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AQS offering to be enhanced

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Following a successful first year of operations, Quadriserv has announced a series of enhancements to its AQS securities lending market.

AQS matches lenders and borrowers in an exchange-like platform using automated liquidity price discovery mechanisms. The resulting matched loans are processed through the Options Clearing Corporation, which provides central counterparty guarantees and trading anonymity.

Post transaction reporting capabilities include real-time reporting of executed transactions, stock and cash movements through the Depositary Trust Company, as well as record keeping and reporting via industry standard formats.

Now a year old, AQS has 41 approved member institutions and has an average GC order size of approximately $3.2 million, with hard to borrow order sizes averaging around $650,000.

The company has also expanded the pool of securities available for clearing through AQS, with around 93 per cent of all US equity symbols on loan. It has seen strong institutional support from lenders, borrowers and intermediaries, and on average has orders in 95 per cent of the S&P 500 and 70 per cent of the Russell 3000.

AQS has also completed its original goal of supporting sponsored access for direct borrowers and lenders in a regulated securities lending market.

"Since inception, AQS has been steadfast in its commitment to a highly scalable, robust and institutional quality market for securities lending that services the entire trading community," said Gregory DePetris, co-founder of Quadriserv. "We are pleased that our first full year of operation has affirmed these values, as underscored by robust growth and the achievement of all our major strategic priorities."

The new initiatives will take effect during the remainder of 2010. They include: accelerating the on-boarding of the sponsored access pipeline; the creation and support of dealer-centric products and services that leverage

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NEWSINBRIEF

Canadian pensions pull back

Faltering global equity markets contributed to a decline in pension assets in the quarter to June, according to a survey released by RBC Dexia Investor Services, which maintains the industry's most comprehensive universe of Canadian pension plans and money managers. The decline in the second quarter comes after four consecutive quarters of positive returns.

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Société Générale and Credit Suisse to collaborate

Société Générale Securities Services (SGSS) and Credit Suisse (Deutschland) AG have signed an agreement on a partnership under the terms of which SGSS will provide Credit Suisse Asset Management in Germany with comprehensive fund administration services.

Credit Suisse Asset Management in Germany has decided to outsource its fund administration business to SGSS as a dedicated partner which will provide a broad range of administrative and technological solutions to Credit Suisse (Deutschland) AG, including front-office services (ASP), funds administration and reporting services.

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AQS offering to be enhanced

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the existing AQS infrastructure and will complement or supplement exiting AQS liquidity pools; the expansion of AQS Market Data products and services beyond the current member base to the whole industry; and the launch of two new corporate websites - quadriserv.com and tradeaqs.com - which will provide news, views, commentary and data for the securities lending industry.

“Expansion of the sponsored access client bases, coupled with the demonstrated success of the core AQS technology and operational infrastructure, has allowed us to preserve a business model that is progressive, responsive, flexible and inclusive of key market participants,” explained DePetris.

“To that end we have invested in the development and introduction of products that speak clearly to the continuing trend towards centralised clearing, transacting and reporting in the securities lending industry. These benefits include: improved capital efficiencies, enhanced risk management tools, and innovative approaches to secured funding as well as advanced trade reporting services.

“Our success to date is a tribute to our employees, business partners and members. We look forward to accelerating our progress during the second half of the year and continuing our work to drive meaningful change in the securities lending market.”

Canadian pensions pull back

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Within the CAD 340 billion RBC Dexia universe, Canadian pension plans lost 3.2 per cent in the three months ending June 30, 2010, erasing first quarter gains while bringing year-to-date results into negative territory at 1.4 per cent.

“After an encouraging four successful quarters of positive returns, it was difficult for Canadian pension plans to hold their ground in the second quarter,” said Don McDougall, director of advisory services for RBC Dexia.

Non-Canadian equities was the hardest hit asset class, dropping 8.3 per cent in the quarter while only outperforming the MSCI World Index by 0.2 per cent. Exchange rates were a key factor again this quarter as the MSCI World Index fell by 11.2 per cent in local currency terms, but a weaker Canadian dollar against most major currencies helped soften the blow for unhedged pensions.

“Currency moves have tended to cancel themselves out so far this year but volatility in the foreign exchange markets continues to create challenges for Canadian pension plans,” noted McDougall.

Canadian equity markets fared little better, losing 5.5 per cent in the quarter as most sectors retreated. The top heavy financials sector fell 9.8 per cent and accounted for the majority of the decline. Pensions also lagged the S&P TSX Composite Index by 1.1 per cent in the quarter largely because of poor performance in the Materials sector, likely caused by an under-exposure to gold stocks.

Bonds provided some relief, earning 3.1 per cent while surpassing the DEX Universe bond index by 0.2 per cent for the quarter. As well, corporate bonds lagged government debt for the first time in six quarters. McDougall added, “Longer duration bonds outperformed in the quarter allowing pension plans with liability matching strategies to do better.”

IMN renews commitment to Beneficial Owner Summits

IMN is pleased to announce the recent success of the 2nd Annual East Coast Beneficial Owners’ Securities Lending Summit last month and their renewed commitment to their series of Beneficial Owner Summits. 200 executives met and discussed the most critical issues surrounding their programmes in Boston. Participants heard from high-level industry executives as well as key beneficial owners who discussed current regulatory developments; changes to securities lending revenues and debated cash collateral maximisation. Beneficial owners also participated in new closed-door educational workshops hosted by key industry figures; voted on what is of key importance in relationship management as well as discussing which issues faced them in their international lending participation.

IMN is committed to developing its series of securities lending summits with renewed emphasis on feedback from the industry and beneficial owners alike. It is pleased to announce its 15th Anniversary European Summit in London, taking place on 20-21 September, where discussions will center around the regulatory and macroeconomic environment as well as changes to European beneficial owners’ programmes as they charter risk and reward through 2011.

IMN’s flagship International Summit will also see renewed programming and change as it is announced that the dates of the meeting will be moved for the first time in 17 years. The 17th Annual Beneficial Owners’ International Securities Lending & Repo Summit will be hosted in Scottsdale, Arizona, February 13-16, 2011. With the support of a Beneficial Owner Advisory Board, the updated agenda will address the latest issues for the beneficial owner community and securities lending industry at large. Programming will include extensive closed-door beneficial owner workshops reflecting updated developments in the agenda to meet clients’ educational needs.

“We thank you for the support through the last 16 years and we look forward to renewed Beneficial Owner specific programming through 2011 and beyond,” said Andy Melvin, managing director, IMN. “We are proud to announce a dedicated focus on our series of Summits and a passionate ongoing commitment to tighter programming and fresh ideas generated by esteemed client feedback. We look forward to evolving our meetings to meet changing needs in the securities lending arena and to serve our clients’ educational and networking goals.”

Citi examines impact of crisis on hedge funds

Citi Prime Finance launched its Citi Perspectives series recently with the release of the debut paper, *"The Liquidity Crisis & Its Impact on the Hedge Fund Industry."* Leveraging Citi's access to the hedge fund industry, the report is a result of in-depth, one-on-one interviews, not a multiple choice questionnaire, and represents an array of industry opinions including hedge funds, investors, intermediaries and service providers.

"Given the challenges of the past 24 months, it's essential that we deliver timely and thoughtful information to our clients," said Alan Pace, Citi head of prime finance in the Americas. "Citi Perspectives will serve as an information resource as we all prepare for the industry to evolve."

The publication is comprised of three parts, with the first two sections focusing on process and structural issues that emerged in the hedge fund industry during the liquidity crisis and responses to those issues that occurred over the following 18 months.

From an investor's perspective, the survey highlights the concerns about adjacency risk in hedge fund portfolios that emerged during the crisis; the difficulties encountered when trying to move toward separately managed account and "Fund-of-One" structures; the subsequent shift in attitude back toward hedge funds' co-mingled vehicles in response to increased "institutionalisation" of those participants; and a strengthening of the due diligence process.

From the hedge funds' perspective, the survey highlights the general de-levering of portfolios that occurred during the crisis, implications of that move on funds' prime brokerage relationships and the industry-wide drive to secure a more stable and institutional mix of investors subsequent to the crisis. Specifically, the report explores the infrastructure investments, the increased transparency, expanded liquidity options and expanded level of investor communications that leading hedge funds are offering today to attract and retain direct institutional allocations.

From the fund of funds' perspective, the survey highlights the mismatch between the terms they offered investors on their portfolios and the liquidity they were able to realise on a fund's hedge fund investments during the crisis. The report also explores how, in response to this situation, portfolio construction has evolved, with fund of funds now aligning investment strategies across a "liquidity spectrum" and grouping strategies with similar liquidity profiles.

The final part of the survey extrapolates implications from recent changes and explores how the hedge fund industry is likely to evolve in the coming 18 months.

The addition of liquidity as a third dimension to consider in addition to style and leverage is moving the hedge fund industry toward a set of "segments" which in turn is helping to blur distinctions between the long-only, alternatives and private equity silos.

Recent strides toward "institutionalising" their profile has positioned the most-liquid hedge fund segment to compete directly with the growing alternative mutual fund and UCITS funds for allocations being diverted away from "active" long-only managers.

Investors looking to take on exposure within an asset class can increasingly choose from a broad array of investment structures with differing risks, returns, liquidity profiles and fee structures in order to achieve diversification and address liability shortfalls. Hedge funds, particularly larger funds, are likely to benefit in this environment and receive a new wave of investor allocations as capital moves off the sidelines and "asset-based structures" become the new investor allocation paradigm.

The full paper is available upon request and can be read at the Citigroup website.

Results round up

The **Goldman Sachs** group has announced revenue of $8.84 billion with net earnings of $613 million for the second quarter of 2010. Earnings per share were $0.78, a significant reduction on earnings for the same period last year, where the figure was $4.93.

"The market environment became more difficult during the second quarter and, as a result, client activity across our business declined," said Lloyd Blankfein, chairman and CEO.

Meanwhile, **State Street's** earnings per share for the second quarter were also down, at $0.87 compared to $0.99 in the first quarter.

The results included a pre-tax charge of $414 million related to some of its common and collective trust funds managed by State Street Global Advisors that engage in securities lending and the agency lending programme.

"We are well positioned to take advantage of global growth opportunities and, as the economy normalises, we are committed to our long-term financial goals for operating-basis revenue, earnings per share and return on equity," said Joseph Hooley, president and CEO of State Street

There was better news from **Bank of New York Mellon**, which announced its second quarter income per share was up to 0.55 per share, an increase on both the first quarter figure of $0.49 and the same period last year, where earnings were $0.23. Securities servicing fees are up six per cent.

"Our focus on winning new business and providing exceptional client service resulted in solid growth in securities servicing fees and continued long-term asset inflows for our asset and wealth management businesses," said Robert Kelly, chairman and CEO of BNY Mellon. "Our conservative risk profile is reflected in our excellent credit quality and strong capital generation."

BlackRock reported second quarter net income of $432 million, up £214 million from a year ago and up $9 million from the first quarter. Adjusted net income was $2.37 per common share.

"BlackRock's second quarter earnings are a testament to the resilience of our platform," said Laurence Fink, chairman and CEO of BlackRock. Market conditions were difficult, but overall investment performance remained strong and clients continued to award us new business in a wide variety of products. Going into the merger, we knew that some clients would have to address concentration issues and that the active quantitative style was under stress industry-wide. As expected, these two issues continued to drive outflows, and are expected to do so for at least another quarter.

"Aside from these outflows, trends in long-term new business were very positive and our pipeline shows increasing new business momentum."

Penson Worldwide, which provides execution, clearing, custody, settlement and technology infrastructure products and services to financial services firms and others servicing the global financial services industry, announced revenues of $71.1 million and a net loss of $7.4 million for the second quarter.

Results, say the company, were affected by a number of exceptional costs, but also lower than expected trading volumes industry-wide and higher expenses, particularly in Australia.

"This was a transition quarter in many ways," said Philip Pendergraft, CEO of Penson. "We completed the transaction with Broadridge, which will both expand our revenues and lower our existing cost base, but also resulted in a number of one-time costs this quarter. In addition, the likelihood of near-term rate increases appears to have been forestalled, and while trading volumes were good in May, they were weak in June and in July to date. In response, we are intensifying efforts to properly adjust our cost structure, which resulted in additional severance charges. We are also focused on building relationships with our new Ridge correspondents and providing them with additional services and products.

Securities lending revenue falls at Northern Trust

The second quarter of 2010 has seen a drop in income for Northern Trust in the securities lending sector.

Trust, investment and other servicing fees fell by $57.9 million to $543.5 million, a 10 per cent fall. This, said the company, was mainly down to reduced securities lending revenue. This drop was caused by "a lower level of asset valuation loss recoveries and a higher level of waived fees in money market mutual funds."

In total, the company posted second quarter net income per share of $0.82, compared with $0.64 in the first quarter and $0.95 for the same period last year. Net income was $199.6 million.

"We are pleased to report $200 million in net income in the second quarter despite the low interest rate environment and prolonged economic recovery," said Frederick Waddell, chairman and chief executive officer. "Our client-focused businesses continue to serve both new and existing clients with distinction and with a broad range of financial solutions.

"As one of the best capitalised large banks in the US with Tier 1 capital and Tier 1 common ratios of 13.7 per cent and 13.2 per cent respectively, we continue to invest in our businesses in order to serve our clients now and into the future. We are confident that ongoing economic challenges will ultimately give way to a recovery, benefitting our clients, our people and our shareholders."

CalPERS hails Federal financial reform

The California Public Employees' Retirement System (CalPERS) - which has worked for years to achieve significant corporate governance and financial regulatory reform - yesterday praised the new federal financial reform law as an historic step toward protecting markets and advancing shareowner democracy.

"At long last shareowners have achieved the kind of protections critical for restoring confidence," said Rob Feckner, CalPERS Board president. "We applaud President Obama and Congress for achieving this comprehensive overhaul that protects the pension assets of our 1.6 million members and all shareowners."

"We have worked for many of these protections for upwards of a decade, especially for independent boards, access to the proxy, and better executive compensation policies," he said. "This reform goes a long way to plug the gaps that contributed to the recent financial crisis. It's good for shareowners, good for business and for taxpayers."

The law is comprehensive in design. It holds credit rating agencies accountable for their products and services. It imposes tough reporting requirements on financial derivatives, hedge funds and private equity funds; sets up a bureau to protect consumers in the financial marketplace; and establishes a council to identify and monitor systemic risk that might threaten the nation's economy.

"This reform is a response to a near major meltdown of our financial system," said George Diehr, chair of the CalPERS Investment Committee. "While our markets are more stable today with prospects of continued recovery, these reforms significantly address underlying weaknesses in our regulatory system that could have resulted in yet another financial crisis."

"We're grateful to Senator Chris Dodd, Chairman of the Senate Banking Committee, and Congressman Barney Frank, Chairman of the House Financial Services Committee. The passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act is a testament to their leadership and commitment to the restoration of trust and confidence in our financial system."

The financial reform law affirms the authority of the U.S. Securities and Exchange Commission (SEC) to issue rules that would enable shareowners to place the names of candidates on companies' board election ballots.

"This critical provision would not have been possible but for the determination of Senator Chuck Schumer and Congresswoman Maxine Waters, who worked tirelessly throughout the legislative process to protect the interests of shareowners," said CalPERS chief investment officer Joe Dear.

The rules and regulations proposed by the SEC will strengthen corporate boards' accountability to company owners and restrain some of the risky practices that contributed to the financial crisis.

"We're pleased that the financial reform law gives the SEC added enforcement powers and authority to collect and retain fees to finance its programmes" said Dear.

The law also gives shareowners the ability to cast advisory votes on executive pay packages. It requires compensation committees to have only independent directors, mandates procedures for companies to take back compensation awarded on the basis of inaccurate financial statements, directs the SEC to clarify compensation-related disclosures and requires federal regulators to issue compensation rules for the firms they regulate.

Sebi to allow physical settlement

The Securities and Exchange Board of India (Sebi) is to allow the two Mumbai stock exchanges to begin physical settlement in the derivatives markets, alongside the current cash settlement system.

While both exchanges have begun work on the new rule, market participants say there is still some way to go before physical settlement becomes a reality.

The current cash settlement system means that many stocks show high volatility during the days leading up to the expiry of contracts, but the new rules should reduce this. They should also lead to an increase in securities lending activity, an issue that Sebi has been focusing on in recent years.

Portugal tightens short selling rules

The new regulation - 4/2010 - extends the requirement for mandatory reporting of short interest to the CMVM. It replaces rule 4/2008.

Reporting is now applicable to all shares that are admitted to trading on a regulated market or multilateral trading. Previously this only applied to the shares of companies included in the PSI-20.

The threshold for reporting to the CMVM is now 0.20 per cent (previously 0.25 per cent), and disclosure to the market must be made at 0.50 per cent. All increases and decreases in significant short interests exceeding thresholds of 0.1 per cent must also be reported and disclosed.

SEHK adds security to short selling list

The Stock Exchange of Hong Kong has announced that Agricultural Bank of China will be added to the designated list of securities for short selling, with effect from July 16, subject to the successful listing of the stock on the same day.

"The introduction of Agricultural Bank of China stock options demonstrates our commitment to expand our product range and further strengthen our position as a leading international marketplace for securities and derivatives," said Calvin Tai, head of HKEx's Trading Division. "Our ability to offer related equity derivatives that complement Mainland stocks traded in our securities market is one of our strengths."

The number of companies eligible for short selling now totals 580.

Italy

Italy's securities lending industry has followed the path of the rest of continental Europe over the past couple of years. But it has a couple of aces up its sleeve.

BEN WILKIE REPORTS

Not waving, not drowning. And in the holiday season, not really leaping or bounding, either. Italy's securities lending industry has certainly suffered over the past couple of years, but it has seen steady growth since the start of the year.

This has, however come from the domestic market; the international institutions are still wary of getting their fingers burnt, and until the rest of the Eurozone countries start to make a mark, Italy's growth will be restricted.

"The market has survived," says Stefano Galli, part of the securities lending team at BNP Paribas in Milan. "It has survived like any other continental European market. The size has been reduced by what happened in the last two years, but we have seen some recovery this year. It's been quiet again since mid-June, but I believe that's simply because it's summer and the market is never at its busiest at this time of year."

Italy has traditionally been the third biggest market for securities lending within the Eurozone. All the major international banks have a presence in the market, which is bolstered by some serious local players. But with a heavy stock market focus on financial companies, it was in the eye of the storm during the downturn.

"The main index in Italy is mostly composed of financial stocks, which is much higher than in Germany and France," says Galli. "And that means that the intervention of the regulators was much more important as they were the stocks attacked by speculators. But now, the regulators are working with others across Europe - they do understand and appreciate the importance of short selling and securities lending."

The regulators had to step in - in 2008 and 2009 short selling bans were put in place to keep the markets afloat, which led to some of the major international players withdrawing from securities lending activities as they searched for safer havens elsewhere in Europe.

"The derivatives market has picked up compared to 2008 and 2009, so we are seeing some activity there," says Galli. "The recovery will be in part driven by the hedging of derivatives. Cash is interesting but it's not the driver it once was."

"We were badly hit by the short selling ban in 2008-09, and it took some people out of the market," says Galli. "But now, if there is a spread, people will come back to the market. At the moment, there is not and it is difficult to make money."

"We have lost a couple of broker-dealers, and this is a shame for us as we had good business relations with them - they were good borrowers of stocks. Otherwise the same people are trading as were a couple of years ago - proprietary traders and derivatives specialists. It's not that there are that many fewer people in the market, it's that they are carrying out less trading and looking at less risky trades."

The Italian regulators have stopped taking initiatives on their own - they are looking to see what the EU is going to do."

"The problem was that no-one knew what was going to happen," says one broker-dealer, "The regulators in Italy were caught on the hop, I think, and it was difficult to make investment decisions when we didn't have the confidence that those decisions wouldn't be affected by events outside our control. But the situation has improved - the message now is that any new rules that come in will be the same for the whole of Europe, and they won't be making quick decisions just for Italy."

Although nothing has yet been decided, the new regulations coming out of the EU are not expected to include any serious restrictions that would affect the securities lending market. The recent stress testing of many of the region's major banks has indicated that the vast majority are financially sound, and can continue to offer the same services as in the past - although the possibility of sovereign default was not considered.

As far as the drivers of the market are concerned, Italy doesn't have the huge hedge funds seen in other parts of the world. However, there remains plenty of untapped opportunity.

"70 per cent of the demand for Italian stocks came from abroad, which makes us the third largest market in the Eurozone after Germany and France," says Galli. "Overall the local guys have reduced their activity, but it is all part of a chain - the Italian market is not a leader, we follow the UK and other markets - what happens in Italy is no different from there.

"As to the future, everything depends on the bigger market. If the people who invest come back, the global market will come back. There are lots of opportunities. BNP Paribas is the custodian for many of the major pension funds and they are not so involved in securities lending. If the market grows, it will help them enter the market."

"It is difficult to say when the Italian market will pick up," says Galli. "A bull market will help the recovery here as in all financial markets. Not everyone understands that but we do." **SLT**

Security rankings by total daily return

1 Eni Spa

2 Enel Spa

3 Mediaset Spa

4 Telecom ItaliaSpa

5 Assicurazioni Generali Spa

6 Telecom Italia Non-Conv Svgs

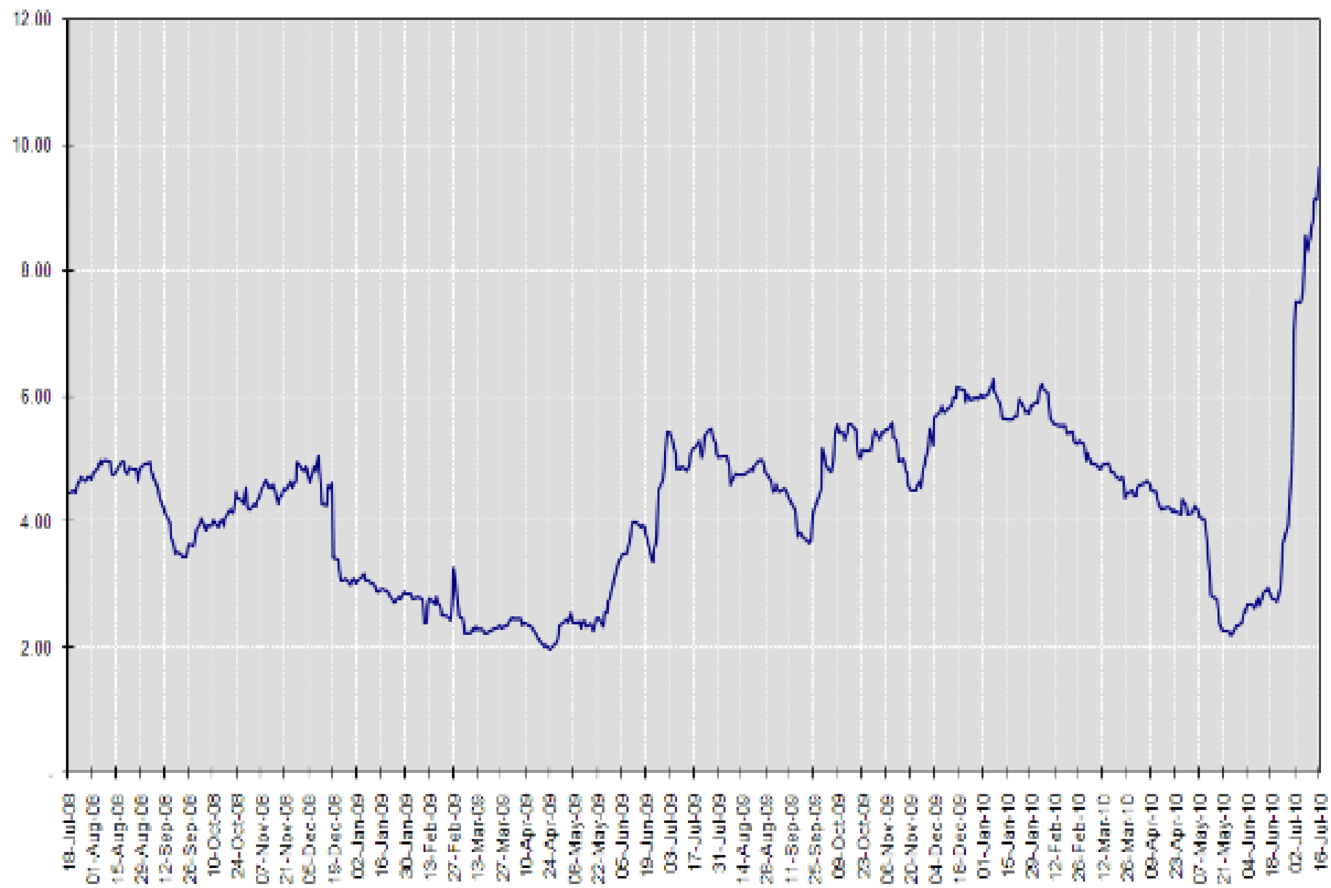
7 Atlantia Spa

8 Snam Rete Gas Spa

9 Terna-Rete Elettrica Nazionale Spa

10 Bulgari Spa

Sourse: Data Explorers



The Nordic debate

Securities lending in the Nordic markets. Does it exist?

Justin Lawson, publisher

Yes it absolutely exists. On a global scale the Nordic markets may seem relatively minor but every niche has its part to play in an increasingly complex securities lending world. Indeed those niches will likely become progressively more valuable as transparency increases and securities lending follows the inevitable path towards a very commoditised market. As we've seen with the recent discussions on CCPs in particular, the industry may be counting its last years as a bespoke OTC market. When pricing becomes the only distinguishing factor in the most mature markets like the US or UK, the opportunities in smaller markets like the Nordic ones will surely attract a considerable amount of interest.

From an onshore perspective, the Nordic region was recently described by one industry article as "a land of opportunity." Consolidation is expected to be rampant, both in the asset management and custody worlds, and that will likely be good news for securities lending. It's easy to dismiss €100k in lending revenue from a small fund, but when that number is in the millions it's harder for an asset manager to ignore. And what agent lender wouldn't want to have a crack at a rumoured €80 billion Swedish state pension fund? Many of the top custodial lenders now have a significant presence in the Nordic region, and as consolidated fund sizes grow that presence is likely to increase further.

The offshore market is equally significant. To put it in context, last year the Nordic markets generated more SL revenue for RBC Dexia's international clients than Italy. So it's not an insignificant number. Moreover, excluding Iceland, all of the Nordic markets hold AAA ratings, and as diversification has become an increasingly important part of risk management, so our clients are increasingly happy to accept collateral outside the usual major markets. Currently almost a tenth of our European non-cash collateral is in Nordic government bonds.

Simon Waddington, director, product development, securities lending, RBC Dexia Investor Services

Securities lending has seen significant growth in terms of numbers of lenders and types of client. From within the Nordic region, the key driver for the increase in activity and also the broader interest from institutional investors is the desire for additional, incremental return. Along with understanding the potential revenue opportunity, Nordic clients typically work with their lending agent to focus on three important areas:

1. Risk management: provide portfolio protection (borrower default indemnification) and tailored collateral profiles including separate cash collateral investment accounts

2. Due diligence: benefit from the agent lender's understanding of securities lending from a regulatory and legal perspective

3. Seamless operations: Work with client's front and back office (and/or administrator) to ensure that there minimal impact to day-to-day processes. Broad trust in the product and service is deepened by sharing the experience of other local and global clients and also by utilising the local branches of the custodian/agent to leverage local understanding and language skills. This consultative approach combined with an implementation framework ensures smooth take up of the lending service for clients. J.P. Morgan is pleased that Nordic clients make up a significant portion of its securities lending business. By working closely across clients, regulators and locally, the securities lending market in the Nordics has benefited from the global experience of the custodians in that market, and will continue to grow.

Paul R Wilson, Worldwide Securities Services, Financing & Market Products, J.P. Morgan

Regulation Update

The amendments made by the Norwegian Parliament to the Norwegian Securities Trading Act on naked short selling came into force at the start of July, extending the prohibition on naked short selling to apply to all types of investors, including private individuals, corporate entities and intermediaries. The prohibition applies to all investors equally, irrespective of their home state or country of origin.

The prohibition applies to all financial instruments listed on Norwegian regulated markets, including transferable securities, units in open-ended collective investment undertakings as well as money market instruments. Investors are not entitled to sell such instruments, which they do not own, without having access to the relevant instrument in a manner that ensures delivery of the shorted instruments at settlement date.

In addition the Financial Supervisory Authority of Norway have been given authority to impose a temporary ban on all forms of short selling under market conditions where such transactions could disrupt the stability or integrity of the market.

Nordic securities lending is an established practice and represents five per cent of overall European securities lending revenue, which compares to 6.6 per cent this time last year.

Sweden is the largest of the Nordic securities lending markets, with approximately $7.5 billion of shares on loan against a supply of lending inventory that totals around $63 billion. Both Norway and Sweden see a significant increase in demand to borrow during the spring dividend season. Hard to borrow securities in Norway include Renewable Energy Corporation and Frontline while in Sweden it is lucrative to lend Eniro with the rest mainly inexpensive to borrow. The Data Explorers Long Short Ratio for Sweden depicts the ratio of inventory to stock on loan. It currently shows a score of 8.5, which is up from just under five this time last year showing the reduction in demand to borrow over the last year.

Will Duff Gordon, research analyst, Data Explorers

Institutional investors throughout the Nordic region have lent their assets for many years, and notwithstanding market events of recent years, many continue to do so. Throughout the region the securities lending industry is established across most sectors, with pension funds, asset managers, insurance companies and central banks all participating in securities lending programmes.

Whilst certain generalisations can be made, it is inaccurate to categorise all lenders in the region as one as Denmark, Finland, Norway and Sweden all have varying regulatory, tax, and legal requirements that affect different lending programmes in different ways. Similarly, the financial crisis impacted lenders in the Nordic markets in different ways. For example, challenges associated with cash collateral management affected some lenders but not all, therefore lenders are at different stages of evaluating their lending activities and strategy.

In this respect, the countries of the Nordic region are no different than any other country that has active securities lending participants, and along similar lines, as those lending institutions review their lending programmes and contemplate changes, they will be looking for providers that can deliver the core components within their lending programmes; comprehensive risk management solutions, tailored programme structures, operational efficiency, and revenue optimisation. One variable between locations however is timing and we expect to see more activity in this regard throughout the Nordic region over the coming year.

Simon Lee, managing director, Business Development EMEA, eSecLending

There is a general decrease in the volume of "special" activity versus 2009. In 2009 there was a significant increase in the volume of capital raising (eg, rights issues) across the region. The effects of the economic downturn forced several companies to seek to raise finance in an attempt to strengthen their balance sheets This was most prevalent in the financial, property and construction sectors. Notable examples include: Skandinaviska Enskilda Banken, Nordea Bank AB, SAS AB and Amer Sports OYJ which led to a robust securities lending activity that month. An improvement in market conditions over the last 12 months as resulted in a significant reduction in special activity in the region.

There has been an increase in the number of domestic lenders (domiciled in the Nordic markets) that have returned to the securities lending market following the collapse of Lehman Brothers in 2008 (especially in Sweden). This has increased the volume of lendable supply in the region, which we believe may also have cheaper implications on the cost of collateral depending on the risk profile of those domestic lenders being different to international lenders.

The growth of Swedish index tracker funds has provided an additional source of supply in the securities lending market, specifically to the big Scandinavian market participants. Again this in turn has reduced the fees being able to be commanded over time as a result of the increase in supply.

John Irwin, head of international trading, securities lending, Northern Trust

It most definitely exists and has been thriving for some time already. Short selling has been permitted in Sweden since 1991. The whole area of securities financing, including securities lending, is expected to triple in the course of this decade.

The Swedish FSA, together with other local authorities, said in a recent EU short selling consultation *"Established practice contributing to liquidity and less volatility. Reasons for ban not convincing"*. We are very comfortable with our prominent position in particularly the Nordic countries and our cutting edge expertise in the securities lending business having enabled us to attract the top-tier borrowers in the market. With strict due diligence reviews and focus on risk management, we work only with the highest quality borrowers.

Ulf Norén
Global head of sub-custody SEB

To suggest a future topic for 'TheDebate' series email your suggestions to justinlawson@securitieslendingtimes.com

Repo world

ICMA conducted a survey for the European repo market. Here are the key findings

ANALYSIS

In December 2009, the European Repo Council (ERC) of the International Capital Market Association (ICMA) conducted the 18th in its series of semi-annual surveys of the repo market in Europe.

The latest survey asked a sample of financial institutions in Europe for the value of their repo contracts that were still outstanding at close of business on December 9, 2009. Replies were received from 58 offices of 53 financial groups, mainly banks. Returns were also made directly by the principal tri-party repo agents and automatic repo trading systems (ATS) in Europe, and by the London-based Wholesale Market Brokers' Association (WMBA).

Total repo business

The total value of repo contracts outstanding on the books of the 58 institutions who participated in the latest survey was EUR 5,582 billion, compared to EUR 4,868 billion in June 2009 and the peak of EUR 6,775 billion reached in June 2007.

Although the headline number grew by 14.7 per cent, a comparison of the aggregate returns from a constant sample of institutions showed growth over the last six months to be 20.2 per cent. However, the aggregate recovery in the repo market continues to blend very different rates of growth by individual institutions. The high rate of growth over the last six months was powered by a handful of institutions, while there appears to be continued structural deleveraging among others.

Total repo business from 2001 to 2009

survey	total (EUR bn)	repo	reverse repo
2009 December	5,582	50.0%	50.0%
2009 June	4,868	52.2%	47.8%
2008 December	4,633	49.9%	50.1%
2008 June	6,504	48.8%	51.2%
2007 December	6,382	49.4%	50.6%
2007 June	6,775	50.8%	49.2%
2006 December	6,430	50.7%	49.3%
2006 June	6,019	51.7%	48.3%
2005 December	5,883	54.6%	45.4%
2005 June	5,319	52.4%	47.6%
2004 December	5,000	50.1%	49.9%
2004 June	4,561	50.6%	49.4%
2003 December	3,788	51.3%	48.7%
2003 June	4,050	50.0%	50.0%
2002 December	3,377	51.0%	49.0%
2002 June	3,305	50.0%	50.0%
2001 December	2,298	50.4%	49.6%
2001 June	1,863	49.6%	50.4%

Counterparty analysis

Electronic repo trading fell back to 27.5 per cent from its high of 28.5 per cent in June 2009, as the growth in this sector failed to keep pace with the growth in the overall market, which saw a significant increase in forwardstart repo, which is a very small percentage of electronic business.

Reported voice-brokered repo, which is concentrated in London, suffered from the reduction in sterling business.

Counterparty analysis

	December 2009		June 2009		December 2008	
	users	share	users	share	users	share
direct	58	54%	61	52.1%	61	51.6%
of which tri-party	32	8%	*31*	*11.1%*	*31*	*9.4%*
voice-brokers	50	18.5%	50	19.3%	48	20.2%
ATS	44	27.5%	46	28.5%	48	28.2%

Geographical analysis

The share of anonymous trading across ATS's jumped to a record 18.3 per cent from 14.5 per cent in December 2008, which would seem to reflect the continued attraction of central clearing counterparties (CCP) as a means of managing credit risk and perhaps also the new CCP facility in Italy.

Number of participants reporting particular types of business

	Dec-09	Jun-09	Dec-08	Jun-08	Dec-07	Jun-07
ATS	44	46	48	47	48	56
anonymous ATS	37	33	38	33	35	39
voice-brokers	50	50	48	46	51	54
tri-party repos	32	31	31	30	36	45
total	58	61	61	61	68	77

Geographical analysis

	December 2009		June 2009		December 2008	
	share	users	share	users	share	users
domestic	33.7%		34.1%		31.3%	
cross-border	48.1%		51.5%		51.0%	
anonymous	18.3%	37	14.5%	33	17.6%	38

Geographical comparisons in December 2009

	main survey	ATS	tri-party	WMBA
domestic	33.7%	40.9%	19.1%	40.1%
cross-border	48.1%	59.1%	80.9%	59.9%
anonymous	18.3%			

Settlement analysis

The share of triparty business dropped sharply to 8.0 per cent from 11.1 per cent, as bilaterally settled repos grew faster.

Cash currency analysis

The most noticeable change was the sharp fall in the share of sterling to 12.3 per cent from 15.3 per cent, reflecting fiscal and political concerns about the UK.

Cash currency analysis

	December 2009	June 2009	December 2008
EUR	65.6%	64.2%	70.6%
GBP	12.3%	15.3%	13.0%
USD	15.9%	14.2%	9.6%
DKK, SEK	2.4%	1.8%	2.4%
JPY	2.7%	3.1%	3.1%
CHF	0.5%	0.6%	0.6%
etc	0.5%	0.9%	0.8%
cross-currency	2.6%	1.3%	0.6%

Collateral analysis

In line with developments in sterling, there was also a dramatic reduction in the use of UK collateral to 12.4 per cent from 16.1 per cent. This triggered a sharp fall in the share of EU government bonds (as a percentage of all EU fixed income collateral) to 76.1 per cent from 83.6 per cent.

Collateral analysis

	December 2009	June 2009	December 2008
Germany	26.4%	24.7%	29.6%
Italy	10.9%	11.2%	12.2%
France	8.7%	9.6%	10.1%
Belgium	1.7%	2.2%	2.7%
Spain	4.2%	4.7%	4.9%
other eurozone	9.4%	8.2%	8.7%
UK	12.4%	16.1%	12.9%
DKK, SEK	2.2%	1.3%	1.3%
US	3.1%	2.6%	2.9%
Accession countries	0.4%	0.3%	0.3%
Japan	2.1%	2.1%	2.9%
other OECD	10.5%	9.5%	7.3%
other	7.6%	6.9%	3.3%
equity	0.5%	0.7%	1.1%

Contract analysis

The share of undocumented buy/sell-backs fell back further to a new record low of 2.9 per cent.

Repo rate analysis

The share of floating-rate repos continued to contract.

Maturity analysis

Traditional seasonal patterns were weak. The most significant change was the jump in forwardstart repo to 11.3 per cent from 6.1 per cent, probably in anticipation of official interest rate changes.

Product analysis

Securities lending conducted on repo desks retreated to 15.4 per cent, after the sharp recovery seen in June 2009.

Concentration analysis

December 2009 saw a further increase in the concentration of surveyed repo business, reflecting the role of a handful of wellplaced institutions in expanding activity, as others continu

Tri-party repo collateral analysed by type of collateral

	Dec 2009	June 2009
government securities	40.7%	42.0%
public agencies / sub-national governments	4.2%	4.9%
supranational agencies	1.8%	10.0%
corporate bonds	28.4%	21.3%
covered bonds	6.2%	5.0%
residential mortgage-backed	1.5%	1.6%
commercial mortgage-backed	0.6%	1.4%
other asset-backed	0.5%	1.2%
CDO, CLN, CLO, etc	1.2%	2.1%
convertible bonds	1.7%	1.6%
equity	11.8%	8.1%
other	1.4%	0.8%

The results of the next survey measuring repo business will be published in October.

11th Annual Collateral Management

Date: 8th, 9th & 10th September 2010
Location: London
Website: www.mefinance.com/collateral2010

For this 11th annual marcus evans conference we both pick up on the changes to the collateral landscape as well as return to the great debates within the field to offer practical solutions for meeting these challenges.

IMN's 15th Anniversary European Securities Lending Summit

Date: 20-21 September 2010
Location: London
Website: www.imn.org

In September 2009, more than 250 attendees and 60 beneficial owners participated in IMN's 14th Annual Beneficial Owner Securities Lending Summit. Leading European decision-makers discussed important issues confronting beneficial owners and the securities lending industry at large

SunGard London City Day

Date: 23 September 2010
Location: The Brewery, London
Website: http://events.tenfor2010.com/citydays/london.aspx

SunGard is engaging with key customers and industry players to determine how best to meet immediate challenges and help prepare you for the new business priorities which lie ahead. We are busy building an impressive agenda to discuss how transparency, efficiency and networks will be key components for growth and sustainability of the finance industry. You can see the agenda develop by checking this site, and through the e-mail notifications we will send you after you register.

Hong Kong Securities Financing Forum

Date: 7 October 2010
Location: Hong Kong
Website: www.dataexplorers.com/events

Data Explorers' Securities Financing Forum in Hong Kong is taking place on Thursday, 7th October 2010. Our Global Securities Financing Forums are known throughout the industry as THE event to attend for insightful analysis that highlights specific challenges and opportunities facing the securities financing market

27th Annual RMA Conference on Securities Lending

Date: 12-14 October 2010
Location: Boca Raton Resort & Spa in Boca Raton, Florida
Website: www.rmahq.org

The Boca Raton Resort has always been one of our premier conference locations. It was the site of the very first RMA Conference and continues to be the foremost favorite venue. We know you'll enjoy the newly renovated Boca Beach Club. It is quite a dramatic transformation!

Finadium 2010 Conference

Date: October 19 2010
Location: New York
Website: www.finadium.com/site/conference_1010.php

This event highlights best practices and emerging trends in the prime brokerage, securities finance and asset servicing industries.

To list your events in Securities Lending Times and on the website please email design@securitieslendingtimes.com

The 27th Annual RMA Conference on

Securities Lending

October 11–14, 2010 | *Boca Raton Resort – The Waldorf Astoria Collection* | Boca Raton, Florida

The ORIGINAL industry-wide conference sponsored by *and* developed by securities lending and borrowing professionals *for* securities lending and borrowing professionals.

Panel discussions with Lenders, Agents, Borrowers, Consultants, & Business Leaders include:

- Global Short Selling Restrictions
- Brazil, a Risk vs. Non-Risk Central Counterparty Discussion
- Regulatory Issues
- Impact of Financial Reform

New this year!!!

Latin American Markets Tutorial

A Comprehensive tutorial that covers Securities Lending in the Latin American region and the issues facing both borrowers and lenders

Instructed by *Alejandro Berney,* GTS-Latam Sales Head, Citi

Planning to Attend:

Visit the RMA website at www.rmahq.org/RMA/SecuritiesLending you can register, make room reservations and view the agenda.

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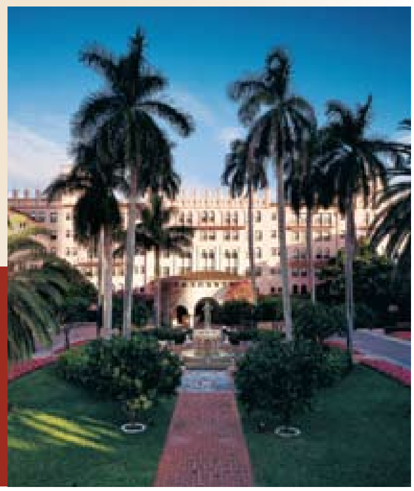

Industry Appointments

Scotia Capital has announced the hiring of New-York-based **John Stracquadanio** to serve alongside Patrick Blessing as co-head of the Global Prime Brokerage business.

"John Stracquadanio is a welcome addition to our team of experienced professionals in North America, Europe and Asia," said Robin Plumb, managing director and head of global equity finance at Scotia Capital. "His arrival reinforces our commitment to providing a full-service global securities finance operation through innovative financing solutions to our clients globally."

Stracquadanio and Blessing will share responsibility for the global prime brokerage strategy, with Blessing leading global client development and Stracquadanio leading global product development.

"We are excited to have John come on board," said Blessing. "His expertise will assist us in building out a globally competitive platform and demonstrates our commitment to growing our international business."

Stracquadanio added: "I am thrilled about this opportunity to join the Scotiabank Group. The strength of Scotia Capital as an organisation, and its ability to further enhance our prime finance offering in the US, Europe and Asia, attracted me to the opportunity."

Technology firm ConvergEx Group has announced that **Sean Westley** has joined the firm as a senior vice president of sales at NorthPoint Trading Partners, the firm's boutique prime brokerage business. In his new role, Westley is located in New York.

Westley brings over 12 years of relevant experience with him. Prior to joining ConvergEx, he worked in numerous prime brokerage capacities at UBS, Credit Suisse and Goldman Sachs. Most recently he served as an executive director in UBS's Prime Services division.

Commenting on the appointment, Doug Nelson, chief executive officer of NorthPoint Trading Partners said, "We are thrilled to bring someone of Sean's caliber on board to further get the message out about NorthPoint's unique offering. Our top boutique prime brokerage rankings combined with ConvergEx's state-of-the-art proprietary technologies is a powerful proposition to funds of all sizes."

Roger Liddell has informed the Board of his intention to retire from his role as chief executive of LCH.Clearnet Group Limited and its subsidiary company LCH.Clearnet Ltd in July 2011, after five years with the group.

During his time with LCH.Clearnet, Roger has overseen some important developments, including the successful realignment of the shareholder base and the establishment of the company as the global leader in OTC clearing. Its strong franchise in clearing interest rate swaps and fixed income is the basis for the expansion into other OTC asset classes, such as CDS and FX, expected to launch in 2011. The first phase of the CDS service, which went live in March 2010, is anticipated to be followed by a second phase, which will include wider participation and a broadened product offering. In addition, the company's expertise in metals and commodities is enabling it to benefit from the continued growth in Asia.

Jacques Aigrain, chairman, LCH.Clearnet said: "Roger has turned the business around and has created a clearing house for the future. The company is now well positioned to benefit from the anticipated growth in OTC clearing and to leverage its position as a global leader."

"Roger has led the firm at a critically important time; LCH.Clearnet's resolution of Lehman's USD10 trillion default and the successful performance of cleared markets, even at times of extreme market turbulence, have resulted in unprecedented regulatory focus and a growth in responsibility for clearing houses."

The chairman will undertake the search for the new CEO with the support of the Board and Nomination Committee. In due course, the Board will appoint the new CEO on the chairman's recommendation.

UBS AG's prime brokerage business has promoted **Rob Sachs** to US head of capital introduction and hired **Megan Kelleher** as head of prime brokerage sales in Boston and New England.

This follows the announcement that **Ashley McLucas** and **Charlotte Burkeman** will jointly run the Europe, Middle East and Africa division of prime brokerage.

Sachs comes from UBS' prime brokerage operations - since 2009 in the capital operations business and joined the bank from Constellar Capital Management, a fund of hedge funds business that he co-founded.

Kelleher previously worked in the legal and compliance department at hedge fund manager Sowood Capital.

The Federal Reserve Bank of New York has announced that **Lee C. Bollinger** has been designated chairman of the New York Fed's board of directors by the Board of Governors of the Federal Reserve System for 2011. Mr. Bollinger is president of Columbia University and has served as a Class C director since January 2007. He has served as deputy chairman since August 2009.

The Board of Governors of the Federal Reserve System has designated **Kathryn S. Wylde**, president and chief executive officer of the Partnership for New York City, deputy chairman of the New York Fed's board of directors for 2011. Wylde was also reappointed as a Class C director for a three-year term that begins January 1, 2011. Wylde has served as a Class C director since July 2009.

The New York Fed's board of directors consists of nine members, three of whom are appointed by the Board of Governors of the Federal Reserve System as Class C directors. The remaining six (three Class A and three Class B directors) are elected by member banks in the Second Federal Reserve District. Class A directors are drawn from the banking community. Class B and C directors are individuals chosen from professions outside the banking community and typically represent business, industry, agriculture, labor and consumers.

Continuing on from the recent restructuring Deutsche Bank announced the appointment of **Rebecca Walsh** to the position of director, global sales & relationship management within its Direct Securities Services (DSS) business.

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60 Second Resumé

Joel Johnson

Meet Joel Johnson, a highly educated securities lending trader with a wealth of experience in many financial markets.

Tell me a little about yourself

I began my career in financial services after graduating from CSU Sacramento, where I competed in track and field (NCAA Div. 1), and was a member of the National Society of Black Engineers. I originally intended to pursue management information science, but instead I went on to complete a degree in finance with a minor in economics. My career goal was to become a trader. I use the markets and economics as a key reference point in understanding global events - by working in this industry I am able to constantly plug into what is going on in the world.

My first two roles were in the OTC derivatives space working for Investors Bank and Trust, and then Citigroup Global Markets. I provided valuations, reconciliation, and confirmation services to hedge fund clients. The products were interest rate swaps, credit default swaps, swaptions, FX options, and CDOs.

I eventually moved on to directly supporting our CDS traders at Citigroup, and was planning for relocation to London for a role with more responsibility. I was offered a great opportunity to become a securities lending trader with Morgan Stanley in San Francisco. London was calling but my career goal of getting to a trading role was more important to me.

I joined a small but very experienced team of traders on the San Francisco domestic equity stock loan desk. I received excellent one-on-one training from industry veterans and in no time was not only dealing with lenders but also hedge clients. These clients were varied across a wide range of sectors. Their trading strategies included but were not limited to dark liquidity pools, statistical arbitrage, fundamental long short, and convertible arbitrage.

What industry qualifications or relevant certification do you hold?

I hold my series 7 and 63 licenses. I am working on a Bloomberg certification (taking courses regularly), and plan to take the CFA level one examination in December 2010.

I have worked most closely with hedge fund clients who employ the following strategies: event driven, statistical arbitrage, and fundamental long short.

What was your last position in the industry and what did you enjoy most about it?

I was last with Morgan Stanley in San Francisco as a stock loan trader. I most enjoyed being able to wear multiple hats, ie, dealing with hedge fund clients, institutional lenders, trading, and doing research for compliance matters. I enjoyed being exposed to higher level issues via management when it was required that we renegotiated acceptable collateral terms with lenders.

What sort of role are you looking for?

I am looking for a role that will utilise my stock loan experience, allow me to gain more experience in the markets, and most of all use my brain. I am not as concerned about geographical location as I am the opportunity itself.

What do you feel you could bring to a future role?

I have a good reputation with those who I have worked with in the industry (lenders, hedge clients). I have maintained good counterparty relationships while staying on top of profitability, and getting vital market information. I am skilled in data analysis and do well in learning and explaining new technology.

What do you feel the industry needs most?

Lenders would do well to improve their technology and or staff to better utilise their books of business, ie, understanding that major intermediaries have already done this and continue to make huge gains by going the extra mile in analysing their books of business in a more thorough manner.

Intermediaries would do well to prevent hedge clients from going directly to lenders and vice versa.

Contact Joel

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