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Shadow banking comes under the spotlight

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Shadow banking looks to be the next scapegoat of the financial crisis after the head of the UK's FSA Lord Turner warned that the practice did not fit into upcoming regulations that he described as: 'sufficiently radical.'

In a lecture at the Cass business school in London, Lord Turner marked shadow banking out as a significant threat to broader financial stability, and called for closer supervision to lessen its procyclical effect in falling markets.

Leaders of the world's top 20 economies (G20) have asked the FSB to come up with draft rules by the end of this year that will limit the scope of shadow banks. Michel Barnier, the European commissioner for the internal market and services, launched a consultation on March 19 as to how far, or at all, should shadow banking be regulated in the 27-country bloc.

Policymakers have accused the $47 trillion global industry of being too opaque, and Turner asserted that regulations such as the Volcker or Dodd Frank act were not enough.

"While these measures are all desirable, we should be wary of considering them sufficient," he stated. "A shadow banking system could develop which would fully replicate banking system leverage... harmful to both the macro economy and to the resilience of the banking system."

His sentiments were echoed by FSB chairman Mark Carney, who stated earlier this year that the $47 trillion global industry: "is not an acceptable situation… that you have half the financial system imperfectly overseen."

Lord Turner said the FSA was examining how they could make securitisations and money market funds safer. The committee might also propose minimum haircuts for repo and other secured lending, so they do not aggravate boom and bust cycles.

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NEWSINBRIEF

Securities financing transactions rise at Clearstream

Global Securities Financing (GSF) services at Clearstream saw the monthly average outstanding for February reaching €599.7 billion. The combined services, which include triparty repo, securities lending and collateral management, collectively experienced a rise of 12 per cent over February 2011 (€536.4 billion).

In the Investment Funds services, 0.52 million transactions were processed, a seven per cent increase over February 2011 (0.49 million).

Euroclear and BNP Paribas announce agreement

Euroclear Bank and BNP Paribas Securities Services have announced an agreement at Euroclear's annual Collateral Management Conference that will enable their mutual clients to benefit from access to a larger pool of collateral for triparty transactions.

The agreement will enable the two organisations' mutual clients to use fixed-income and equity assets held with BNP Paribas Securities Services as collateral in triparty managed transactions at Euroclear Bank.

Client securities to be used as collateral will flow freely between the two organisations, while BNP Paribas Securities Services always remains the local custodian of the assets.

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Shadow banking comes under the spotlight

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"We need to design a system which faces end-investors with reality, and does not allow the development of a set of claims whose apparent combination of risk, return and liquidity is in aggregate unsustainable," he said.

In the prosperity of early 2000, hedge funds, private equity firms and other loose or non-regulated financial players accounted for roughly half the world's financial assets.

However, following the collapse of securitised credit, shrinking money market funds, and smaller investment bank balance sheets, those in the industry have argued that there is less of a need for severe regulation. Lord Turner allowed that the 90 per cent drop in securitisations meant that: "immediate risks are smaller, allowing us time to think through the appropriate policies," but stood firm on other changes.

"We should not take the decline in some specific indicators of shadow activity ... as suggesting that the risks have gone away," he warned. "Any system this complex will defy complete understanding, and any belief that we can precisely calibrate our response to it will therefore be a delusion."

Euroclear and BNP Paribas announce agreement

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When client securities are no longer needed as collateral by Euroclear Bank, they will be reinstated into the main client account held at BNP Paribas Securities Services.

The initiative consists of a multi-market collateral programme to be rolled-out in the next few months, delivering much-needed collateral flexibility and optimisation.

Frederic Hannequart, chairman of Euroclear Bank, said: "Together, BNP Paribas and Euroclear Bank will help our clients achieve greater risk protection and smarter use of their assets as collateral. This is particularly important as demand for collateral increases. By joining forces, we will alleviate one of the challenges of collateral fragmentation by making the transfer of collateral to the right place at the right time as seamless and operationally simple as possible. We are delighted to be partnering with BNP Paribas in this regard."

Alain Pochet, head of clearing, settlement and custody at BNP Paribas Securities Services, said: "This type of partnership is key for both organisations. It will offer even greater optimisation of collateral to our mutual clients by accessing the Euroclear Bank triparty platform – in addition to BNP Paribas' in-house collateral management offer."

J.P. Morgan launches new HK collateral management platform

J.P. Morgan Worldwide Securities Services will launch a repo financing collateral management platform, which has been developed in partnership with the Hong Kong Monetary Authority (HKMA), with a view to enhancing financial stability and providing secured channels for liquidity provisions to the financial markets in Hong Kong.

The new repo financing programme will facilitate repo financing transactions between members of Hong Kong's Central Moneymarkets Unit (CMU) and international financial institutions. The programme enhances services currently provided to CMU members who will be able to accept a broad spectrum of international securities lodged with J.P. Morgan and other international securities depositaries as collateral. Additionally, international financial institutions, by entering into repo financing transactions with CMU members, will obtain access to liquidity for offshore CNY, EUR, HKD and USD in Hong Kong.

In support, J.P. Morgan will launch a collateral management solution. Kirit Bhatia, head of technical sales, Asia ex-Japan, J.P. Morgan Worldwide Securities Services, said: “We are delighted to have partnered with the Hong Kong Monetary Authority for this important step in the development of Hong Kong’s capital markets infrastructure. This collaboration is testament yet again to J.P. Morgan’s continued leadership in delivering truly global securities financing and collateral management solutions.”

Esmond Lee, executive director, Financial Infrastructure Department, Hong Kong Monetary Authority, added: “With the launch of this repo financing programme, we have taken a step forward in the development of Asia’s capital markets. Hong Kong will certainly benefit since this will help provide more local liquidity to market players in a secured manner and contribute to enhancing the financial stability of Hong Kong.”

Rule Financial expands N. American operations with acquisition

Rule Financial has acquired North American consultancy, Waterline Group. This strategic acquisition will accelerate Rule Financial’s growth in North America, providing an entry point to the Canadian market, and will complement the consultancy’s existing presence in New York. Waterline Group will be fully-absorbed into Rule Financial and will operate under the Rule Financial brand.

New York and Toronto-based Waterline Group has in-depth experience in capital markets – both buy-side and sell-side – working with a number of Canadian and US-based banks and trading organisations. As part of the acquisition, Rule Financial will integrate the Waterline Group leadership team into the Rule Financial fold. Chris DeBrusk will take responsibility for North American business development, Amrik Chawla will be Rule Financial’s North American and US lead, Rob Schmidt will take responsibility for Rule Financial Canada and Rob McGeachy will be the North American delivery lead.

Chris DeBrusk, managing director, North American business development lead, said: “Our experienced team is highly complementary to the existing Rule Financial offering in North America, and I anticipate that joining Rule Financial will enable us to offer even more services, to more clients, and in larger projects across the financial services sector”.

Chris Potts, CEO, Rule Financial, said: “As North American financial institutions race to align IT with a swathe of incoming regulation – such as Dodd-Frank and the Volcker Rule – Rule Financial is anticipating heightened demand for specialist consultancy services in the region. Acquiring Waterline Group provides both a route into these financial institutions, and the specialist support needed to cater for this increasing demand for investment banking consultancy. I am pleased to welcome the new consultants into the Rule Financial team and look forward to further building on the success of our North American operations as we continue to expand our services and recruit the most talented specialists working in financial services”.

Additional GC Pooling segment to be launched

Eurex Repo, Eurex Clearing and Clearstream, all part of Deutsche Boerse Group, will introduce an extension of the integrated and innovative

GC Pooling market for secured funding which will be made available for active GC Pooling participants (banks) to further strengthen their service scope towards corporate customers. Launch is scheduled for Q4 2012. The leading GC Pooling marketplace for secured interbank transactions will be enhanced to contribute to re-building trust between banks and their existing non-financial customers, eg, corporates, asset managers and pension funds. The new market segment GC Pooling Select will be specifically designed for secured short-term cash investments from non-financial clients to banks to avoid the systemic risks of unsecured money market operations.

Eurex Repo's new market segment aims to support the growing need of non-financial institutions for secured funding by adding the known benefits of GC Pooling, ie electronic trade entry, mitigation of counterparty risk via Eurex Clearing's central counterparty (CCP) and state-of-the-art collateral management of Clearstream Banking. These advantages will be added to the existing GC Pooling structure as the existing relationships between banks and their corporate clients will remain unchanged.

Benefits for the current participants of GC Pooling are additional flow without further investments on their side while keeping the positive effects of risk and balance sheet netting. The most important benefits for corporate clients are the mitigation of any counterparty risk, as their cash activities are protected through the inclusion of Eurex Clearing's CCP. Simultaneously, all cash and collateral management functionalities will be handled within Clearstream's Liquidity Hub including a seamless integration of the two market segments to ensure an optimised cash and collateral usage. To enter into the new market, very limited efforts are required on the client's side.

"Our new GC Pooling Select market segment is designed to enhance the existing market infrastructure. We will preserve the relationships between banks and their non-financial clients but will enable them to benefit from our integrated combination of electronic trading and processing, central clearing and collateral management", said Marcel Naas, managing director at Eurex Repo.

SunGard launches Japan solution

SunGard has launched a new product designed specifically to support the daily auction of securities lending in Japan.

In the Japanese markets the Japan Securities Finance Corporation (JSFC) conducts a daily auction to facilitate shorts position coverage in their markets. In the morning the JSFC publishes details of borrow requirements, and holders of securities have the opportunity to enter an auction process designed to provide the best price for the JSFC. Whilst this activity represents a lending opportunity, at the same time it provides challenges for the lenders as matching the requirements from JSFC with availability is a time consuming, and often manual, process.

Apex JSFC automates the entire process of submitting bids for the JSFC auction, with a set of analytical tools that help the trader determine the best price of the loan. It also minimises the manual steps of trade entry, reducing the time spent on processing and ensuring a timely and accurate response to JSFC.

Commenting on the response to the launch of the product at the PASLA conference in Taiwan, Jane Milner, head of strategy and business development at SunGard, said: "Any solution designed to increase productivity and at the same time allow you to capture the maximum P&L from a lending opportunity is welcome in today's tough market conditions."

For more, see the Big Interview on page 8

EquiLend's Trade Optimisation keeps on rising

EquiLend's Trade Optimisation service has seen volumes more than double in February.

The firm says participation has increased in every region and in every asset class. The service can be used for GC, hot, specials and financing trades.

Over $35 billion notional has been traded via Trade Optimisation since October 2011.

Brian Lamb, CEO at EquiLend, commented, "Trade optimisation allows traders to finance their long positions whilst simultaneously covering needed shorts at market clearing prices. These allow for central counterparty clearing via EquiLend messaging."

Karson reports collateral growth

Karson Management has seen significant growth in its Karson Collateral business volume since 2009 and further development of its collateral financing and issuance platform.

The Karson Collateral platform was launched in December 2009 as an independent source of expert, effective, secure and efficient collateral solutions with the issuance of $825 million in K-Notes, effectively reopening the market for structured regulation XXX-AXXX reserve collateral. Since then, Karson Collateral has delivered an additional $4.0 billion in collateral capacity for a further six client transactions with final maturities ranging from 1 to 10 years.

K-Notes are the product of over 10 years of research and development on alternative collateral solutions for large international insurance and reinsurance companies that resulted in an affirmative New York State Insurance Department opinion letter, as well as a rare business process patent. According to Derrell Hendrix, CEO of Karson Management, “the K-Note program provides an important collateral liquidity management tool that effectively delivers several previously untapped sources of risk financing capacity to the global insurance market.”

K-Note transactions in 2010 and 2011 provided two US-domiciled ING insurance group cedants with reserve financing solutions on both a “with-recourse” and “non-recourse” basis, with K-Notes qualifying for capital and/or surplus relief in all US states where approval was sought. These transactions were financed by three large international banks, each providing $750 million or more in capacity for tenors ranging from one to 10 years. According to Régis Lavergne, global head of Natixis Equity Finance desk, “Natixis is proud to be a prominent member of the bank panel for the Karson Collateral platform. The Karson Collateral platform is a very good opportunity for banks and opens up a whole new area of promising business based on securities lending.”

K-Notes are backed by an unconditional obligation to pay issued by a financial institution rated A- or better plus marketable securities of a mutually agreed quality that are margined daily to maintain the prescribed market value.

In addition to New York State, K-Notes have been approved by four other US state insurance regulators and have received favorable ratings from the Securities Valuation Office of the NAIC (NAIC 1) and Standard & Poor’s (A- or better). Outside of the US, K-Notes have obtained approval from the Canadian regulator of financial institutions (OSFI) and favorable guidance from the UK’s FSA as collateral supporting surplus relief for reinsurance arrangements, enabling Karson Collateral to offer multi-jurisdictional facilities.

The Karson Collateral platform provides operational security using the integrated Corporate Trust and collateral management services of BNY Mellon to ensure a high level of safety for Karson’s clients. BNY Mellon provide the Karson Collateral platform with the security and scalability essential to meeting the stringent and increasing collateral requirements expected to be imposed by financial market regulators (e.g., Dodd-Frank and Solvency II).

According to Dean Fletcher, BNY Mellon EMEA Corporate trust executive, “Karson Collateral has developed an innovative solution for the reinsurance industry that will provide participants with more efficient and cost-effective access to collateral to meet regulatory and credit security requirements. Utilising BNY Mellon’s extensive securities servicing expertise and cross-border resources, Karson Collateral has structured a program that increases collateral capacity despite the tight credit environment and will help ceding companies to meet credit for reinsurance or solvency relief needs in the changing regulatory landscape.”


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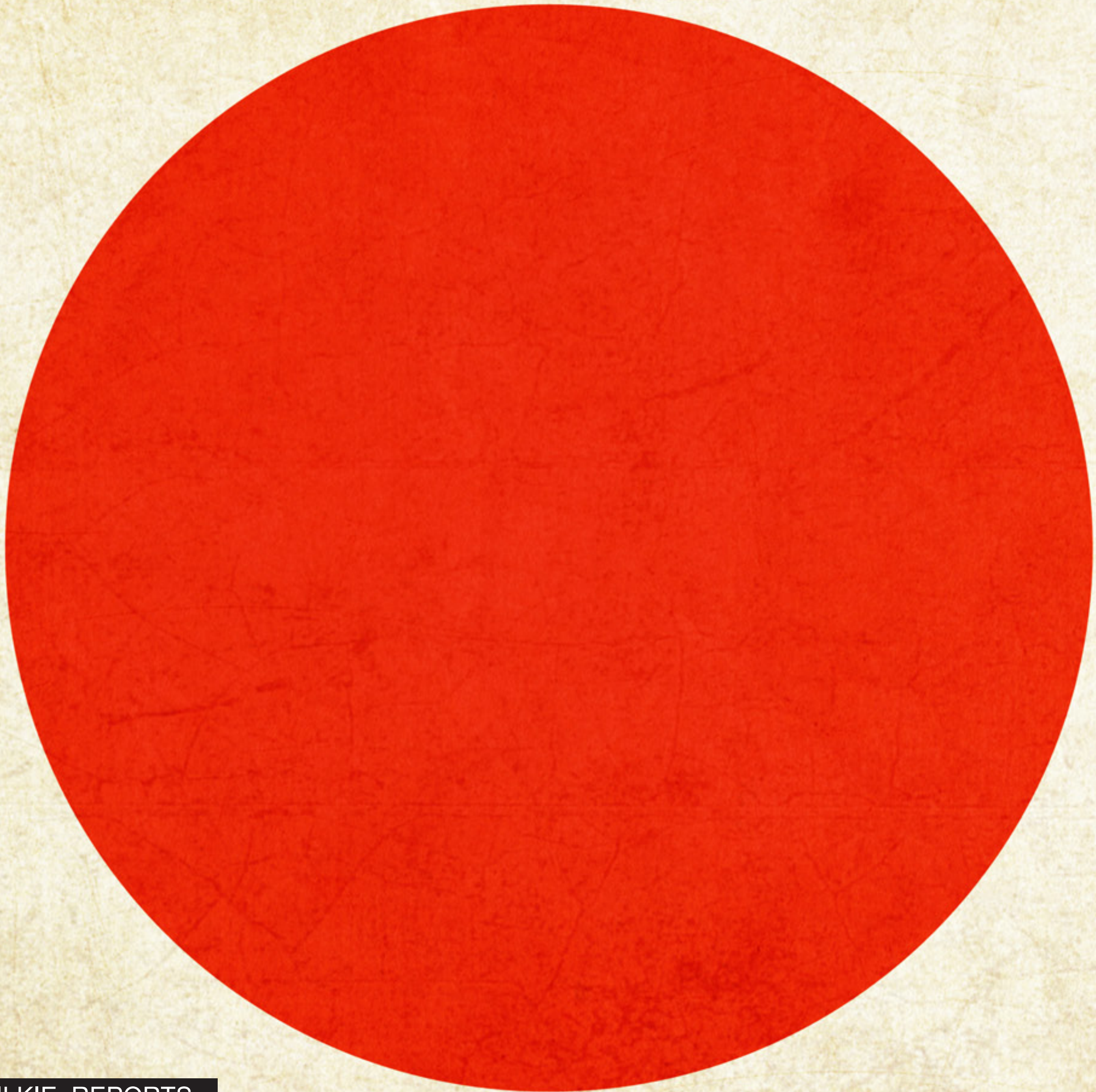
Big in Japan

Ben Wilkie talks to Jane Milner about the new solution that SunGard showcased at the PASLA conference in Taiwan



BEN WILKIE REPORTS

SLT: I understand SunGard has been showing a new solution at PASLA that is designed to bring efficiencies to the processing of Japanese market trades. Can you start by describing the specific problem that you are aiming to solve?

Jane Milner: In the Japanese markets the Japan Securities Finance Corporation (JSFC) conducts a daily auction to facilitate shorts position coverage in their markets. In the morning the JSFC publishes details of borrow requirements, and holders of securities have the opportunity to enter an auction process designed to provide the best price for the JSFC. Whilst this activity represents a lending opportunity, at the same time it provides challenges for the lenders as matching the requirements from JSFC with availability is a time consuming, and often manual, process. Combine this with complexities in determining the best rate to be offered by the lenders for each security, and this makes the whole process even more complex. In addition, the auction process is a time critical event and bids have to be submitted at specific times in the morning. Once successful bids are confirmed by JSFC, the need to create those trades in the lender's securities lending system can also be an effort-intensive and error prone task. Although the JSFC auction plays a critical role in the securities finance markets, the process to participate in the auction, analyse availability, determine rates, and keep securities borrowing and lending systems current with trade activities is very challenging and time consuming.

SLT: So what is it that the solution does?

Milner: Apex JSFC Trade Manager accomplishes three tasks. First it automates the entire process of submitting bids for the JSFC auction. Secondly, and most important is has a set of analytical tools that help the trader determine the best price of the loan. And finally, the JS Trade Manager minimises the manual steps of trade entry, reducing the time spent on processing and ensuring a timely and accurate response to JSFC. The solution also facilities funding/financing trades, where the motivation for carrying out the transaction is one of cash generation, and this too is helpful in that this general collateral type of business can be carried out without taking the time of the traders.

The Apex JSFC Trade Manager is an ASP solution and can be interfaced with any securities lending system

When the daily auction opens the Apex JSFC Trade Manager reads the file of requirements from the JSFC and matches it with the lenders availability automatically. If the inventory is held in different accounts, the Trade Manager will show this. The solution can remove requests for inventory that is not available and auto-fill requests for those that are. Once completed the file is sent back to the JSFC in the correct format. We estimate time savings of 60 to 70 per cent.

SLT: How can it help with the rates?

Milner: Apex JSFC Trade Manager can help with rates in a couple of different ways. It captures the previous five days fee paid for the same security by the JSFC, and it also allows rules to be defined, such as; minimum lending rates, the ability to restrict 'hard to borrow' securities, and the option to exclude lending of securities with imminent corporate actions. There are filters that highlight all securities with and ex dividend date on the settlement date since these stocks need special considerations.

SLT: What is the timing on this whole process?

Milner: The auction takes place on a daily basis and it is important for a lender to respond in a timely manner otherwise they will miss a trading opportunity. There are two morning sessions and the Apex JSFC Trade Manager can be used to participate in both sessions.

Once bids have been submitted there is an option for the JSFC Trade Manager to record the potential loans as holds or pending trades in their securities lending system in order to avoid the double-use of securities pending confirmation of whether the bids have been successful.

SLT: So do lenders have to use the full Apex SunGard securities lending solution in order to allow them to benefit from Apex JSFC Trade Manager?

Milner: Good Question! The Apex JSFC Trade Manager is an ASP solution and can be interfaced with any securities lending system. In short, they can use a SunGard solution or any in-house built securities borrowing and lending trade system. Where Global One, Martini or Apex are being used, full STP can be achieved with very minimal internal IT resource requirement.

SLT: What happens once the auction process has been carried out?

Milner: Following the auction process a file of successful bids is provided by the JSFC. This can be viewed within the Apex JSFC Trade Manager and the trader can see a summary of their winning trades, total fees, and a profit and loss (P&L) summary, along with other trading statistics. This successful bids file is converted into qualified trades and, in the case of a downstream SunGard securities lending system, automatically booked to the downstream solution. Where other systems are used, the file is available for upload.

SLT: How does a lender avoid securities being auto-allocated at rates that they would not find attractive?

Milner: The JSFC Trade Manager does have some work flow so that if a trader is unsure of an offered rate, these securities can be analysed or reviewed again before the file is submitted to the JSFC. In addition, we have added a number of filters so that securities can be ranked according to the fee.

SLT: Can you tell us more about the specific complexities around lending securities over ex-Dividend date?

Milner: Yes – where a security would be settled on an ex-date, the JSFC automatically calculates and applies a withholding tax on the dividend payable, thereby affecting the P&L on a potential trade. The Apex JSFC Trade Manager will reference the dividend amount and propose a fee to cover the withholding tax element. This automated process therefore safeguards the profitability of a trade over a dividend period.

SLT: Is there a need for local language support for such a solution for the Japanese market?

Milner: Though traders in the Japanese market will typically be happy to work with an English based user interface, there can be less familiarisation in the Operations areas and therefore the ability to support Kanji characters can be helpful. The Apex JSFC Trade Manager is available in either English or Japanese.

SLT: How easy is it to get this solution up and running?

Milner: Apex JSFC Trade Manager is an ASP solution and uses SunGard's highest standards for security. Once traders have a user name and password they can begin using the service. If not a SunGard securities lending solution user there will be the requirement to upload a file of availability, however we provide simple file layouts for this file making it, technically, very easy to integrate.

Integration with JSFC is a fundamental part of the solution, and where the customer uses a SunGard securities lending solution the up/downstream integration is out-of-the-box. SunGard has local Tokyo-based support to facilitate this process further.

SLT: Is the problem you have identified and the solution you have created transferable to other markets?

Milner: The solution we have created is certainly specific to Japan, but there are other markets that have issues similar to what we see here - central structures, CCPs and so on. So while we are concentrating on the Japanese market right now, and wouldn't want to make any claims for any other market, I think it does have the potential to be adapted to become a solution elsewhere.

SLT: So how has this solution been received by those that you have shown it to?

Milner: Very positively. I suppose that any solution designed to increase productivity and at the same time allow you to capture the maximum P&L from a lending opportunity is welcome in today's tough market conditions. **SLT**

Jane Milner
Head of strategy and business development
SunGard

Latin America

Is this Latin America's decade when it comes to securities lending?

DAVID STEVENSON REPORTS

With Europe in a spiraling debt mess, the US hugely overdrawn and even China slowing down, investors have had to look away from traditional markets. Latin America was plagued during the last century with a combination of political instability and runaway inflation which made it a difficult region to invest in. However, the years ahead may be called "Latin America's decade," a phrase coined by the Inter-American Development Bank in early 2011 and although varying levels of economic sophistication remain in the region, securities lending and hedge fund activity is most certainly on the rise.

Brazil is the economic powerhouse of the region, part of the formidable BRIC (Brazil, Russia, India, China), which some commentators believe could overtake the G8 economies by 2027. In fact, Brazil has recently overtaken the UK to become the world's sixth-largest economy. The country has made staggering economic advances in the last decade, in one symptom of this the merger of Bovespa and the Brazilian Mercantile and Futures Exchange (BM&F) created the world's third largest exchange. In the same year the BM&FBovespa was created, the country received investment-grade status for its sovereign debt, attracting investment funds from China, Singapore and Japan.

To CBLC or not to CBLC

In Brazil, securities lending transactions are governed by CBLC, the central counterparty (CCP) owned by BM&FBovespa, which accepts collateral from the borrower and holds it centrally. This differs from most other markets which use a bilateral OTC arrangement. This has caused some anxiety. "It can be hard to understand what the duty is between CBLC and the client. It puts some clients off as they don't want the risk with their collateral [In case Brazil defaults]," says one source.

Other commentators are aware of the reluctance of using clearing houses. "There is growing fear that clearing houses within an exchange can dominate a market and some would like things to be separate," says Jane Fuller, co-head of financial think tank Centre for the Study of Financial Innovation (CSFI)

Fuller believes that the use of CCPs is part of a global shift away from the bilateral arrangement. "There has been more movement from bilateral OTC derivatives to central clearing houses as seen in reform legislation like Dodd Frank. The idea is to have more and better capital and keep tabs on it. It's hard to keep tabs on a bilateral agreement. Quite often emerging markets have more conservative rules although advanced economies seemed to be going down the same route." she said.

Carey Chamberlain, head of equity finance trading and a director with HSBC who is based in Rio, also sees this trend. "At HSBC we are fortunate enough to know the industry infrastructure very well, and if you look at it from more of a macro level I think it's very important to be involved in markets that could shape the way stock lending is executed globally in the future. Regulators across the world are promoting the use of central counterparty type risk models that will in some ways emulate the Bovespa," he explains.

But firms acting as brokers in Brazil have been able to attract clients with their knowledge of using the CBLC. "Lenders want to partner with Merrill Lynch due to our market knowledge and strong presence in the region. There are great opportunities for growth in Brazil and lenders are looking for ways to break into the market,"said Courtney Campbell, director in synthetic products and securities lending at Merrill Lynch.

The growth of securities lending in Brazil was illustrated by last year's figures. In 2011, securities lending transactions at BM&FBovespa reached a new high point with a financial volume of BRL732.75 billion ($407.4 billion) and 1,417,787 trades, surpassing 2010's financial volume of BRL465.6 billion ($258.8 billion) and 971,558 trades.

"When I started the market was much smaller but has exploded in the last 4-5 years," says Marina Leite, formerly of Itau Securities and now at Merrill Lynch.

Barriers to market

Despite the size of the Brazilian securities lending market, the CBLC does present some problems for foreign investors. Although the CBLC may need some locally based expertise to navigate, it does give the Brazilian market security. However, the Brazilian government seems to be in constant flux regarding the "IOF" tax, essentially a tax on foreign loans. The government plans to extend the tax to longer maturities, signalling the second change to the tax in two weeks. There have been calls to abolish the tax amongst economists but it doesn't seem to adversely affect securities lending.

"Our view is that [the IOF] is a way to stabilise the currency. For clients, the IOF becomes relevant when they want access to Brazil via synthetic products such as swaps and certificates. It's not relevant in the stock loan world as money does not leave the country." says Campbell.

A more pressing concern for the Brazilian market is how to cope with the increase in demand. "It is a very manual process. You do have to go through operational issues and the CBLC might have to add more technology as the market grows. The plan is to work directly with hedge funds in Europe, the CBLC want to do it but it's not a priority at the moment. We have to cross all info from the lender, broker and custodian relationship in a manual way which is very time consuming." says a source.

In stark contrast, a region that seems to have the least barriers to its securities lending market is Mexico. This is reflected by its larger percentage of foreign investors compared to Brazil, where domestic funds seem to dominate. According to Alejandro Berney, managing director - Latam business head GTS - Securities and Fund Services at Citibank, this is due to foreign investors largely not using the CBLC programme.

Chamberlain believes that the reason Mexico is the easiest market for international lenders to get involved in is due to the Mexican ADR market. "[The ADR market is] trading at parity to the locals, or very close to it. Investors tend to favour the US way of beta in that market, making it difficult to lend any real volume in locals." he says.

Also in Mexico, there are no locally domiciled hedge funds. "[Instead,] most of the demand comes from local managers looking for arbitrage opportunities by looking at the local underlying security and comparing it to the ADR in New York." says Berney.

Pension schemes

Although a major participant in securities lending markets such as the US, in Latin America pension schemes are not a major presence yet. According to Carlos Barrios, Director of Investor Relations and Corporate Matters at the Bolsa de Valores de Colombia, pension schemes were completely absent in Colombian securities lending in 2011. This is hardly surprising as the sec lending market is in its infancy, starting in January 2011 and only allowing set guarantees with cash. Only this month, after a regulation change in December 2011, is it now allowed to set up guarantees with securities.

But Barrios does have hopes that the market will develop and the pension schemes will have a presence. "We are expecting an increase of the operation's level in 2012 and strengthening of the legal entities participation including foreign investment funds, mutual funds and pension funds," he says.

Even in the comparatively more mature market of Brazil, pension funds have only recently been getting involved in securities lending. "In the last three years pension schemes have been getting involved in the market. There are no external regulatory issues but the schemes have their own internal rules and controls concerning things like how much in percentage terms can be lent out," said Leite.

In Brazil pension funds are suppliers of assets. "When pension funds participate, it's external asset managers who are doing the loans. Asset managers only lend out what they weren't considering selling in the next months," says Berney.

However the position is very different in Mexico because they are not allowed to lend their equity holding. They can only lend their fixed income, "which due to the large supply means very small returns," says Berney.

There is a feeling that pension funds are still a somewhat untapped resource in the region. "There is a substantial amount of inventory sitting dormant right now," says Chamberlain.

Major Players

In Brazil the securities lending market is dominated by two companies, mining company Vale and the oil business, Petrobras. The reason for this dominance is due to the liquidity of the securities which means a lower spread and higher demand. In Mexico, AMX and Walmex dominate and make up 50 per cent of the index.

In terms of those involved in facilitating sec lending an industry insider gave his opinion on the pecking order in the region. He says the market in Brazil is currently dominated locally by Itau and offshore by J.P. Morgan. HSBC and Merrill Lynch are both significant players making it into the top 10. In Chile, Larrian is the dominant force and in Colombia, the Interbolsa group are leading. He also views that the biggest player in Mexico is currently Citi.

The Latin American market is clearly a diverse one with differing models and investment types. For instance Brazil and Chile use a CCP model, as opposed to a bilateral OTC model favoured by the rest of the region and Brazilian sec lending is largely domestic whereas foreign investors favour Mexico. Although a diverse region, there was universal optimism for sec lending in the area, it could well be "Latin America's decade". **SLT**

Prime time

How are agent lenders and prime brokers adapting to the changing dynamics in securities lending? SLT investigates.

ANNA REITMAN REPORTS

The only constant, the saying goes, is change. And in the past few years, securities lending participants have seen their fair share. Buffeted by regulations in the wake of Lehman and boosted by elevated expectations of risk management from beneficial owners and investors, a new reality is taking shape which is changing the way lender and borrower intermediaries operate.

"Transparency has fundamentally changed the landscape for all participants in the securities lending market regardless of which end of the chain they are on and yes, that has increased competition among agents and prime brokers. But I think it has increased partnerships as well, which have themselves become more strategic," says Jon Ottomanelli, managing director in charge of securities lending in the Americas for Citi Prime Finance.

Income is skewed towards the beneficial owner, he adds, and prime brokers are finding that cooperating with agent lenders to secure securities lending supply is becoming the name of the game.

That is in part due to low trading volumes and modest levels of leverage throughout 2011 – between 2.1x and 2.4x, compared to 4x before Lehman, according to Hedgeweek. At the same time, securities lending levels have increased, driven by shorting of European government bonds and corporate bonds and shorting China stocks listed in Hong Kong.

Against this backdrop, intermediaries in the securities lending markets have found it makes sense to foster a mutually beneficial partnership.

"It is pretty safe to say that it is important to look at each other in this current business environment as partners, we are in constant dialogue around the markets, strategically we are looking forward to how we are going to approach the business around our technology and operations…certainly the large primes and agents are focused on cooperating," says Jack Huber, director of institutional sales at Citi Prime Finance.

This is part of a larger trend in the industry, notes Finadium in a recent survey, Borrowing Stock in 2011: Agent Lenders on Prime Brokers in Equity Securities Lending, noting that new information flows have transformed conversations about rates and fees and all signs point to a securities lending market that has left the shadows and operates on much more rational economic grounds than five years ago.

Meanwhile, long standing practices including lending among friends and the specials for GC trade have largely disappeared, the report notes.

"When all is said and done, no matter what we do and how friendly we are with each other, it all boils down to economics and what is going to work for everybody," says Huber. "But the question of what works is the variable there, it is not just transparency on rates, it is also the extent that we can share what we are looking to get done, whether it be on a specific security or on a portfolio. Instead of saying what we need and ending the conversation, sharing information is becoming more important every day."

Both Huber and Ottomanelli point out that transparency is a double edged sword. Agent lenders and beneficial owners are bombarded with information through a variety of different channels that they were not historically exposed to and some are struggling to interpret it. Increasingly, agent lenders and beneficial owners are relying on prime brokers and the hedge funds they represent to analyse and interpret this information flow.

"Interpreted incorrectly, transparency can be dangerous. The knee jerk reaction is to see a spread sheet full of rates and depending on where the market is, mark the book to that market, but there are a myriad of reasons why that is not the right thing to do. Rates will gravitate to spot rates over time, that has been a very prevalent trend in the industry, but that data has to be interpreted correctly and that is where the partnership and reliance on dialogue gets passed from the borrower to the lender. This really creates a lot of value for the beneficial owner on their returns," Ottomanelli says.

At the same time, hedge funds are not known for embracing transparency when it comes to revealing trading strategies. There is a great deal of sensitivity around which positions a long/short investment manager might be building into and prime brokers will protect client interests on this front. This is one of the reasons why securities lending remains an OTC market where dealers and agent lenders talk on the phone and very few trading systems are used extensively.

Still, in this age of transparency, trading strategies do get spotted through different channels such as Data Explorers or SunGard's Astec Analytics business and become trends.

Age of complexity

Apart from increasing information flow in shorter time spans affecting how trades get priced, transparency has also done away with an age-old proprietary leaning over who a beneficial owner does business with.

This is most recognisable in the shifting attitudes towards prime brokers which offer swaps. Even five years ago, this would have been perceived as a disintermediating intervention resulting in negative repercussions. Now, this situation has become almost impossible to unravel, in terms of who is talking to whom about products, and furthermore, counterproductive to fight about.

Jack Huber notes that there are many beneficial owners with ISDA agreements in place without the resources to add securities lending agreements. Moreover, there are markets where lending securities is either not allowed or inefficient via traditional structures.

"Transparency has created a world where everybody is in everybody's business to an extent. It used to be a beneficial owner was sacrosanct and if an agent lender heard that a borrower was talking to 'their' lender there would be harsh discussions. But there is so much that people are exposed to throughout the whole lending cycle, it's inconceivable that you could even police who is talking to a portfolio manager at a specific fund complex," says Ottomanelli, adding that it is not unusual for an agent lender or a custody bank to talk directly with a hedge fund.

Prime custody

Before Lehman collapsed, hedge funds did not pay much attention to custody banks and generally kept all of their assets with one of the major prime brokers. Most market participants never believed that one of the top 10 investment banks could fail.

After the collapse, hedge funds started to make changes such as moving to a multiple brokerage model in order to diversify risk. They also discovered that leaving assets at a traditional custody bank could provide substantial benefits.

"The evolving role in terms of the agent and the principal lenders is in some ways being driven by the changing nature of custody itself," explains Nick Bonn, managing director at State Street Global Markets responsible for equity trading, transitions management and securities lending. "Custody banks are a very stable place to keep assets, particularly when markets get turbulent, and we have increased the amount of custody clients which are hedge funds alongside traditional pension schemes and long money managers."

State Street's enhanced custody service came online in 2007 and has grown significantly off of a small base, routinely reporting 40 to 50 per cent annual increases. Some industry participants have pointed out the math will prohibit this kind of service from taking a significant market share, particularly in light of regulatory changes. In setting aside capital for indemnities under Dodd-Frank, for example, one participant said that lending to an unrated hedge fund, even a well-respected, significantly large hedge fund, would require a 500 bps charge just to cover the cost of capital. This raises questions on the economics of the business model.

Bonn concedes that, compared to the firm's agency lending business, enhanced custody lending remains immaterial and reiterates that the demand is client driven based on safe keeping of assets against a backdrop of an emerging multi-prime model. It was these dynamics which pushed State Street to become a principal lender.

Meanwhile, hedge funds are accustomed to receiving a package of services from prime brokers which include auto borrow arrangements to cover shorts and those expectations have migrated along with assets to custody banks. And beneficial owners' expectations have not changed either; they still require a prime broker or principal lender to intermediate risks associated with lending to hedge funds.

"Some investment banks with prime brokerages were at first concerned that we were disintermediating them by going directly to their clients, but they have come to realise that State Street is just serving its custody base. We didn't set out to become a prime broker but the evolving nature of the client base requires us to lend to them, we have those capabilities and are doing a good job of it," he says.

Meanwhile, the custodian has seen some regulatory benefits. Its $350 billion programme of securities out on loan at any given time is primarily out to 10 investment banks, even though there are some 50 prime broker counterparties in total. According to Finadium, this kind of concentration is common across the industry, with the top 10 counterparties accounting for 70 to 85 per cent of loans out of some 40 to 50 relationships.

When regulators see that custodians are adding credit exposure outside of those concentrations, it is an indication of decreasing risk through diversification, notes Bonn.

Co-dependence

Just as market and regulatory dynamics are driving agent lenders into traditional prime broker space, so too are they tilting bargaining power towards agent lenders. That means, increasingly, prime brokers need to accommodate rerating requests in order to be considered a preferred counterparty.

Finadium reports that, besides credit lines that are determined largely by risk officers outside the immediate business unit, agent lenders look first for flexible counterparties which understand that although both sides want to gain the upper hand financially on fees or rebate rates, there are times to fight and times to agree.

"Prime brokers are our counterparties but they are also our customers, we do have a very strong working relationship that looks like a partnership and that is because there is a significant co-dependence there," Bonn says. "I am under no illusions that they love me because I am a nice person, they love me because I sit on top of $3 trillion of lendable assets. And I need them as well because they are a significant outlet for those assets. That said, I keep them at arm's length because I have to get the best price out of them."

One of the trends identified by Finadium has been a waning of borrower power in the market in negotiations over rerates. Agents, the report notes, put borrowers into three general buckets: price takers, those that offer mild resistance to rerating and those that fight about every price. While some years ago the last group had the greatest market power, trends have now shifted to favour agent lenders. The tipping point? The growing use of securities lending pricing vendors on a broad number of borrower desks which back up an agent lender's request.

"We invest a lot of money in quantitative analytics but we also rely on our traders in six locations around the world to tell us what the best price for a loan is… If primes are not willing to rerate, I will pull the loan away from them. That is part of a fiduciary responsibility to my beneficial owner client. But if you are constantly rerating or pulling loans, that can be disruptive and primes may not trade with you anymore." Bonn says.

For those borrowers resisting rate changes, agents look for some alternatives which can still benefit both parties. For example, Finadium reports that a specific rate change for one name may get denied but the borrower came back to recommend rate changes on a different name.

GC for ?

The most "creative" borrowers, according to agents surveyed by Finadium, are banks and prime brokers that need assistance in funding illiquid positions, largely ABS. This has given rise to a GC for repo trade and, though interest varies across lenders, a willingness to engage is adding a new and important dynamic in the market. These borrowers want to actively negotiate with agents to secure funding through cash or collateral investment accounts in exchange for borrowing large portions of general collateral stock.

This development is filling a vacuum caused by the demise of the GC for specials trade. Though there is some disagreement about whether GC for specials is dead or merely on life support, in general both prime brokers and agent lenders agree that this long-standing arrangement has become a victim of the financial crisis.

Tim Smollen, managing director and head of the agency securities lending team at Deutsche Bank, says that in his own third party lending environment, clients have become disinterested in utilisation.

"Five years ago, it was all about utilisation; that is what helped drive the growth of third party lenders. It was about outperforming others by being nimble, quick and customising the customer's programme to get securities out on loan. So the dynamics have considerably changed," he says.

"What you are finding now is that a couple of the large lenders with big legacy cash investment portfolios need to lend a fair bit of GC to finance those positions, but many hedge funds and prime brokers are in fact long securities right now, so they don't necessarily have to borrow that much and that is where they are cutting some of these [GC for repo] deals."

Deutsche Bank's agency lending side is not facing the same situation. The unit is for the most part an intrinsic only lender without the same pressures of large GC balances. Deutsche Bank sits in many domestic markets around the world, giving the operation an advantage of being both a global third party lender across all asset classes but with significant local market coverage in those markets where its clients operate. Clients are comprised mainly of sovereign wealth funds, central banks, global asset managers as well as a number of the largest US state and employee retirement funds. The bank's prime brokerage business, moreover, is one of the largest in the world and on the fixed income side the repo financing group is also one of the most important participants in the market.

"The prime brokerage team is an incredibly valuable source of information for us in terms of what is driving the demand for securities and we soak up as much information that we can from them. More and more of our clients, especially in the asset management sector, want this type of information so we believe it is an advantage to have an internal prime broker," Smollen says.

One of the most important investments for the agency lending business, however, is in tri-party repo, for which Smollen credits a large portion of growth to his business – from a small base to $100 billion in only five years. Before Lehman, he notes, life was pretty simple and straight-forward. Clients would choose between six distinct sets of tri-party collateral based on risk profiles. Today, that has become over 275 sets of customised collateral risk profiles within Deutsche's agency securities lending programme.

In addition, clients want daily reports on what collateral was accepted from each counterpart in those sets as well as a pro-active approach to monitoring and re-setting of haircuts. That also means that eligible collateral must always be highly liquid, marketable and traded each day.

Smollen is a close observer of the continuing push to alternative repo which has boosted Deutsche Bank's lending operations, partially as a result of regulations which are reducing broker-dealers' reliance on overnight funding, among other factors.

"For us, it is a very simple risk reward scenario, I run these trades through our risk model; who is the counterpart, what collateral are we taking back, what return are we going to generate, and if the overall trade makes sense for both the client and Deutsche Bank, then we may enter into it. Again, the Deutsche Bank credit and risk management teams both within and outside our business take a close look at all trades very carefully, but regardless these type of trades should always be a small percentage of a client's overall investment strategy- in my view. I am sure that clients are still doing some time deposits, maybe some money funds, there is a bit of yield there at times, and then maybe some other select reinvestments, but on the repo side, what we hear from the dealer community is that the alternative repo trade, and term repo, is very important to them," he says. "We are comfortable with this strategy within our clients' set parameters, but not with financing illiquid assets, I will leave that to others."

According to the Federal Reserve, as of mid-October, 2011, there is currently $1.7 trillion outstanding in tri-party repo agreements including overnight, term, liquid and illiquid-backed agreements. The majority of tri-party repo is held in Agency MBS followed by US treasuries, comprising 63 per cent of the market at two per cent media margin rates. Another 15 per cent of tri-party assets are held in a combination of ABS, CMOs, investment and non-investment grade corporates and equities, at media margin rates of five to eight per cent.

According to Finadium, an unknown but significant subset of these investments, which total $244.5 billion, is now being funded through the GC for repo trade, which the consultancy estimates is worth about $152 billion. However, while being beneficial in the short term, it does create its own set of difficulties such as wrong-way risk and the implications of Basel III, which requires a 100 per cent capital charge to maintain illiquid positions on a bank's balance sheet.

Responses among market participants to this emerging trade vary. Some observers note that products which have been dumped in the illiquid bucket, such as investment grade corporate bonds and listed equities, are some of the most transparent and liquid instruments out there and that competing market forces which are diminishing returns may push beneficial owners to look further out the liquidity curve, albeit with some convincing left to do with regards to board approvals. Even at this early stage, however, Finadium reports that the trade is important enough for bank borrowers that in some cases a prime broker will borrow $5 billion in GC in exchange for an agent's commitment to purchase $1 billion in "very illiquid" repo assets.

Smollen and others confirm that these trades are heard about within the market. "There are counterparts out there sitting on illiquid assets they need financed. Before, they used to be able to finance it through another conduit, like a SIV or some other structure, but those are few and far between right now, so they are turning to other sources," he says.

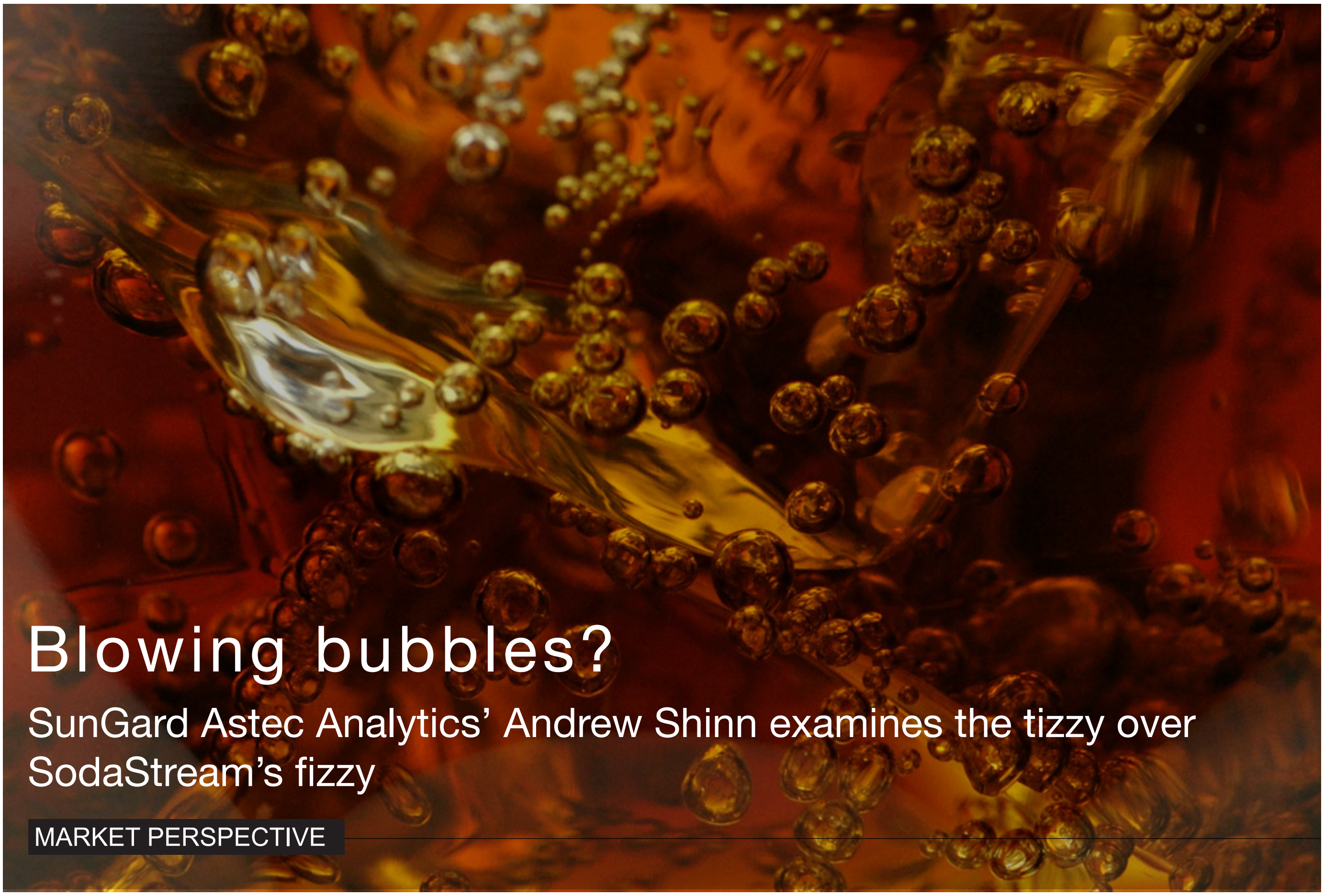
Alternative development

The alternative deals being made are important for market participants to pay attention to as another example of agent lenders and prime brokers moving towards a cooperative model, says Josh Galper, managing principal at Finadium and author of the report.

"Alternative repo fills an important need for prime brokers to get funding for their assets while agent lenders are also able to produce additional returns for their beneficial owners' cash collateral management accounts. I see this continuing for the foreseeable future," he notes.

Still, there are market participants that do not buy into the cooperative model that is emerging, instead focusing on their own best self-interest regardless of the consequences and fighting every rerate and terms, says Galper, though this portion of the market seems to be diminishing.

"Both sides recognise that there is one pie that will be split financially and are looking to optimise the relationship and the opportunity for both parties against a challenging economic backdrop…they expect to be around a long time and for that to happen, everyone in the system needs to work with each other to produce optimal end outcomes for clients," he says. **SLT**



Blowing bubbles?

SunGard Astec Analytics' Andrew Shinn examines the tizzy over SodaStream's fizzy

MARKET PERSPECTIVE

SodaStream International (NASDAQ:SODA), which allows consumers to turn still water into sparkling water at home, is a name that many people in the UK know well. Despite being a volatile growth stock and one of the most popular short selling trades of the past year, the company traces its heritage to 1903 when Guy Hugh Gilbey invented the carbonated water maker for W&A Gilbey, a London gin distiller. For the first seventy years of its life, the home carbonation system was not widely sold, but the system became popular in the UK in the 1970s and 1980s due in part to SodaStream's quirky commercials and advertising slogan: "Get busy with the fizzy."

It turned out that the product did not have staying power, though, as SodaStream tried to replicate branded soft drinks and consumers chose to buy the real thing in cans from the market. Even when SodaStream was owned by Cadbury Schweppes in the 1980s, it did not help. However, in 2007, an Israeli private equity firm purchased a controlling stake and instead of trying to compete directly against Coke and Pepsi, SodaStream changed its value proposition and launched from its existing base of 15 countries to 24 new countries, including the US.

On November 3, 2010, SodaStream raised $109 million in an initial public offering on Nasdaq, selling shares for $20. As shares quickly traded up to $34 on November 9, short sellers borrowed more than half a million shares according to SunGard Astec Analytics' Lending Pit data. Ever since, as SodaStream rose to a high of almost $80 in July 2011 before falling back to under $30 in November 2011, it has been a pitched battle between long and short investors. Adding to the stock's volatility are growth and momentum investors who bought into the SodaStream story in early 2011 before scrambling out in August when SodaStream's management did not properly guide earnings estimates.

Many growth investors believe in SodaStream because the company is tapping into a consumer trend towards more environmentally friendly and healthy beverages. In addition, SodaStream enjoys a first-mover advantage, and the company will naturally increase its margins as it grows its installed base.

SodaStream's seltzer and carbonated soft drinks are made with tap water, so they do not require petrol to be used in the transportation of bottles and cans, and there are no bottles and cans that must be recycled. Similar to how Indra Nooyi believes that Pepsi must offer beverages that are healthy, SodaStream is targeting the growing market that wants beverages that are both good for consumers and the environment. In addition to selling the carbonation machines and replacement carbon-dioxide cylinders, SodaStream also sells syrups that have fewer calories than traditional sodas and are made with real sugar and Splenda (sucralose) rather than with high-fructose corn syrup or aspartame. In the 1970s and 1980s, SodaStream partnered with well-known brands such as Irn-Bru and Sunkist, but SodaStream currently offers mostly generic versions of cola and other soft drinks, the exception being Kraft's Crystal Light and Country Time lemonade flavors that will come out later this year.

SodaStream doesn't aspire to be a low-cost alternative to Coke and Pepsi, and with two liter bottles of Coke averaging $1.50, it would be difficult to compete. Indeed, SodaStream's regular cola syrup is made with both sugar and Splenda, so its taste is not directly comparable to regular Coke; SodaStream's diet cola is made with Splenda so its taste is not comparable to Diet Coke. SodaStream offers an all-natural cola syrup made with cane sugar (and no Splenda), but it costs $9.99 and only makes 6 litres. Since it costs $0.25 to make one liter of carbonated water, a two-liter bottle of SodaStream cane sugar cola would cost $3.83, much more than the price of Coke. It remains to be seen how much cane sugar cola syrup that SodaStream will be able to sell, but for those do-it-yourself consumers, SodaStream gives them the opportunity to participate in the production process.

The more convincing value proposition is for consumers who prefer the taste of Splenda-based colas, or those who prefer gourmet sodas, made with seltzer and pure fruit juice, such as pomegranate or concord grape. Izze, which was acquired by Pepsi in 2006, is one of the largest makers of gourmet sodas. The advantage of SodaStream in the gourmet soda niche is that mixing home-made seltzer and fruit juice is much less expensive than buying bottles of Izze.

While many short sellers call SodaStream a fad, growth investors counter that SodaStream does not need to capture a double-digit share of the market. The global at-home carbonated beverage and sparkling water markets were $216 billion and $34 billion, respectively, in 2010 according to Datamonitor. While SodaStream may not be able to increase its share of the carbonated beverage market in Sweden, where it already has a 20 per cent household penetration rate, SodaStream's 0.6 per cent household penetration in the US leaves room to grow. And since four per cent of US households have purified water dispensers, it's not unreasonable to believe that SodaStream could reach a similar share of the market.

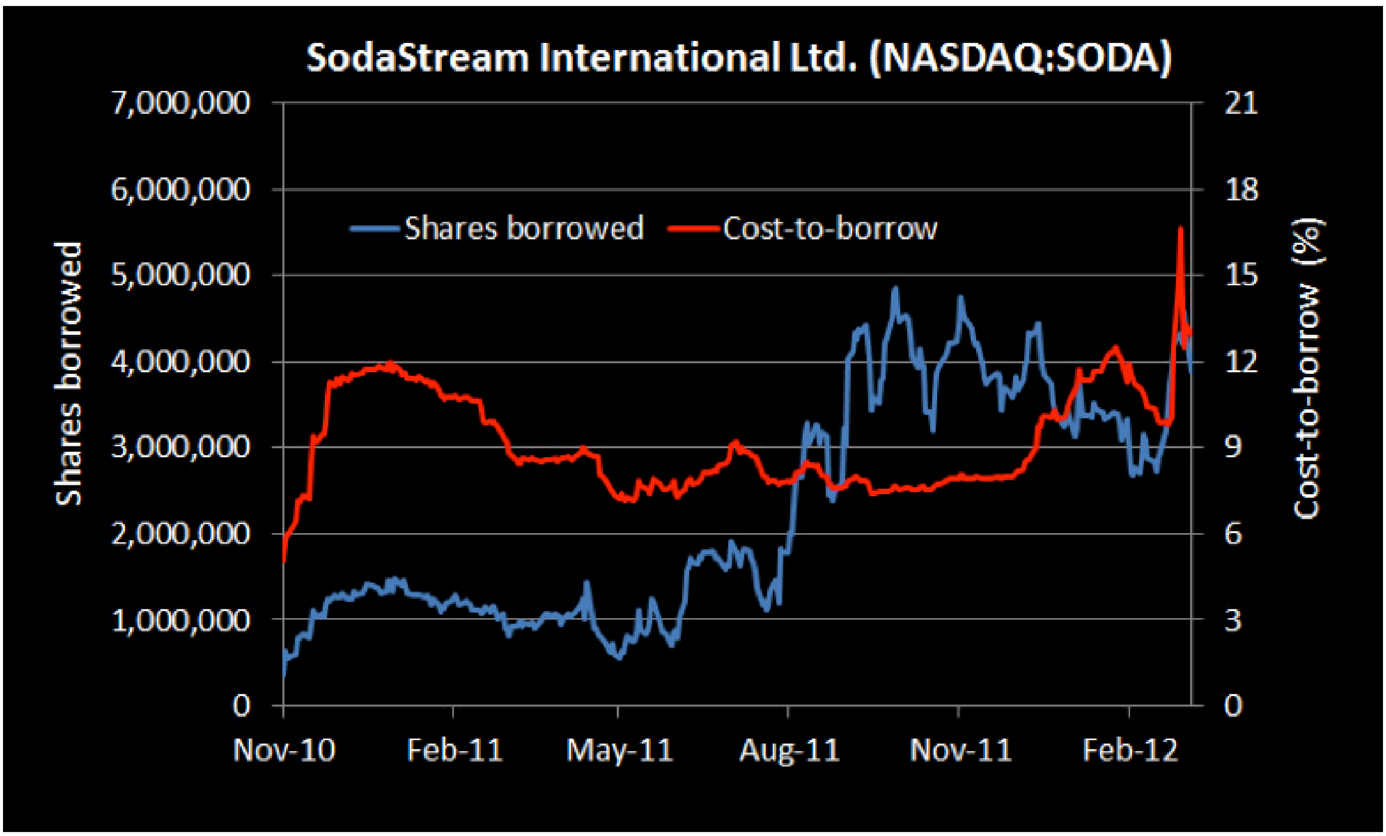
Furthermore, SodaStream's relationships with retailers should enable it to keep competitors at bay. Retailers benefit from being an exchange post for empty carbon-dioxide cylinders because customers often purchase other items when they come into the store to exchange cylinders. Lastly, bullish investors point out that SodaStream's gross margins on carbonating machines are 37 per cent whereas gross margins on refilled carbon-dioxide cylinders and syrups are 90 per cent and 50 per cent, respectively, so as a larger installed base continues to consume carbon-dioxide cylinders and syrups, margins will expand.

On the other hand, short sellers believe that consumers in the US, who differ from most Europeans in that US consumers prefer branded sugary beverages over sparkling water, will continue to choose the convenience of buying two-liter bottles of Coke and Pepsi. Also, while SodaStream instructs users to inject the right amount of carbonation into the water, many users comment that SodaStream's bubbles are not as fine, and do not last as long, as commercially made seltzer and soda.

Another risk to SodaStream is the lack of intellectual property surrounding their carbonating machines. The company has some patent protection on their carbon-dioxide cylinders, but in Sweden, a competitor was refilling SodaStream's carbon-dioxide cylinders without authorisation. SodaStream filed a lawsuit to protect the highest margin part of their business, but it is unclear whether SodaStream will be able to prevent competitors in other countries from refilling cylinders. It costs consumers $15 for a refilled cylinder, but there are videos on YouTube that demonstrate how to refill a cylinder with $2 worth of dry ice. While most users will not resort to saving money by doing something as potentially dangerous as refilling cylinders with dry ice, the videos nevertheless demonstrate that SodaStream's 90 per cent margins may be unsustainably high.

While it seems that SodaStream's valuation is not too high if it can meet its 30 per cent projected revenue and earnings growth rates over the next few years, short sellers continue to sell shares. Short interest is currently at an all-time high of 7.6 million shares, or 42 per cent of the 18 million share float, and short sellers are willing to pay ever-higher prices to borrow shares. The current average according to SunGard Astec Analytics' ShortSide is 1300 basis points. As SodaStream's stock will most likely continue to be volatile, it will be important for both long and short investors to monitor short selling activity as it is updated every 15 minutes on Lending Pit. **SLT**

Andrew Shinn
Vice president, sales and development
SunGard Astec Analytics



Training and Education

11-13 Apr	**Singapore**	**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.	**Euromoney Training**
17-18 May	**London**	**International Securities Settlements & Custodial Services** This training program is designed to provide delegates with practical knowledge about the key concepts, systems, processes and procedures in international securities settlement and custodial services as well as operational risks involved. Participants will have a chance to gain skills necessary to facilitate day-to-day transactions and communication processes between all parties involved	**Eureka Financial**
21 June	**London**	**The Repo Market** This 1 day course is designed for delegates who are new to the business of bond repurchase agreements (repos) and aims to explain how repos are priced, settled and why they are transacted by different participants in the market, including pension funds, hedge funds, market makers and derivatives users.	**Eureka Financial**
28-29 Jun	**Hong Kong**	**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.	**Euromoney Training**
6-8 Aug	**New York**	**Repos and Securities Lending** This course will offer a start to finish discussion of the key terms of the Global Master Repurchase Agreement and the Global Master Securities Lending Agreement, as well as the agreements used in the U.S. domestic market. Attendees will be taken through the operative terms of the agreements, events of default, and the termination and close-out provisions.	**Euromoney Training**

Industry appointments

Ben Sofoluwe, Deutsche Bank's managing director and European head of securities lending, has left the company.

Replacing Sofoluwe will be **Shane Martin**, who is promoted to the position of European head of client financing.

4sight Financial Software has hired **Antonio Neri** as executive director. Neri will head up the sales, pre-sales, marketing and account management team globally.

Before joining 4sight, Neri was head of EMEA sales at Lombard Risk Management. He brings with him many years of experience in collateral management and OTC derivatives valuation systems for the financial markets.

CIBC Mellon has appointed **Daniel Yardin** to the role of director, equity securities lending. Yardin will be responsible for lending CIBC Mellon's international portfolio and further expanding the company's international equity lending program. Prior to joining CIBC Mellon, Yardin held various securities lending and operations positions in Canada, Australia and the UK. He has more than 14 years of experience in financial services.

BMO Markets' Financial Products Group is combining the Prime Brokerage and Equity Finance businesses into a single unit, Global Prime Finance, headed by **Tony Venditti**.

Venditti will replace Andrew Papierz who is retiring from the business effective March 30th after 12 years with BMO and more than 30 years in the industry.

Venditti joined BMO Capital Markets in 2009 in conjunction with the Bank's acquisition of Paloma Securities. With this appointment, he expands beyond his current equity finance mandate to become head of Global Prime Finance. Bringing these two groups together leverages existing synergies, further strengthening the range of services we offer to clients and solidifying our global product offering.

Venditti will report jointly to Jeff Poulsen, head of trading, and Chris Taves, head of structured finance.

Karim Hajjaji has been appointed chief operating officer of GIMS, the division of Societe Generale Group that comprises private banking, asset management and securities services. He joins the executive management of GIMS and retains his functions as chief financial officer of GIMS. Reporting to Jacques Ripoll, he is a member of the GIMS Executive Committee.

Hajjaji began his career in 1986 as a quantitative research analyst for market activities at GRO/Credit Lyonnais, before becoming a consultant in strategy and organisation at Braxton Consulting in 1988. He then headed the Financial Control Department of Dresdner France, following a period as deputy head of audit for market activities, asset management and insurance.

He joined Societe Generale Group in 1999 as head of financial control at the corporate & investment bank. From 2005 to 2009, he was CFO of SG Americas, where he supervised Societe Generale's financial activities in the United-States, Canada, Brazil and Latin America.

In July 2009, he was appointed CFO of the GIMS division and became a member of the GIMS Executive Committee, reporting to Jacques Ripoll, head of GIMS.

J.P. Morgan Worldwide Securities Services has made a number of changes to its UK pension fund leadership team.

Jemma Broadgate has been named head of the WSS UK Pension Funds and Charities Market, working with corporate and public sector pension funds to provide them with industry-leading solutions to help meet the needs of their members. Broadgate, who joined J.P. Morgan in 2007, has extensive experience working with UK pension funds, with 14 years' experience in the securities services industry.

In addition, **Benjie Fraser** has been appointed global pensions executive in the WSS business, which provides a suite of securities services solutions for pension funds to help meet their needs now and in the future. These services include custody, accounting, client technology and other value added securities services.

Francis Jackson, EMEA markets executive for J.P. Morgan's WSS business, said: "These appointments demonstrate the strength and commitment of the leadership we have working with pension funds, both in the UK and globally. Jemma has worked with UK pension funds for a number of years, and the continuity of leadership will enable us to continue working with pension funds to help them meet their members' needs." **SLT**

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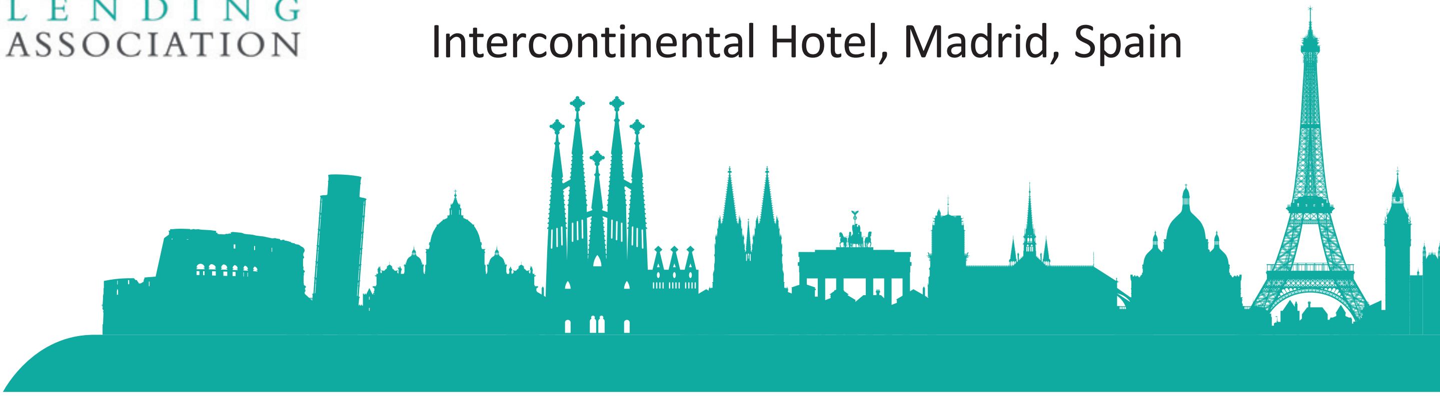

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