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Cantor to extend prime services to Europe

NEW YORK 16.11.11

Cantor Fitzgerald intends to extend prime services into Europe next year following its successful launch of a US prime brokerage and clearing business in 2009. Noel Kimmel, global head of prime services at Cantor, said: "We would like to provide the same services to Europe clients as we do in the US and also support our US clients as they increase trading in the region."

Kimmel joined the company in 2009 to build the business. He had previously worked at J.P. Morgan as North American head of sales and marketing for fixed income prime brokerage. Before J.P. Morgan, Kimmel had been a senior managing director at Bear Stearns where he co-headed fixed income prime brokerage.

Cantor has developed its own technology platform for the business, which has 32 staff and was boosted when the nine-strong management team of prime broker PCS Dunbar Securities joined Cantor in February 2011. Further growth is expected in both the product range and staff numbers as it launches in Europe.

Kimmel said Cantor Fitzgerald wanted to build a full service effort across asset classes targeting middle market client with funds of between $25 million and $1 billion. Cantor's strategy is to win the role of the number one or two prime broker to those clients, rather than competing against the bulge bracket for the largest hedge funds or becoming a fund's third or fourth prime broker.

According to Kimmel, the number of middle market hedge funds is growing as traders leave banks to launch their own firms and funds shrink as the result of client outflows.

Cantor Fitzgerald has more than 100 prime services clients but does not disclose assets under management. Kimmel said: "We are profitable and have been thrilled at the growth."

He added that prime services had been able to benefit from the expansion of Cantor Fitzgerald's investment banking business. In total, Cantor Fitzgerald has hired more than 200 people since the start of this year, increasing staff numbers by 20 per cent.

NEWSINBRIEF

Egypt certifies short selling

Egypt's financial regulator has certified rules and criteria for companies eligible for margin trading, short selling and intra-day trading, according to the Egyptian exchange.

Shares of companies that have reported at least one annual financial statement will qualify for the transactions, according to Daily News Egypt.

Development of securities lending markets has been highly anticipated in the MENA region as exchanges seek to attract liquidity.

Securities lending on India's NSE booms

Stock lending has been booming in the last three months due to reverse arbitrage opportunities thrown up by equities, reports DNA media.

Average monthly traded quantity in the securities lending programme, promoted by the National Stock Exchange (NSE) in Mumbai, has rocketed from some 2 million shares in the first half of the year to over 8 million in the last three months.

Experts interviewed by DNA media said this is due to increasingly large number of reverse arbitrage opportunities as domestic high networth clients take positions and several large-cap companies see wide spreads between cash and futures.

readmore p2

INSIDE SECURITIESLENDINGTIMES

Securities lending on India's NSE booms

Continued from page 1

Shares such as those of the State Bank of India (SBI), Punjab National Bank, Mundra Port and LIC Housing Finance are among the large caps trading at a considerable premium in the cash market compared with their one-month forward prices.

Last month, the segment on the NSE witnessed a total of about 8.8 million shares traded through 1,671 transactions — a huge jump from the monthly average of 300 transactions seen for most of this year.

Going forward, experts see wider participation if an active physical settlement market in the derivatives segment is developed, notes DNA.

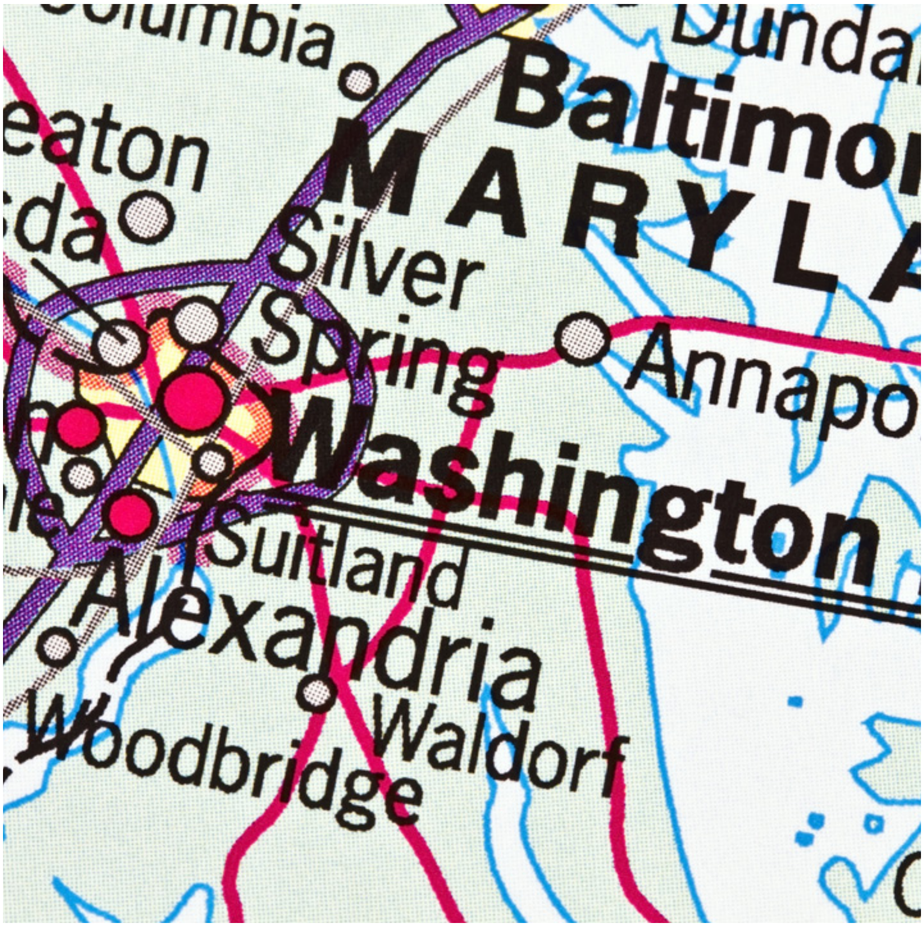
Thailand reports sec lending boom

The securities lending and borrowing market in Thailand has had its busiest year ever, thanks to a combination of economic uncertainty in Europe and a recent relaxation of controls on trading.

The practice only picked up the past few years as the Thai SEC relaxed the rules allowing retail investors to use securities lending for short-selling through cash accounts, making it more convenient, coupled with the lower cost in a more competitive market.

Naruemol Art-amnuayvipas, an executive vice-president of KGI Securities, said short-selling volume this year grew to more than 100 billion baht, similar to the total SBL amount. KGI, the leading broker in SBL, has a market share around 40 per cent, up from 30 billion baht last year.

"Brokers can only provide SBL for stocks in the SET50 [large capitalisation stocks] with high liquidity trading. The most active short-selling has been stocks in the SET30, but if the market remains volatile, SBL will continue to grow," said Naruemol.

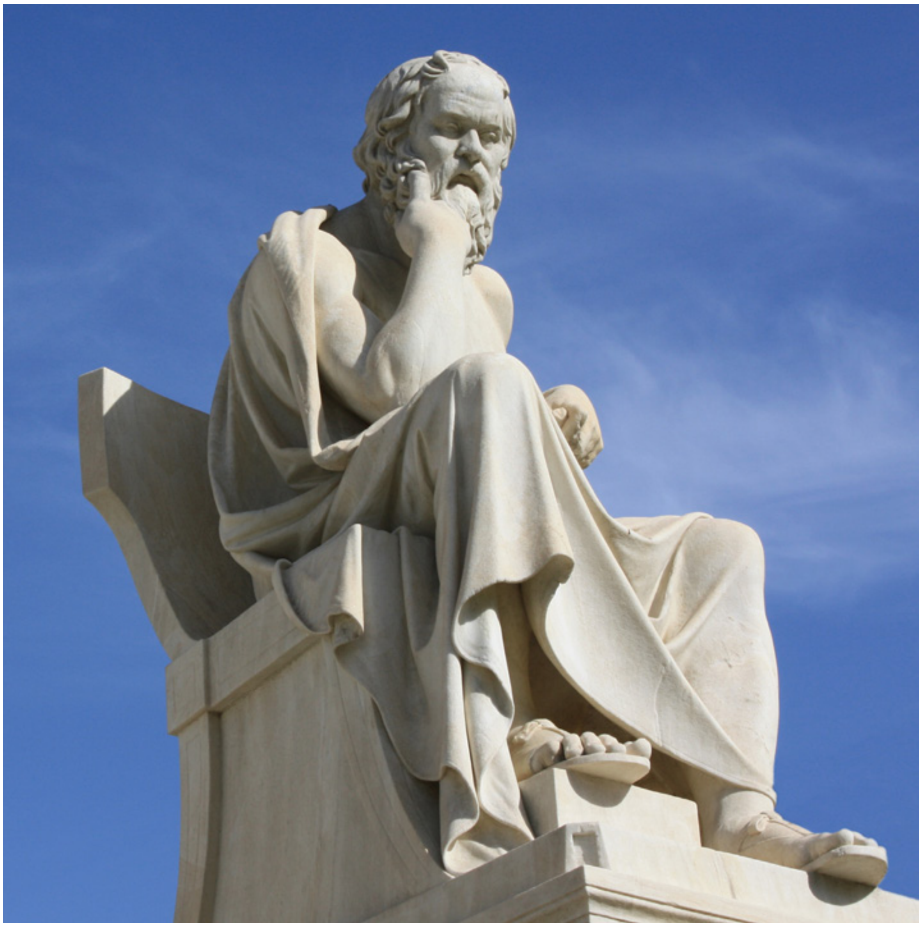


Citi picks up the State of Washington mandate

Citi has been awarded a mandate to provide securities lending services through its OpenLend platform and custody for the State of Washington Office of the State Treasurer (OST). The OST manages the investments on behalf of the State and local government entities within the State of Washington.

'We selected Citi for our securities lending and global custody because their approach allows us to personalise a programme to best meet our needs. We are particularly satisfied with the trading performance and high-touch services of its securities lending professionals," said Douglas Extine, deputy treasurer, State of Washington. "We also appreciate having direct access to Citi's agency lending desk and are impressed by the quality of the economic updates and global market intelligence it provides to its clients." OpenLend is an open architecture securities lending solution that leverages Citi's global presence, robust risk management controls and innovative trading strategies to help clients achieve their performance objectives.

Tim Douglas, global head, securities finance, Citi Global Transaction Services, said, "We are very pleased that the State of Washington has selected us to provide this suite of securities lending and custody solutions. We look forward to working with the financial executives in the State to deliver these capabilities in a manner targeting both enhanced portfolio performance and improved overall operational efficiency."



Greece extends short selling ban

The Hellenic Capital Market Commission has extended a short selling ban on the Athens Stock Exchange to 27 January, according to Reuters.

"The capital market commission is closely monitoring market developments and pertinent decisions in the European Union," the commission reportedly said.

Currently France, Italy, Greece, Spain and Belgium have short selling curbs in place. France has banned 10 financial stocks until early February, although the French securities regulator said it would lift the ban earlier if market conditions improved.

The Italian financial regulator extended the ban on financial stocks until 15 January 2012 and banned naked short selling. Curbs in Belgium and Spain have no published end date, according to the latest update by European financial markets watchdog, ESMA.

BlackRock's collateral changes

BlackRock has made its family of money market funds available to Euroclear Bank's clients, enabling them to re-invest cash received as collateral in triparty transactions managed by Euroclear Bank. Re-investing cash collateral is a frequent challenge in this type of transaction.

For the first time, a new Euroclear Bank service feature gives triparty cash collateral takers the option to re-invest cash into an array of money market funds seamlessly through FundSettle. FundSettle is Euroclear Bank's dedicated platform for fund transaction processing. BlackRock is one of the first providers of money market funds for this purpose. The cash re-investment service is available in euros, British pounds and US dollars.

Jo Van de Velde, managing director and head of product management at Euroclear, said: "Clients have come to rely on Euroclear as an agile leader of innovation and choice, a pacesetter to anticipate and support evolving market trends. Our close co-operation with BlackRock, as one of the early adopters to make their money market funds available, will meet the increasing demand from our clients to avoid re-deposit risks. Having multiple options to re-invest cash collateral is a key requirement from market participants in the secured markets. By offering a seamless cash re-investment service in money market funds to our clients, without any complexity, we add another dimension to delivering our post-trade made easy mission."

Mark Stockley, managing director and head of International cash sales at BlackRock, added: "BlackRock is pleased to be an early partner in Euroclear Bank's innovative offering. As an expert in liquidity management, BlackRock's Cash Management Group is supportive of industry initiatives which provide solutions to our clients' cash management needs."

Merlin picks Firm58

Merlin Securities has selected Firm58's commission sharing agreement (CSA) product to automate the processes of its soft dollar programmes.

This allows the the firm to increase the size and scope of this business while giving clients greater visibility into trades, payments, credits and commissions.

"Our hedge fund clients are increasingly interested in capturing data about how trades are processed, billed and tracked," said Aaron Vermut at Merlin Securities. "Integrating Firm58's software into our own proprietary systems will help us manage that process effectively while maintaining close communication with clients and regulators."

Clearstream reports 23% jump in November GSF

Clearstream reported that global securities financing (GSF) monthly average outstanding volume reached €663.1 billion in November, a 23 per cent jump year-on-year.

GSF services include triparty repo, securities lending and collateral management.

The value of assets under custody though saw a decrease of two per cent to €10.9 trillion while securities under custody in Clearstream's international business stayed flat at €5.9 trillion. German securities held under custody dropped five per cent to €5.0 trillion.

eSecLending hits $2.5 trillion in assets auctioned

eSecLending has reached $2.5 trillion in assets auctioned since inception. This milestone was achieved following two successful auctions in Q4, which were amongst the largest revenue generating auctions in the company's history.

Jerry May, portfolio manager for the Ohio Public Employees Retirement System (Ohio PERS) stated, "For Ohio PERS, the eSecLending process provides pre and post execution benchmarking, allowing us to make better informed decisions regarding the optimal route to market for our portfolios. We have been very pleased with the transparency of the process and their ability to customise our lending programme. We were particularly impressed with the results of our most recent auction which generated a material increase in intrinsic returns versus our 2010 auction result and market benchmarks."

Chris Poikonen, executive vice president at eSecLending added, "In the face of a challenging market environment, we are thrilled with the results our auction process continues to generate for our clients. Reaching $2.5 trillion in assets auctioned is a significant milestone for our company and the industry. Over the last eleven years, the power of our process has been proven by the breadth of borrower participation and overall outperformance against market benchmarks.

"As the market leader in securities lending auctions, we ensure each program remains a bespoke experience for our clients incorporating over 30 markets, more than 40 borrowers and a variety of collateral options."

Additional ETF regulatory scrutiny unwarranted - panel

ETFs are expected to see continued growth driven by greater pressures for asset managers to provide cost efficiencies, said speakers representing fund managers, analysts and product developers at a recent panel discussion organised by SPDR ETFs, the exchange traded funds platform of State Street Global Advisors (SSgA)

ETF products still represent a small share of the global market at some $1.3 trillion making up five per cent of mutual fund AUMs, however, they are on pace to exceed $2 trillion in 2012.

While the investment industry is split on some of the implications of the advent of these index-trackers, both synthetic and physical, at the same time panelists from SPDR, ETF Morningstar, HSBC Global Asset Management and 7im expressed consensus that regulations which single out ETFs for greater scrutiny over other funds, such as UCITS funds, does not make much sense.

Still, panelists noted that there are no accurate statistics on who the end-users of the products are though efforts by ETF issuers to track the information down are being made. The best "guesstimates" are a 90/10 split between institutional and retail investors and 50/50 in the US.

The debate over ETFs receiving additional scrutiny recently reached the securities lending market after the practice attracted the attention of European financial markets watchdog, ESMA.

Speaking to SLT as a fund manager looking at the area, Stephen Doran from HSBC Global Asset Management said that though risk management is a concern, as with all products, securities lending in the ETF space is in line with the product's share in the market while at the same time fee splits are becoming less opaque.

"Along the lines of transparency, many [firms] are providing details on their website on how much the fund makes...so you have a degree of transparency which is an improvement over what used to be there for investors," he said, adding that larger firms and custodians which indemnify are mitigating some of the counterparty risks flagged by regulators.

"At the end of the day, [the returns] feed back to lowering costs [for investors]," Doran said.

GlobeOp index shows net inflows for December

Hedge fund flows advanced 1.6 per cent in December compared to the month previous, according to GlobeOp.

"December closes the year on a positive note with net inflows of 1.55 percent, driven primarily by healthy subscriptions," said Hans Hufschmid, CEO, GlobeOp Financial Services.

The GlobeOp Capital Movement Index for December stands at 141.01 points, an advance of 14.4 per cent over the past 12 months.

Algorithmics to provide risk reporting for Viteos

Algorithmics' hedge fund reporting product has been selected by Viteos for independent risk measurement and reporting.

Clients of the global fund administrator will get pre-configured reports for regulators, investors and internal fund management teams.

Shankar Iyer, Viteos CEO, said, "We are seeing increasing demand from our clients for risk reporting and transparency and so we were looking to work with a risk provider to enhance the full and integrated service we provide. We selected Algorithmics so that our clients can be confident in the quality of the risk analytics which are powered by award-winning and robust risk systems. We were also looking for a collaborative approach where both parties are committed to growing together in an evolving market."

"What has been the silver lining for the securities lending market in 2011?"

Justin Lawson, publisher
Securities Lending Times
Asks the question

The new age of transparency in securities lending is coming into focus on the buy side. OM systems are performing electronic locates, market data providers are opening the window on closed information, treasury systems are quickly showing the results of improved fund performance. The erosion of the opacity our industry has been cowering under picked up steam in 2011 and will continue to accelerate throughout the New Year!

Stephen Casner, CEO, HazelTree Fund Services

For OCC, the silver lining of the securities lending market in 2011 has been the continuing growth in the use of CCP clearing. At OCC we've seen not only the number of transactions cleared increase over the course of the year, but also the number of broker-dealers and other institutions leveraging the use of a CCP in securities lending. The volatile market conditions of 2011 did cause many people to seek the security CCP risk management offers.

Joe Pellegrini, VP of business development, OCC

The 'silver lining' is that the securities lending industry has continued to demonstrate its robustness against the backdrop of undeniably challenging market conditions.

Despite continuing market uncertainty and some hasty regulatory interventions, investors have continued to utilise opportunities for value generation; for example, through demand for emerging market securities in Asia or collateral flexibility trends in Europe arising from variances in government debt. Events have demonstrated that securities lending is a mature, evolving industry that can continue to provide risk-adjusted returns through the most challenging market cycles.

In addition, despite the plethora of issues that investors have faced this year – from market volatility, to capital adequacy, creditworthiness and risk – our experience has been that the securities lending industry's focus on providing risk mitigation and transparency continues to be well-received, and that investors are continuing to stay engaged with it.

Sunil Daswani, head of international client relations for securities lending, Northern Trust

We see the evolving Dodd-Frank and EMIR rules mandating the clearing of OTC derivatives as a potential positive for the securities lending markets in 2011 and beyond. In particular, the very narrow definition of collateral that needs to be sourced by participants to fund initial margin if they wish to continue to participate in the derivatives markets will create lending opportunities for those institutions naturally long of CCP-eligible collateral.

While banks providing client clearing services may offer collateral transformation services, Basel III capital charges, liquidity constraints and other risk management considerations may limit their ability to meet overall demand, driving derivatives users to seek other sources of eligible collateral. We therefore see lending as an means for pension funds, insurers and other institutional investors of offsetting the incremental costs of clearing derivatives and earning a return on core holdings.

Jonathan Philp, managing consultant, InteDelta

We have seen our clients investing heavily in risk analysis and reporting throughout 2011, to achieve a better understanding of the capital costs under regimes such as Solvency II and to meet future regulatory reporting requirements.

The silver lining is the ability to compare lending activity with other investment strategies on a like for like basis and illustrate compelling returns on capital, which in turn, has led to a greater recognition of lending as a legitimate and important investment strategy for beneficial owners.

Regulatory transparency will be critical going forward and this will involve significant enrichment of lending data to ensure it is understood and treated appropriately under the relevant regimes, and by developing solutions now firms are better positioned to maximise opportunities in 2012 and beyond.

Adrian Morris, head of MX Consulting

What has been the silver lining for the securities lending market in 2011? That is an interesting question, in part, because it implies that 2011 was mostly cloudy or overcast from a lending perspective.

In my opinion, the securities lending market in 2011 could be characterized more as a clearing pattern with positive winds moving the clouds out and letting in the sun. 2011 saw many lenders either return to the market or expand their lending mandates. Spreads widened and revenue returned to levels comparable to years prior to the 2007-2008 bubble. In addition, hedge fund assets under management increased significantly in 2011 and regulatory change began to create new types of demand.

While we continue to deal with regulatory uncertainty, battle unintended consequences and deal with daily volatility brought on by events such as the current situation in Europe, our market remains strong with a focus on intrinsic value lending, strong risk management and increased communication and transparency.

Michael P. McAuley, chairman of the Securities Lending Committee of the Risk Management Association

2011 has been difficult globally for the securities lending market, but in Mexico the market has been supported by the local side of the business and has compensated the international part of the business that has been affected with all the events of this year.

I think that even though we are part of globalised financial market in a globalised world it is important to have solid local market and business in place, and Mexico has a well established securities lending market with a strong local side of the business that has proven solid throughout the last couple of years. I think that this has been the silver lining for the Mexican securities lending market, and I think that t having this solid pillars internally will help the Mexican market face 2012 and be ready to participate again globally.

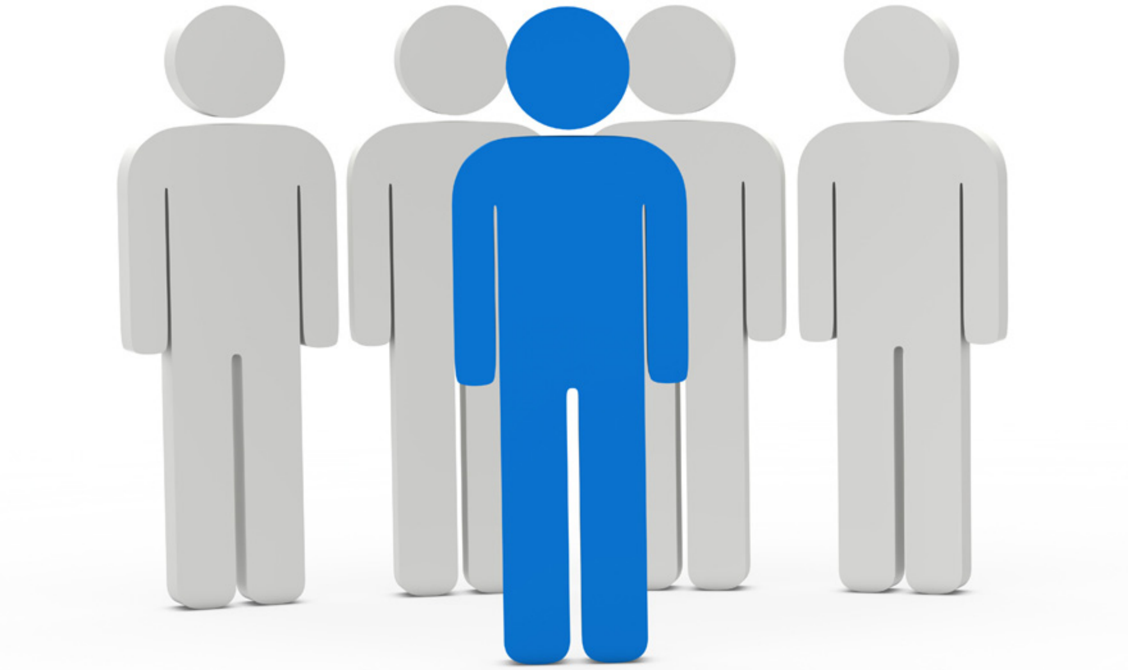
Federico Ortega, MD securities lending, Interacciones Casa de Bolsa

The current trading environment is forcing technological innovation and organisational adaptation. We see this innovation driven by a number of factors:

- the re-consideration of cash as collateral (especially in light of GFC1). The challenges faced by participants in their cash management are driving new options for their cash re-investment strategies
- historically, the direct shorting of shares dominated the securities lending market. With the risk in ETF trading and shorting; participants are afforded more options to manage basket position risk

These innovations are requiring participants, vendors and service providers to invest in the technology platforms to support these offerings. The current wave of innovation, which contributes to market efficiency, and provides strategic options for clients, is a positive trend we've seen in 2011.

Greg Pritchard, managing director, Dedication Group



Leading markets?

Pirum's chief executive talks to SLT about the development of a new service between Pirum and Eurex Clearing that he says could be the key to unlocking the benefits of CCPs

BEN WILKIE REPORTS

SLT: Can you explain what the partnership between Pirum and Eurex Clearing means?

Perry: What we are planning to do for CCP is very different to what any of the other providers have been offering. So far there has been a bit of confusion in the market between trading platforms and CCPs and they have often been talked of in a single breath. There is a close relationship because a CCP requires some sort of platform to provide flow through to it, but this platform can either be a fully-fledged "trading platform" or a much simpler "reconciliation platform" that simply matches trades which have already been agreed bilaterally before they reached the reconciliation platform. The trading platforms with CCP links so far have been focused around anonymous trading even though they usually have the ability to enter a bilaterally agreed "locked" trade - but generally that's treated as the exception rather than the rule.

We are treating this very much as a post trade activity and will be using our reconciliation platform to feed bilaterally agreed trades to the CCP. At the moment, traders have many ways of agreeing a trade. Mostly they are pretty comfortable about doing autoborrow through autoborrow platforms and they're pretty comfortable about negotiating transactions bilaterally over the phone / email / Bloomberg. Those methods cover almost all the transactions we have out there today. Our service will enable them to continue agreeing transactions as they do today, but then to take advantage of our link with Eurex Clearing to put some of these transactions through a CCP.

So why would a CCP be interesting to those guys? A CCP is interesting for credit risk reasons, especially given the increased focus on this area from market participants and regulators. So it's about reducing credit risk and a CCP is an acknowledged way of doing that.

Therefore exposure, instead of being direct with the trading counterparty, is now with the CCP. Essentially you should end up with a much lower risk counterparty to deal with and one on which you can net activity with lots of different participants. Not so much for a lender, but more for a borrower.

And very importantly for a borrower, with all the Basel III regulation that is coming along, a CCP has a much lower risk weighting when you're doing your capital adequacy calculation. Capital for banks is in increasingly short supply and we expect that going forward it's going to become scarcer and that's going to mean that firms need to use their capital more efficiently. A CCP is an extremely efficient counterparty from a capital usage point of view. Given its nature and its risk management procedures, CCP exposures benefit from a zero per cent risk weighting under Basel II. What a CCP does for you is take the exposure that would have had a higher risk weighting applied to it and give it a zero per cent risk weighting. Under Basel II it requires no capital at all because the regulators view it as risk-free. Under Basel III, I believe it has a very small risk weighting.

We see our service as a really good way of getting the capital benefits of using a CCP whilst still agreeing your trades bilaterally, exactly as they do today. When an agreed trade comes through to us from our customers, we are getting a transaction that has already been fully agreed between borrower and lender and all we need to do is to check that both parties have actually booked a matching transaction against each other and then forward it onto the CCP for novation and subsequent processing.

SLT: So as far as you're concerned, the post trade process begins immediately after the point where the two parties agree the trade?

Perry: Exactly. The two parties agree a trade in the market exactly in the same way as they would now. There's no difference at all. They book it in their systems in exactly the same way as now. It feeds down to Pirum and if they have indicated they wish this transaction to be put through a CCP, we will then match that transaction. It's a trade that's already been done though - what we're doing is saying 'I can see that trade reference ABC on your side is the same as reference 123 on the other and you have agreed on the terms of that trade - the quantity, the rate, the dividend, everything'. We match it and then send it off to the CCP, in our case Eurex Clearing, who then novate it after successful validation.

We are not a broker because the trade has already been agreed. We're just messaging it

SLT: Doesn't that make you a broker in some way, even if on an execution only basis?

Perry: No, we are not a broker because the trade has already been agreed. We're just messaging it. We are saying the borrower is matched against the lender, they agreed the trade between them. We didn't agree the trade and weren't involved in agreeing it. What happens is the two parties separately inform us that they have agreed this transaction. And we check and verify that what they have entered into their systems is the same on both sides, so we have a matched and agreed transaction. We then send it off to the CCP who then novate the transaction and replace it with a trade between the borrower and the CCP and a second trade between the CCP and the lender.

SLT: So it creates a new transaction?

Perry: We are notifying the CCP of the decision of the counterparties to trade with each other. The point is we are not a trading platform and we are not an MTF where what comes in is demand and supply and you work out who is going to trade with whom. What we see is a transaction that has already been agreed, the terms are done, both parties are already identified and the trade is already booked into their systems - everything is already done at the point we come in. They are using us as a communication channel to get the trade into the CCP.

SLT: Do both counterparties need to be Eurex Clearing members?

Perry: They do. Both will have a direct contract with Eurex Clearing and we are simply facilitating matching and communication. We have connections to lots of different market participants and we have a matching platform that we use for real time contract compare and other post-trade processes that means we can identify transactions that have been agreed by the parties, booked on their systems and then we can send it through to Eurex Clearing for novation.

SLT: Once the agreement has been made, do the counterparties have any direct contact with Eurex Clearing regarding that trade?

Perry: Pirum is the channel for entering all normal life-cycle activities, for example returns or rate changes. We are taking the place of a trading platform as a "flow provider". We view our processing with the CCP as purely a post trade function. In effect, we are offering a service which enables a CCP to be used as a systematic 'put through'.

What is completely unique about what we are doing is that we think it's very important to integrate the CCP novated transactions with all the other bilateral trading the firm is doing. CCPs are never going to cover 100 per cent of your business and firms don't really want to have one set of processes for dealing with a CCP and a completely different set of processes for dealing with bilateral business. So given Pirum already has a lot of automation in the bilateral field, as we bring in the CCP option, we can make it look as much as possible just like another bilateral counterparty.

The existing trading mechanisms, the trading automation and the bilateral relationships and all of the ways counterparties currently do trades stays the same. They then can have all those transactions novated by a CCP - there's no need for further integration for firms already integrated with us, they get this upgrade in being able to put trades through the CCP included as a piece of value added technology we offer. And then there are the benefits of all the operational efficiencies as a CCP will appear as one of the best automated counterparties on the Pirum platform.

SLT: What is the timescale from when the trade is agreed to it being actioned by Eurex Clearing?

Perry: It's based on near real time feeds so it will be minutes. Our clients send us feeds on a 15-minute cycle so as soon as we get it and process it, if it matches with the counterparty we'll send it to the CCP. It has to flow through quite a few different links to get to completion.

SLT: One of the criticisms of CCPs has been that it takes the relationship aspect away from the business. But with this model, the relationships remain key. But CCPs are still coming under fire for increasing the cost of doing business?

Perry: You retain the relationships and still get the benefits of trading via a CCP. This is a cost-effective service as we are not going to be charging a trading platform-type fee for what we do. We see this as part of the value-add of the post trade automation we offer.

What I think is very different from all of the other platforms is the post trade integration. You need this integration to automatically process CCP marks, rate changes and for returns to flow through automatically. Typically, other platforms offering CCP cleared transactions haven't necessarily had that same level of integration. I'm very hopeful that the market is going to find this service gives all the benefits of CCPs without so much upheaval.

SLT: What's the anticipated timeline for implementation?

Perry: The system was launched technically on 21 November, which means that clearing members can start doing simulation testing and evaluating the capabilities of the system. It's not actually live at the moment, there is still work that market participants need to do in terms of testing their own systems. Initially Eurex Clearing's offering will cover securities lending in German and Swiss main indices with cash and non-cash collateral including tri-party collateral services. There is automatic processing of mandatory corporate actions, with voluntary corporate actions coming later next year. Further extensions are planned in terms of coverage of European equity markets and Fixed income securities.

SLT: How do beneficial owners fit in?

Perry: Eurex Clearing has a specific lender licence model for beneficial owners. One of the issues for lenders in other models is that in order to have exposure directly to a CCP, you need to be a clearer and provide margin. This lender licence means a beneficial owner can be a clearer directly at the CCP and can therefore they have direct exposure to the CCP. In addition, they don't need to provide margin. The collateral for the lender is held in an account at the CCP pledged to the lender but because it doesn't flow all the way through in terms of transfer of title to the lender, the CCP doesn't see any risk of not getting the collateral back. That's quite a unique selling point. **SLT**

If you think Treasury isn't sexy, look at these numbers.

HazelTree Treasury Suite: Selected Hedge Fund Profiles					
Fund Size	$500m	$1b	$1.5b	$3b	$6b
Long Exposure	90%	100%	100%	95%	110%
Short Exposure	80%	75%	110%	100%	85%
Avg. Credit Cash Balance	15%	10%	10%	10%	5%
Avg. Debit Cash Balance	10%	5%	15%	15%	12%
% Longs Hard to Borrow	10%	5%	7%	7%	5%
% Shorts Hard to Borrow	30%	30%	25%	20%	15%
Typical Treasury Impact on a Fund					
Cash Management	$125,000	$125,000	$375,000	$750,000	$750,000
Stock Loan Management	$900,000	$1,000,000	$2,100,000	$3,990,000	$19,800,000
Stock Borrow Management	$1,180,000	$2,212,500	$4,331,250	$6,900,000	$8,415,000
Total Performance Increase	$2,205,000	$3,337,500	$6,806,250	$11,640,000	$28,965,000
Impact in Basis Points	44.10	33.38	45.38	38.80	48.28

(Hubba hubba!)

If you're a hedge fund manager, chances are you haven't spent much time staring with admiring glances at the treasury function. We're about to change that. Treasury Suite is our unique platform that coalesces data across all of your fund's counterparties so as to minimize risk, ease compliance, and maximize operational alpha. For our latest generation, we've added an integrated Form PF that allows direct electronic filing with the SEC, along with new margin functions and a host of other tools to help squeeze every fraction of a cent out of your fund. As you can see from the figures above, the results can be pretty stunning.

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Europe

How are the various financial crises in Europe affecting the securities lending market?

ANNA REITMAN REPORTS

After Greece's bailout, a domino effect across Europe toppled Ireland and Portugal with Spain widely believed to be next in line. As it turned out, it would be Italy that would grip markets this summer as bond rates crossed the crucial seven per cent threshold.

As European leaders struggle to fix the eurozone crisis, securities lending desks are trying to find the opportunities presented by the challenges from the continuing fallout of the GIIPS countries (Greece, Ireland, Italy, Portugal, Spain).

For Citi, which transacts globally, it was the scale of involvement in any of those countries which determined the impact on the securities lending programme, says Gareth Mitchell, EMEA head of trading, Securities Finance at Citi Global Transaction Services (GTS).

Italy and Spain are Citi's only significant GIIPS markets for equities, while outstanding loans in Greece, Portugal and Ireland accounted for less than one-quarter per cent of the desk's entire book. Still, Mitchell did see many more 'specials' with, for instance, some Greek securities hitting between 5000 and 6000 basis points.

In Italy and Spain, quite a few securities gained in lending value when the crisis hit a feverish pitch during the summer, but short selling restrictions on financial stocks contained the market somewhat, but failed to achieve the object of reducing the decline in the cash price. Overall, on-loan balances in these two markets continued to remain constant but trading at a slightly higher spread, Mitchell notes.

On the collateral side, though Citi clients have never taken Greek, Portuguese or Irish bonds as collateral, with Italy and Spain, some clients have reviewed their collateral profiles and stopped accepting those sovereign bonds as collateral.

However, Citi's clients, a range of banks, central banks, sovereign wealth, pension, mutual and insurance funds, have not abandoned securities lending programmes during the eurozone crisis in the same way they did after the Lehman collapse, explains Mitchell.

"All through the credit crisis, and especially following the Lehman default, we have been working closely with all of our clients, looking at their risk appetite and how they could comfortably return or remain in the securities lending market. What has happened is that every client has ended up being comfortable with their own individual position on the risk curve and the risk mitigants available. Publically some clients, especially non European clients, have expressed concerns with their overall exposure to the eurozone and have made changes to their lending programmes. This is very different to where we were post-Lehman when there were some publicised losses on the cash collateral reinvestment side of the market which in turn caused many clients to suspend lending," Mitchell says. "Post-Lehman clients that revised collateral risk parameters have been quite happy to stay where they are, there has been some pull back from the GIIPS countries but clients are still happy lending into those markets."

Clients are however being affected by European short selling regulation and the potential issues associated with a short sale classification. There is concern of the treatment of a sale of a security which is already on loan, which Mitchell hopes the industry will receive clarification on. For the borrowers, such as prime brokers and banks, the concern is that they will be creating a short position by lending to a hedge fund if they have not already borrowed or located the security.If this is classed as a short sale, then there will be a whole raft of extra legislation on the transaction to contend with.

The wave of short selling regulations across Europe also spread to Asian markets, and though some countries such as Korea continue to be one of Citi's strongest markets, at the same time activity has slowed as a result.

But one of the biggest concerns on the regulation front is the Financial Transaction Tax (FTT), which formed part of the UK's recent political decision not to sign on to any far-reaching pact to bind Europe's economies more closely.

In an article published by Data Explorers, Adam Blakemore, partner at Cadwalader, Wickersham & Taft, outlines the potential impacts on the securities lending market of the broadly defined tax intended for financial transactions and the UK government's decision to effectively veto participation in a "new fiscal compact" with the other 26 member states of the European Union.

"The next step appears uncertain. It is possible that the 17 Euro area member states may create the FTT but without participation from the UK, although such a move would be bound to raise questions about the possibility for the migration of financial transactions towards the City of London. It is also possible that the proposals for the FTT might be radically overhauled, perhaps with a view to re-casting them along the lines of a more familiar imposition such as the UK's stamp duty reserve tax. And it is also possible that the FTT might be replaced altogether with an alternative method of imposing reparative liabilities on the European financial sector, such as some form of European bank levy or financial activities tax," writes Blakemore.

"Until greater clarity is obtained, the FTT is likely to remain in the background of both European and British economic policy and domestic politics. An example of this is the increase in the rate of the UK bank levy in the 29 November 2011 Autumn Statement announced by the Chancellor of the Exchequer. This might be construed as a careful move by the UK Government to show that the raising of specific bank levies and taxes is a credible, non-FTT alternative to other methods of seeking contributions from the banking sector towards the costs of the financial crisis," Blakemore adds.

Repo and stock lending, as well as collateral transfers as part of financing transactions and hedging would be caught within the scope of the FTT and, depending on how the tax was structured, may make conducting trades uneconomical.

"The feeling is that [the FTT] would have a significant impact on securities lending," Gareth Mitchell at Citi GTS says.

Looking into next year, he expresses concern that levels of lending have reduced in the last few months as a result of uncertainty, hedge funds and banks are de-risking on the back of market volatility but the question out there is: When do they put risk back on?

"Currently there are many funds that are cash rich and are probably not being paid by their investors to just hold cash. In the New Year there will be significant pressure on these funds to seek investment opportunities, which in turn benefits the securities lending market as a whole. he says.

View from Luxembourg

Commenting on the recent decision by the UK to reject European treaty overtures, Guy Knepper, head of securities lending at Caceis notes, "The last word has not been said. I think everybody stood behind the [European treaty], except for the UK because it has its own views, which I understand because [UK politicians] feel that… they could lose control of instruments to steer [financial] policy."

He adds that the City of London's lobbying over the FTT still has a long way to go and that UK prime minister David Cameron is likely to continue to protect the financial industry while the UK's political structure is likely to remain open to discussion at later stages. For the moment, however, the island appears as isolated as media reports have stated. "It really is going to be interesting times to see how this unfolds but it is still very early to tell," he says.

CACEIS is the asset servicing banking group of Crédit Agricole with institutional and corporate clients and offices across Europe, North America and Asia. The bank provides depositary and custodial services, fund administration, middle office services, fund distribution support and issuer services.

As a custodian lender, it is a multi-market player focusing on clients in Luxembourg, France and Germany across asset classes such as government or corporate bonds, convertible bonds, equities and exchange-traded funds (ETFs).

Knepper explains that his Luxembourg-based desk operates for any clients throughout the network, a large portion of which are UCITS funds, and that CACEIS' operational set-up concentrates flow as much as possible through the central location. From his point of view, the challenges facing the securities lending industry from the ongoing fallout of the GIIPS are very much linked to the opportunities.

"The big challenges for some players are that collateral metrics are getting much tighter, much narrower, because all these countries have fallen out of the more traditional collateral schedule, which means that the universe of paper instruments that you can take as collateral has really narrowed," Knepper says. "On the other hand, for players who are willing to still have some risk appetite, they will be able, with softer metrics, to get business from those leaving the more aggressive sphere."

This leads to an evolving situation of historically higher margins than have ever been seen. Where some of the GIIPS sovereign bonds were trading from double-digit basis points to double-digit percentages for countries such as Greece. Those bullish players willing to take risk on board are in "paradise", Knepper notes.

Moreover, cash is becoming king as German, French and Dutch bonds become more expensive on the securities lending and repo markets, a trend that he thinks is here to stay. That means clients are paying more attention to the duration of trades, particularly for dividend enhancements as preferences tend to lean towards shorter time frames on the collateral costs side.

Luxembourg's regulation which focuses on securities lending practices was updated in 2008, ending a 30-day prescribed limitation for securities lending transactions which put technical burdens on the back office. It also became more specific on identifying collateral requirements, which Knepper says benefits Luxembourg investment funds. Many of CACEIS' deals are conducted on an essentially open-ended basis, he adds.

Though it is fixed income most directly impacted when it comes to the economic woes of the GIIPS, indirectly, ETFs are gaining in popularity on the theme of cost efficiency.

"[Physically-backed ETFs] is our fastest growing business, it is much more attractive than going through the cash/equity market from my perspective and it is a growing part of the securities lending market, especially those doing directional trades. It is very easy to play and also we are seeing an increase of liquidity because investor demand is growing," Knepper says, adding that Europe still has some steps to take on education to make the instruments seem less esoteric.

At the same time, though the resulting impact of the GIIPS fallout has set these trends in motion to some degree, Knepper plays down the negative effects on his securities lending desk. Even during the Lehman crisis, CACEIS was adding new clients because of the firm's "plain vanilla" business model while during the sovereign downgrades and bailouts, its flexibility in accepting cash as collateral has helped it steer turbulent markets.

"[The GIIPS fallout] doesn't hinder development of the business. Yes, the GIIPS countries are no longer eligible as collateral but counterparties can pledge cash and in fact that is working out quite nicely. On the other hand, as some of our clients are still investing in these instruments, we still manage to lend them," Knepper explains.

He adds, "We are not limited to lending them, but we are limited in accepting them as collateral, so for us it is more of a balance of opinion, but in the end, for the bottom line, it will be positive. Still, if Standard & Poor's continues to downgrade those [European countries] that are AAA, then of course we will enter into very dangerous territory."

But even with the shock of Italian debt no longer being accepted as collateral, CACEIS was already receiving French, German, Dutch and Austrian bonds, so even on this front, the impact was mimimal because the group was conservative with regards to interpretations of minimal thresholds, asking for substitution as soon as downgrades were announced. The impact, he notes, was felt more on the operational side than in the front office.

Over-regulation risk?

Like many market participants, Knepper sees a risk of over-regulation in securities lending. Still, with events such as the Lehman bankruptcy, the high risks of sovereign default in Europe, rogue trading at UBS and the most recent market event, the default of MF Global, the need to address public trust in markets has not left the headlines.

Knepper says that traders will need to face a new era of risk mitigation as a result.

"People sitting in trading rooms will not likely be in command in the coming months or years. I think the environment will not be shaped by those in trading rooms, we cannot be the drivers of decisions. Decisions will be taken by politicians, lobbying groups, risk managers and compliance, from now on a specialist from the operations side will be in meetings with clients. That is something that you just have to face and is not going away, and we must be ready to deal with this new situation," Knepper says. **SLT**

Rave reviews

How did you know that I'd like that restaurant? SunGard's Andrew Shinn takes a look at a couple of new IPOs

MARKET PERSPECTIVE

Consumers have been asking friends for recommendations on painters, plumbers and pizza joints for decades, but now with social media, they can turn to an aggregation of strangers instead. Two of the best known customer review websites will soon be publicly traded: Angie's List (NASDAQ: ANGI) had its IPO on November 17, while Yelp filed for an IPO on the same day and should start trading soon.

Angie's List, started 16 years ago when founder Angie Hicks set up a phone-based customer review hub, provides customer reviews on local service providers, particularly expensive and often unpredictable services such as home remodeling, healthcare and automobile repair. Angie's List focuses on service providers that have what the company calls a "high cost of failure." If one goes to a bad restaurant, the cost is the price of dinner and the wasted time, but if one encounters a bad dentist, the cost could be much higher than the office visit fee.

Yelp is another customer review website, but it focuses more on restaurants and entertainment providers. Angie's List charges subscription fees in order to access reviews, whereas Yelp is available free of charge. Both websites generate the majority of their revenue from advertisements by local businesses. While Angie's List and Yelp are growing rapidly, they both face competitive threats from sites that can consistently provide higher-quality reviews or customized reviews based on one's past preferences.

Angie's List, which doubled its subscriber base from 500,000 in 2010 to one million in October 2011, expanded from 45 to 175 paid membership markets between 2007 and 2011. It boasts that its typical member is a married, college-educated homeowner between the ages of 35 and 64 with an annual household income of at least $100,000.

The service generated $25 million in subscription revenue from a total of 500,000 paid subscribers in 2010, so annual revenue per subscriber was $50 last year. Another $34 million came from top-rated service provider advertising fees, so each of the 500,000 subscribers in 2010 generated $68 in advertising revenue for the company. However, new markets such as New York and San Francisco are generating far less subscriber and advertising revenue; markets entered after 2007 are only generating $17 in fees per subscriber and $10 in advertising revenue.

Yelp, by contrast, generated $58 million in revenue for the first nine months of 2011 primarily from advertising. More than 22 million reviews are available on Yelp, and the site has enjoyed expansive traffic growth since its founding in 2005, bolstered by its prominent rank in Google searches. That advantage on Google, however, has likely been all but wiped out as a result of Google's acquisition of rival Zagat for $151 million in September. Google will likely raise Zagat above Yelp on search results.

With a subscriber-pay model, Angie's List doesn't have the luxury of Google search to acquire new members. Instead, the company has deployed a national advertising campaign featuring founder Angie Hicks. This has been expensive: Angie's List paid $77 in marketing cost per new member in 2008, and by 2010, the company was paying $93 to acquire each new member. As of September 30, 2011, this cost declined slightly to $86 per member, but there could be an additional marketing push in new markets using some of the cash generated from the IPO.

Whatever competition develops, Angie's List will have a rough road to profitability, particularly given its advertising spend. Nevertheless, many investors were happy to become shareholders

The exorbitant costs that are attributed to the company's national advertising strategy have obstructed the company's path to profitability, but this seems to be a risk that management is willing to take for the foreseeable future. Angie's List has recorded net losses since its inception, and these have increased over the last two years. The company has an accumulated deficit of $161 million. For the nine months ended September 30, 2011, Angie's List recorded a net loss of $43 million, up from $27 million in 2010 and $12 million in 2009.

Angie's List generated 62 per cent of revenue through September 2011 from advertising, up from 53 per cent in 2008, and it "expects to continue to derive an increasing percentage of its revenue from the sale of advertising to service providers in the future." The company is investing in a sales force to sell advertising to service providers, but the sales force is based in Indianapolis and reaches prospects solely by phone. While the company may have difficulty selling ad space to service providers in its growth markets, management believes national advertising will pick up the slack.

Relying more heavily on advertising for revenue has the potential of reducing consumers' trust in Angie's List reviews. One could argue that the company's main customers are the service providers, as they are the primary source of revenue. This is a potentially flawed business model because it doesn't build trust with the audience: the service consumer. Yelp's experience provides a cautionary tale: it has been under fire for including reviews that were supposedly penned by the service providers themselves as well as defamatory reviews by competitors. Yelp has also fought charges that businesses that advertise allegedly get perks such as the removal of negative reviews or improved search results. Angie's List may face the same issues as it aggressively pushes for advertising dollars from service providers.

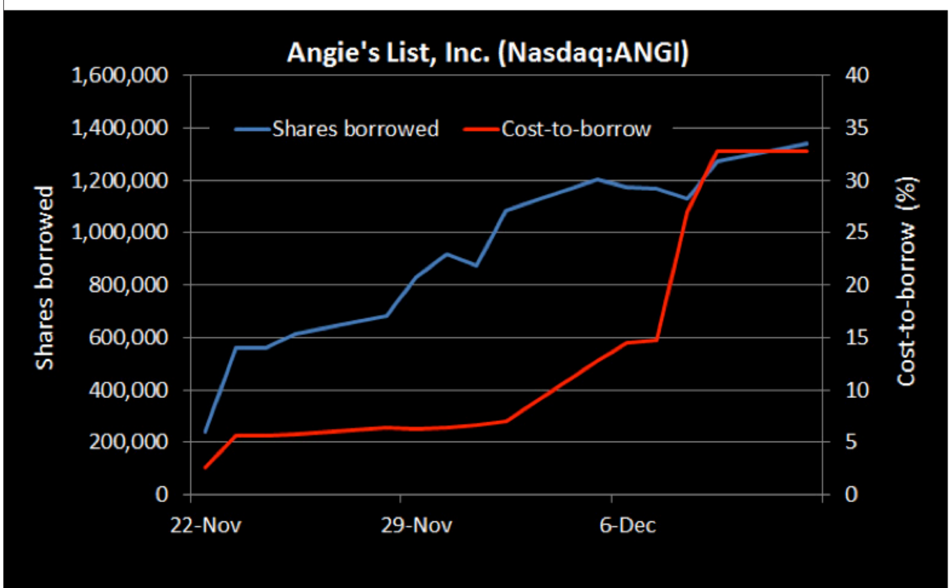
One risk to both Angie's List and Yelp comes from potential rival entrants that can develop a corps of elite reviewers, similar to the reviewers that Yelp cultivates. Right now, Yelp hosts events to incentivize contributors who write reviews that users find helpful. Harvard Business School assistant professor Michael Luca researched Yelp's impact on restaurants in the Seattle area and found that Yelp's elite reviewers, more than regular reviewers, have an impact on restaurants' revenue. Angie's List has no plans to incentivise its top reviewers.

In addition, a rival site such as Facebook or one that uses a preference engine similar to Netflix's movie prediction model could also steal market share from Angie's List and Yelp. Facebook knows a lot about what one's friends prefer and can predict what one will like based on this. Google knows a lot about a person's internet browsing history; Netflix knows what movies consumers prefer, and both companies can make predictions based on this information. Google's acquisition of Zagat demonstrates that it wants to increase its share of this space, but Facebook has yet to show interest in leveraging the opinions of its users for reviews.

Whatever competition develops, Angie's List will have a rough road to profitability, particularly given its advertising spend. Nevertheless, many investors were happy to become shareholders. With its IPO priced at $13, the stock started trading at $17.50, hit a low of $10.77 on November 30, and was at $16.75 on December 13.

Since Angie's List floated 8.8 million shares in its IPO, or 16 per cent of its outstanding shares, short sellers should have an easier time borrowing and shorting shares of Angie's List than short sellers did for Groupon. On the first day that short sellers were able to borrow shares, they borrowed only 242,000, but over the past three weeks, short selling activity has increased. As of December 13, short sellers had borrowed 1.3 million shares and were paying an average annualized rate of 32 per cent to do so. Shorting Angie's List may quickly become too expensive and too risky for many funds because of the high borrowing costs.

Stay tuned to Lending Pit to see what happens with the borrowing cost over the next several weeks, especially after long and short investors are able to voice their opinion regarding Yelp. **SLT**



Andrew Shinn
Vice president, sales and development
SunGard Astec Analytics

2012

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16th Global Securities Financing Summit

Location: Luxembourg
Date: 18-19 January 2012
www.clearstream.com

As previous years, we will organise the Eurex Repo Bar as a prelude of the summit on Tuesday 17 January 2012 and the selected venue for this year is the Chateau de Septfontaines (Villeroy & Boch).

The 18th Annual International Beneficial Owners' Securities Lending Summit

Location: Phoenix, AZ
Date: 29-31 January 2012
www.imn.org

The 18th Annual International Beneficial Owners' Securities Lending Summit details to follow

ITAS 2012 International Transfer Agency Summit

Location: Luxembourg
Date:29 February - 1 March 2012
www.informaglobalevents.com

Last year, the 10th Anniversary of ITAS saw 250+ attendees at the event. The positive feedback led all involved to declare it a resounding success in terms of catching up with business partners, listening to and debating with some of the leading figures in this industry, and having great fun at the evening functions. Already there is great anticipation in the market for coming along to ITAS 2012.

9th Annual PASLA RMA Conference on Asian Securities Lending

Location: Taiwan
Date: 6-8 March 2012
www.informaglobalevents.com

Keynote Speaker - Robert A. Jaeger, senior investment strategist, BNY Mellon Asset Management, Author of "All About Hedge Funds: The Easy Way to Get Started"

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The 18th Annual
International Beneficial Owners' Securities Lending Summit

January 29 - 31, 2012
Arizona, Biltmore Resort & Spa
Phoenix, AZ

IMN is delighted to present our 18th Annual International Beneficial Owners' Securities Lending Summit. The conference will be held on January 29-31, 2012, at the Arizona Biltmore Resort & Spa, Phoenix, AZ.

Over 400 attendees, including around 150 beneficial owners, gather annually at the conference to address the latest issues impacting the beneficial owner community.

IMN is pleased to announce that the 2012 program has been developed with the support of a beneficial owner-led event Advisory Board, who have graciously donated their time and their extensive industry knowledge and experience to help craft an agenda that will assist beneficial owners in mapping a strategic course to navigate the opportunities and challenges of the coming year.

Featuring unparalleled educational and networking opportunities, be sure to save the dates of January 29-31, 2012, and join us at the Arizona Biltmore Resort & Spa in Phoenix, AZ, for the 18th Annual International Beneficial Owners' Securities Lending Summit. With close to twenty years of serving beneficial owners, this is a must attend event for anyone in this field.

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Industry appointments

RBC Dexia Investor Services has announced the appointment of **Guy d'Albrand** as head of securities lending. In his new role, he will be responsible for product management and development for both securities lending and stock borrowing, joining in January 2012.

d'Albrand previously worked with Société Générale and Newedge, holding senior positions in their investment management and services, investment banking and brokerage units.

Susan Pike, global head, Market Products & Services at RBC Dexia, said, "This appointment adds to our highly regarded team of industry professionals. Mr d'Albrand's experience and leadership will complement our existing strengths as we continue to more closely align our services to our clients, anticipate their needs and develop relevant, timely solutions."

J.P. Morgan has hired former Credit Suisse executive **Neil Hounslow** as head of its prime brokerage in Asia Pacific, SLT has confirmed. He will be based in Hong Kong.

Hounslow, who was head of flow financing, prime services, for Asia Pacific at Credit Suisse, joined J.P. Morgan about two weeks ago, according to Reuters.

The bank launched its prime brokerage service in Europe, the Middle East and Africa in June.

Susan Coleman will become the head of cross-product initiatives at RBC Dexia Investor Services, focusing on collateral management strategy as well as other initiatives.

The move is part of an organisational change within the global Market Products and Services team, which provides securities lending, foreign exchange, credit, finance and cash management services to clients.

In the new business model, all service delivery roles will be consolidated into one team led by Fay Coroneos, formerly head of Risk & Investment Analytics.

Deutsche Bank has announced the appointments of two global heads in Global Transaction Banking (GTB) division; **Marcus Sehr** as global head of Cash Management for Financial Institutions (CMFI) and **John Ball** as global head of CMFI Sales.

The new roles are part of continued "realignment" to aggregate all Trust & Securities Services (TSS) and CMFI businesses under the leadership of Satvinder Singh, global head of TSS and CMFI. Additionally, the bank will align specialist sales activities within Financial Institutions and Securities (FIS) in a new sales team, led by Jim Turley, global head of FIS sales and global COO for GTB.

Sehr will oversee cash management strategy, P&L and delivery of end to end solutions and risk management in CMFI. He has held various roles within CMFI, most recently as global COO, and has been with the bank for 12 years. Based in Frankfurt, Sehr will report to Satvinder Singh.

Ball will be based in Hong Kong, responsible for driving cash management revenues globally in the financial institutions segment. He was previously head of CMFI for Asia Pacific in Deutsche Bank for over eight years responsible for overall client relationship management in Asia and Japan and new business development for CMFI. Before joining Deutsche Bank, John was with Bankers Trust in London and New York.

Jim Turley, to whom Ball will report, said, "John brings a wealth of experience into his new role. His appointment enables the bank to further enhance our leadership in the institutional segment and will be instrumental in fostering closer partnerships with our institutional clients to further their success.

Kellner Dileo has hired **Alfonso Iervolino** and **Robert Dowd** as senior vice presidents within our securities lending division. Iervolino has over 30 years experience in securities finance, most recently at Paloma Securities, while Dowd has nearly 20 years in the business, most recently at Prudential Bache.

"We have been opportunistic with respect to personnel this year, as the environment is such that we have been able to attract numerous seasoned professionals that were eager to be a part of a more entrepreneurial and forward-thinking organisation," said Kellner Dileo's director of securities lending Rory Zirpolo. "With the addition of Alfonso and Robert, this caps a year in which we have dramatically improved the collective skill set, have increased net capital and added new counterparties to the mix. We expect to continue to build out our business in the New Year, as we continually seek to develop ways to deliver value to our customers."

Paladyne, recently acquired by Broadridge, has announced that **Bill Kelly** has joined the company as global head of sales. He will be responsible for growing Paladyne's client base across the buy side.

Most recently managing director and global head of sales at GlobeOp Financial Services, Kelly has more than 30 years of experience in complex financial services and technology sales and business development.

Kelly has held positions at Alliance Bernstein, Rogers Casey and Comdisco after starting his career at IBM.

Euroclear has announced several senior management changes which are expected to be implemented in early 2012, once the relevant regulatory approvals are obtained.

Luc Vantomme, currently managing director and head of the Banking & Network Management Division of Euroclear Bank, will become chief risk officer of the Euroclear group, based in Brussels. Management responsibility for the Banking & Network Management Division will be divided among other senior Euroclear Bank executives.

John Trundle, currently chief risk officer of the Euroclear group, will become chief executive officer of Euroclear UK & Ireland, based in London.

Yannic Weber, currently chief executive officer of Euroclear UK & Ireland, will become chief executive officer of Euroclear Finland and Euroclear Sweden, based in Stockholm. Yannic Weber will continue to serve as chief executive officer of Xtrakter, a Euroclear company.

Anso Thiré, currently chief executive officer of Euroclear Finland and Euroclear Sweden, will become managing director and head of business development for the group. **SLT**

SECURITIESLENDINGTIMES

Editor: Ben Wilkie
editor@securitieslendingtimes.com
Tel: +44 (0)20 3006 2710

Journalist: Anna Reitman
annareitman@securitieslendingtimes.com
Tel: +44 (0) 20 3006 2888

Marketing director: Steven Lafferty
design@securitieslendingtimes.com
Tel: +44 (0)784 3811240

Publisher: Justin Lawson
justinlawson@securitieslendingtimes.com
Tel: +44 (0)20 8249 2615
Office fax: +44 (0)20 8711 5985

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Kent, BR3 5JE
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