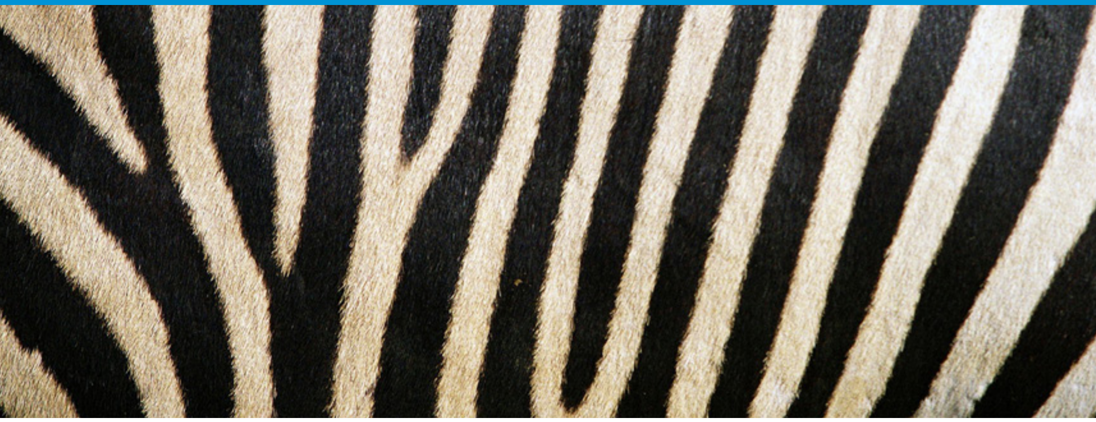
SLT
SECURITIESLENDINGTIMES
ISSUE043
24.01.2012 TUESDAY
securitieslendingtimes.com



Clearstream and Strate GO liquid

LUXEMBOURG 20.01.12

Clearstream and South Africa's CSD, Strate, announced exclusive negotiations towards a collateral management partnership at the 16th annual Global Securities Finance (GSF) Summit held in Luxembourg from 18 to 19 January.

It will allow the South African market to use Clearstream's collateral management infrastructure, the Global Liquidity Hub, which operates on fully automated basis in real time, while the CSD's clients could handle their domestic collateral holdings and exposures more efficiently without the need to move collateral out of the domestic South African environment.

Stefan Lepp, member of the Executive Board of Clearstream and head of GSF for both the ICSD and CSD business, explains that the partnership will also allow the South African CSD to collateralise securities lending positions in their home market and later leverage international assets held with Clearstream.

"It is attractive because fragmentation is decreased, opportunity costs are lowered and back office efficiencies are increased, that is some of the reason we have this demand in the industry for our Liquidity Hub GO (Global Outsourcing) product," he adds.

South Africa is the third market, after Brazil and Australia, to use the Liquidity Hub GO outsourcing service from Clearstream. Speaking to SLT, Rohan Delilkhan, general manager of business development for Clearing and Settlement Services at ASX, said that this particular outsourcing model was the best fit for the market because it included a knowledge exchange partnership in addition to the benefits of maintaining assets at home, under local legislation.

"It is beneficial to us that our partner can also inform us about their experiences as a provider of triparty collateral management services and as a cross border CSD," Delilkhan notes. "And importantly, they don't tell us what to do, but provide us with multiple ways in which we can solve any given problem which lets us work out what is most efficient within our own CSD technology structure and how we can best meet domestic regulatory requirements."

readmore p3

NEWSINBRIEF

European turmoil causes lenders to run for collateral cover

Long only investors who lend reduced their assets and exposure to sovereign bonds of risky economies while increasing their holdings in bonds of insulated economies, reports Data Explorers.

Securities lending market reaction to the latest sovereign wealth crisis and downgrades shows that total supply of bonds in lending programs has decreased 9 per cent in the three months to January, while there has been a 7 per cent decline in loans.

readmore p3

Latest research highlights that short selling bans don't work

Bans on short-selling in the eurozone are unlikely to prevent share prices from continuing to fall and could cause "more harm than good", according to a Cass Business School study.

In the largest study of its kind, Professor Alessandro Beber from Cass, and his co-author, Marco Pagano from the University of Naples, examined the impact of the ban on 30 countries using data from nearly 17,000 stocks between 2008 and 2009.

The findings provide new and compelling evidence that curbs on short-selling fail to support stock prices, severely reduce liquidity and restrict the flow of information to the market.

readmore p3

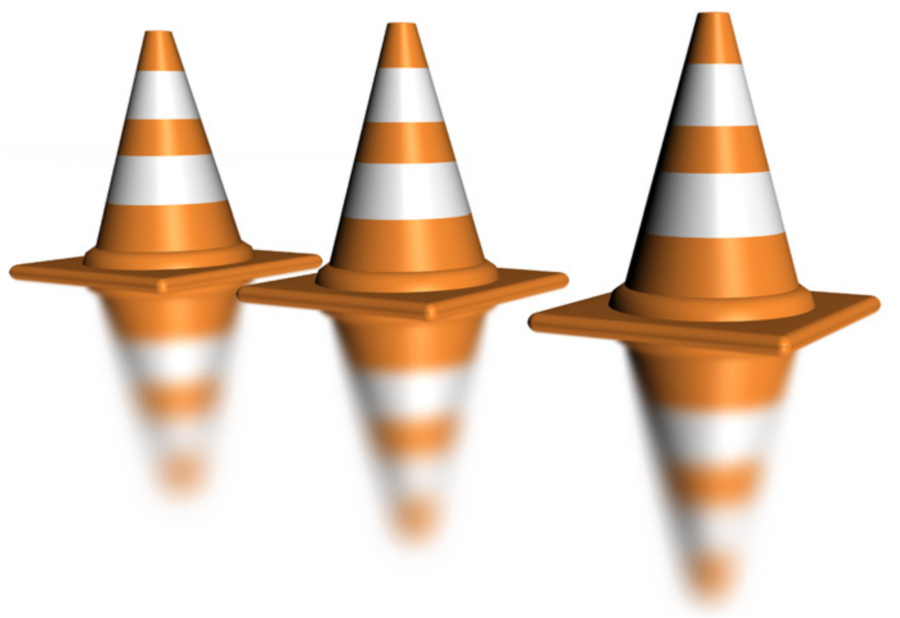
INSIDE SECURITIESLENDINGTIMES

Clearstream and Strate GO liquid

Continued from page 1

He adds that at this year's GSF Summit, the CCP component is attracting his attention more in an environment where capital efficiency is becoming increasingly important for Australian financial institutions. "Going to the CCP model is heavily influenced by ongoing regulatory changes…but also reflects the capabilities of infrastructure providers to reduce counterparty , operational and settlement risk. As the take up of CCP services is less about generating new revenue for a participant and more about additional risk reduction, it will take time for new developments such as a CCP service for securities lending to take effect in Australia."

For delegates at the Summit, staying ahead of regulation was not the strongest driver - when polled at a panel discussion on the topic, the top reason for interest in a CCP service was to replace multiple counterparty credit structures with a simplified single CCP structure .



European turmoil causes lenders to run for collateral cover

Continued from page 1

"This has in turn helped fuel an increase in income generated by lending programs despite a fall in fees," writes Data Explorers.

European bonds have seen the most in the way of turmoil over the last three months, with every sovereign bond, except for Finland, seeing a fall in the value of their assets held in lending programs. Amongst the sovereign bonds in lending programs to have witnessed the largest declines in value are Greek (72 per cent), Portuguese (47.5 per cent), Slovenian (39.2 per cent) and Italian (35.4 per cent).

The report comes as the eurozone faces a fresh wave of downgrades by Standard & Poor's, which saw France lose its AAA long-term rating while Germany had its long-term outlook affirmed.

According to Data Explorers, there was strong demand to borrow French, German and UK bonds which recorded utilisation levels of 42.1, 47.5 and 47.4 per cent respectively. "This demand is no doubt driven by investors looking to use bonds as collateral in repo and other finance transactions," the securities lending analytics firm wrote.

Long only investors who lend also increased their holdings in the relative safety of Finnish, Canadian and Australian economies, it added.

Latest research highlights that short selling bans don't work

Continued from page 1

Professor Beber said: "According to our study, the knee-jerk reaction of most stock exchange regulators around the globe had a severely damaging effect on market liquidity. This was especially pronounced for stocks with small market capitalisation, high volatility and no listed options.

According to the report, Italy was hardest hit by the ban, followed by Denmark, Australia and Switzerland. Professor Beber said: "We found countries which already have liquidity problems because of the structure of their capital markets suffered the most damage from the ban."

Spain, Belgium, Norway, Ireland, USA, UK experienced the next largest fall in liquidity while the Netherlands, South Korea and Austria were among those least affected.

BNY Mellon gets Van Eck securities lending ETF mandate

BNY Mellon has been selected to provide securities lending, exchange-traded fund (ETF) services, custody and fund accounting for the six new Market Vector Industry ETFs which recently launched.

The six new ETFs were offered to existing investors in the corresponding six Merrill Lynch-sponsored HOLDRs through separate exchange offers. This transition from HOLDRs is a first for the ETF industry, noted Joseph Keenan, managing director and global head of exchange-traded fund services at BNY Mellon Asset Servicing, adding that it illustrates the continuing changes in the ETF investment segment.

HOLDRs are Holding Company Depository Receipts, securities that represent an investor's ownership in the common stock or American Depository Receipts (ADRs) of specified companies in a particular industry. They are designed to offer investors a way to achieve exposure to a basket of stocks in a cost-efficient manner while preserving ownership benefits, such as voting rights, related to the underlying stocks, according to ETFdb.

"The ETF structure provides a more dynamic, diversified investment vehicle as it better reflects changes in the composition of industry sectors that inevitably occur over time," said John Crimmins, VP, portfolio administration at Van Eck. "This was a unique transaction, and we are pleased that BNY Mellon had the expertise and depth of service required to assist investors who transitioned from the HOLDRs to the ETFs."

BNY Mellon's Depositary Receipts group has acted as the trustee for the HOLDRS baskets since the inception of the product in the late 1990s. BNY Mellon Shareowner Services was the exchange agent for the six exchange offers.

Hedge funds short New Year's resolutions

Short sellers are staying put in the shares with high self improvement exposure, despite a New Year's rally in their share price, writes Data Explorers.

Short interest on sporting goods retailers and businesses focused on weight loss is high: Sector heavyweight Weight Watchers saw its share price increase by a quarter in January alone off the back of a 'resolution' rally. Short sellers are not as bullish, increasing their bets 50 per cent to 8 per cent of the total shares in the last month, according to Data Explorers securities lending flow data.

Meanwhile, tobacco producers have low interest but so do pharmaceuticals producing smoking cessation products.

"[Short sellers] have been most active in companies exposed to weigh loss commitments. This is perhaps owing to the fact that quitting smoking is a much less transient undertaking than losing a few pounds gained over the holiday season," notes Data Explorers.

Canadian court rules on CSA

The Supreme Court of Canada forced the federal government back to the drawing board on the Canadian Securities Act (CSA) when it unanimously found the legislation to be unconstitutional.

However, it did not rule that the concept of a national securities regulator is necessarily unconstitutional.

The Canadian constitution divides certain powers between the provincial and federal governments. The legal issue before the courts was whether the CSA falls under a provincial or federal head of power.

Established in all ten provinces and three territories, securities commissions supervise the Canadian securities industry, including stock exchanges, investment dealers, clearing agencies and investment advisors.

In May 2010, the federal government released the CSA, which provides for the harmonization of the existing provincial and territorial legislation into a single federal statute and creates a national securities regulator. At the same time as releasing the CSA, the federal government referred the question of its constitutionality to the Supreme Court.

Shortly after, both the Alberta and Quebec governments submitted similar reference questions to five-judge panels of their respective appeal courts. Both provincial appeal courts found the CSA to be unconstitutional.

Quadriserv posts 2011 securities lending highlights

Quadriserv has released the rebate rates of some of the hottest stocks in 2011. On a daily volume weighted average (VWA), Evergreen Solar traded in the tightest range between some 84 and 99 bps while AutoChina International saw its negative rebate rate range from around 21,000 to 930 bps throughout the year, the widest gap of the specials reported.

However, it should be noted that the massive demand implied by AutoChina's rebate rate could be influenced by a range of factors, such as how many shares are in free float, the size of the trades completed, what kind of collateral might have been accepted for the trade and timing.

David Lewis, SVP at SunGard Astec Analytics, expects such a trade likely occurred when an SEC investigation into the company's dealings heated up over allegations of fraud and overvaluation. His figures show a peak average rebate rate over the last 12 months of 8800 bps, still a substantial figure. Over the year, the company's share price fell some 20 per cent, but in September it had seen a plunge of between 60 and 70 per cent, recovering somewhat later in the year.

"It is not unreasonable to see a very expensive rebate going through when things like that are happening, but it could have been a tiny trade...It may well be that a stock peaked at such a rebate, but without contextual data such as loan volumes for example, such values could be misleading," Lewis said.

He adds that rebates in a tight range often point to general sentiment about a sector under consistent downward pressure. The solar industry for example, faced headwinds when the US and European governments started to cut subsidies, bringing into question the viability of business models.

The most actively traded ETF by total volume was SPDR S&P 500, which traded special with a year-long VWA of 10 bps.

However, that may be because it's often traded for term and supply tends to be locked up, while a historically low interest rate environment is also changing the definition of specials which would usually only include securities of at least 20 bps or better.

FXI, the China ETF, traded the most special of the ETFs at 122 basis points.

In GC trade, the 10 most actively traded securities had rebates in a tight range from 11 to 23 bps with Bank of America seeing both the most volume and highest rebate.

In other 2011 highlights, Quadriserv announced some milestone achievements: the broker-to-broker trading venue it launched in September, AQS Direct, gained traction, processing about 50 per cent of total AQS market activity in the fourth quarter. More than 50 institutional member firms, including three of the top five and 10 of the top 15 largest prime brokers are either actively trading or in the process of connecting to the AQS marketplace.

Hedge fund flows go out in Jan

Hedge fund flows declined 0.9 per cent in January, said hedge fund administrator GlobeOp.

"In line with year-end portfolio rebalancing, January net capital flows were negative," said Hans Hufschmid, CEO at GlobeOp. "The net figures were therefore not unexpected. Interestingly, January's inflows were the highest in 12 months; outflows were the second lowest in seven years."

Cumulatively, the GlobeOp Capital Movement Index for January 2012 stands at 140.18 points, a decrease of 0.88 points over December 2011 though it has advanced 12.89 points over the past 12 months.

Nigeria's market bans naked shorts for dealing members

As the Nigerian Stock Exchange (NSE) moves closer to implementing naked short selling, rules are being finalised and dealing members are out, according to local media reports.

According to the NSE's rule on short selling, made available to Vanguard News, only market makers will be allowed to undertake naked short selling when the practice becomes fully operational in the market.

To guide against irregularities associated with short selling and naked shorting, the NSE declared that a listed security will be sold short at a price below the last sale price and included a rule reminiscent of the RegSHO "locate" rule with reasonable grounds for dealing members.

Italy extends short selling ban

Consob has confirmed media reports that a short selling ban on shares of the financial sector has been extended until 24 February. The restrictive measures were initially adopted on 12 August, 2011 and were extended until 15 January.

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.

Curbs in Belgium and Spain have no published end date, according to the latest update by European financial markets watchdog, ESMA.

Overstock.com loses case against Goldman

Overstock's lawsuit against Goldman Sachs and Merrill Lynch was dismissed by a judge because the company could not prove the investment firms violated naked short sale rules in California.

"Obviously, we are disappointed with the court's ruling, which was not on the merits of the claims, but on a narrow interpretation of California law having to do with whether this conduct took place in California," said Jonathan Johnson, president of Overstock.com.

The clearing operations for the two investment banks, which were accused by Overstock of intentionally failing to locate and deliver borrowed shares for clients, are based in New York. Lawyers for Goldman also denied any market manipulation, Bloomberg reported.

Five years ago Overstock.com filed the case against eleven Wall Street firms alleging manipulation of its stock through illegal naked short selling schemes and later narrowed the focus of the case to the remaining defendants, entities of Goldman Sachs and Merrill Lynch.

In pursuing its case in California, the online retailer presented cases of manipulative trades which took place in San Francisco, such as those effected by the defendants on the Pacific Coast Stock Exchange, among other allegations.

Speaking on the ruling, Patrick Byrne, CEO and chairman of Overstock.com, said, "This is a setback, but we have always said we are in this case for the long haul. Until at least twelve Americans have had a chance to issue their own ruling on these facts, we will carry on."

"Broad agreement" on FTT in European Parliament

A "very broad agreement" in favour of an EU financial transaction tax (FTT) emerged at the start of the Economic and Monetary Affairs Committee's work on the legislative proposal, according to a statement from the European Parliament.

Various MEPs said that in recent months, they had shifted their position in favour of an FTT.

Wolf Klinz, MEP from German party, Alliance of Liberals and Democrats for Europe (ALDE), said that this was “because the financial sector has not learned the lessons from the crisis”.

Repo and securities 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, warn market participants. Rejection of such a measure also 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 thus “isolating” the one member of the EU to go against the other 26.

Meanwhile, President Nicolas Sarkozy insisted that France must press ahead with a tax on financial transactions to force the issue in Europe, despite concerns that a unilateral move would isolate the country and damage the French financial services industry, reports the Financial Times. And even before the statement, French officials had hinted that the country would go it alone, a move many MEPs “deplored”, particularly as the proposal seems to be gaining favourable momentum.

Only the European Conservatives and Reformists (ECR) political group spokesperson, Czech MEP Ivo Strejcek, stood by his group’s fundamental opposition to the tax.

“Relocation [of financial players] will take place within weeks at most,” Strejcek said, adding that banks should not be penalised since it was states most responsible for the crisis.

Marta Andreasan, MEP of the UK Independence Party, said that she found it “incredible that we are discussing a financial transaction tax for 2014 when the euro is burning”.

However, the majority view was voiced by Sirpa Pietikainen, MEP for Finland, European People’s Party, who noted that the tax would need to be implemented by, at the very least, the 17 eurozone countries.

The draft report is scheduled to be presented on 28 February, put to a committee vote in early April and a plenary one in June.

Karachi market develops risk system for short sales

The Karachi Stock Exchange has announced the development of a Risk Management Gateway System (RMGS) for brokerage houses, scheduled for launch by the end of January.

It will give exchange members the ability to identify short sales as well as other enforcement functions to improve compliance and risk management for brokerages. At present, the use of RMGS is optional.

“We believe that the RMGS implementation will be a mile stone achievement with regards to risk management and trade related regulatory compliance of brokers that will impact positively on investors’ confidence on the system and investors’ perception of a robust risk management system at the exchange,” said KSE management.

ING creates global equity products unit

In a bid to boost sales and cut costs, ING has merged cash equities, equity derivatives and global securities finance into one unit, reports Bloomberg.

The new unit includes part of the equity capital markets business, excluding mergers and acquisitions. The integration will take about two to three years to be completed and the management is led by John Wills, who previously co-headed ING’s securities finance business, said Carolien Van der Giessen, spokeswoman for the bank and insurer, speaking to Bloomberg.

“As well as revenue-enhancing benefits, significant cost synergies will be created in conjunction with enhanced risk management and more efficient capital utilisation,” ING said. Global Equity Products will employ about 300 people and will hire product specialists to increase sales and research, Van der Giessen told Bloomberg.

Brazil

As Brazil's investment community adopts more complex trading strategies, securities lending demand is booming

ANNA REITMAN REPORTS

Brazil's exchange, BM&FBovespa (BVMF), has been investing heavily in technology in order to attract more volumes and it's working. Investment managers implementing long/short strategies and high frequency traders are moving in and consequently, have pushed the demand for securities lending services to record highs.

Volumes of registered securities lending contracts at BTC, the securities lending programme of the Brazilian Clearing and Depository Corporation (CBLC), have been increasing exponentially - exceeding 57 per cent in 2011 compared with 2010. Meanwhile the quantity of registered contracts showed over 46 per cent growth. In December, the market reached a new record of BRL 35.9 billion ($20.1bn) in financial volume of outstanding positions.

"The ongoing maturity of the market for securities lending is being pushed by an increase of long/short investment funds. A lot of investors, if they have their equity deposited and wish to see an increase of income are also getting used to having a position with BTC," says Daniel Granja, central counterparty risk manager at BVMF. "There is also growth of high frequency trading and if they want to arbitrage between markets they tend to seek a securities lending position…I expect to see continued growth, the securities lending programme is a good tool for hedging equities and for trading as well."

Acting as the CCP, CBLC is responsible for the settlement of all securities lending transactions and collateral remains under the fiduciary ownership of the clearing house with all trades registered. The country's securities lending model is fully integrated into the CCP environment, there is no bilateral trade.

In an environment of diminished returns, some market participants have noted that the registration fees are high, borrowers pay to register a transaction at 25 basis points per year (pro-rata equivalent to the contract maturity) while lenders pay a 15 per cent tax. However, Daniel Granja, is quick to point out how transparent the fee model is.

Though only authorised institutions can access the system, all users can see updated daily data which shows open positions, total lending volumes of each asset, compulsory loans registered over a month and other key statistics - all important factors to ensure fair pricing and to track trends in the market.

You need a stock loaning business and a trading desk in order to provide your clients liquidity for short sales. If you don't have this liquidity, you may lose clients that want to trade.

An important difference in the BTC model that foreign investors should be aware of, Granja says, is the lack of cash collateral reinvestment, an activity that is currently being scrutinised heavily by supranational regulators such as the Financial Stability Board.

At the same time, authorised investment funds are permitted to act as both lenders and borrowers. Granja explains that this is so that if a specific stock price drops, the investment fund can borrow it, sell it to the market and then buy it back. In addition, securities lending positions can be used as collateral for other transactions since it is held by the CCP. Another advantage of BTC includes the processing of significant corporate events in the lifecycle of transactions for lenders, such as dividends.

Mutual funds by and large dominate the borrowing market, representing some 73.9 per cent of the market, although foreign investors also show significant activity, composing 15.6 per cent. Still, this is an incipient market in many ways. Only last year, J.P. Morgan Worldwide Securities Services (WSS) became the first non-domestic agent lender to successfully execute and settle a securities lending transaction.

At the time, Ricardo Nascimento, head of WSS business for Brazil, said in a statement that "the ability to offer securities lending services in the Brazilian market is part of our strategy to offer our global and Brazilian clients a broad range of local services to support their investment strategies".

Foreign investors now represent some 29.3 per cent of the lending market as well though individuals with holdings comprise the largest portion at 43.1 per cent with mutual funds at 18.7 per cent. Pension funds are heavily regulated but are becoming increasingly important as well. At present, this group represents just under two per cent of the lending market.

Though Granja doesn't see any regulation specific to the securities lending market on the horizon, there may be some risks if the government was to intervene with policies to slow down investment. Last year, the Brazilian economy was at most risk of overheating in Latin America and the local currency, the real, was appreciating beyond comfortable levels. To prevent further foreign investment inflows, the government enforced a financial transaction tax, but this has since been repealed. Market observers with knowledge of the matter express divergent opinions over how great this risk is, yet it remains.

"There is still plenty of space for growth, as foreign investors become more familiar with the way in which BTC is different than foreign models, we will likely see an increase for these market players as well," Granja says.

High frequency upgrade

Analysts agree that one of the most important factors driving securities lending is the modernisation of the Exchange after its demutualisation and active courting of electronic and high frequency trading and thus, investors interested in shorting.

Bernardo Mariano, analyst at Equity Research Desk, says that since 2008 investment in technology is putting Brazil's capital market closer to being on par with more developed exchanges. "Right now the Exchange is implementing a technology developed together with CME, called PUMA, which will really put the Exchange, in terms of latency, at the level of US or European exchanges, but throughput, which is basically how many orders you can fit per second, will still be lagging," he says.

Despite the increase in volumes that technology will bring, for brokers engaged in securities lending, the fact that CBLC acts as the counterparty also has other implications. Since the services offered by brokers are all the same, competition for business focuses on price and squeezes margins.

"At the beginning, there were a couple of brokers which jumped into it because it was profitable, there was very little competition. Then, when the market started to develop, competition heated up and since the Exchange was demutualised, margins became smaller and smaller," Mariano says.

It all started in Rio...

Alvaro Vidigal's grandfather loved keeping equities in his family-owned insurance company's portfolio but ran into regulatory compliance issues. Those limitations were the inspiration to create a stock loaning business within insurance companies all over the country to reconcile the books.

"It all started in Rio as a family business, not for trading purposes either...but before CBLC it was difficult, with the clearing, for example... then Sao Paulo bought the Exchange and all the stock lending moved there, even still my trading desk remains in Rio," says Vidigal.

When securities lending began officially through CBLC in 1996, Vidigal founded the Socopa stock loaning desk, which had some 70 per cent market share by 2000 and, even since the arrival of large custodians such as J.P. Morgan, remains one of the top five independent brokers in the securities lending space.

He readily admits that the business is not what it used to be on its own, rather it has become an integral part of a broker's service package.

"You need a stock loaning business and a trading desk in order to provide your clients liquidity for short sales, if you don't have this liquidity, you may lose clients that want to trade with you, stock loaning has become a provider of other business rather than a business itself," Vidigal says.

He applauds the development of the market since CBLC has been involved, noting in particular the system's safety but also flexibility.

"Many foreign investors are using the CBLC system to borrow stocks, selling short in Brazil but depositing collateral in Euroclear. And this has been happening for a while, so, for example, a borrower deposits German sovereign bonds in Euroclear, Socopa provides leverage in Brazil and then they can borrow and sell stocks," he notes. The CCP also has agreements with DTCC for US securities collateral.

He adds that there is a misconception that foreign investors cannot use the securities lending market, but that has more to do with hedge funds using swaps as an alternative rather than any formal barrier to entry - foreign investors have all the same rights as domestic investors.

"I think the securities lending market is very well developed now, Brazil's system is one of the safest in the world. Since 1996, there is not one bankruptcy related to a short sale...brokers and banks are working in a safe, secured lending environment. When there is a crisis, many people try to blame securities lending but my point of view is that the tail does not chew the dog...stock borrowing and lending provides liquidity to the market. You should have seen the market before 1996." **SLT**

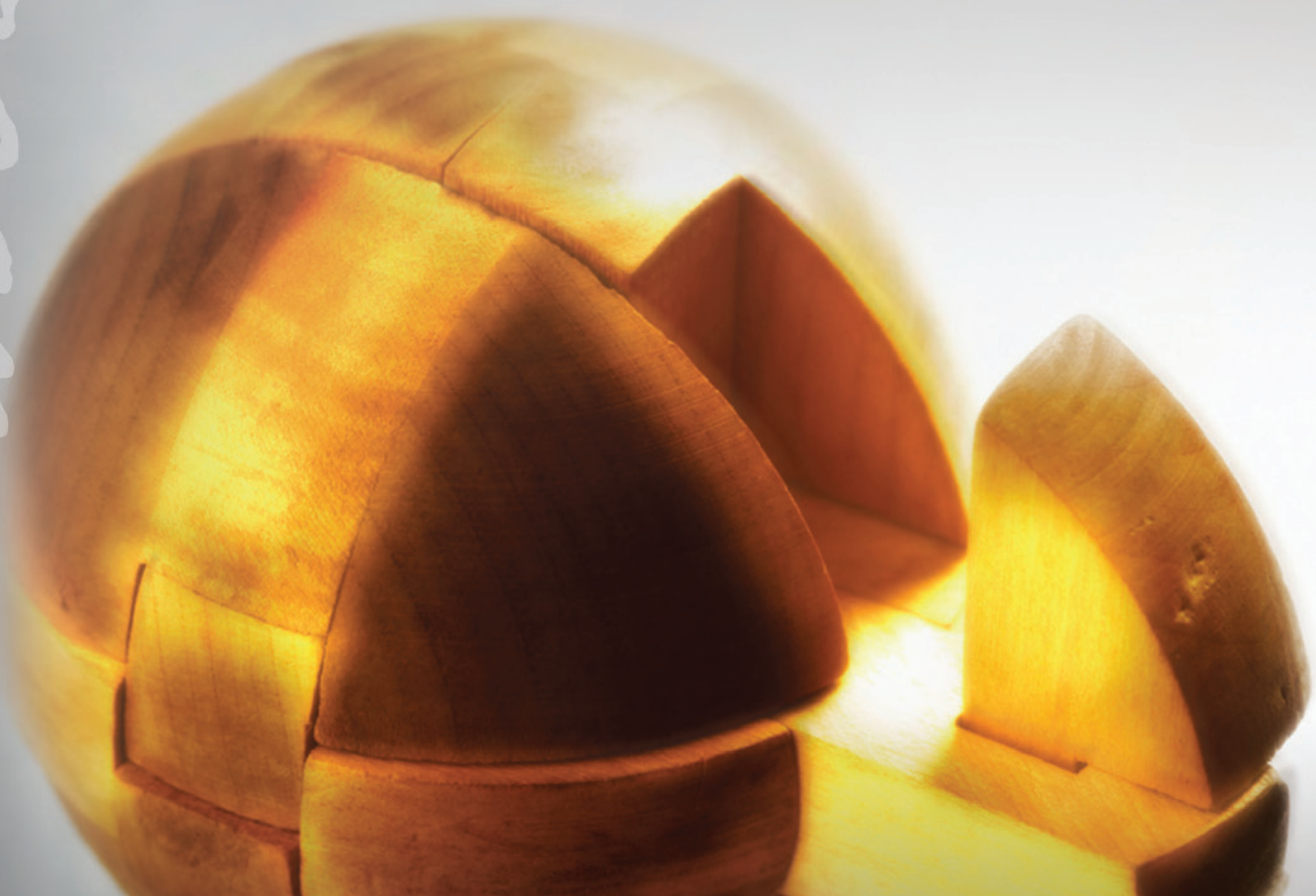
J.P.Morgan

Securities Lending

Customized solutions to meet each client's needs.

For more than 25 years, J.P. Morgan has provided clients with customized solutions to fit their unique needs. We believe that clients should have choices with respect to program design, parameters, collateral, loan distribution and oversight. Our clients benefit from customized and comprehensive lending options and one-stop access to a range of solutions, supported by the world-class expertise and execution of our entire firm.

jpmorgan.com/securitieslending



BNY MELLON ASSET SERVICING

EQUILEND

eSECLENDING SECURITIES FINANCE TRUST COMPANY

US securities lending panel debate

The biggest market in the world has seen its share of trials and tribulations over the past couple of years. Our panel examines the issues.

Ben Wilkie, editor

James Slater
BNY Mellon
Managing director and global head of securities lending

Brian Lamb
EquiLend
CEO

Peter Bassler
eSecLending
Managing director

Anne Sylvester
J.P. Morgan Worldwide Securities Services
Managing director, regional technical sales and client management, financing and markets products

Rory Zirpolo
Kellner Capital
Principal and director of securities lending

George Trapp
Northern Trust
Senior vice president, head of North American securities lending client relations

Doug Brown
State Street Securities Finance
Managing director, sales manager for the Americas

"Hope to see you at the IMN conference in Arizona"

Justin Lawson, Publisher
Securities Lending Times

SLT: How was 2011 for you?

Doug Brown: The securities lending market continues to be challenging. However, from a revenue standpoint, 2011 was a better year for our clients as compared to 2010 - given wider intrinsic and reinvestment spreads. We saw more event-driven activity in the first half of the year, and in the second half of the year concerns about the economies globally increased demand for many securities. As concerns related to both sovereign and bank/broker-dealer balance sheets continued to rise in the second half of 2011, counterparty exposure (MF Global default) and liquidity management were key focuses once again. We have spent a higher percentage of our time than usual working with regulators to formulate new policy. As fiscal and regulatory reform around the world continue to evolve, we continue to keep our clients abreast of these developments and their corresponding impact on market volatility, sovereign debt, as well as their impact on financial institutions. Given continued uncertainty around the world, risk management and communication with our clients have been critical areas of focus. Providing clients with solutions that allow them to participate in a low risk securities lending program, providing transparency, and extracting competitive returns continues to be key.

Anne Sylvester: Overall 2011 was a reasonable year for our business. We added a good number of clients to the program around the world, both on a custody and third party basis and saw additional growth in Asia and specifically in emerging markets, such as Brazil where J.P. Morgan was the first and still only agent lender to lend in this market. We saw clients willing to review their lending parameters and many willing to add equities as a collateral type and consider one-off /high revenue opportunity trades. Generally speaking, client reaction to the market environment in the second half of the year was relatively benign compared to 2007 and 2008. Overall, supply remained healthy as noted, but the demand side remained subdued given the market environment and the impact of deleveraging and impending regulation.

George Trapp: 2011 was a good year for clients in securities lending. Client interest in securities lending certainly grew during the year with new participants joining securities lending programs and current clients increasing their securities available to lend. Beneficial owners are looking to extract incremental return from their portfolio so long as they have the ability to manage risk. This is an ideal time for beneficial owners to review securities lending opportunities and establish a program that fits their risk and return objectives. This will allow them to capitalise on dynamic market opportunities in the future.

Trapp: 2011 was a good year for clients in securities lending. Client interest in securities lending certainly grew during the year

Peter Bassler: 2011 was a busy year for eSecLending, particularly in the area of product development. We launched several initiatives including our Treasury and Financing Solutions product which now has over $6 billion in assets under administration. It was designed to support large institutional investors in managing the operations around their treasury management functions by combining the strength of our securities lending and liquidity management services with our ability to capture, synthesise and provide recordkeeping for multiple sources and uses of cash flows. In addition, after extensive due diligence and the development of risk mitigation solutions, we approved lending in two emerging markets which we are in the process of discussing roll out to our clients. We also continued to expand the expertise and depth of our team by hiring two new senior staff members who have extensive securities lending knowledge and who broaden the breadth and depth of our executive team. In addition, in light of the increasing regulatory initiatives underway we have increased our legal resources to ensure we have dedicated staff focused on monitoring developments and impact to our clients. Finally, we are in the final phases of our new client reporting infrastructure which will go live in the first quarter of 2012. And we announced top rankings in three significant industry awards, we reached $2.5 trillion in assets auctioned since inception and implemented new clients and expanded mandates with several existing clients.

Brian Lamb: 2011 was EquiLend's best year in terms of new clients, trading volumes and overall profitability. We added 17 new clients in 2011 and several new key services to the platform. For example, our Trade Optimisation services, Standing Settlement Instructions Repository, Borrower-bid and hundreds of new enhancements to existing functionality. These have been widely embraced by our clients.

James Slater: In 2011 client sentiment improved and our new business pipeline was strong. Regulatory change began to drive new types of demand and many hedge funds saw increases in assets under management. We continued to deal with regulatory uncertainty and market volatility. However, these market conditions and the impact of the financial crisis have created a business environment that favors BNY Mellon's lending franchise where we strive to extract the full intrinsic value for our clients from lending opportunities.

Rory Zirpolo: As it was for many, 2011 was a challenging year for KDC in the securities lending environment. Looming issues regarding Europe helped to dampen risk taking in broad markets, which was of course felt in the securities lending community. We saw increased focus on names with the highest intrinsic value and a general shrinking of our book's breadth. Near-zero interest rates and a lack of intriguing financing opportunities meant little-to-no general collateral business in 2011, further contributing to the focus on the hardest of hard-to-borrow assets. The ongoing Europe problem combined with the unfortunate bankruptcy of MF Global spurred a greater focus on risk management. In securities lending, that means counterparty default risk and operational risk, which we examined in much greater depth during 2011 than in the past.

SLT: Where can further growth come from?

Brown: Further growth can come from increased activity by hedge funds and other asset managers, regulatory changes, new markets, as well as by utilising other collateral types than traditional US cash and US government securities.

Sylvester: Our growth strategy is centred on building and diversifying the book, and bringing good high quality clients and securities to the lending market, especially in the third party space. Focus will continue on emerging markets and there are a number of new markets on our priority list that we would like to add in the first half of the year.

Trapp: On the supply side of the market, further growth will most likely come from expansion into new markets. Northern Trust continues to research and expand our lending program into emerging markets such as Poland, Russia and Malaysia, increasing the supply of securities available for lending. On the demand side, ongoing uncertainty in global markets is likely to continue to weigh on investors and affect the level of securities borrowed. That being said, there are some indications that mergers and acquisitions (M&A) activity may be on the rise in the coming year, as cash rich corporations look to deploy capital and expand businesses. Increased M&A activity has historically been a driver of securities lending demand. Additionally, ongoing growth in the use of a broader set of non-cash collateral may contribute to increased demand. With the expected implementation of new regulations requiring the collateralisation of derivatives contracts, we may see an increase in demand for US treasuries.

Lamb: Several key areas. We opened an office in Hong Kong last year and we are adding to our head count in the region because we think Asia is an important area for our growth in 2012. Also, our BondLend service offering continues to gain significant traction amongst the European and North American fixed income markets.

Zirpolo: Looming issues regarding Europe helped to dampen risk taking in broad markets, which was of course felt in the Securities Lending community. We saw increased focus on names with the highest intrinsic value

Slater: Regulatory change is reshaping demand and in the process new lending opportunities are being created. Basel III liquidity requirements and new derivative legislation is driving increased volumes of collateral trading. Capital and balance sheet management is increasing the volume of non-cash transactions. In addition, hedge fund assets under management have been increasing and that trend is expected to continue in 2012. As those new investments are put to work, we would expect to see increased demand in the lending market.

Zirpolo: Further growth can come from diversification in credit exposure. While we've seen a trend of tightening credit exposure among our counterparties, it's our belief that growth comes from diversification. We see that larger lending agents are sitting on supply of lendable assets waiting for a narrower range of counterparties to borrow from them.

SLT: Will the potential move to securities lending through CCPs encourage more beneficial owners to the market?

Brown: Since the crisis of 2008, there have been many changes to the securities lending market to reduce risk. Due to these changes, we have seen most clients who exited lending re-enter, along with some beneficial owners who have never participated in lending entering the market as well. The majority of clients who do not participate in securities lending don't participate because of concerns related to the risk of investing cash collateral. Looking at recent counterparty defaults, Lehman and MF Global, for example, we are not aware of any clients in agency programs who experienced losses related to loans to these counterparties. Thus, we do not believe that a CCP will increase the number of beneficial owners participating.

Sylvester: The CCP discussion has been in the public domain for some time. Each new iteration of a CCP structure that is launched is an improvement on the previous, however, the feedback from many of our clients is that a CCP adds another layer of complexity and cost which could limit activity over time if returns don't improve correspondingly. From our discussions, most lenders seem fairly comfortable and happy with the risk and parameters of their programs and are not looking for the seismic changes being debated.

Trapp: We will continue to evaluate the role of central counterparties in the securities lending market. We continually assess market developments and ultimately seek ways to best serve our clients' objectives.

Lamb: There are some examples where the mechanics of a CCP's operations don't work for beneficial owners

Bassler: There are clear benefits of CCPs in the lending market such as price discovery and greater distribution to a wider universe of counterparts. There is also the opportunity for this model to evolve over time and possibly offer benefits to the short term cash markets. It is important to understand the pros and cons of any distribution channel, but there does not appear to be any downside to having more options. We expect the debate will continue with more beneficial owners expressing interest, particularly if regulatory changes force the industry in this direction.

Lamb: It doesn't appear to me that CCPs have done much to get more beneficial owners into the securities lending market to date. CCPs have existed for many years. On the contrary, there are some examples where the mechanics of a CCP's operations don't work for beneficial owners.

Slater: While regulators like CCPs and they have a place in our market, significant regulatory change would have to happen based on the current clearing models that exist today for agent lenders and their clients to get the full benefits of a CCP. Current CCP models don't really deal with agency lending in a high-volume, low-cost manner. Beneficial owners may benefit from a wider distribution via CCPs but without having the concept fully developed it is difficult to determine if they would embrace a CCP.

Zirpolo: That is highly doubtful. While counterparty risk is of great concern, counterparty failure has not caused any real losses in the securities lending space, meaning a push towards a CCP model does not add any value from that standpoint. The vast majority of losses associated with lending during counterparty default events has come in the cash reinvestment space, which a CCP model does not address.

SLT: Is the US market still focused on cash collateral, or are alternatives gaining any ground?

Brown: Beneficial owners in the US market continue to predominantly lend against cash as collateral. However, in general, we have seen clients in the US move towards more liquid investments with shorter maturities. Furthermore, we have seen more clients accepting equities and other liquid collateral in both non-cash trades and in the form of repurchase agreements, as the collateral has proven to be more liquid and more accurately priced than many other forms of collateral during a crisis and are correlated when used against other equities. Prime brokers have an increased desire to do more non-cash and non-traditional repo business, as they look to utilise their balance sheets

more efficiently, as well as to meet new regulatory requirements.

Sylvester: Cash is still the preferred collateral option for both borrowers and lenders but we have seen strong growth in non-cash collateral for fixed income loans and an increased use of non-cash collateral including equities for equity loans.

Trapp: Although the US market is still predominantly focused on cash collateral, some beneficial owners are expressing an interest in the potential benefits of adding non-cash collateral as an alternative. Diversification of collateral options may enhance revenue while at the same time potentially mitigating some risk. Northern Trust consults with clients to help structure their ideal program, which includes acceptable parameters for investing cash collateral and the acceptance of non-cash collateral. Although some forms of collateral are still not permitted in the US (i.e., equities), borrowers have an increasing appetite to pledge other forms of non-cash collateral, such as convertible bonds and other fixed income instruments.

Bassler: Although more beneficial owners are evaluating non-cash collateral, the majority of the US market remains focused on cash but they are opting for more conservative guidelines.

Lamb: The US markets are focused on cash collateral because it's the superior form of collateral in a bankruptcy. Non-cash collateral will always be prevalent as well. The percentage of cash and non- cash will continue to ebb and flow over time.

Slater: Yes, cash is still the collateral of choice in the US, but collateral flexibility is a topic of discussion with our clients. Regulatory changes and market conditions are significantly changing borrower demand dynamics and opening the door to alternative collateral arrangements. Increased focus on capital, leverage and liquidity has increased demand for non-cash collateral.

Zirpolo: While not terribly complicated, there are additional logistical hurdles involved in settling non-cash collateral. Because of that, cash remains the collateral of choice in US markets.

SLT: 2012 is going to see a lot of regulatory changes. Are there any issues that are particularly concerning you?

Brown: As regulatory reform takes shape, our biggest concern is that the changes enacted provide the risk management results intended. Many of the proposed regulations as written today could negatively impact the breadth and flexibility of structures offered by securities lending providers to clients, as well as returns generated for clients. As such, we are working with regulators to help devise these new regulations and hope that more clarity will ensue in 2012.

Sylvester: As with all market participants, we are very focused on Dodd Frank and EMIR, and the potential implications and opportunities they present. Both regulations include requirements around margin for cleared derivatives which will dramatically increase demand for high quality assets. This demand will likely translate into greater appetite to borrow certain security types which we feel could be a driver of positive growth in the lending industry over the next couple of years.

Trapp: The global regulatory environment will remain prominent in 2012 with the roll-out of new rules from regulation such as Dodd-Frank, Basel III, and global short selling rules. Northern Trust's securities lending experts are active in industry associations around the globe such as the Risk Management Association in the United States, ISLA in Europe, CASLA in Canada and PASLA in Asia. Our involvement with these industry groups allows us to provide valuable input to the various agencies responsible for drafting these new regulations. Our involvement also puts us at the forefront of regulatory and market changes, which ultimately benefits our clients.

Bassler: The various industry associations have made significant progress in educating regulators and policy makers around the globe regarding the impact and unintended consequences of certain regulatory changes. We are closely monitoring all proposed changes however there are several at the top of our radar.

Bassler: The securities lending industry has taken great strides in increasing transparency over the past decade

As part of our role on The Risk Management Association's Committee on Securities Lending (RMA), we are actively working to clarify the scope of the one business day stay imposed on the ability to close out securities lending and repo transactions with a borrower that is subject to Dodd-Frank's "Orderly Liquidation Authority" (OLA). In addition, in the current environment, transparency is on every regulator's mind. The SEC has a mandate to promulgate rules designed to increase transparency of securities lending information available to brokers, dealers and investors. Additionally, the Financial Stability Board's securities lending and repo workstream is reviewing data collection in the industry, among other issues, as part of its review of the shadow banking system. While the securities lending industry has taken great strides in increasing transparency over the past decade, further transparency and reporting, particularly as it relates to regulators, is likely to be a future requirement for industry participants, as foreshadowed by the NY Fed staffers' report. Another key focus is short selling. After months of negotiations, the European Parliament adopted regulations to curtail short selling and certain credit default swap transactions. One of the specific goals of the regulations was to "lay down a regulatory framework with regard to the requirements and powers relating to short selling to ensure greater coordination and consistency between the Member States where measures have to be taken in exceptional situations." The effective date for the regulations is 1 November 2012. While the uncertainty of these regulations is currently hindering lending demand we believe their overall objective of greater transparency is good for the industry. From eSecLending's perspective, our model is strongly positioned to address the regulators goals in this regard.

Sylvester: On the whole, lenders have reviewed, amended and evolved their lending activities in the wake of the financial crisis so they are consistent with their risk and reward objectives

Lamb: We've already had too much regulatory change. More regulation for the sake of regulation without fully understanding ultimate consequences is a potentially dangerous thing. Many market participants are still struggling to keep up with the changes taking place. It would be more helpful if there were less regulatory changes to come.

Slater: One of the biggest challenges we face right now is regulation. The challenge is the speed and volume of the regulatory change that is occurring globally, not just here in the U.S. We have to be aware of what is going on and comment on as much of it as we can to make sure that there are no unintended consequences that could have a negative impact on securities lending. One of our main concerns is global regulation with respect to short selling, specifically, the treatment of the sale of a lent security. Any characterisation of the sale of a security on loan as a short sale would have significant negative impact on securities lending and overall market liquidity.

Zirpolo: The speed with which the Volker Rule is implemented by institutions could have an impact on the overall pool of demand for borrowed securities. Additionally, Basel III will raise capital requirements on derivative products that can be hedged with borrowed stock. Early implementation of Basel III could see overall demand shrink.

SLT: Is securities lending in the US now transparent enough?

Brown: Transparency in the securities lending industry continues to improve. Third-party performance benchmarking tools to compare a provider's performance have improved over the last few years and continue to evolve. Many aspects of securities lending programs have also become more transparent including client reporting, contracts, and Agency Lending Disclosure (ALD). Furthermore, future potential regulations may help in increasing transparency as well.

Sylvester: We have been very pleased with the trend for increased transparency for securities lending programs. On the whole, lenders have reviewed, amended and evolved their lending activities in the wake of the financial crisis so they are consistent with their risk and reward objectives. They have become very focused on program management, oversight and understanding the drivers of risk and return. Performance benchmarking is less prevalent than several years ago. We provide our clients with a vast array of reporting, MIS and information including our securities lending dashboard, daily, weekly, monthly reporting and regular in-depth review meetings.

Trapp: The securities lending market is largely transparent and has been for several years. Demand remains high for transparency through reporting and program benchmarking. Clients want to know what is happening in their lending program such as which borrowers are borrowing their securities, which types of collateral they hold and how their cash collateral is invested. Northern Trust provides clients with comprehensive and timely information on all aspects of their securities lending program. In addition, the growth of industry data providers allows lending agents and beneficial owners to benchmark various aspects of their overall or individual lending program.

Brown: Third-party performance benchmarking tools to compare a provider's performance have improved over the last few years and continue to evolve. Many aspects of securities lending programs have also become more transparent including client reporting, contracts, and Agency Lending Disclosure

Bassler: Transparency in securities lending can take on different meanings. The SEC's focus is on price transparency which has certainly improved with the advent of data providers such as SunGard Astec and Data Explorers. The remaining challenge however is that each transaction is unique to each lender's individual lending profile making it challenging to accurately draw benchmarking comparisons. We also believe that the auction model has helped introduce price transparency in the market.

Lamb: For whom? It certainly seems transparent enough for many participants including beneficial owners but there will always be people who will want greater access to more information.

Slater: The securities lending industry has been very transparent for many years vis-a-vis the participants in the market. Agent lenders have for many years provided detailed information to beneficial owners about their securities loans, collateral and cash reinvestment portfolios. In addition, the same information on securities loans is provided on a daily basis to the counterparty or borrower of the securities. Much of the regulatory focus on transparency deals with providing more disclosure to investors in entities that engage in securities lending. In addition, regulators are also interested in information so that they can monitor the market in order to get a sense of the volume and the size of the industry and the interconnections between market participants.

Zirpolo: Yes. Between the environment of transparency that has been created industry-wide by the recent set of new regulation and the bevy of analytical tools that are industry standard in securities lending, there is an appropriate balance between transparency and the responsibilities firms have with their customers.

SLT: Has the US credit downgrade affected the market?

Brown: There has been little impact on the securities lending market given similar macroeconomic and fiscal concerns for other global economies. At the onset of the downgrade, many investors were surprised that the US debt was downgraded, which created a great deal of volatility. As a result, there was a brief period when borrowers demanded higher rebates to borrow US government debt, as concerns in other global economies had not arisen yet. Since that period, US government debt has trended back to normal rebate rates. As concerns about other economies continued to grow, the US debt continued to trade as if it were rated AAA, reflecting the markets confidence in the economy. Unless solutions to reduce the US deficit are enacted, we can expect to see continued volatility in both the general markets, as well as the securities lending market.

Sylvester: We saw surprisingly little impact to the market. Clients who accepted US treasuries as collateral before the downgrade continued to accept them today.

Trapp: In advance of the rating downgrade announcement, the market was clearly braced for potential disruption; however, the actual event did not have a significant impact. More than anything, our focus was on pro-active communication with our clients and their consultants during this time.

Bassler: The US credit downgrade did not have a material effect on the securities lending market aside from communicating relevant updates and potential impacts to client regarding any collateral exposures.

Lamb: Yes – it caused the treasury market to rally and ultimately called into question the significance, relevance, and viability of the credit rating agencies.

Slater: The short answer is no. As part of our due diligence leading up to the resolution of the US Federal debt ceiling increase we prepared for the prospect of a US credit downgrade. Institutionally, the impact was vetted with senior short-end traders and consensus was reached that it would be a non-event, some even calling for a flight to quality to treasuries. At the same time client contracts and investment guidelines were reviewed for outliers that might specify a credit rating for U.S. Treasury securities. These were addressed to accommodate the split ratings or the rating criteria were removed all together. In no instance did clients remove treasury debt from its approved investments.

Zirpolo: It hasn't. The glut of subsequent downgrades that followed the US downgrade resulted in a parallel shift in credit ratings and did not affect the relative credit riskiness of assets or entities.

SLT: What are your predictions for 2012?

Brown: We expect 2012 to be very similar to 2011, given an expected continuation of current Fed policy on interest rates, uncertainty around reform to regulations and global macroeconomic policy, which will contribute to continued global market volatility. Securities lending providers will need to be prepared to manoeuver adeptly through the myriad of potential changes impacting our business, while proactively keeping clients informed.

Sylvester: Our expectation is for the market environment to remain challenging, at least for the first half of the year. This is in some ways the opposite of 2011 where the first half of the year was quite positive and then became difficult mid-year. Positive progress with the eurozone resolution and more clarity around the regulatory agenda will be reason for more optimism but there are good opportunities out there now, especially in Asia and the emerging markets which we hope to capitalise on. We're hopeful that through opportunities like these, new entrants to the market, and demand drivers like collateral transformation trades, 2012 will be a positive year.

Trapp: We anticipate that 2012 will be similar to 2011. Market volatility will likely persist with uncertainty around the European markets remaining in the near term. Interest rates should remain at historic lows. Again, there will be a continued diligence around regulatory developments. Northern Trust will continue to focus on crafting solutions for our clients and remaining at the forefront of developing market opportunities to best extract value for our clients.

Slater: We need to set realistic expectations with our clients as we will continue to be in a low yield environment for the next 18-months to 2-years

Bassler: We expect the industry evolution to continue, with beneficial owners placing increased focus on multiple providers, benchmarking and performance attribution. In addition, certain sectors of the securities lending market such as Asia are expected to continue experiencing strong growth. Likewise, emerging markets will continue to be a focus for the industry as they have growing economies, a large base of assets to invest, multiple constituents, good liquidity, and passively held investments.

Lamb: Interest rates will remain low for quite some time. The crisis in Europe will continue to infect markets and EquiLend will have some significant developments to announce.

Slater: 2012 will be a busy and challenging year for the industry. We need to set realistic expectations with our clients as we will continue to be in a low yield environment for the next 18 months to two years. We need to continue to monitor ongoing regulatory action and comment when necessary but also engage with our clients as this regulatory change creates new opportunities.

Zirpolo: It is likely that we will see a further tightening of the credit landscape. However, it is our hope that we will see a return to the more traditional banking model, which relies on diversification of credit exposure as a key means of managing risk. **SLT**

Start Right

J.P. Morgan's Joshua Lavender explains the best practice approach to setting up a securities lending programme

A best practice approach for entering a securities lending programme requires lenders to be able to clearly define the product, how it works, and the associated risks in order to design a customised programme that explicitly meets the lender's risk and return objectives. Having a thorough understanding of securities lending is the first step in any programme design.

Programme overview

Securities lending is an investment overlay strategy that involves the temporary transfer of a security by its owner (the lender) to another investor or financial intermediary (the borrower) in a transaction that is collateralised with cash or securities. Securities lending is intended to complement investment strategies and allow investors the ability to monetise the intrinsic lending value of idle securities. The process of lending out these securities affords an investor the opportunity to produce alpha by generating income, which can be used to increase portfolio returns or offset portfolio expenses with a manageable level of risk. Globally, securities lending provides critically needed liquidity in the financial markets, supports a variety of trading strategies, facilitates trade settlements and supports general financing techniques.

In a traditional securities lending transaction, securities are lent short-term after provisions such as loan length, collateral type (cash or securities) and rebate rate or fee are agreed upon by the lender (or their lending agent) and the borrower. When transactions are collateralised with cash, a rebate rate will be negotiated between the lending agent and the borrower. This rebate rate, stated as an interest rate, represents the interest on the borrower's cash collateral that the lender agrees to pay back at the termination of the loan. To generate a yield, the lender will invest the cash in short-term fixed income instruments via a commingled fund or a separate account in order to achieve an interest rate above the rebate rate. The difference between the interest rate earned on the cash collateral and the rebate rate is the revenue (or spread) that is retained as earnings by the lender. In the case where the lender employs a lending agent, these earnings will be shared between the lender and the lending agent. Lenders should be aware of the market risk they assume with the investment of the cash collateral.

If securities (eg, fixed income or equities) are accepted as collateral, or there is no cash to invest, a borrowing fee is charged. This fee (quoted as an interest rate) will be applied against the market value of the securities on-loan. If a lending agent is used, this fee is shared between the lender and the lending agent.

Managing programme risks

Securities lending, like all investment strategies, has a risk/reward trade-off. Historically, four types of risk have been associated with securities lending. Typically each of these can be managed through implementing a variety of controls with the lending agent's assistance. Counterparty/ borrower risk can be mitigated by the lending agent through conducting extensive and continuous credit reviews, ensuring overcollateralisation with daily mark-to-market, providing lenders with indemnification against borrower default, and a strong balance sheet to support the indemnification. Operational risk can be reduced by the lending agent through a robust operating framework, global scale and comprehensive understanding of transactional flows. Legal/contractual risk can be mitigated by using an industry standard securities lending agreement, compliance reporting and making certain the lending agent is utilising a front-end compliance system. Cash collateral reinvestment risk rests solely with lenders and can be managed through appropriate programme design and oversight from front-office or investment professionals. The cash collateral should be invested in securities that match a lender's risk/return profile and be treated like any other short duration fixed income mandate.

Defining your approach

Traditionally, the income earned from securities lending is added to the investment return associated with the lending portfolio(s). The lender's portion of this income is utilised to lower the cost of various bank services (eg, custody) provided to the lender. There are lenders who choose not to use this type of "bundled" approach and look for each bank service to be priced independently (ie, "unbundled") of the income earned from securities lending. Either approach, bundled or unbundled, should become part of the process for designing a securities lending programme, requiring a lender to define their goals for participating in this type of investment strategy. A lender will need to decide if they are looking only to earn enough income to fully or partially offset bank-related fees, or if the main focus is to enhance portfolio returns. Each approach or goal will lead a lender to a different type of lending strategy risk profile. For example, if a lender is simply looking to offset some of their bank-related expenses, they might consider having strict lending and cash collateral reinvestment parameters, such as using only overnight government repo or accepting just securities collateral, thus limiting their lending opportunities. On the other hand, a lender seeking to produce additional alpha or income to reduce significant unfunded liabilities, considerably lower portfolio expenses and/or outperform competitors' funds (eg, index funds) may be willing to invest the cash collateral in a 2a-7 or money market type structure and take advantage of additional lending opportunities.

Selecting a programme structure

Working in tandem with the lending agent, lenders should design a programme that achieves their goal and meets their risk/return objectives. A lender will need to consider four areas: programme structure, loan type, parameters and collateral. Programme structure refers to five types of lending distribution methods: agent discretionary, client-directed, auctions, exclusives and principal. In an agent discretionary programme, a lender will utilise the lending agent to facilitate and negotiate loan transactions, evaluate borrower credit risk, provide collateral monitoring and/or cash collateral reinvestment and ongoing loan maintenance, and recordkeeping. A client-directed programme allows lenders to operate their own lending platform using their custodian to facilitate loans and/or cash collateral reinvestment transactions. Generally speaking, auctions, exclusives or principal, are arrangements whereby a lender agrees to make their portfolio(s) or a portion thereof available for borrowing on an exclusive basis to a particular borrower for a pre-determined fee or price and period of time. Each programme structure may be appropriate depending on a lender's goals, portfolio composition and market conditions.

Loan types

The second programme design consideration is the types of loans (eg, open, term, general collateral and specials) a lender is willing to engage in and the lending philosophy (eg, value or volume) utilised. Most loans are specified for an open period, which implies that the loan can be terminated at any time and the rebate rate or fee can be renegotiated. A term loan is for a specific period of time, generally at a fixed rebate rate or fee. General collateral loans are for securities that are not experiencing high borrowing demand and therefore produce lower earnings per loan due to higher rebate rates or lower borrowing fees. This approach, often described as volume lending, could necessitate a more aggressive cash collateral reinvestment strategy (eg, money market) to allow for a greater level of reinvestment spread (ie, yield earned above the federal funds rate) through the investment of cash collateral in higher yielding and longer duration securities. Volume lending will typically produce larger cash collateral balances, which may lead to higher programme earnings. A value approach would involve lending mostly "specials," which are defined as securities with high borrowing demand as noted by very low and sometimes negative rebate rates or high fees paid by the borrower(s). This type of strategy produces a higher return per loan and would allow for more conservative cash collateral reinvestment guidelines (eg, overnight repo).

Parameter specifications

During the design and implementation phase, a lender will need to determine if any specific parameters should be enacted. One parameter, minimum spread, is defined as a specific level that sets a spread between the collateral investment rate and rebate, which needs to be achieved before a loan can take place. Another parameter, maximum on-loan, is used to specify the highest amount of a portfolio and/or a security that can be on-loan at any point in time. This parameter can be noted as an outright percentage of a portfolio or specific market value. The borrower limits parameter denotes the maximum amount (eg, by market value or percentage) that a lender's programme can be on-loan to a particular borrower. Finally, a lender can establish specific account and security level restrictions. For example, a lender may choose to make a certain CUSIP ineligible for lending. Each of these parameters allows a lender flexibility to design and implement a securities lending programme that explicitly meets their objectives.

Options for collateral

The final step a lender takes in designing their securities lending programme deals with collateral options (eg, cash and/or securities). Lenders who choose to accept only securities as collateral should be aware that lending opportunities may be reduced, and they will need to decide which types of securities are acceptable from a risk standpoint. When cash collateral is accepted by the lender, they may have the option of selecting from a variety of cash investment vehicles. Such options include a dedicated separate account, a commingled fund, an external (ie, to the lending agent) investment vehicle and a "self-invest" model, whereby the lender invests the cash. A separately managed account allows a lender to customise their cash collateral reinvestment programme to meet their unique risk and return requirements, allowing for increased transparency and control. A commingled fund pools lenders together according to a common investment strategy. With an external investment vehicle, a lender may already have positive experience with a specific fund or investment manager and therefore select this option. A lender who feels that managing short-term cash is a core competency of their firm may choose to utilise the self-invest model. This part of the securities lending design process requires that the lender fully understands and is comfortable with the cash collateral reinvestment vehicle's investment philosophy (eg, capital preservation, income) and guidelines (eg, liquidity level, duration, credit quality, security types and sector). Choosing the appropriate cash collateral reinvestment vehicle can depend on a variety of factors such as lending programme size, liquidity requirements, control/ownership level, desire to influence investment decisions, transparency level and ability to match risk/return tolerance.

Summary

Securities lending has been an integral part of the financial markets for over 75 years and continues to provide valuable opportunities for investors to earn additional income or alpha within a risk-controlled environment. This investment strategy enables lenders to enhance portfolio returns and offset portfolio expenses. The best practice approach to designing a securities lending programme should encompass a thorough understanding of the product, lending and collateral options and the lender's individual goals and risk/return objectives. **SLT**

Joshua Lavender
Executive director, securities lending
J.P. Morgan

Key design

Working in tandem with the lending agent, lenders should design a programme that achieves their goal and meets their risk/return objectives.

Securities lending benefits the global economy by:
- Providing liquidity in the financial markets
- Supporting a variety of trading strategies
- Facilitating trade settlements
- Supporting general financing techniques

There are four types of risks associated with securities lending:
- Counterparty/borrower risk
- Operational risk
- Legal/contractual risk
- Cash collateral reinvestment risk

Main goals for participating in a securities lending programme:
- Higher portfolio returns
- Offset bank-related fees

Lenders need to consider four areas in designing a customised securities lending programme:
- Programme structure
- Loan type
- Parameters
- Collateral

There are several types of loans that can be considered when designing a securities lending programme. They include:
- Open period loan
- Term loan
- General collateral loan
- Specials

There are several types of parameters that lenders can enact in implementing their securities lending programme. They include:
- Minimum spread
- Maximum on-loan
- Specific account and security level restrictions

Options for investing cash collateral include:
- Dedicated separate account
- Commingled fund
- External investment vehicle
- Self-invested account

Choosing the appropriate cash collateral reinvestment vehicle depends on:
- Lending programme size
- Liquidity requirements
- Control/ownership level
- Desire to influence investment decisions
- Transparency level
- Ability to match risk/return tolerance

Clear as day

SLT speaks to Quadriserv about the data elements helping increased transparency in the securities lending market.

BEN WILKIE REPORTS

Market transparency has become a buzzword of choice. In proposed legislation and regulations it's been characterised as an important tool to monitor and more completely understand transaction prices in order to measure the size and risk of financial markets. Lost in many of these plans is a universally agreed upon definition of transparency and how and where it should be applied. But the topic did get SLT thinking about market data, which is how price transparency is most easily conveyed. We spoke to Will Hench, head of ASQ market data sales at Quadriserv about AQS Market Data and asked what impact transparent market data is having on the securities lending industry.

SLT: When you talk about market data, to what exactly are you referring?

AQS: In the case of AQS Market Data, we are referring to a wide set of securities lending data that includes anonymous real-time live bid/offer quotes. Because AQS members all have equal access to the market in which they are trading, the market provides a purely economically derived price for each borrow or loan. In addition, the data is "unscrubbed," meaning all of the executed and unfilled orders are included so you can get the fullest picture possible. Because you can view the rate, quantity and time of the market activity it adds yet another reference point for the demand and supply in the securities lending market. The data also provides a sense of real-time market size as measured by notional balances and duration of the positions on the platform.

SLT: So where does the difference in opinion about market data come from?

AQS: To be clear, we are sympathetic to the industry's situation in which they are forced to deal with a wide variety of opinions about transparency and what role market data is expected to fill. We think the confusion is warranted. Securities lending generates very different information than most other financial markets; given the lack of mandatory reporting and the wide variety in voluntary reporting standards, it's very difficult to know how one data source compares to another.

AQS is a source of real-time information that not only includes new borrow/loan contract information, but also bids/offers, recalls, rerates, returns and average duration in each symbol. This information set can tell you exactly how long contracts stay open before one side decides to close it out in the AQS Market, which is anonymous and standardized. The borrowing and lending is all transacted through a known counterparty. In our case, OCC (known as the Options Clearing Corp) stands between every executed transaction as the central counterparty to each trade. The result is that the rates are driven by the fundamentals of supply and demand. The rates are not influenced by credit-worthiness concerns of the counterparty, rates bundled as a part of a larger business transaction and other variables that influence lending and borrowing rates in the over-the-counter securities lending markets.

SLT: So what are you saying about OTC and AQS Market Data?

AQS: They are complementary. As in most other market sectors, the listed and unlisted securities lending products not only coexist, they have become mutually beneficial. Data from a standardized market like AQS can be compared to the OTC market data and provide a compelling explanation of what is underneath the market. Because of the varying loan rates due to dividends, terms, block trades and so on, the rates can be left open for interpretation. Comparing that information to the AQS transactions, traders can look at those rates as a AA+ lending benchmark from a credit standpoint and then draw conclusions about the market from that. An open loan is complex and evolving each day and real-time information can help inform people about what's happening under the simple rate layer.

SLT: What has been the reaction so far from customers?

AQS: We have received a very positive response. The feedback has essentially been that the data is useful because they get a better view and more insights into the market. As a result, AQS data can help firms to price specific securities in which they might not currently have a market or securities that are thinly traded.

SLT: What are subscribers actually doing with the data?

AQS: I think we can break users down into two categories. The first are traders who actually participate in the AQS and OTC markets, so they utilize the data to monitor the positions in their portfolio. The other group to which we sell subscriptions includes various firms that do research. They analyze the data for patterns and opportunities because they have determined that AQS Market Data represents a new and unique data set that is ideal for testing trading strategies.

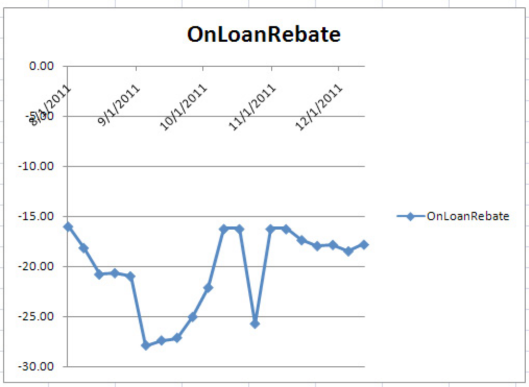
SLT: What does the AQS Market Data look like?

AQS: AQS Market Data, which is available in three levels, provides a look into current positions open on AQS as well as real-time bid/offer spreads and new contracts. We can provide historical data with each activity time stamped. Additionally, we offer return, recall and rerate metrics for securities' stability and duration trends in AQS. And the data is available via Excel or through our API.

SLT: Okay. And finally, any guesses as to when the term transparency will have a definitive meeting?

AQS: No, but we know many folks in the business who will thank you for asking. **SLT**

Ticker	Date	OnLoanRebate
SHLD	8/1/2011	-15.99
SHLD	8/8/2011	-18.13
SHLD	8/15/2011	-20.79
SHLD	8/22/2011	-20.65
SHLD	8/29/2011	-20.97
SHLD	9/5/2011	-27.90
SHLD	9/12/2011	-27.40
SHLD	9/19/2011	-27.13
SHLD	9/26/2011	-25.04
SHLD	10/3/2011	-22.10
SHLD	10/10/2011	-16.24
SHLD	10/17/2011	-16.24
SHLD	10/24/2011	-25.73
SHLD	10/31/2011	-16.24
SHLD	11/7/2011	-16.25
SHLD	11/14/2011	-17.35
SHLD	11/21/2011	-17.93
SHLD	11/28/2011	-17.82
SHLD	12/5/2011	-18.46
SHLD	12/12/2011	-17.80



Seize new opportunities with our Securities Lending Program.

Who's helping you?

With increased pressure on margins, institutional investors must seize every opportunity to enhance portfolio returns. At BNY Mellon, our experts will work with you to mobilize your idle assets through our suite of securities lending services. Working together, we'll do the small and large things that help you find the path to success.

bnymellon.com/assetservicing

BNY MELLON
ASSET SERVICING

The rubber meets the road

Competition gains traction in the Chinese tire market while Goodyear regroups. SunGard's Andrew Shinn weighs in.

MARKET PERSPECTIVE

With the increase in correlation among stocks in 2011, it has been harder for investors to generate market-beating returns by taking advantage of fundamental differences between companies. Nevertheless, investors continue to make fundamentals-based bets. For instance, according to SunGard's Lending Pit, investors have borrowed millions of shares of tire maker Cheng Shin Rubber, while securities lending activity in its closest competitor, Hankook Tire, has remained low.

In 2012, the most successful tire makers will be those that can capitalise on the growth of the Chinese auto market, manage their raw material expenditures and continue to innovate on the product side. While Cheng Shin Rubber's natural strength has been in China, competition in the region is building among the global "big three" (Bridgestone, Michelin and Goodyear) and Cheng Shin has been squeezed by raw material prices. Moreover, sell-side analysts may be too optimistic about Cheng Shin's prospects in the Chinese tire market; if Cheng Shin doesn't live up to analysts' lofty expectations, its share price will fall.

Data from SunGard's Lending Pit shows that shorting activity in Cheng Shin has increased 430 per cent from 3.2 million shares borrowed in mid-August 2011 to 17 million shares currently. Borrow costs have tripled to 480 basis points over the same time period. In order to hedge some of the market risk of a short position in Cheng Shin, investors may want to combine a short position in Cheng Shin with a long position in Goodyear Tire and Rubber.

China has been driving the growth of the overall tire market. Worldwide, tire makers generated revenues of $125 billion in 2010. And while the market only grew at a 1 per cent compound annual growth rate over the past five years because of the global recession, forecasts predict that growth will zoom up to an annualised rate of 7 per cent over the next five years, ultimately reaching $172 billion.

Three manufacturers, Michelin, Bridgestone, and Goodyear, currently share 46 per cent of the market, but new market entrants, such as Cheng Shin and Korea's Hankook, have been steadily gaining market share at their expense. In fact, Cheng Shin has captured a third-place position in China at a time when Goodyear has been forced to deal with legacy problems.

The level of competition in the Chinese domestic market has intensified, however, and the largest tire manufacturers are launching billion dollar capital expenditure programs. Collectively, manufacturers are planning to spend $9.7 billion in capacity expansion in 2012 – much of it in China – which is larger than the capacity expansion that the industry spent in 2007, the previous peak.

While the Chinese market has become more crowded, which bodes ill for Cheng Shin, Goodyear has successfully cut costs and transitioned to higher-end, higher profit-margin tires. In 2009, Goodyear met a four-year goal of $2.5 billion in cost savings by shutting down 13 plants, selling its farm tire segment to Titan and its engineered products segment to Carlyle, and re-negotiating labour agreements. It set a goal of cutting an-

other $1 billion by the close of 2013, and the company is on track to reach that goal through a number of measures, including the closure of facilities in Tennessee and France and further negotiations with union employees. Goodyear also increased its percent of revenue from high-end tires from 60 per cent to 75 per cent. High-end tires, designed for sport utility and luxury cars, are priced at $130 per tire, whereas lower-end tires sell for $60 per tire.

Goodyear has also been able to pass on increased raw material costs to consumers, due in part to the successful introduction of new product designs, such as run-on-flat extended mobility tires. Technology is an important differentiator in tires: higher-quality tires improve a vehicle's fuel efficiency as well as safety and performance handling. For instance, Goodyear is currently developing a tire with a miniature internal pump that will automatically keep the tire inflated at the optimal pressure, which improves fuel efficiency.

Goodyear should also benefit from the continued reduction in commodity prices over the next few years. Too much unsupportable debt in the global economy will lead to deleveraging, and in turn, slower global growth will lead to falling commodity prices. In the short-term, the swing from an 87,000 ton rubber shortage last year to a projected 400,000 ton surplus in 2012 is putting downward pressure on rubber prices. The price of rubber traded on the Tokyo Commodity Exchange has fallen by half since reaching an all-time peak in February last year.

Going forward, Goodyear's mix of higher-end tires and strong brand should allow it to continue to charge a premium price and pass on cost increases to consumers. If rubber costs remain low, Goodyear's cost cutting will help improve margins even more and ultimately lead to multiple expansion on a higher earnings base.

While China remains the largest new car market in the world, and 20 million new cars are expected to be sold in 2012 (up 11 per cent from 2011), competition is intensifying across all market segments in China, impacting both Cheng Shin – now the third-largest seller of tires in China – and the market leader Hankook. Even as Goodyear has successfully focused on high-end tires, the big three know that they cannot concede uncontested lower-end market space to Cheng Shin and Hankook. Michelin announced that it will enter the third-tier market and compete head-to-head with Cheng Shin in China, and Goodyear just opened a new production facility in China last year. Both Hankook and Cheng Shin are relatively overvalued with EV/EBITDA ratios of 8.6 and 12.4, respectively. And even Hankook is currently suffering, posting a net loss in the third quarter of 2011 and a drop in operating profit margin from 2.5 per cent to 0.6 per cent.

Investors have begun to sell short Cheng Shin over the last several months, mainly due to lofty expectations and increased competition in China. Cheng Shin, which started as a bicycle tire manufacturer in Taiwan in 1967, is now the 10th largest tire maker in the world. It generated $3.7 billion in revenue over the last twelve months, 56 per cent of which came from China. That is a significant increase from 30 per cent in 2003.

Cheng Shin's problems are demonstrated by an uptick in accounts receivable and inventory and a decline in accounts payable in the third quarter of 2011. EPS in the third quarter was off 30 per cent year-over-year, and gross margins dropped from 17 per cent to 13 per cent. In November 2011, analysts were predicting a 25 per cent increase in Cheng Shin's earnings-per-share in 2012, based in part on three new plants coming online in China and one in Taiwan. This estimate has been revised down to 20 per cent as of 18 January 2012, but nevertheless, it may still be too high. It can take up to two years for a plant to become productive, so the four new plants may not impact revenue and earnings until 2013. Regarding sales estimates, with the Chinese domestic tire market expected to grow only 9 per cent next year, combined with increased competition, Cheng Shin may not be able to meet current estimates of 15 per cent sales growth.

Despite the earnings miss in the third quarter of 2011, Cheng Shin's share price has only declined 8 per cent since then. It seems that short sellers are waiting for an even bigger miss in the fourth quarter. **SLT**

Andrew Shinn
Vice president, sales and development
SunGard Astec Analytics

2012

01 January

M	T	W	T	F	S	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

02 Febuary

M	T	W	T	F	S	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29				

03 March

M	T	W	T	F	S	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

04 April

M	T	W	T	F	S	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

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
http://www.rmahq.org/securities-lending

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

Securities Financing Forum London

Location: London
Date: 20 March 2012
www.dataexplorers.com

Join the leading practitioners in the Securities Financing industry for a day of debate and insight into this market. Last year the London forum sold out quickly and was attended by close to 300 delegates. This is a date not to be missed.

Training and Education

28-29 Feb 2012 | **London** | **Eureka Financial**

Basel III

This 2 day course examines the latest tools, techniques and best practices surrounding economic capital calculation and management and how to structure an Internal Capital Adequacy Assessment Process (ICAAP) that maximizes its inherent motivational incentives. It considers the Basel accords, with particular focus on Basel 3, and examines the composition and interrelationship between the various types of capital - available (book), regulatory and economic - and explores frameworks for their effective management.

27-28 Feb 2012 | **Paris** | **Euromoney Training**

Repo & Securities Lending

The growing importance of repo and securities lending transactions has made them impossible to ignore for anyone involved in the financial markets. Both of these markets are measured in the trillions of dollars. Indeed, despite difficult market conditions the international repo and securities lending markets continue to develop rapidly in variety and complexity. Repo continues to offer an inexpensive and efficient way to improve liquidity in the secondary markets and provide investors with better returns on their underlying collateral. The securities lending market provides borrowers with ready access to key equity and debt securities and provides lenders with a ready source of fee income.

1-2 Mar 2012 | **Hong Kong** | **Marcus Evans**

Foreign Account Tax Compliance Act (FATCA)

No piece of legislation has ever sparked more controversy for financial institutions around the globe than FATCA – The United States Foreign Account Tax Compliance Act, passed in 2010 as part of the HIRE Act. Every financial institution located outside the United States needs to be aware of the implications of FATCA and what they are required to do to comply with this legislation.

11-13 Apr 2012 | **Singapore** | **Euromoney Training**

Dodd-Frank Act for Non-US Banks

The training course is aimed at helping banking, foreign corporations and professional practices understand the stakes involved and in this sense, offers an extremely valuable and unique perspective on how the Dodd-Frank may be interpreted for business, finance and the law.

28-29 Jun 2012 | **Hong Kong** | **Euromoney Training**

Repos and Securities Lending

Repos and Securities Lending provides a comprehensive and practical programme explaining the legal, regulatory and documentary issues involved in repo and securities lending transactions.

Industry appointments

HazelTree has appointed **Paul Calderone** as managing director of operations. In his new position, he will manage all aspects of HazelTree's rapidly expanding operations, which are focused on delivering high-performance Treasury functionality to multi-primed hedge funds.

Calderone was previously director of Equities and Prime Services at Credit Suisse in institutional sales and development, covering traditional asset managers, investors and hedge funds.

"HazelTree's client base has tripled over the past six months, so Paul is joining us at a particularly exciting and opportune time," said company CEO Stephen Casner.

In addition, Calderon was product manager for balanced alpha services and was responsible for increasing the market share for short extension business to top position within the prime services industry. Previously, at Morgan Stanley, Mr. Calderone was VP in Equity Financing Services and led product development and product management efforts across the securities divisions among other roles.

"Asset managers face increasing complexity as they deal with multiple counterparties, operational systems and regulations. The cost of managing that complexity can be high and HazelTree will be at the forefront in delivering cost effective, next generation solutions to the industry," said Calderone.

Pirum Systems have strengthened their London team with the appointment of **Jonathan Lombardo** as head of sales.

Lombardo joins Pirum and continues a 20-year career in securities lending which spans various roles in New York and London. His industry involvement involves the broker dealer, agent lender and vendor side of the business where he had experience running trading desks and managing client relationships. Lombardo will be responsible for building relationships with senior managers in the securities finance community, ensuring they are aware of the extensive suite of offerings from Pirum. He is also a former board member of the International Securities Lending Association (ISLA).

Lombardo was previously working at the securities lending MTF, SecFinex, which SLT reported on 29th November was closing down.

Rupert Perry, CEO of Pirum, said, "Jonathan Lombardo's experience and involvement in the securities lending business, both as a market practitioner and a former board member of ISLA, is impressive and Pirum will benefit from his energy and business perspective. We look to Jonathan to provide additional market reach and expertise as Pirum seeks to broaden its participation base and promote central counterparty and real time services for securities finance".

The announcement comes as another Pirum member leaves. Andy Davies, business development manager, will be pursuing other opportunities focused on the buy side. He was with Pirum for over four years.

The Financial Industry Regulatory Authority (FINRA) has announced that **Gregory Fleming** was elected as large firm governor on its board. He is president of Morgan Stanley Smith Barney and of Morgan Stanley Investment Management.

Richard Ketchum, FINRA chairman and CEO, said, "The Board is pleased to welcome Greg and I look forward to working with him on the many important issues that face investors. He brings extensive knowledge and experience to these issues and will be a great asset to our Board."

Fleming fills the seat vacated by Sallie Krawcheck, former president of Global Wealth & Investment Management, Bank of America.

The Financial Stability Board has announced Philipp Hildebrand's resignation as vice chairman. The announcement came as Hildebrand stepped down as chairman of the board of the Swiss National Bank after a successful campaign to unseat him. At issue was a controversial currency transaction made by his wife mere weeks before the Swiss central bank moved to peg the franc to the euro in September.

Mark Carney, chairman of the FSB, said, "Philipp has been instrumental in helping to manage the response to the global financial crisis and in developing major reforms to strengthen the resiliency and stability of the international financial system. I very much regret the circumstances of his departure and the loss of his future contributions to the work of the Financial Stability Board."

The Conifer Group has announced the appointment of **Howard Eisen** to join its Securities sales team as it expands its client base to include alternative asset managers of all stripes. Eisen will be based in New York and comes to the role with more than 15 years of experience in prime brokerage and capital introduction at investment banks such as Goldman Sachs and UBS. Prior to joining Conifer, Eisen was the co-founder and managing director of FletcherBennett Group, a capital raising and consulting firm that works closely with the hedge fund community.

His appointment comes as the fund administrator is experiencing increasing demand, particularly from large hedge fund managers, for its growing suite of services, namely its new cloud-based asset servicing solution, Conifer iCon.

"Alternative investment firms of nearly every size have to consider innovative solutions that enhance their risk and attribution reporting at a lower cost. Conifer's cloud-based and middle-office services help funds navigate the challenges of ongoing change in reporting requirements and operational models," he said.

Jack McDonald, CEO at Conifer and to whom Eisen will report, said, "Howard has a proven track record of supporting hedge funds and helping them achieve investment success. His experience and breadth of industry relationships will be an important part of our continued success as we expand to other segments of the hedge fund market." **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

Published by Black Knight Media Ltd
16 Bromley Road
Beckenham
Kent, BR3 5JE
UK

Company reg: 0719464