA suggests that the collateral received should comply with the criteria for OTC transactions set out in CESR's Guidelines on Risk Measurement and Calculation of Global Exposure and Counterparty Risk for UCITS (Ref. CESR/10-788). Also, the Authority is of the view that investors should be informed about the policy in relation to collateral, e.g. permitted types of collateral and the level of collateral required by the UCITS.

Disclosure of main risks of actively-managed ETFs
For this type of ETF, ESMA proposes that investors should be clearly informed of the fact the fund is actively managed and of the main sources of risks arising from the investment strategy.

Disclosure of the leverage policy when used by ETFs
The prospectus of leveraged ETFs should disclose the leverage policy and the risks associated with it, as well as a description of how the daily calculation of leverage impacts on investors' returns over the medium to long term.

Secondary market investors
ESMA is considering the possibility to require UCITS ETFs to give all investors, including those who acquire units on the secondary market, the right to redeem their units directly from the UCITS.

For structured UCITS, ESMA considers that guidelines should be developed with regards to total return swaps and strategy indices.

For structured UCITS gaining exposure to complicated investment strategies, ESMA believes that both the structured UCITS' investment portfolio, which is swapped, and the underlying to the swap to which the UCITS obtains exposure, should comply with the relevant UCITS diversification rules. Also, the Authority thinks that the role of the counterparty of the total return swap should be subject to specific safeguards.

Concerning strategy indices, ESMA proposes policy orientations on, inter alia, the appropriate frequency of rebalancing the index and how their composition should be disclosed.

Next steps
Responses to this discussion paper will help ESMA in narrowing down its policy approach. Based on the responses to this discussion paper, that are due by 22 September, ESMA will develop draft guidelines for UCITS ETFs and structured UCITS. The proposed guidelines will be subject to a public consultation, the results of which will be used by ESMA to finalise the guidelines.

Tradeweb launches electronic European repo marketplace

Tradeweb Markets has launched a European repo marketplace. The electronic dealer- to-customer platform mirrors the existing voice and message-based trading process, while enabling efficient trade execution and substantially simplifying the post-trade complexities of collateral assignment and allocation.

Institutional investors across Europe have already shown strong commitment to the platform. In addition to the benefits of speed and efficient trade processing, customers are able to request executable quotes from up to five dealers, which can be viewed in one place at one time, and negotiate rates and haircuts. A full audit trail of activity provides best execution reporting to the buy-side.

"We continue to be at the forefront of electronic trading in fixed income and derivatives markets," said Steve Hall, head of Tradeweb's international business. "Our clients understand the benefits of electronic trading and we are excited about this new opportunity."

Tradeweb has nine liquidity providers either already live or in the process of technical implementation, and further interest from the wider dealer community. Dealers are keen to provide repo liquidity to their customers, whilst benefitting from efficient collateral assignment and allocation tools, and from straight through processing.

"We have drawn on our deep understanding of the money markets and our clients' needs, and worked closely with both the buy- and sell-side to develop a marketplace that creates real efficiencies," commented Nigel de Jong, a director of money markets at Tradeweb. "European repo is becoming an increasingly important product for institutional investors. Now they can execute across a broad range of European money markets instruments on Tradeweb."

Users can trade classic repo and reverse repo on tri-party, bilateral general collateral and bilateral specials on terms from overnight to one-year, with forward start capability.

Rule Financial continues growing

Rule Financial has seen sales of £26 million for the first half of 2011 which have exceeded target. This follows an exceptionally strong 2010, which saw the company deliver £38.3 million in revenue, a 40 per cent increase on 2009 figures.

Recent company growth has been driven by Rule Financial's focus on developing and recruiting sector specialists who work closely with clients in London and New York, advising them on a broad range of issues from risk management to mobile and multiplatform trading deployments.

The company is also responding to increasing client demand for complex systems development and integration with a combination of onshore and nearshore delivery of services. To meet this demand in the first half of 2011, Rule Financial has added 30 more members of staff to its team in Poland and moved to larger purpose-built premises in Lodz.

In the past six months, investment banks have relied on Rule Financial for support with projects in areas such as OTC Derivatives Clearing, Collateral Management Optimisation, and Mutiplatform UX design and build for eTrading and Risk Reporting. The company has also witnessed growing demand for application support services to help banks deliver cost-savings and business efficiencies. Rule Financial is now the leading provider of support for the Global One application.

More generally, in recent months the company has continued to widen its scope; winning major global investment banking clients in London, New York and Singapore.

The continued expansion and successful delivery of services has culminated in the recent rebranding of the company to reflect its enhanced specialist capabilities. As part of this rebranding, Rule Financial has launched a new corporate website, providing additional value for clients by providing thought leadership within investment banking, operations and IT.

Commenting on Rule Financial's first half results, Chris Potts, CEO of Rule Financial, said: "Despite volatile market conditions, Rule Financial has delivered strong H1 sales performance and we expect this growth to continue in H2. The growth of our business in Poland means we can now offer scalable, high-quality delivery capabilities for specialist areas of investment banking, providing the operational efficiency and flexibility that is so crucial for our clients. As we look to the second half of this year, I anticipate our growth will be driven by specific projects focused on complex systems integration, application support services and combinations of onshore and nearshore delivery.

Real-time risk management an essential tool

New risk management research, published by Lepus and commissioned by SAS, has found that while global investment banks are at different stages in the move to near real-time risk management, they all agree that the ability to aggregate global data and take snapshots of their risk position is essential not only to react to extreme scenarios but also for risk events that occur every day.

Further to the European Banking Authority (EBA) putting in place more stringent stress tests and the Basel Committee modifying its Internal Model Approach, the banks interviewed highlighted the need to give decision-makers the ability to review their risk profile and make quick assessments to protect or decrease their exposure as the market evolves.

Alongside supporting regulatory compliance, the report found that near real-time risk management allowed firms to understand their risk position throughout the day and undertake more and/or greater trading positions across complex assets with more confidence.

However, the report also found moving to a near real-time risk monitoring environment remains a challenge for firms to realise. Key issues to overcome include data quality and accessibility - often the risk data is duplicated centrally away from the books and records in order to be able to run analytics on it, which requires strong reconciliation programs.

The report concludes that while banks have reacted strongly in the face of the financial crisis and have the risk appetite framework to move forward to address the future demands of regulators; technology now needs to step forward to meet those demands.

Geoff Kates, managing director, Lepus, commented: "Most traders can access their risk information at trade and book level on a real-time or near real-time basis but it is the risk management oversight that requires an aggregated view of the portfolio, divisional, regional and global levels. Current trends require a solution where actions are consistent with business strategies and an enterprise–wide view of all operations, rather than a siloed approach to risk management."

Dale Stevens, head of capital markets, SAS UK, added: "It's clear that an overhaul of technology is necessary as financial institutions start to implement more sophisticated risk mitigation solutions and approaches. However, such an overhaul should not have to mean a replacement or upgrade to existing systems, but rather a universal platform that connects throughout the bank, interrogating all the necessary data on demand, and using the latest high speed technology."

BNY Mellon agrees to sell ConvergEx stake

BNY Mellon has agreed to sell a majority of its equity stake in ConvergEx Group as part of a definitive agreement for ConvergEx Group to be acquired by funds advised by CVC Capital Partners in an all cash transaction expected to close in the early autum.

BNY Mellon agreed to sell the majority of its holding in ConvergEx Group while remaining a minority shareholder. Upon closing, the transaction is expected to enhance BNY Mellon's capital position, adding approximately 15 basis points to the company's Basel III Tier1 Common Equity.

"This transaction will provide a meaningful boost to our strong capital position and enable us to benefit from the ongoing growth of ConvergEx Group as one of the leaders in providing software and technology solutions to asset managers and financial intermediaries globally," said Thomas Gibbons, vice chairman and chief financial officer of BNY Mellon. "We look forward to working with CVC and management to support ConvergEx as it enters its next phase of growth."

Hedge funds down in June

The latest Eurekahedge report has found that hedge funds fell for the second consecutive month, with the Eurekahedge Fund Index losing 1.22 per cent during June.

Across the world, most regions saw a fall, although Japanese managers saw a slight rise of 0.25 per cent.

Net asset flows into the industry totalled $2.6 billion, while performance based losses added up to $11.14 billion.

MIK launches equity finance and tracking system

MIK Fund Solutions has released a comprehensive and integrated equity finance tracking and optimisation system for hedge funds and asset managers. The application is designed so managers have the opportunity to reduce and optimise borrow costs, improve reporting and attribution of their financing costs, and improve the overall decision making process around equity financing activities.

By deploying the application, MIK clients obtain a view into all of their financing interactions with their execution brokers, thereby creating a powerful analytic tool for managers to monitor, measure, and evaluate financing activities across a customised array of categories, defined and chosen by the fund.

As hedge funds and asset managers need to continually seek alpha, there is a need to lower and optimise financing costs that have a direct impact on fund returns. Through equity finance data capture, finance and borrow information across multiple periods is automatically and easily retrieved. Such data and analysis is essential to financing decision process, and is integral in assessing current and future position allocations.

A cornerstone of the product is its ability to process a landslide of information contained in the various stock loan data sets from the street. The fully customisable tool ties together all related securities indications from the source files automatically as they become available, and with minimal market data costs incurred by the client using market standard symbology tools available to the general marketplace.

As a commercial proposition, the ability to view financing data across brokers, regions, asset types, portfolio managers, traders, etc., enables managers to have critical information regarding financing activity and providing a tool to act on this information. The system validates the accuracy of barrow charges, automates the recording and tracking of stock loan locates and pre-barrows, and identifies of lower borrow rates and suggests optimisation. The application provides detailed reporting, trend charting, alerts and other tangible measures to assist in the client's day to day operations.

Said Marshall Saffer, chief operating office of MIKFS: "Basic financing data collection and analysis using MS Excel is no longer sufficient for hedge funds or asset managers in today's complex trading environments. Rather, firms now demand, as next stage thinking, the ability to use data in a comprehensive and integrated way, to ultimately lower costs around financing and reduce the impact of financing on fund performance."

AQR launches new multi-strategy alternative mutual fund

AQR Capital Management, LLC, announced today the launch of AQR Multi-Strategy Alternative Fund (ASANX/ASAIX), the newest addition to its mutual fund family.

The new no-load mutual fund began operations on July 18, 2011 with a $20 million investment by AQR. The Fund's investment objective is to seek long-term positive absolute return through a broadly diversified portfolio of alternative strategies that are traditionally made available through hedge funds.

The Multi-Strategy Alternative Fund targets low correlation to traditional asset classes and seeks to provide exposure to nine different types of alternative strategies: Convertible Arbitrage, Event Driven (including Merger Arbitrage), Fixed Income Relative Value, Equity Market Neutral, Long/Short Equity, Dedicated Short Bias, Global Macro, Managed Futures and Emerging Markets.

"By providing investors with access to nine different alternative investment strategies," said David G. Kabiller, CFA, Founding Principal and Head of Client Strategies at AQR, "the AQR Multi-Strategy Alternative Fund attempts to provide a comprehensive solution to their alternative investment needs. In addition, by targeting low correlation to traditional asset classes, the Fund has the added benefit of potentially increasing investors' portfolio diversification."

"As of today, there are only a relatively small number of mutual funds that pursue a similar multi-strategy approach. With AQR's extensive experience in managing multi-strategy portfolios for institutional clients, we believe that AQR is perfectly poised to respond to a growing market need among mutual fund investors. The launch of the Multi-Strategy Alternative Fund reinforces AQR's commitment to introducing innovative mutual funds that may help individual investors to build more efficient and diversified portfolios."

Distributed through financial advisors only, the Multi-Strategy Alternative Fund is the ninth mutual fund launched by AQR. Since the launch of the first fund in January of 2009, the AQR Funds have grown to over $4.7 B as of June 30, 2011.

Poland

By going against the grain, Poland has proved that securities lending in jittery conditions can succeed

BEN WILKIE REPORTS

The financial crisis has generally not been too kind to the emerging market economies of Central and Eastern Europe. As investors sought if not a flight to quality then a flight to comfort, money was pulled out of the smaller markets in favour of more established destinations, reducing liquidity and growth.

Yet Poland didn't do too badly. True, property values fell, unemployment rose and growth was subdued, but compared to some of its neighbours, conditions were fairly benign.

In a speech last year, the then-head of the International Monetary Fund, Dominique Strauss-Kahn, commended the market for its success during difficult times. "Sound macroeconomic and financial management allowed Poland to emerge relatively unscathed," he said. "Indeed, Poland was the only economy in the EU to register positive economic growth in 2009.

"Naturally, given the tremendous diversity in the region, countries in emerging Europe have experienced the crisis very differently—ranging from Poland which virtually escaped recession altogether, to Ukraine, the Baltics, Romania and Hungary—all of which suffered severe downturns. What has made the difference in terms of a country's response to the crisis has been the quality of its economic policies and institutions.

"In this regard, Poland stands out. Thanks to strong economic institutions and commendable policy management, Poland has avoided the excesses seen in many other countries in recent years. And because there was sufficient fiscal space to adopt temporary stimulus measures, the impact of the crisis on growth was lessened. Indeed, as the largest economy in the region, Poland is leading the economic recovery."

But Poland's recovery didn't come from slavishly following the moves implemented by its neighbours to stem the crisis. At the time when countries across Europe were curtailing short selling activities as the financial mismanagement in Greece became increasingly clear, Polish regulators went the other way. Short selling was introduced in July 2010, the authorities believing that if the market was to encourage more international participants, then the need for hedging was paramount.

Short selling is permitted for:

- shares participating in the WIG20 exchange index, or
- most liquid shares outside WIG20 index with the value of free-float shares at least equal to PLN 300 million and average daily value of trading in shares in the last six months is at least equal to PLN 4 million, or
- shares whose free-float value on the first day of trading represented at least 1 per cent of the value of free-float shares of all companies participating in so called liquidity ranking run by the WSE comparing however the shares may be subject to short sale under this criterion only for the next six months since the first day of trading, or
- all government bonds listed on the WSE.
- The list of securities available for short selling is published by the WSE on a daily basis from mid-June, 2010. By principle all securities that fulfil one of the above listed criteria should be available for short sale, although the Exchange Management Board may arbitrary not allow specific securities for short sale.

Each short sale order submitted to the exchange must include a special designation (short sale flag) to differentiate it from other broker's orders. A short sale order will be automatically rejected in the following circumstances:

- a short sale order is submitted for securities which, at the time of submitting the order, do not fulfil the eligibility conditions for short sale orders

- securities which fulfil the conditions are subject to a temporary suspension of accepting of short sale orders (the Exchange by its decision may suspend the accepting of short sale orders).

The exchange can discontinue accepting short sale orders in case of a significant increase in settlement risk upon the statement from the NDS, or in the event of a significant decrease in the value of the WIG index or the price of individual shares during a given trading session in combination with a high share of short sale transactions in the value of trading in all transactions on the market (short sale circuit breakers). In particular cases when safety of the Exchange trading or interest of participants is considered, the Polish Financial Supervision Authority may request for suspension of accepting short sale orders.

Short sale orders will be suspended by the end of current trading session for all shares admitted to short selling if:

- the value of the WIG index in relation to the reference value for the given session decreases by more than 3 per cent and
- the share of the present value of trading in short sale transactions concluded in all shares available for short sale in the value of all transactions in these shares is greater than 20 per cent.
- Short sale orders will be suspended by the end of current trading session for individual shares admitted to short selling if:
- the price of the given shares in relation to the reference price for the given session decreases by more than 10 per cent and
- the share of the present value of trading in short sale transactions concluded in the given shares in the value of trading in all transactions in these shares is greater than 20 per cent.

If the above conditions will be appear at the closing of a trading session the suspension will be extended by the end of the next trading session.

After the closing of a trading session, the exchange will publish information about the cumulative volume, value of trading and number of short sale transactions.

Short selling transactions can be concluded on the Warsaw Exchange by direct participants of the WSE upon a dedicated agreement signed with its local clearing Agent. The above requirement is stipulated by the Polish regulations (art.7.p.5a of Act on Trading in Financial Instruments).

It was a risky strategy. Poland effectively went against the conventional wisdom on most of continental Europe and although it has the back up of being part of the European Union, there were commentators who warned it could be dragged into the mire faced by Hungary and Romania, or even Greece if investors suddenly lost confidence in the market.

But this didn't happen. While no-one would say the market boomed, it certainly has thrived compared to those of its neighbours. Poland has ambitions to become the major financial centre for Central Europe and a gateway into the East, and moves like this are certainly helping it along.

And it has brought more players into the market. Citi has been offering securities lending in Poland for a year, and in June Eurex lanched 19 single stock futures (SSF) on leading Polish companies on 27 June 2011. The new listings reflect customer demand for derivatives based on shares from one of the largest economies in Eastern Europe. The new SSF contracts will be based on 19 shares of the Polish blue chip index WIG 20 (except CEZ) and denominated in euro. The launch extends Eurex's SSF offering with a new country, bringing the total number of covered countries to 21.

"As Eastern European countries become more and more important for our customers and investors, demand for products based on companies listed in these markets also increases. Therefore, we have extended our offering and launched contracts covering companies from one of the biggest Eastern European markets", said Peter Reitz, member of the Eurex Executive Board. "Our current SSF suite gives customers greater flexibility in executing trading strategies in more than 850 names in Europe and internationally."

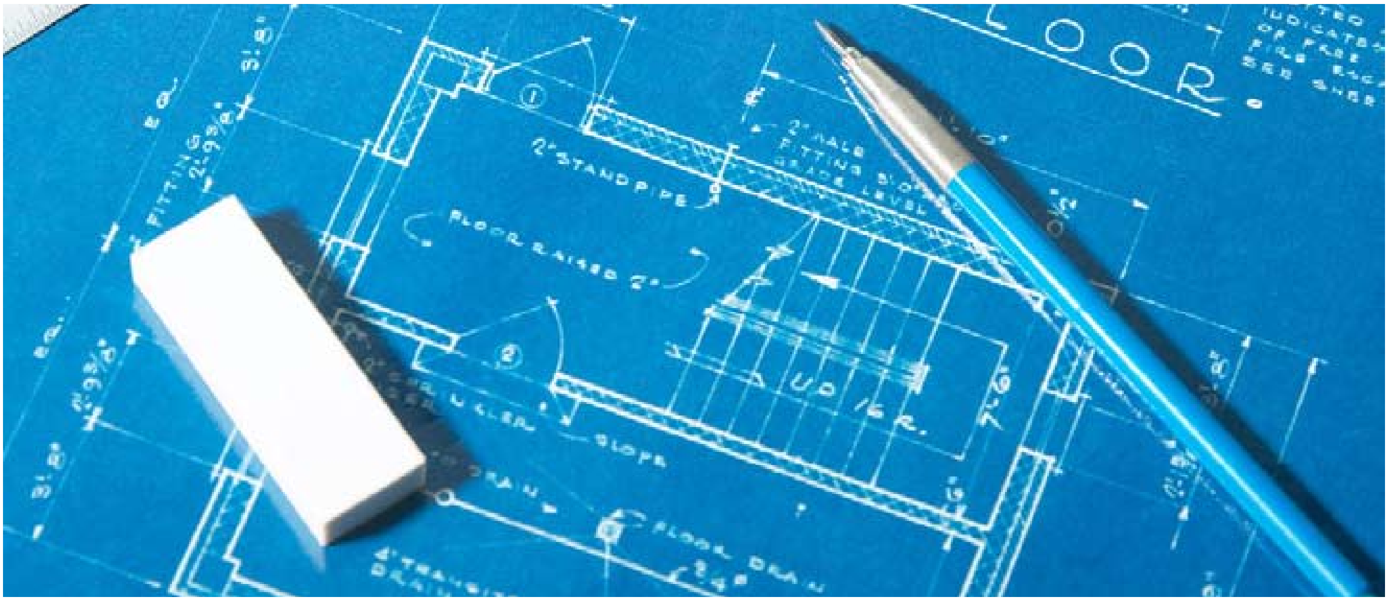
The new Polish SSFs will extend the number of covered Eastern European and emerging markets to four. Volumes in Russian SSFs, the largest emerging market segment at Eurex, have risen steadily since their launch in 2007: In 2010, contracts totaled more than 680,000, while year-to-date volume is almost 300,000 contracts.

The specifications of the new contracts are comparable to the other European listings. Each contract represents 100 shares and is cash settled. They will have expiry dates up to three years for the next 13 calendar months, plus the two following annual contract months out of the December cycle. The new Polish single stock futures also are eligible for Eurex's Block Trade Facility.

Meanwhile, The Warsaw Stock Exchange is working with the Polish National Depository for Securities on a platform which would facilitate and promote securities lending.

Exchange president Ludwik Sobolewski said the launch would coincide with further developments of the exchange's existing futures market on the exchange.

"The turnover on the stock market this year should be satisfying as compared with last year," said Sobolewski. "There will not be many large privatisation deals as in 2010. But the stock market is open longer, we are introducing a new strategy for the derivatives market and we are developing short sales. The market of IPOs is also flourishing." SLT



Technology focus

Following a successful integration with Mizuho, Helix's chief executive Todd Berlent speaks to SLT about the market and his plans for the future.

BEN WILKIE REPORTS

SLT: Can you tell me a little about Helix and its background?

Todd Berlent: Helix originated over 20 years ago. It was originally developed to address the needs of the repo market, but has since expanded to cover securities lending and mortgage backed securities, as well as settlements and clearing.

In 2005, the company was acquired by Cantor Fitzgerald, one of our biggest customers. The thought behind the acquisition was that the company was a customer, and the focus was on expanding into the repo space but also has other products. This meant we could share our improvements with both Cantor and our other clients.

We maintain an arms length agreement with Cantor, but we also get access to its repo desk, which gives us great feedback about their needs, their relationships with the system and any future market developments we need to be aware of.

SLT: Real time information appears to be the key driver for new technologies right now. Are firms making the most of the technology available to them?

Berlent: We're seeing a lot of firms - and not just smaller companies - still using antiquated systems and spreadsheets. So we spend a lot of time educating customers about the options available to them. Many people still think that buying a vendor system is the more expensive way to go, but in many cases in-house systems end up costing much more - and we have a pricing model that allows all customers, regardless of their size, to get access to our systems.

This is combined with the narrowing spreads that mean customers are reevaluating their technology spends but increasingly realising the need for real time systems. It's a bit of a mixed bag - a lot of customers seek us out to see how we can improve their technology, but sometimes they are set in the ways they are doing things and it's not until they view what's available that they can see the benefits.

SLT: Securities lending in general is still thought of by the wider market as fairly opaque. What are your views on this?

Berlent: I do think securities lending has become more transparent since the financial crisis. Products like Helix help people manage their business more effectively and identify the opportunities for more consistent funding.

Any good technology should be an enabler. We provide consolidated positions, we capture the information, we can provide information on risk and profit and loss, and we can control the post trade environment. We're giving customers the ability to see the whole picture. Knowing what financial vehicles they can support should give beneficial owners new confidence in the market.

SLT: You have plans for a new securities lending product. Can you give any further information on this?

Berlent: We're looking to launch a stock loan product, which is a natural complement to our existing offering. Our plan is for us to show something to prospective customers in time for the RMA conference [in mid October] We're also looking at expanding into wider overseas markets, with an initial focus in Europe.

As part of our development process, we're also looking at major improvements to Helix EPN, our mortgage allocation platform.

SLT: Your systems were recently transitioned into Mizuho. How did you find the process?

Berlent: It was a terrific experience. This was a significantly complex product launch that required a lot of pre-planning. We were replacing an existing system that Mizuho had used for several years, and we had to have a very close look at the advantages of transitioning and implementing over to what we could offer. It was a very close co-operation to ensure we understood Mizuho's requirements and when it ultimately went live on time and on budget after about 18 months of planning it was very rewarding. **SLT**

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The short case of Star Scientific

Star Scientific has had an interesting few months, says SunGard Astec Analytics' Andrew Shinn

MARKET PERSPECTIVE

One of the most popular short sales recently has been Star Scientific (NASDAQ:CIGX). Short sellers have borrowed and sold millions of shares of Star Scientific over the past four months. This activity can be traced back to Star Scientific's lawsuit against RJ Reynolds, which was filed in May 2001. The stock price whipsaws based on developments in the lawsuit.

Between last summer and early March 2011, short interest was roughly 13 million shares, or 13 per cent of 101 million shares float. Then on March 11, Star announced that the US Patent Office (USPO) declared that two of its patents, which are at the center of the ongoing lawsuit against R.J. Reynolds, are valid. Star's share price almost doubled from $1.86 on March 7 to $3.48 on March 14. Short sellers didn't immediately short many additional shares; short interest only increased 200,000 shares from 13.2 million shares at the beginning of March to 13.4 million shares on March 15. However, short interest climbed to 14.5 million shares on March 31 and 17.7 million shares at the end of April. Short interest now stands at 20.3 million shares as of June 30.

Star Scientific's lawsuit alleges that R.J. Reynolds infringed on Star patents that cover a proprietary way of curing tobacco that results in less bacterial contamination and fewer toxins. In June 2009, a jury determined that Star's patents were not valid and that R.J. Reynolds did not infringe upon the patents. Star lost almost three-quarters of its market value on June 17, 2009, as its share price dropped from $4.21 to $1.13 in one day. Fast forward to March of this year, and the stock price doubled in the same week that the company announced the USPO's decision.

Although many long investors seem to view the USPO announcement favourably, investors who shorted the stock evidently don't have faith that the 2009 jury verdict will be successfully appealed and eventually overturned. That may be because the 2009 verdict declared that R.J. Reynolds did not infringe upon the patents, regardless of the patents' validity.

In addition, the patents are not even owned by the shareholders of Star Scientific, so it's unclear who would receive the payout even if the case against R.J. Reynolds was concluded favorably for Star. According to Star's Form 10K filed with the US Securities and Exchange Commission, the patents are held by an entity called Regent Court Technologies, LLC, which is owned by Star's CEO, Jonnie R. Williams, and another gentleman named Dr. Francis O'Donnell. Regent Court has an exclusive relationship with Star; Star pays Regent Court licencing fees to use the tobacco curing techniques covered by the patents. According to the 10K, "the Licence Agreement obligates [Star] to enforce and pay for United States and foreign patent rights." This arrangement is advantageous for Regent Court, because while it owns the patents and receives licensing fees, it does not have to pay to enforce the patent rights against alleged abusers such as R.J. Reynolds.

It's difficult to determine exactly how much Star pays in licensing fees to Regent Court, but the related-party transactions do not end there. Jonnie Williams and Francis O'Donnell are also co-owners of Starwood Industries, LLC. Starwood owns an aircraft that is used by executives at Star Scientific. According to Star's 10K, "payments made by our company to Starwood, Starwood Aviation or Messrs. Williams and O'Donnell as predecessors-in-interest to the aircrafts with respect to related expenses were $1,654,000 in 2010, $1,560,000 in 2009, $1,401,582 in 2008, and were billed at cost."

Unfortunately, no mention is made as to how these payments of roughly $1.5 million per year compare to other air transportation options for Star executives. Star states that "we have agreed to pay an hourly rate for the use of the aircraft of approximately $3,970." As one point of comparison, privatejets.com's charter rates start at $1,200 per hour.

Aside from the prospects from the lawsuit, Star Scientific is not profitable, yet the company is currently valued at $550 million, with a price-to-sales ratio of 675 (price-to-earnings ratio is not available since the company is not profitable). It's true that Star almost doubled its revenue over the past two years, but it started at a very low level: $451,000 in 2008 (revenue last year was $848,000). Also, the company has lost millions of dollars over the past few years: $28.3 million last year, $22.8 million in 2009 and $18.3 million in 2008. It's also not clear why general and administrative expenses were $21 million, $15 million, and $15 million over the past three years, and cost of goods sold was more than $2 million each year while revenue was one-half or one-quarter of that amount.

In addition to the income that Jonnie Williams receives as co-owner of Regent Court and Starwood Industries, his annual salary as CEO of Star Scientific for the last three years was $1 million. His total compensation last year was almost $4 million. Paul Perito, Star's chairman, president and chief operating officer, also received a salary of $1 million each year for the last three years, and his total compensation was over $4 million in 2010. While Star lost money over the past three years, it continued to raise money from the stock market. Proceeds from the sale of stock and warrant exercise were $28 million, $20 million, and $17 million over the past three years.

In addition to the prospect of a favourable end to the lawsuit against R.J. Reynolds, Star's share price may be buoyed by investors' faith in Star's Rock Creek Pharmaceuticals subsidiary. Rock Creek is developing a tobacco-based treatment that could be used as a treatment for various neurological diseases, such as Alzheimer's, Parkinson's, depression and schizophrenia. The substance, anatabine, is a minor alkaloid found in tobacco plants. Whether or not it is a treatment or cure for a neurological disease remains to be seen, but it's not currently generating any revenue.

In fact, the majority ($785,000 of $848,000) of Star's revenue in 2010 was from dissolvable tobacco. Star's dissolvable tobacco product competes with products from Camel, Marlboro, etc. Therefore, one can safely say that Star Scientific is the anti-thesis of a Graham and Dodd value play. Investors are not buying shares of Star for its current business; rather they are buying because of the merits of the litigation against R.J. Reynolds and the anatabine treatments for neurological diseases.

As for short sellers, the cost-to-borrow according to SunGard Astec's Lending Pit remains very high and it's possible that the stock price could remain elevated for a while. **SLT**

Andrew Shinn
Vice president, sales and development
SunGard Astec Analytics

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.

Sibos 2011

Date: 19-23 September 2011
Location: Toronto
Website: www.sibos.com

Sibos brings together influential leaders from financial institutions, market infrastructures, multinational corporations and technology partners to do business and shape the future of the financial industry.

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, rebounded from previous years and the effects of the unprecedented financial market events with over 425 SBL professionals from across the industry attended.

Data Explorers Securities Financing Forum

Date: 16 November 2011
Location: Hong Kong
Website: www.dataexplorers.com/hongkong

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NeMa Asia 2011

Date: 15-16 November 2011
Location: Singapore
Website: www.informaglobalevents.com

NeMa Asia (Network Management Asia) - the sister event to NeMa, has now become the most important gathering of network managers, sub-custodians and brokers in the industry.

Training and Education

For all the latest in training and educational needs please visit the new training section at www.securitieslendingtimes.com. If you have any training courses that you would like Securities Lending Times to list contact Justin Lawson

Screen grab from www.securitieslendingtimes.com

18-19 Aug — London — Repo and Securities Lending

Euromoney Training

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.

22 Sep — London — Risks & Controls in Securities Operations

Investment Education PLC

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.

16–17 Nov — London — Collateral Management

Investment Education PLC

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.

Industry Appointments

Quadriserv has appointed **Pasquale Cestaro III** as vice chairman. Cestaro will work with senior management to focus on business development and the firm's relationships with the securities lending and borrowing communities. Quadriserv operates AQS, a central counterparty-based market that offers automated securities lending trading in over 5,000 underlying equity, ETF, index and ADR products.

"With his 30 years of experience as an operator and leader in the securities lending industry, Pat's addition to our management team is a testament to the growing importance of the AQS platform within US financial markets. AQS has come to represent a crucial piece of industry innovation, made more valuable through the increasing participation of large brokerage firms," Thomas Perna, chairman and chief executive officer of Quadriserv, said. "Pat is a highly respected member of the stock loan and prime brokerage communities, and has worked closely over the years with hedge funds and agent lenders on a wide range of important industry issues. As the AQS platform continues to evolve, he is ideally suited to be our new liaison to the industry and continue our collaborative work with key stakeholders to ensure that AQS operates the most effective and efficient market possible."

"I have followed the development of Quadriserv and the AQS market for a long time and have always been impressed with their progress in bringing positive change to a complex corner of financial markets. More importantly, I've admired their ability to listen to industry members and respond quickly and constructively to their comments," Cestaro said. "The securities lending landscape has changed dramatically in the past few years, and today's economic and regulatory pressures will place even greater demands on equity financing, capital efficiency, credit efficiency and risk management. I look forward to working with our customers as they increase their reliance on the AQS platform to help them solve real commercial challenges over the months and years ahead."

Cestaro was with J.P. Morgan for two years as the US head of equity finance sales and trading, ending in 2010. For 28 years he was at Bear Stearns & Co. where he was senior managing director, responsible for global securities lending. He is a past president of the securities lending division of SIFMA, and a founding participant and former chairman of the board of directors of EquiLend (a consortium founded by the largest participants in the financial services industry to optimise efficiency in the securities finance industry).

Ilicia Silverman has left her role as vice president of Credit Suisse's prime consulting division.

She had been in the position since 2007, joining the bank from SunGard. Her departure comes at a time when many prime brokers are making cutbacks; two senior figures recently left the capital introductions unit at Jefferies.

Elizabeth Neely has joined Citi Prime Finance as head of capital introduction in the Americas.

Neely joins Citi from UBS at a time when the business has seen senior departures - Richard Sussman, global head of prime finance risk, and Lorraine O'Leary, who was a key player within synthetic sales, have both recently departed.

Bruno Prigent, currently deputy head of Societe Generale Securities Services (SGSS), will become head of SGSS as of 30 September 2011.

He will join the Executive Committee of the Private Banking, Global Investment Management and Services division as well as the General Management Committee of Societe Generale Group.

Prigent will report to Jacques Ripoll, head of this division.

He will replace Alain Closier who, after 34 years at Societe Generale Group, including 12 years as a member of the group's General Management Committee, has decided to give a new direction to his career and will leave the group next October.

SecFinex have expanded the relationship management team with the appointment of **Rowena Brown** as a senior relationship manager. Brown will be based in London and brings over ten years of experience in the securities marketplace with the last seven focused on securities lending. Most recently Brown was responsible for implementing a wide variety of global product solutions for Citi Global Transaction Services.

"Rowena brings a depth of knowledge of securities lending that will complement the team which has recently expanded with additional hires including Stephan Sanner, formally of Risk Data, and Thomas Shave, formally of Northern Trust. These additions strengthen SecFinex's Relationship Management team that supports its growing sales initiative." Say Allen Postlethwaite, CEO of SecFinex.

BNY Mellon has appointed **Michael Cole-Fontayn** as its new chairman of Europe, Middle East & Africa (EMEA).

The EMEA region represents 26 per cent of global revenues and employs 10,000 staff across 16 countries.

As chairman of EMEA, Cole-Fontayn will lead the regional management team in executing the company's strategic plans and accelerating growth across this key region. He will retain his existing role and responsibilities as chief executive officer, depositary receipts at BNY Mellon. Cole-Fontayn takes over the role of chairman from Tim Keaney, CEO of BNY Mellon Asset Servicing. Keaney is moving to New York, where he will continue to lead the asset servicing business globally.

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Gerald Hassell, president of BNY Mellon, said: "The expansion of our international businesses is key to our company's ongoing success. We continue to see many exciting opportunities in EMEA, and we are well placed to capitalise on the momentum we have gained in the region. We continue to gain market share and benefit from our recent acquisitions of Insight Investment Management in the UK, BHF Asset Servicing in Germany and PNC's Global Investment Servicing business. Michael brings many years of experience and strong international credentials to his new role, and is the ideal candidate to build upon Tim Keaney's many achievements as chairman."

Cole-Fontayn joined BNY Mellon in 1984 and has worked within the Depositary Receipts business since 1992. He ran BNY Mellon's Issuer Services Group in Hong Kong between 1993 and 2000. He is a member of BNY Mellon's Executive Committee and Global Operating Committee. **SLT**