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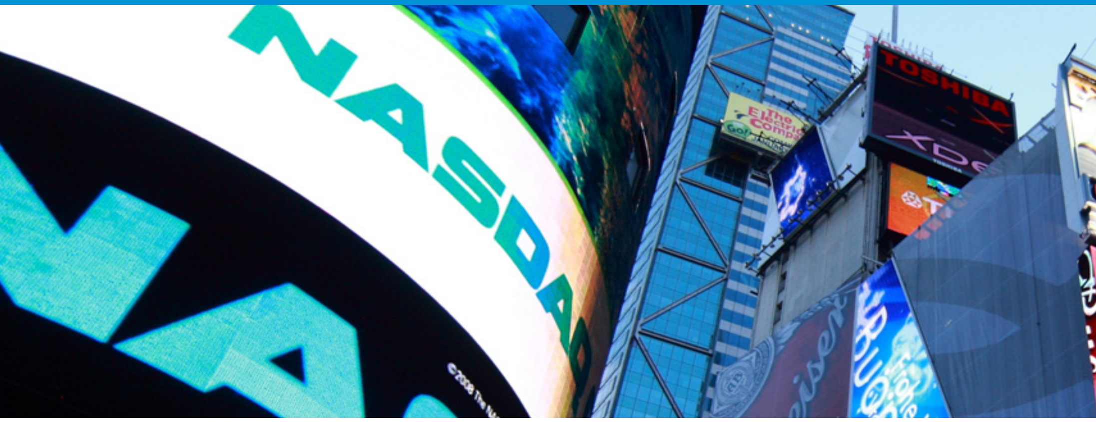

Unease over short-selling at NYSE and NASDAQ

NEW YORK 13.04.2012

Short-selling fell by 1.55 per cent at the New York Stock Exchange and the NASDAQ Stock Market for the two week period ended 30 March.

At the NYSE, positions stood at 12.6 million shares from the 12.8 million seen in the period ended 15 March.

On NASDAQ, short interest decreased 1.29 per cent to 6.9 million shares from seven million shares, over the same period.

Andrew Shinn, director of research at SunGard's Astec Analytics unit in New York asserted that the zero interest rate environment was making shorting problematic. "Short sellers have to pay negative rebates on borrowed stock, and negative real interest rates help prop up asset prices," he told Bloomberg.

"The magnitude of the recent artificial stimulus makes it difficult for short-sellers to prosper," said Todger Strunk, portfolio manager at Aethos Investment Management in Palm Beach.

"Coordinated liquidity efforts by central banks in both Europe and the US have injected trillions in debt creation, which has leaked into equities and commodities markets, contributing to one of the strongest quarterly equity rallies since 1998."

"We're now seeing increased demand to short stocks in the containers and packaging, as well as electrical equipment, sectors," added Shinn.

With the markets rising at the end of March, there has been substantial change in some of the short selling trends from March 15 to March 30 settlement date.

LinkedIn Corporation posted a fairly sizeable fall of 7.1 per cent in the short interest to 4.29 million shares short. This short interest is down about one third from earlier in the year.

First Solar continued to attract interest, but short sellers eased off into the end of March, with its short interest dipping 4.3 per cent to 20.3 million shares.

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NEWSINBRIEF

CIBC Mellon mandated by Bloom fund

CIBC Mellon will provide asset servicing solutions including securities lending for the Bloom Income & Growth Canadian Fund, and the upcoming Bloom Select Income Fund.

CIBC Mellon will provide Bloom with securities lending, custody services, accounting services, and real-time access to investment information via CIBC Mellon's Workbench platform.

readmore p3

BNY Mellon expands collateral services

BNY Mellon will allow futures commission merchants (FCMs) to post a wide range of collateral, including corporate bonds, for futures and cleared swaps margins at CME Clearing.

CME Clearing now accepts corporate bonds along with cash, government bonds, agency and mortgage backed bonds, money market funds, letters-of-credit, physical gold, equities, and bank deposits to collateralise transactions in the futures and the over-the-counter derivatives market.

"As demand for non-traditional collateral grows at clearinghouses in the wake of regulatory reforms, it is critical that market participants have access to superior operational solutions and support to post and track their collateral," said James Malgieri, head of global collateral management and securities clearance services at BNY Mellon Broker-Dealer Services.

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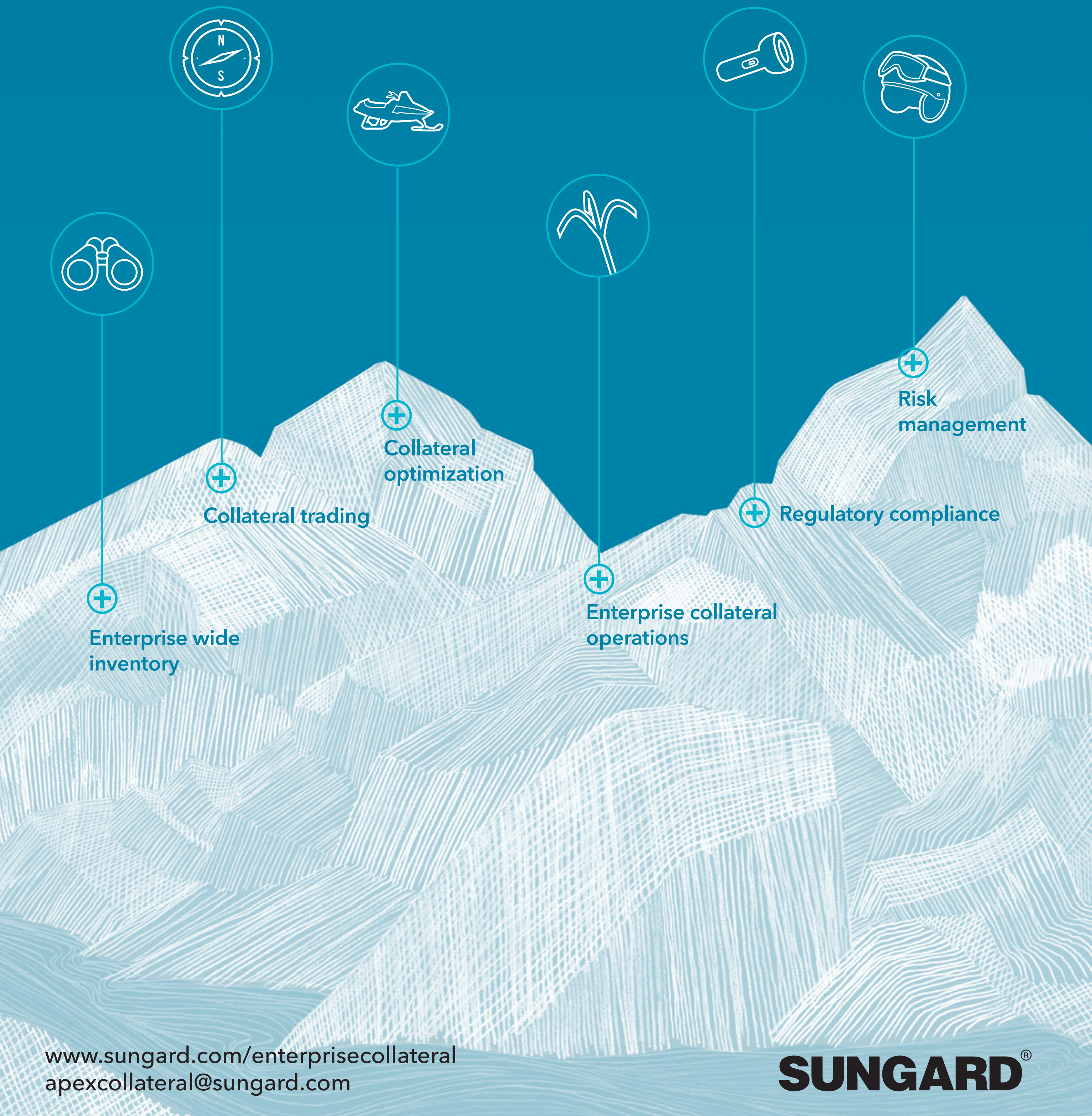

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Unease over short-selling at NYSE and NASDAQ

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Conversely, RadioShack Corporation saw expansion in short selling bets, up 11 per cent up to 32.8 million shares in the short interest.

Markit buys Data Explorers

Data Explorers has been bought by financial information services company Markit from mid-market private equity firm Bowmark Capital.

Data Explorers' data set, which covers $12 trillion of securities in the lending programmes of over 20,000 institutional funds, provides a view of short interest data and institutional fund activity across all market sectors.

Markit hopes the partnership will expand its footprint in equity and fixed income markets, and has plans to create products for equity market participants in the ETF, dividend forecasting and quantitative research areas.

Lance Uggla, CEO of Markit, said: "Our acquisition of Data Explorers represents a logical extension to our existing data, research and analytics for the equity markets and complements our extensive fixed income offering."

Donal Smith, CEO of Data Explorers added: "Data Explorers is now the leading provider of data and analytics to the entire securities finance market from agent lenders through to hedge funds and our services are a great fit with those offered by Markit."

Rise in sec lending and collateral management for Clearstream

Clearstream has released its March 2012 figures, which saw a six per cent rise in its global securities financing services.

The services, which include tripary repo, securities lending and collateral management, saw a monthly average pool of collateral reaching €571.8 billion, a rise of six per cent year-on-year.

For investment funds services, just over half a million transactions were processed, an identical figure to that recorded in March 2011 (0.55 million).

CIBC Mellon mandated by Bloom fund

Continued from page 1

"We selected CIBC Mellon as our asset servicing provider based on the impressive dedication to client service permeating the company's culture," said Paul Bloom, president of Bloom Investment Counsel, Inc. "We have worked with many custodians and have found CIBC Mellon to be the best at allowing us to focus on our goals."

CIBC Mellon now provides asset servicing for more $370 million of assets managed by Bloom.

BNY Mellon expands collateral services

Continued from page 1

"BNY Mellon has for many years provided tri-party collateral management services for traditional repo transactions and has expanded the model to meet the requirements of the centralised clearing environment."

"CME Clearing's expanded collateral program will help create efficiencies for our customers who are migrating their OTC interest rate swaps into CME Clearing," said CME Clearing president Kim Taylor.

Asia's 10 largest securities lending balances

Data Explorers has screened the major Asian markets ex-Japan to look at how securities lending balances are distributed throughout the continent.

In Hong Kong, the top three per cent of shares with the greatest value on loan make up 37 per cent of the total value on loan. Australia is even more concentrated, with a similar portion of shares making up 54 per cent of the balance. The smaller Asian markets are the most concentrated, with 60 per cent of the total loan attributed to the top three per cent of shares with the highest value on loan, compared to just 30 per cent in the US.

The top 10 Asian shares (ex-Japan) ranked by value on loan are as follows:
1. Tencent Holdings
2. Hong Kong Exchanges and Clearing
3. China Overseas Land & Investment
4. China Mingsheng Banking Corp
5. Lg Electronics
6. China National Building Material Co
7. Anhui Conch Cement
8. Asm Pacific Technology
9. Mediatek
10. Li & Fung

NYSE Liffe could launch new repo product

NYSE Euronext will launch repo futures market trading on 16 July, if it passes regulatory approval.

Seeking to compete with CME, which is aiming to own a futures exchange in London, NYSE will launch its repo futures trading through its NYSE Liffe US that comply with the Depository Trust and Clearing Corporation's (DTCC) trademark – GCF Repo Index.

With Libor, a diurnal fixing of interbank overnight dollar lending rates, under scrutiny for manipulation, and benchmark rates offered by Federal Reserve losing lustre following the transaction tax introduced by Federal Deposit Insurance Corporation (FDIC), NYSE is optimistic about exploring the $400 billion GCF repo market.

Thomas Callahan, chief executive of NYSE Liffe US, said at an investor meeting earlier this month: "The two things that market participants would usually look at in terms of a short-term benchmark, fed funds and Libor, are both in their own way broken right now," he said. "The market needs a new benchmark and we think that this could be it."

Asia chops regulation for securities lending

A draft containing possible regulation changes could give the Asian securities lending market a sizeable boost if it were to be passed.

The draft circular has the potential to eliminate a number of regulations related to securities lending. Current limitations that could be lifted include a ban on loans by banks to affiliated or subsidiary brokerages, a ban on unsecured loans for securities investment, and a requirement that total outstanding loans and discounts of valuable papers for securities investment not exceed 20 per cent of the bank's charter capital.

ACB Securities Co analyst Nguyen Thi Lan Huong stated that whilst this was ostensibly a good sign for the market, increasing bad debt continued to be a point of contention for banks, and the revised draft will probably show: "limited effectiveness."

A higher loan-to-deposit ratio was also expected to slow any increase in lending.

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EquiLend optimises collateral reconciliation service

EquiLend has updated its collateral reconciliation service 'Contract Comparison', available from 2 April.

The provider kicked off the project late last summer to enhance its existing Contract Comparison service, with the aim of optimising the comparison and reconciliation of bilateral collateral, in addition to comparing existing loan contract details.

"Our objective was to provide the industry with automation to replace time-consuming manual processes," said Ana Cheng, director of the product management office at EquiLend.

"Clients integrated into the service can now move to a daily collateral comparison, saving time and mitigating exposure risk. Users can also customise business rules to apply to their non-cash vs. cash pool collateral."

Ben Bernanke adds to criticisms of shadow banking

Federal Reserve chairman Ben Bernanke has called for new steps to limit the reach of shadow banking.

Following in the footsteps of Michel Barnier, the EC Commissioner responsible for internal market and services who decried the industry in March, Bernanke underscored the view that shadow banking was partly responsible for: "the heavy human and economic costs of the crisis."

In a speech in Georgia, Bernanke talked about of new updates to the Dodd-Frank rule, and the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR), in which the 19 largest bank holding companies in the US were evaluated under a very severe hypothetical stress scenario.

He added that, whilst these regulations were effective, there were gaps in the regulatory structure that allowed "systemically important" non-bank financial firms to avoid strong oversight.

Bernanke concluded: "Unfortunately, data on the shadow banking sector, by its nature, can be more difficult to obtain. Thus, we have to be more creative to monitor risk in this important area. We are developing new sources of information to improve the monitoring of leverage."

Altera appoints Citi to provide prime brokerage services

Citi has been appointed by Altera Absolute Russia, the Cayman-based fund, to provide prime brokerage, fund accounting and transfer agency services.

Altera Capital is an event-driven, long/short equity fund advisor primarily focused on highly liquid Russia and CIS-related equities with some additional investments in fixed income, FX, commodity futures, international indices and derivatives.

Viatcheslav Pivovarov, chief executive officer, Altera Capital said: "I am confident that partnering with Citi is an important step to build a world-class platform and help global institutions achieve their investment objectives with Altera Absolute Russia Fund".

Sanjiv Sawhney, global head of fund services, Citi's Global Transaction Services added: "We look forward to helping Altera achieve their growth plans and make efficiency gains while reducing operational complexity. This mandate is a testament to Citi's continued success in developing strong relationships with hedge fund managers in emerging markets and supporting multi-asset strategies. It also highlights our ability to leverage cross-selling opportunities through the solid partnership between Citi's Prime Finance and Securities and Fund Services divisions."

Sinking gas prices increase shorting of engineer Weir's stock

Short sellers are seeking to capitalise on the tumbling price of US gas by shorting stocks in Weir Group, who produce specialist pumps and valves.

The engineer's stock is now the most shorted in the FTSE 100, with shares worth £21.00 at the start of the year closing at £17.64 on Friday, 30 March.

However, analysts warned that the stock has been mispriced, since the shale gas market makes up less than 50 per cent of Weir's £2.29 billion revenue.

"It is very naive to think that if activity in the shale gas sector falls, Weir's profits will automatically fall sharply too. First, because some of the equipment will be redeployed onto oil shale. And second, because the amount of installed capacity has risen, which will give Weir scope to make money from the after-market, which is what earns its best margins anyway," Michael Blogg of Investec told the FT.

ISLA battles ESMA over UCITS, stating 'confusing guidance'

ISLA submitted a response to ESMA's consultation paper relating to UCITS, raising three key points.

Transparency:
ISLA agreed with ESMA's concerns over transparency, but asserted that the body should produce standardised text when describing risk, specifically for UCITS, to ensure consistency. ISLA also stated that UCITS requirements should not be so frequent, given the cost of updating.

Collateral and Cash re-investment:
"Our view is that by setting guidelines which look to correlate collateral to the UCITS portfolio, or combine collateral with UCITS unlent holdings, may be operationally complex, cumbersome and costly to manage, while resulting in additional risks to the UCITS," said Kevin McNulty, chief executive of ISLA, adding that guidance pertaining to the re-investment of cash collateral is confusing and should be clarified.

Counterparty limits:
ISLA argued that limiting the proportion of the portfolio that can be lent, by counterparty or at portfolio level, will limit the opportunities for UCITS in securities lending and lead to reduced competitiveness for UCITS in the global securities lending market. Provided the risk management techniques are robust, said ISLA, and appropriate collateral and haircuts are received, limits are not necessary.

Securities lending rises 18 per cent at OCC

OCC has cleared 379.8 million contracts in March, a 10 per cent decrease from the March 2011 volume of 421.5 million contracts.

Exchange-listed options trading volume also saw a 10 per cent decrease from March 2011, with futures cleared by OCC down 18 per cent from 2011.

However, OCC's stock loan programme, including OTC and AQS, saw an 18 per cent increase in new loan activity over March 2011 with 83,278 new loan transactions in March.

Year-to-date securities lending activity is up four per cent from 2011 with 215,324 new loan transactions in 2012. OCC's stock loan programme had an average daily notional value of $23,787,253,798.

BlackRock pleads for more time over ETFs from ESMA

BlackRock is arguing that ESMA's new guidelines overly focus on securities lending, and is asking the regulatory body to delay its 30 March deadline.

The asset management firm stated it is unjust that a synthetic ETF provider would have to pay for a swap when entering a derivative agreement due to costs being beneficial for its investment banking parent. BlackRock estimated that about 40 per cent of European ETFs are synthetic.

"If you have a single counterparty that is your affiliate there is not really the same incentive to ensure that the swap spread is competitive, and that represents a potential conflict of interest," said Tim Lubans, director of legal and compliance at BlackRock.

BlackRock asserts that regulators such as ESMA should restrict ETF providers from only using one counterparty that is affiliated to a parent company, and instead should be forced to use multiple counterparties.

ESMA also stated in their draft guidelines that ETF providers must guarantee any received collateral from non-lent assets must fulfill UCITS diversification criteria.

"Good credit quality and liquidity of the collateral are much more important than diversification in the context of the objective that collateral rules have," responded Stefan Kaiser, director at iShares.

BlackRock concluded by suggesting an extra 12 months to put any proposed changes into effect.

€3.2 million fine for Alico over securities lending

The Central Bank of Ireland has fined Alico Life International €3.2 million over its securities lending programme.

During a 2009 inspection, the Central Bank found that €138 million of collateral provided by borrowers was invested by the Alico's agent in mortgage backed securities, resulting in around €42 million in losses.

Regulators said the firm failed to both account for, and correctly record, certain receipts of the life assurance business.

Alico, owned by US group Met Life, was previously the Irish division of AIG.

J.P. Morgan WSS takes on new Australian and New Zealand funds

As concerns around counterparty and credit risk continue to swirl, some Australian and New Zealand financial institutions have decided to upgrade their collateral management services to stay on top of changing regulation.

J.P. Morgan WSS has spent $30 million in the region on new technology to keep up with demands of Australian super funds and institutional investment firms, including introducing iPhone apps that supply in-depth financial analysis to employees.

The company has been appointed to provide end-to-end third party derivatives collateral management for four of the region's superannuation funds: AustralianSuper, New Zealand Superannuation Fund, Government Superannuation Fund Authority and National Provident Fund.

The $30 million local spend was overseen by Paul Gladgau, head of technology for WSS in Australia and New Zealand, who leads a team of 85 local IT specialists.

Head of collateral management for Asia-Pacific at J.P. Morgan WSS Blair Harrison said: "Recent volatility and counterparty defaults have reinforced the need for timely and appropriate collateralisation of counterparty exposures for superannuation funds and asset managers. We are seeing these investors place greater emphasis on the quality of the collateral as well as the need to diligently and constantly value and administer the collateral involved in a transaction."

NSD acquires majority stake in DCC

Russian settlement depository NSD has acquired 97.8 per cent of DCC shares as part of the integration of NSD, DCC and Settlement Chamber RTS.

Eddie Astanin, chairman of the executive board for NSD, said: "The acquisition of DCC stake by NSD is a part of the plan of integration in respect of MICEX and RTS merger held in 2011. The integration process now is in full swing, it is being implemented in compliance with the plans; it is also being coordinated with our clients."

Maria Krasnova, chief executive officer of DCC, added: "The acquisition of DCC shares by NSD will contribute to more harmonious and efficient interactions of the integrated companies and to optimisation of the integration processes."

Canada may never match up to other regions in terms of volume, but the country's inherent stability will pay off in the long run

GEORGINA LAVERS REPORTS

The securities lending market in Canada has been active for nearly three decades, weathering various banking crises, dysfunction from their US neigbour, and an increased focus by both the media and regulators on what used to be a more opaque industry. Throughout the turmoil, what its own citizens deem as characteristic conservatism seems to be a positive, in light of severe downgrading measures other countries are being forced to take.

Canadian High Commissioner to the UK Gordon Cambell describes Canada as having: "generous R&D tax incentives, first rate technology and innovation, a highly skilled workforce, investor protection and a lack of red tape. The OECD and the IMF predict that our economy will continue to be a leader in the industrialised world over the next two years."

Compared to its American neighbor, however, Canada cannot compete on size. Research from Data Explorers finds that there is USD65 billion of Canadian equities on loan out of a lendable supply of USD418 billion, meaning that longs outnumber shorts by over six times; the LongShort Ratio is 6.42.

By way of comparison, US equities see USD301 billion out on loan against a lending pool of USD3.85 trillion. This gives a LongShort ratio of 12.76.

Yet in terms of financial services, Canada has grown and diversified significantly, generating sales of more than USD82.4 billion in 2010, and with four of the country's cities in the top 30 of the Global Financial Centres Index, it appears that the oft-described 'boring' country wields quiet but considerable power in the market.

Toronto offers a breadth of financial services activity that makes it the third largest financial services centre in North America, whilst Vancouver is Canada's Pacific gateway, offering unique access to trade financing in the fast growing Asia Pacific markets. Calgary is a global hub for energy and commodity financing, whereas Montreal has strong expertise in pension management, and leads in developing software for the financial services sector.

One step forward, one step back

On 19 September 2008, the US SEC elected to halt short selling in almost 800 financial sector companies in an attempt to stabilise the financial markets. The Ontario Securities Commission (OSC) followed suit by banning short selling in 13 inter-listed TSX-traded equities to prevent regulatory arbitrage. These bans expired on 9 October 2008. Although the SEC applied the ban to "restore equilibrium to the market," many industry analysts agree that the restrictions on short selling had a negative effect on the marketplace, rather than a positive one as intended.

From a Canadian standpoint, the IIROC released an analysis on 6 October 2008 outlining evidence of further unexpected consequences resulting from the bans. Among other things, surveillance data showed that the bans brought "no appreciable impact on the price of [these] securities" and a "significant increase" in volatility of restricted shares.

However, borrowers continue to track changes to regulations regarding disclosure of short selling activity, with some of the rules possibly impacting hedge funds who borrow. Additionally, many lending agents have begun to anticipate additional requirements from Canadian regulators.

"It's fair to say that there is a global focus on impending regulations across the financial industry" says Dave Sedman, head of securities lending, Canada Northern Trust. "However, it is important to recognise that the regulatory framework is different in Canada as each province has its own securities regulator. Securities lending participants must comply with applicable lending guidelines (ie, OFSI Guidelines, National Instrument 81-102) that provide guidance for collateral eligibility, controls and records, and the use of an agent. Borrowers typically must comply with IIROC regulations. Additionally, mutual funds must also comply with disclosure requirements regarding securities lending activities."

"As in other jurisdictions there has been increasing scrutiny on financial market participants from regulators amid the fallout from the 2008 market crisis," says Rob Ferguson, SVP, capital markets at CIBC Mellon. "Of course, regulation in Canada has always been fairly conservative. Canadians are prudent in general, and we demand the same of our financial services."

Globally, securities lending has seemed to have adopted a 'wait and see' approach to impending regulation. Whilst maintaining cautiousness Canada also has reasons to be cheerful, with regulatory and tax changes in the past few years that have allowed market growth.

"There was the broadening of the 'qualified security' definition in the Tax Act, which allowed for securities lending in markets where previously Canadian participants were not allowed," states Sedman.

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"Significant industry lobbying efforts contributed to the eventual broadening of the 'qualified security' definition to include any security traded on any exchange globally. Until then, Canadian market participants were at a distinct disadvantage by not being able to lend in certain markets. Another change positively impacting the Canadian market was elimination of the withholding tax on fees and interest on cross-border transactions."

The Canadian marketplace in general is somewhat more straightforward," says Don D'Eramo, MD of securities finance at State Street. "We're very securities based, so there is a lot of issues like reinvestment of cash collateral. Overall, though, the macroeconomic landscape is tough. Dodd Frank and Volcker are very much a moving target. Some of the general points that we have our eye on are increased capital and potential liquidity. Certain rules become very onerous for beneficial owners. There are concerns around liquidity, but at this point it's still flexible."

"While the full effects of Basel III remain to be seen, the changes in capital and liquidity requirements will likely impact both lenders and borrowers in the industry," agrees Sedman. "The new capital requirements may create stronger counterparties, and firms with collateral flexibility will likely benefit the most. Many firms have begun to implement some of these changes and anticipate additional requirements from local regulatory agencies."

Enhancing returns

In view of enhancing returns, insiders agree that underperformance is a necessary evil in some cases, but the conservative nature of major Canadian banks means expectations of both lenders and borrowers have not been significantly reduced.

"The main obstacle is capital markets; the activity is not at a level that it was" said Ferguson. "Another challenge would be the credit side. There have been significant downgrades on cash reinvestment side. Issues we might have purchased have been downgraded to a point where they're not worth it any more. Coming into 2008, you ask yourselves, do we need to be more restrictive? Prior to the crisis, we would go out to clients with cash reinvestment guidelines knowing that there could be a slight underperformance compared to our peers. Sometimes it could be a difficult conversation; but in hindsight our conservatism has been a very good thing."

Cash reinvestment has also proved a pertinent issue to State Street, with D'Eramo commenting: "Securities services have optimised programmes within a client's risk parameters. Risk appetite has changed, whether it's more conservative guidelines or whether it's moving towards ensuring we capture the intrinsic values of securities. There is a movement towards minimum spreads. But it is an ongoing discussion with beneficial owners, it's a collaboration. We've always been very transparent about our reinvestment of cash. Sometimes our benchmarks are underperforming but that's perfectly acceptable in our eyes, considering their low risk. "

Sedman stated that there are several variables impacting enhancement of returns that are worth watching in the near future, most particularly M&A activity. "Historically, there is a strong correlation between M&A activity and borrower demand, as investors look to capitalise on arbitrage opportunities. Recently, the M&A space has shown signs of increased activity, which may lead to growth in borrower demand and loan volumes.

"A second key variable worth watching is the amount of liquidity held by the hedge funds, which is currently high relative to historic levels. As the cash on hand at some hedge funds eventually gets put to work the market, we would expect to see an uptick in borrower demand and potentially an increase in spreads."

Changing collateral type

Cash collateral was an unspoken phrase in Canada just 10 years ago, but the market is beginning to see a slight shift in its importance.

"The types of collateral that a lender may accept will vary as it is dependent on the terms of each client's collateral guidelines, said Sedman. "In recent years, we have seen some Canadian collateral parameters expand to include cash, equities and a broader range of debt assets. Clients with broader [collateral guidelines] tend to experience an increase in lending revenues and utilisation. Flexibility in acceptance of collateral types is a key driver of revenue and will probably remain so in the future. An agent lender should be able to offer its clients a wide variety of collateral options, such as cash, tri-party arrangements, cross–currency arrangements, equities and corporate debt.

Northern Trust incorporates such flexibility when it comes to tailoring our clients' programmes to their specific needs. As available collateral types continue to expand, we expect that our collateral profile will continue to develop through conversations with clients and market developments."

"If you were to look at the non-cash world, Canada has been heavily weighted towards securities as collateral," said D'Eramo. "Clients are not only looking at collateral but also putting in buffers and a minimum spread approach. We continue to see equities as collateral. On the cash reinvestment side, we've seen clients addressing duration, etc. There are rules in the US that prohibit broker/dealers from possessing certain collateral, which naturally drove cash reinvestment over there."

Ferguson comments that whilst Canada and CIBC Mellon has seen an increase in the amount of cash collateral, collateral type has not changed significantly.

"We haven't seen major changes in collateral acceptability over the last few years, so we aren't taking anything particularly exotic. Generally the collateral we are taking is very mundane, traditional, prudent - you might even say boring. One of the changes we have seen is that there are fewer European countries whose bonds are acceptable as collateral. Another change is the growing demand from both borrowers and beneficial owners for loans against cash collateral. We will continue to respond to borrower and lender needs, but I don't expect any sudden shifts in collateral choices."

The creation of CASLA

Created in 2009, the Canadian Securities Lending Association hoped to follow in the footsteps of organisations such as the European ISLA and American RMA and provide a unifying voice for securities lenders across Canada. Sedman, one of its founding executives, comments: "CASLA works directly with Canadian regulators and stakeholders on issues that are relevant to its members. In short order, CASLA has been successful in lobbying for the change in prescribed market rules in Canada, as well as for changes in the treatment of withholding tax on cross border rebates. These changes have led to increased opportunities to generate revenue and on-loan balances.

"The major market participants in Canada wanted to enhance the public's understanding of securities lending and the role it plays in Canada's financial markets. CASLA works with Canadian regulators, self-regulatory organisations and other market participants to ensure the long-term viability of the Canadian securities lending industry and the adoption of best practices. CASLA allows us to respond with a unified voice specific to the Canadian legal and regulatory environment."

"CASLA was long overdue," agrees D'Eramo. "We were one of the founding members, and I think it's a great forum for different players in the industry to work together. You have ISLA in Europe, the RMA in the US…it's a sign that the Canadian market is maturing."

Rob Ferguson emphasises the unifying aspect of the organisation, saying: "CASLA has been extremely positive for our market. Prior to this, securities lending participants had worked together on a number of regulatory fronts, but formalizing the process through CASLA bought more structure, more vigour. We've been able to provide an opportunity to speak on behalf of the entire industry, to raise our profile in a positive way. Last year CASLA hosted a very successful securities lending conference and we're building on that success in next month's second annual conference."

Private eye

Securities lending and its risk/reward profile have been in the headlines since 2007/8, with some in the industry claiming that the sector suffers from both negative and misinformed press. Indeed, most press picked up by the mainstream financial media in recent years has tended to focus on the extent that the sector contributed to the 2008 crisis, or lawsuits filed against securities lending programmes of major banks.

Institutional investors filed a lawsuit against Wells Fargo in late March, claiming that the bank miss-sold the safeness of its securities lending programme, and J.P. Morgan will pay USD150 million to settle a recent lawsuit by three American union pension funds and other investors accusing the bank of securities lending losses.

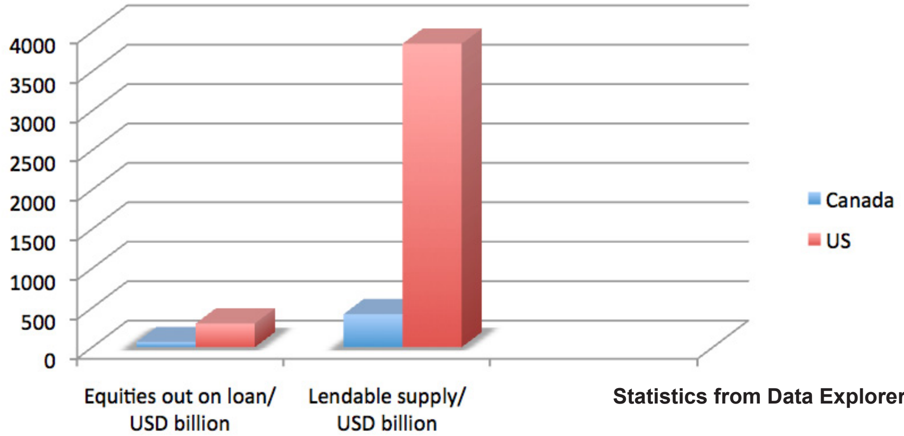
However, Ferguson argues that whilst the sector is not always understood by the press, "any time a light is shone on an activity it is good. Scrutiny is not inherently a bad thing." D'Eramo agrees, stating that: "In the past three or four years there has been more press around securities lending. Whether it has been negative or positive is open to interpretation. I think that the more discussion, the better, as it encourages engagement with regulators. However, are there certain articles that contain misinformation? Yes."

Sedman views the scrutiny as a chance for Northern Trust to develop its offerings, stating: "There has been an increased focus on risk-adjusted returns in the past several years. In a few cases, we have seen clients move to more customised and conservative collateral guidelines. Clients participating in Northern Trust's securities lending programme may actively control their programme through establishing limits and restrictions."

When asked to describe the Canadian securities lending market, answers from industry experts overwhelmingly described it as conservative, stable, fiscally responsible, and at times, boring. But after Lehman Brothers, the stereotype of Canada as uninteresting started to look a lot more attractive. Major Canadian banks built liquidity to meet fluctuations in balance, made sure that they understood what their collateral positions were, and quickly executed on the liquidation of the collateral and the purchasing of the securities back to get them back into the client accounts.

As the global markets limp to recovery, Canada are capitalising on their conservatism, but also looking at ways to develop their current services. With agent lenders starting to deal with cash, and the market opening up to a global arena, the country looks poised for some well-deserved success. **SLT**

Lendable and loaned equities in Canada and the US



Statistics from Data Explorers

On 2 March 2012, the Investment Industry Regulatory Organisation of Canada (IIROC) announced that it was amending its short sales rules, to be effective September 1, 2012. As part of this, IIROC will be repealing its 'tick test' restriction.

The 'tick test' restriction forbids a short sale on Canadian equity marketplaces unless the price was at or above the last sale price for that security. IIROC released two studies last year, which demonstrated that the tick test has had no appreciable impact on price movements.

Other amendments include:

- a requirement that arrangements be made to borrow securities
- prior to short sales in certain circumstances the introduction of a new biweekly public report that will show the level of short selling for each security

IRROC also has specific intervention abilities that allow them to vary or cancel any trade that is deemed 'unreasonable,' halt trading in any security and to designate a security as short sale ineligible. In addition, in February 2012, the IIROC implemented a single short circuit breaker, which can be used to mitigate volatility in the trading of specific securities.

To adapt and to thrive

SunGard Astec Analytics' David Lewis takes a look at how the industry is reacting to yet more change and whether it can in fact benefit?

MARKET PERSPECTIVE

Many use the metaphor of boiling a frog to illustrate how failing to adapt to incremental changes in your environment will eventually lead to your demise. Having done the research (not the actual experiment you understand), it actually demonstrates how the frog can adapt to its surroundings to survive, for it will, in fact, withstand near boiling temperatures.

It is not news that securities lending has been through a great deal of change over the past few years, and most of those changes have been evolutionary rather than revolutionary. Adjustments to collateral schedules, lending limits and new regulations are changing the temperature of the industry's environment and yet we survive.

One fundamental change from the past is the provision and distribution of market data on rates, volumes and utilisations. Having been deeply involved in the very early days of this data revolution, I can testify that many opposed it. But now that the box is open, it has become a vital part of the market infrastructure. Now we face another change with the advent of intra-day information.

Financial markets often lead the way when it comes to the provision of instantaneous data to underpin decisions that are made ever more quickly in markets across the globe. But securities lending has often set itself apart from the mainstream markets it serves and interacts with. Now though, it is catching up. But can it take full advantage of this change?

Intraday securities lending data can bring interesting trading patterns into sharp relief, and the sooner a market participant can take advantage of such patterns, the greater the potential impact to their revenue. Take, for example, our friends and colleagues, the hedge funds. Commonly perceived as "outperformers" in the management of assets, they blaze trails for others to follow, including securities lending traders. As major drivers for demand outside yield enhancement trades, being able to measure and respond to changes in their trading patterns can earn additional returns, as the following examples show.

These examples show that where securities lending balances rise over a given period, it is sometimes long before the fee or rebates react. Balances do, of course, vary over time for all sorts of reasons as securities are borrowed for a range of purposes. However, a prolonged increase in utilisation, absent a merger, dividend or other identifiable event, could indicate that significant bets are being placed. To look at some specific examples:

MF Global – a well-known name and story from the recent past: Loan balances began to build in this security around the time the Securities and Exchange Commission (SEC) began looking into their sovereign debt exposures in June 2011. From June to October, the intrinsic fee rate remained stable at a general collateral level. In fact, from March 29th to October 21st, there was only an eight per cent rise in the average fee, indicating that the fee levels were unaffected by the SEC investigation itself. Over the same period, volume on loan grew 81 per cent. Why was there no fee change during this time? What was unfolding was clearly not an overnight event.

Intraday data from Astec Analytics' Lending Pit solution shows such changes in utilisation as early warning triggers. Yet rates only took off once the wider market learned that the substantial sovereign debt positions were likely to damage the firm irreparably. Then it notched up a 3,800 per cent fee increase in a little over two weeks to a peak on November 8th .

No one would advocate the "Buffet Effect," where traders religiously follow the strategies of others, but to completely ignore such rate setting signals would also be folly. For some balance, look at Silvercorp Metals as an example of where adapting processes to take advantage of timely market data can reveal revenue opportunities, even if the hedge funds don't get it right.

Silvercorp Metals Inc came under pressure as a number of organisations were accused of false reporting in Canada and the United States when compared with their countries of operations – in this case, Silvercorp focusses on precious metal mining in China. Following negative publicity and alleged rumour mongering, loan positions began to increase around 22 August, increasing fourfold by the end of the month.

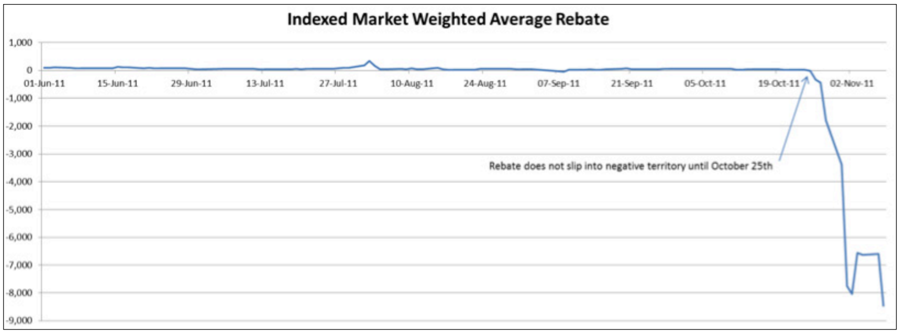
Fees did rise, though only by 70 per cent over the same time period, before playing catch up in the first half of September. However, investigations into Silvercorp Metals exonerated the firm, and the borrowers began to close their positions as the price began to recover from around 15 September. Looking at the Intrinsic Fee rate, however, shows that once the fees had attained a high level they resisted the downward pressure that might be expected as demand fell. Within a month, volumes on loan had fallen by

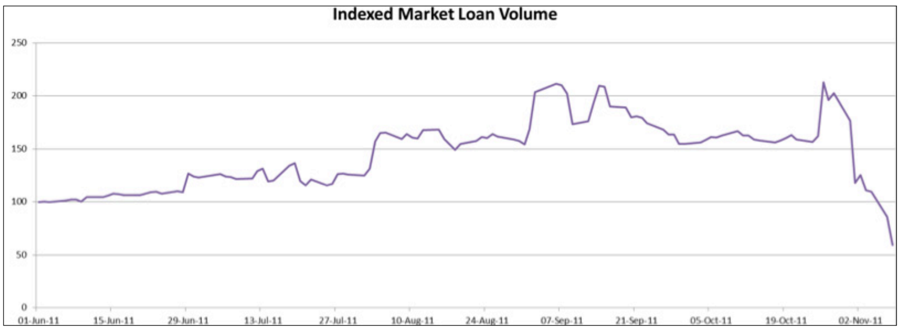
roughly two-thirds and fee levels by only one-third. Again, the lag shows in fee elasticity – this time costing borrowers more than the remaining borrows arguably should.

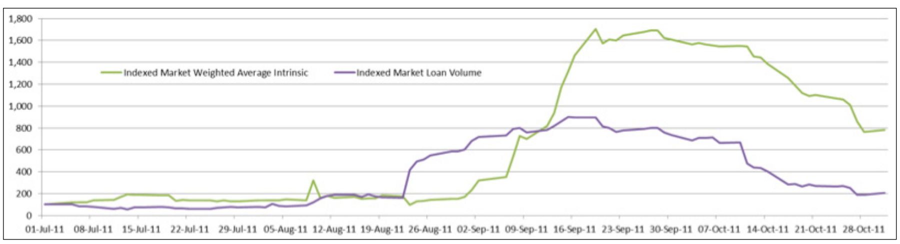
The two examples included in this analysis are by no means alone in showing the potential for fees to lag actual loan activity, which creates opportunities for increased efficiency (and read bottomline improvement) for both borrowers and lenders.

When both sides of a market are looking to maximise their revenues whilst making the best possible use of scarce resources, they need to use every tool available to them. This includes, of course, learning to adapt to the incremental changes in their environment like a frog like to ensure their survival – but at the same time, using intra-day data to make sure that when action is needed, they are ready to jump. **SLT**

David Lewis
Senior vice president
SunGard Astec Analytics







Source: SunGard's Astec Analytics Lending Pit solution.

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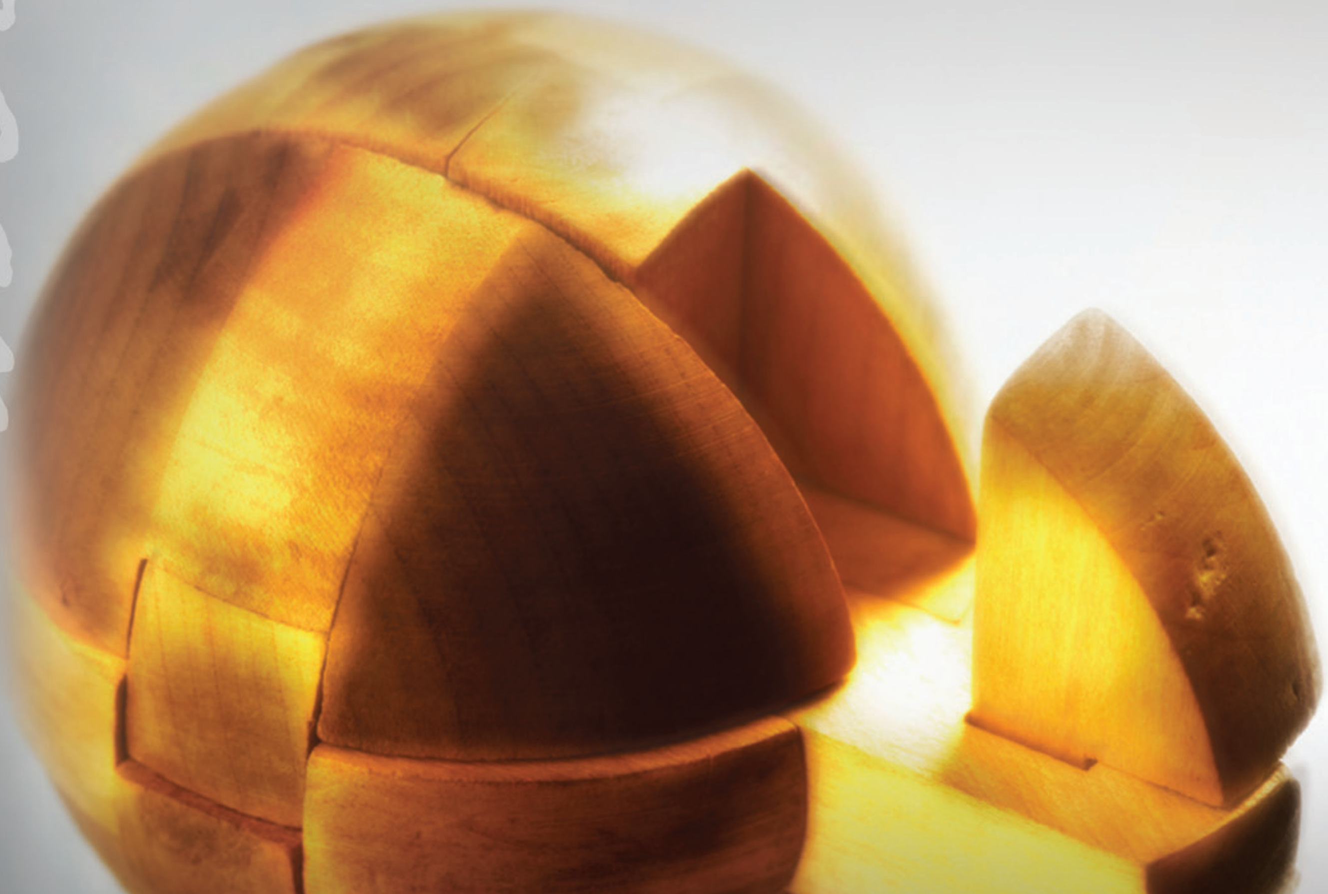

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2nd Annual CASLA Conference on Securities Lending

Location: Toronto
Date: 09 May 2012
www.canseclend.com

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Securities Financing Forum New York

Location: New York
Date: 22 May 2012
www.dataexplorers.com

The Data Explorers Forum brings together beneficial owners, hedge funds, prime brokers, agent lenders and regulators to engage in a debate to define the future of securities financing.

03 June

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Collateral Management USA

Location: New York
Date: 05-06 June 2012
www.americanleaders.com

Collateral Management has become a hot topic. This meeting will look at how collateral management is evolving and discuss the current and evolving landscape and understanding the implications.

04 July

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ISLA 21st Annual Securities Lending Conference 2012

Location: Madrid
Date: 19-21 June 2012
www.isla.co.uk

Organised by market participants, this conference is the only event of its kind in Europe attracting in excess of 500 attendees such as senior market participants from banks, broker dealers and asset managers, beneficial owners, hedge fund managers and securities regulators.

Industry appointments

HedgeCo Networks has hired **Brett Langbert** to serve as its president.

Langbert, who has worked at both Morgan Stanley and Goldman Sachs, joins from tenure at UBS, where he led prime brokerage sales for the Americas. He said that the firm's: "unique approach to helping start-ups and emerging manager funds represent a significant business opportunity."

Maria Krasnova has been elected president of Depository Clearing Company (DCC).

Formerly the head of legal departments at both NSD and NDC, Krasnova's new role will involve completing the integration of NSD, DCC and RTS Settlement Chamber.

On March 30, 2012 the Supervisory Board of NSD approved the agreement on the purchase of DCC shares to be entered into by NSD and MICEX-RTS as part of the integration process between NSD, DCC and RTS Settlement Chamber.

National Settlement Depository (NSD) is the largest settlement depository in Russia, servicing on-exchange and OTC transactions with all types of debt and equity securities of Russian issuers, and providing settlement services to participants in financial markets of the Russian Federation.

CEO of Data Explorers **Donal Smith** will leave the company later this year after it was bought out by Markit.

Formerly of Thomson Financial, Smith, who has run the company since 2008, will leave the company after a short integration period.

HSBC Securities Services has appointed **Geoff Pullen** as head of sales and business development for UK Alternatives.

Pullen will report to Tony McDonnell, head of sales and business development of Alternatives in Europe, and will be responsible for sales to new and existing clients in the alternatives sector in the UK, and building out a business development coverage model for existing HSS hedge fund relationships in the region.

Pullen joins HSBC from BNP Paribas Securities Services where he was a senior sales manager for the UK and global hedge fund business. Previously, he worked in prime brokerage consulting roles at Bear Stearns and Lehman Brothers in London.

BNP Paribas is pushing forward its global prime brokerage business with the appointment of ex-Nomura head **Matt Pinnock**, as well as **James Scully** and **Ashish Patel**.

James Scully joined in March as head of securities lending & synthetic sales trading in Asia ex-Japan, and Ashish Patel joins as head of prime brokerage client service.

Formerly co-head of prime services at Nomura, Pinnock left the Japanese bank over rumours of its detachment from cash prime brokerage in Europe. He is set to join BNP's London base at the beginning of May, as head of prime brokerage services for Europe and Asia.

On Benoit Savoret's appointment to Nomura in March 2011, the new joint head of global equities instigated a detailed review of the Japanese bank's equity division. After the review, at least five top members of its European prime brokerage team left the firm, part of a wider series of 25 to 30 redundancies. As well as Kinnock, the departures included Martin Beeche, European head of prime services origination, Stu Park, John Southgate and Marianne Scordel.

The deep cuts were thought to be due to severe competition in the European sector, and several news outlets reported that Nomura was closing its prime brokerage division in Europe.

However, a source close to Nomura stated: It's a fallacy that Nomura has dropped out of European cash prime brokerage division; the doors are still open. I think they came to the recognition that the changing regulatory environment and a conviction that clients were looking for best of breed and differentiated products, meant they should focus on their natural strength in the Asian markets."

BNP Paribas spent 18 months preparing its prime brokerage division for entrance into the global arena. The company bought Bank of America's equity prime brokerage business in October 2008, using the first year to assimilate that business with its existing prime brokerage division in Europe.

SLT SECURITIESLENDINGTIMES

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

Journalist: Georgina Lavers
georginalavers@securitieslendingtimes.com
Tel: +44 (0) 20 3006 2888

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
Provident House
6-20 Burrell Row
Beckenham
BR3 1AT UK

Company reg: 0719464

Consulting firm to the asset management community KB Associates has appointed **Andrew Ritchie** as its executive director.

Ritchie will be responsible for advising asset managers on the structuring of investment funds, focusing on advising those wishing to establish UCITS or regulated hedge funds.

Formerly working in HSBC's fund administration and custody business, Merrill Lynch's prime brokerage business and at IDS Tennyson, Ritchie will be based in KB Associate's London office. **SLT**

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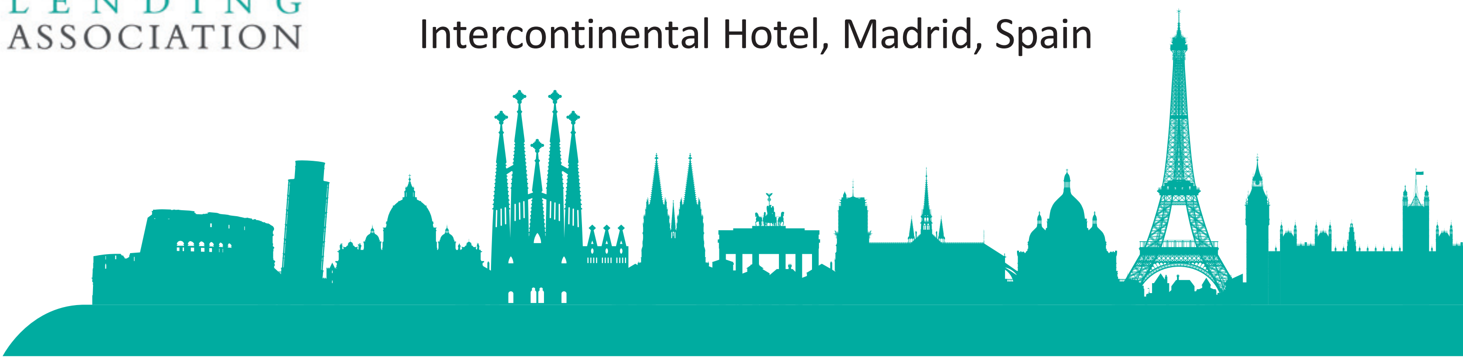

The International Securities Lending Association would like to invite you to its 21st Annual International Securities Lending Conference on 19 – 21 June 2012 at the Intercontinental Hotel in Madrid, Spain.

Organised exclusively by market participants, this conference is attracting in excess of 500 attendees such as senior market participants from banks, broker dealers and asset managers, beneficial owners, hedge fund managers and securities regulators.

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E: isla@eventrock.co.uk | T: +44 (0) 208 288 7738 | **www.isla.co.uk/isla2012**