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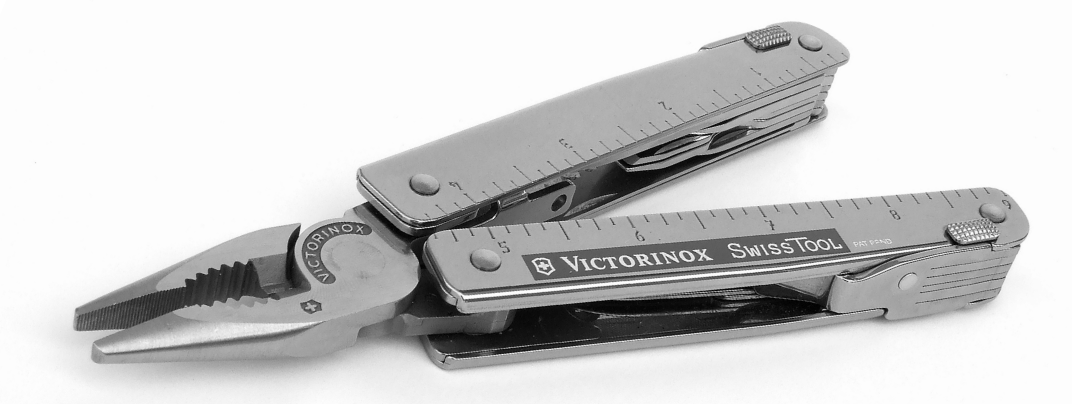


# Paladyne launches all-in-one solution for start ups

**NEW YORK** 29 10.2010

Technology provider Paladyne has launched a bundled package for start-up and smaller hedge funds. FastStart combines Paladyne's firm-wide technology platform, with a selection of operational and IT support and hosting services designed to reduce cost and improve operational efficiency and control.

"The technology barrier for smaller funds is primarily cost, but there was also a problem with packaging all the bits and pieces the firms needed," said Sameer Shalaby, CEO at Paladyne Systems. "Smaller firms typically don't have enough IT expertise and rely on consultants and third party vendors."

Key to the offering is the multi-prime capability. "Even before the crisis, every hedge fund manager needed at least two prime brokers before they would get investment," explained Shalaby. "But now it's absolutely paramount, even when launching a fund and regardless of size. Everything we do is about multi-prime broker, it's part of the due diligence that investors want to know about."

Paladyne FastStart includes:

- Multi-asset class trading and order management
- Pre- and post-trade compliance tracking and reporting
- Real-time P&L and portfolio exposure views
- Intra-day risk analysis and model-based valuation
- NAV reporting and daily portfolio accounting
- Daily reconciliation and "shadow reporting" with fund administrators
- Time-weighted and AIMR-compliant performance measurement
- Automated security setup, corporate actions processing, and pricing with Paladyne Data Services
- Automated counterparty communication and daily reconciliation with Paladyne Tradelink
- Fully-hosted IT and disaster recovery solution with SAS 70 Type II certified global data centers and 24x7 monitoring and support services
- Low-cost, turn-key implementation service

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## NEWS**IN**BRIEF

### Qatar and Abu Dhabi look to introduce short selling

Qatar Exchange has announced that it is planning to introduce short selling, as well as bond and sukuk trading in the first quarter of next year.

The exchange, which is part-owned by NYSE Euronext, also says it expects restrictions on foreign ownership in domestic companies to be raised from the current 25 per cent to 49 per cent. Derivatives trading may also be implemented.

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### MF Global acquires Washington Research Group

Concept Capital, a leading institutional broker and total solutions provider for global investment managers, has announced that it has entered into an agreement to sell its Washington DC based research division, the Washington Research Group, to MF Global Holdings Ltd.

"We believe that the purchase of the Washington Research Group by MF Global Holdings will best assure the future and growth of this successful policy research company," said Robert Moore, senior managing director at Concept Capital. "Concept Capital remains focused and dedicated to the hedge fund services business, capital markets, portfolio analytics, risk management, and fund administration segments of our business."

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## INSIDE SECURITIES**LENDING**TIMES

## Paladyne launches all-in-one solution for start ups

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Shalaby said the company is seeing large numbers of start-ups coming to the market: "We're seeing a lot of growth, particularly in Asia. The US is probably slightly ahead of Europe, but there's a lot of activity in Europe too. Fund managers are spinning off from the larger firms, and that's also happening with prop desks. There's a lot of money on the sidelines and some of that is coming through."

So far, the product has been implemented in 30 global start-ups. Paladyne's fully hosted solution integrates all of our trading, portfolio management, accounting and risk requirements into a single platform and offers significant operational and IT support which reduces our personnel needs," said George Roeck, CFO/COO at Charter Bridge Capital Management.

## MF Global acquires Washington Research Group

**continued from p1**

Concept Capital has made tremendous strides over the past few years in strategically expanding its institutional sales and trading business while providing our clients with industry leading advanced trading solutions. Concept Capital's multi-prime service platform provides a total technology and service solution that meets the demands of knowledgeable asset management clients. ConceptONE combines execution, prime services, fund administration and risk management on one integrated platform, supported by real-time technologies, providing managers with all of the key components necessary to successfully run their businesses.

The firm also continues to be a strong participant in the capital markets business through its recently formed Directed Brokerage and Outsourced Trading groups, which has a unique set of services the firm offers to its institutional client base.

"Concept Capital has made a name for itself in the institutional community by developing a world class product for our institutional customers," added Moore. "We are committed to building upon our accepted skills as we continue to offer the 'best-of-breed' services to our clients."

## Qatar and Abu Dhabi look to introduce short selling

**continued from p1**

Speaking in Beirut, Saif Al-Mansoori, the exchange's deputy CEO, said: "We are looking at our weaknesses and are starting to address them one by one", in an attempt to achieve MSCI's designation as an emerging market.It is currently classed as a frontier market.

Meanwhile, Abu Dhabi Exchange has asked the market regulator of the UAE for permission to introduce short selling in its markets, with the same ambitions as its neighbour.

## PGGM to invest in hedge funds

Asset manager PGGM is planning on making direct investments into hedge funds in a move that it says will increase transparency and reduce costs.

The firm has partnered with Lyxor Asset Management to handle the operations, technology and infrastructure of the new platform. Managed accounts give investors in hedge fund strategies day-to-day position-level transparency that, combined with adequate infrastructure, can significantly enhance risk management and portfolio construction.

They are also able to use the IT, reporting, legal, prime services and custody infrastructure of the platform provider.

Other funds have made similar moves - CALPers is moving towards managed accounts while in the UK, USS is utilising MAN Investments' platform for its hedge fund programme.

Jan Soerensen, PGGM's head of hedge funds, said: "This development fits within our strategy to have more direct control and oversight on investments as a leading responsible investor."

## Calypso answers CCP regulatory push

Calypso Technology has announced the launch of its new OTC Client Clearing Service for derivative clearing members (DCM).

The latest product development builds on the success of the Calypso System as a clearing platform implemented by a number of clearing houses for interest rate derivatives (IRD) and credit derivatives (CDS) clearing. The company is now offering a solution for clearing members to clear and process OTC derivatives on behalf of their house and client accounts, across multiple clearing houses.

The product is Calypso's response to the challenges that clearing members face in quickly adapting to the new central counterparty (CCP) infrastructure brought on by the global regulatory push for central clearing of all standard OTC derivative contracts. The Calypso OTC Clearing Service provides support for trade lifecycle events of a centrally cleared transaction including:

- Connectivity to clearing houses for trades and EOD market data and balances
- Reconciliation tool for validating data provided by each clearing house
- Functions and methodology to call or replicate clearing house margins
- Tools to create clearing member specific, margining rules for client collateral requirements, as well as tools to back test the validity of these margins
- Full books and records functionality for OTC client clearing

"Our OTC clearing infrastructure for member firms dramatically reduces the time and cost required to start clearing client trades on multiple central clearing platforms, and provides the tools for clearing members to deliver value added services," said Amir Khwaja, director of risk management, Calypso Technology. Automated matching of DCM's books with the different clearing houses enhances straight-through-processing and it eliminates manual intervention, thus enabling firms to focus on customer services. The ability to replicate clearing house margins and to perform what-if testing to identify the impact of margin on a trade prior to physical clearing allows clients to make more informed decisions about the clearing venue.

Additionally, the system provides full back-office services such as settlement and accounting, collateral management and custodian services as well as reporting.

"Calypso Technology has pioneered technology for trading and processing of OTC Derivatives for many years," added Khwaja. "With this new solution, we remain at the forefront of business change by offering our customers a solution to not only provide clearing services for all OTC contracts, but the tools that will allow them to generate additional value for their clients."

## Clearstream and Oslo Clearing join up

Clearstream and Oslo Clearing ASA, the Norwegian central counterparty (CCP), are cooperating in the area of collateral management. Clearstream customers can cover their margin exposure to Oslo Clearing ASA through Clearstream's collateral pool, its Global Liquidity Hub.

Oslo Clearing ASA is the third CCP to which Clearstream provides integrated collateral management services for margining incorporating auto allocation, optimisation and auto substitution. Clearstream offers collateral management services on a global scale and across multiple time zones.

Oslo Clearing ASA provides clearing services for cash equities, equity certificates and Exchange Traded Funds (ETFs) traded on the Oslo stock exchange.

Christian Sjoberg, chief executive officer of Oslo Clearing ASA, said: "We are very satisfied with Clearstream's state-of-the-art collateral management system that we are using since the beginning of the cooperation in June 2010. Through this cooperation, we can now offer additional flexibility to our customers as they can deliver international collateral to us using Clearstream as a channel."

Stefan Lepp, head of global securities financing and member of the executive board of Clearstream, said: "We are pleased about the cooperation with Oslo Clearing ASA. This is another route for our customers to collateralise their multiple exposures on a streamlined basis by leveraging our growing Global Liquidity and Risk Management Hub. The cooperation is another milestone in our strategy to cover global exposure through a consolidated and optimised collateral pool."

## StatPro creates liquidity risk measurement solution

StatPro Group, a leading provider of portfolio analysis and asset valuation services for the global asset management industry, has announced a major breakthrough in its risk measurement research.

StatPro has designed a new approach to measuring market liquidity risk that does not rely only on observed bid, ask and volumes. Instead, factors such as market capitalisation, the percentage of ownership of a stock and the size of an issue for a fixed income instrument are taken into account.

Liquidity risk refers to the risk of losing money when you suddenly liquidate one or more positions in your portfolio. The loss comes from selling the positions at a lower price than the one at which those positions are marked-to-market.

"While innovations in the area of market risk have been very active in recent years -- for example, introducing the concept of Value at Risk - little exists on liquidity risk. The reason is that while measuring market risk you can create models that are calibrated with market data, you cannot do the same for liquidity risk," said Dario Cintioli, global head of risk of StatPro.

"In calibrating a liquidity risk model you need access to the bid, ask and volume information. Well, the problem is that this information is only available for liquid issues. Whatever model you invent, you will always lack the basic information to calibrate it for the instruments that present most of your liquidity risk. We call this the 'liquidity risk paradox'.

StatPro's software facilitates the selection of the appropriate liquidity risk scenario and the computation of the expected loss for liquidity risk. The view includes a breakdown of the liquidity risk loss across various components.

The user can select one scenario and build a 'tree' of criteria for breaking down the liquidity risk contribution at each hierarchy level, down to single asset composition. The risk manager can drill down through every component of liquidity risk, discovering how much is coming and from where, without any previous knowledge of the portfolio. This tool enables the risk manager to 'X-ray' the liquidity risk of the portfolio, spotting any challenging situations.

"We have solved the paradox of measuring market liquidity risk when trading volume and market price information is not available. As with all our risk analyses, liquidity risk can be run at single asset level, portfolio level, portfolio versus benchmark and as an aggregation of several portfolios. The latter option is critical to liquidity risk, as the percentage of ownership of one stock can be negligible when measured by portfolio, but can become relevant at 'firm' level," concluded Cintioli.

## The Dossier launched

Merlin Securities has announced the launch of Merlin Dossier, a one-click solution that allows hedge fund managers to create detailed reports about their funds with up-to-date net performance information.

"Merlin Dossier creates a standardised overview of a hedge fund, answering all of the questions that a prospective investor might have on a gross and net basis," said Patrick McCurdy, partner and head of capital development at Merlin. "For many funds, the process of putting such reports together is tedious and extremely time-consuming. Merlin Dossier allows funds to select the type of information they wish to include and instantly creates pre-formatted reports, pulling data from across their prime brokerage accounts into a consolidated client-ready report."

Merlin Dossier creates prepackaged hedge fund reports that encompass a broad range of overview and performance information, including:

- Fund overview (about the firm, the strategy and investment team; fund terms)
- Full transparency down to the sector and market cap level
- Absolute/relative attribution to highlight the manager's ability to capture alpha, broken out by asset allocation and stock selection
- Sharpe ratio, alpha, batting average and all the standard statistics down to a sector/market cap level
- Beta-adjusted exposure over time by long/short, sector and market cap
- Turnover by sector and market cap.

# US results round-up

## As firms report their third quarter income, Securities Lending Times takes a look at the main stories

**ANALYSIS**

**SunGard** has reported results for the third quarter ended September 30, 2010. For the quarter, revenue was $1.24 billion, down seven per cent year over year.

Adjusted EBITDA was $338 million, down 10 per cent, and adjusted income from operations was $251 million, down 16 per cent. Excluding the results of one of its trading systems businesses, a broker/dealer, revenue was down two per cent.

For the third quarter, the company reported a loss from operations of $219 million, including a $328 million noncash write-down of goodwill which represents approximately five per cent of its total goodwill balance, compared to reported income from operations of $132 million in the third quarter of 2009, which had no such write-down of goodwill. Reported results in both periods include amortisation of acquired intangible assets, stock-based compensation, purchase accounting adjustments, and other expenses which are excluded from adjusted income from operations.

Organic revenue was down six per cent in the third quarter. Excluding the results of the broker/dealer business, organic revenue was flat year over year. This broker/dealer revenue was down 67 per cent compared to the prior year due primarily to the industry-wide dynamic by which active trading firms are opting to become broker/dealers and trade on their own behalf.

Cristobal Conde, president and chief executive officer, commented: “In the quarter, we continued to see solid organic revenue growth in our FS business excluding one of our broker/dealer businesses. While the business outlook showed signs of improvement in the first half of the year, our customers are still cautious about the outlook and are focused on reducing the costs of their core platforms and capturing more value from their existing systems. Our industry knowledge, services-led approach to creating value for our customers, and mission-critical software are helping to differentiate us in a very challenging environment.”

While securities lending revenues declined, Northern Trust Corporation has reported third quarter net income per common share of $.64, compared with net income per common share of $.77 in the third quarter of 2009 and $.82 per common share in the second quarter of 2010.

Net income was $155.6 million in the current quarter, compared with net income of $187.9 million in the prior year’s third quarter and $199.6 million in the second quarter of 2010. Return on average common equity was 9.2 per cent in the current quarter, compared to 11.9 per cent in the prior year’s third quarter and 12.2 per cent in the second quarter.

Frederick H. Waddell, chairman and chief executive officer, commented: “Although the economic environment continues to be challenging, we are pleased that assets under custody increased by 10 per cent to $3.9 trillion and assets under management increased eight per cent to $657.2 billion as compared to a year ago, reflecting continued business growth. Northern Trust has maintained its strong capital levels, and we remain confident in our competitive position and focused strategy.”

Trust, investment and other servicing fees from Corporate & Institutional Services (C&IS) decreased five per cent from the year-ago quarter to $293.2 million, primarily reflecting the decline in securities lending revenue, partially offset by higher fund administration fees. Custody and fund administration fees, the largest component of C&IS fees, increased six per cent to $159.2 million. C&IS investment management fees for the third quarter of 2010 equaled $60.7 million, relatively unchanged from the prior year quarter’s $61.0 million.

TradeStation Group has reported 2010 third quarter net revenues of $29.6 million, net income of $3.1 million, and earnings per share of eight cents, compared to 2009 third quarter net revenues of $32.4 million, net income of $3.7 million, and earnings per share (diluted) of nine cents.

Included in 2010 third quarter net income are $2.4 million in non-recurring net federal, state and local tax benefits, as well as $426,000 of after-tax “mark-to-market” net losses, primarily from TradeStation Securities’ investment in the Chicago Board Options Exchange (CBOE).

Excluding the non-recurring tax benefits and “mark-to-market” losses, the company would have had 2010 third quarter net revenues of $30.3 million, net income of $1.1 million, and earnings per share (diluted) of three cents.

Brokerage commissions and fees for the 2010 third quarter were $26 million, as compared to 2009 third quarter brokerage commissions and fees of $28.6 million. Brokerage commissions and fees are the largest component of the company’s net revenues.

"During a very difficult quarter, when market volatility, especially intra-day market volatility, decreased, we continued to generate net income and add new accounts," said David Fleischman, the company's chief financial officer. "We continue to believe that TradeStation's strength and positioning speak well to our chances of developing significant market share in the active trader space over the next several years."

**The Bank of New York Mellon** Corporation has reported third quarter income from continuing operations applicable to common shareholders of $625 million, or $0.51 per common share, compared with a loss of $2,439 million, or $2.04 per common share, in the third quarter of 2009 and income of $668 million, or $0.55 per common share, in the second quarter of 2010.

"During the quarter, we successfully completed the GIS and BHF Asset Servicing acquisitions. The acquisitions, combined with the underlying resilience of our business model, helped to offset weakness in the capital markets. The strength of our balance sheet and meaningful capital generation position us well to meet the proposed new capital standards," said Robert P. Kelly, chairman and chief executive officer of BNY Mellon.

Securities servicing fees totaled $1.5 billion, an increase of 20 per cent year-over-year and 17 per cent sequentially. Both increases reflect the impact of the acquisitions. Year-over-year results also reflect higher asset servicing revenue as a result of higher market values and new business and higher issuer services revenue from increased depositary receipts, while clearing services revenue was negatively impacted by lower transaction volumes and lower money market related distribution fees. The sequential comparison also reflects higher asset servicing and issuer services revenue, primarily depositary receipts, offset by lower clearing services revenue. Securities lending fee revenue totaled $38 million in the third quarter of 2010 compared with $43 million in the prior year period and $46 million sequentially.

**Citigroup** has reported third quarter 2010 net income of $2.2 billion or $0.07 per diluted share, marking its third consecutive quarterly operating profit.

Citigroup income from continuing operations, which excludes an $800 million pre-tax ($435 million after-tax) loss on the previously-announced sale of The Student Loan Corporation, was $2.6 billion or $0.08 per diluted share in the third quarter 2010. In the first nine months of 2010, Citigroup earned $9.3 billion of net income and $9.6 billion of income from continuing operations.

"Achieving our third straight quarter of positive operating earnings is continued evidence that we are successfully executing our strategy and we believe we have put in place all the elements for continued profitability. We remain completely focused on serving our clients with excellence and capturing the growth potential inherent in the core businesses within Citicorp, while reducing the size of Citi Holdings as quickly as economically practical," said Vikram Pandit, chief executive officer of Citi.

Net income was down $529 million, or 20 per cent, from the second quarter 2010, mainly driven by the loss on the previously-announced sale of SLC, as well as securities and banking, which declined 17 per cent. Regional Consumer Banking net income of $1.2 billion increased five per cent from the prior quarter, driven by Latin America and North America. In addition, Transaction Services net income of $920 million was down one per cent from the prior quarter, reflecting consistent strength in the business, despite a low rate environment, and continued investments, as growth in Latin America and Asia was offset by declines in North America and EMEA.

**Goldman Sachs** has reported net revenues of $8.90 billion and net earnings of $1.90 billion for its third quarter ended September 30, 2010.

Diluted earnings per common share were $2.98 compared with $5.25 for the third quarter of 2009 and $0.78 for the second quarter of 2010. Annualised return on average common shareholders' equity was 10.3 per cent for the third quarter of 2010 and 11.6 per cent for the first nine months of 2010. Excluding the impact of the $600 million related to the UK bank payroll tax and the $550 million related to the SEC settlement in the second quarter of 2010, annualized ROE was 13.2 per cent (3) for the first nine months of 2010.

"Our third quarter results reflect solid performances across our businesses," said Lloyd C. Blankfein, chairman and chief executive officer. "While economic conditions continue to be challenging in a number of important markets, our focus is on helping our clients achieve their goals. In doing this, we benefit from the strength of our balance sheet, our robust business model and the continuing breadth and depth of our global client franchise."

**State Street Corporation** announced third-quarter 2010 earnings, noting a fall in securities lending finance revenue by over 37 per cent on the 2nd quarter.

Earnings per common share were $1.08, an increase of 64 per cent compared to $0.66 in the third quarter of 2009.

Revenue in the third quarter of 2010 was $2.310 billion, up three per cent from $2.236 billion in the third quarter of 2009.

Expenses of $1.527 billion in the third quarter declined 12 per cent from $1.733 billion in the third quarter of 2009. Return on shareholders' equity was 12.9 per cent, up from 10.2 per cent in the third quarter of 2009.

Compared to the second quarter of 2010, third quarter 2010 earnings per share increased 24 per cent from $0.87 per share and revenue was up slightly from $2.304 billion.

Expenses in the second quarter of 2010 were $1.944 billion including the previously disclosed securities finance charge. For the second quarter of 2010, return on shareholders' equity was 11.0 per cent.

Joseph L. Hooley, State Street's president and chief executive officer, said: "In the third quarter, our overall results were driven by strength in our servicing fee revenue, and our ability to maintain our focus on cost control. During the third quarter, we won $477 billion in assets to be serviced.

"State Street Global Advisors continues to perform well although management fees were down slightly, due primarily to the change in business mix as shown in assets under management. The integrations of the Intesa and Mourant businesses are progressing well and are on track to meet the outlook we previously provided. The weak, low-volume trading environment continues to be challenging for our trading services business. Although the low level of interest rates worldwide continues to create headwinds, we achieved a net interest margin of 177 basis points, excluding discount accretion. On a year-over-year operating basis, we achieved 530 basis points of positive operating leverage and continued to manage expenses very carefully. Our capital levels remain strong and are well in excess of the current regulatory well capitalized requirements."

Hooley continued, "With the support of the two acquisitions, as well as strong year-to-date wins in servicing and growth in passive strategies and ETFs in asset management, we continue to expect that our operating-basis earnings per share, which exclude discount accretion, will be slightly above the adjusted operating-basis $3.32 per share recorded last year."

Hooley concluded, "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."

# Mexico

## Although Mexico has been hit hard by the economic downturn, its securities lending business has flourished

**BEN WILKIE** REPORTS

With an economy so dependent on the United States, it was perhaps inevitable that Mexico has found the past couple of years a struggle. Around 80 per cent of the country's exports go to its neighbour, and it also receives significant inflows from tourism and other leisure activities.

So as the US entered a slowdown, so too did Mexico. Fewer consumers were buying the goods that were produced in the country, and fewer holidaymakers were visiting the resorts. Tourism, in fact, has suffered three body blows over the past couple of years - the recession means there is less money to spend on holiday, while the recent fears of a swine flu epidemic (which saw an outbreak in the country) meant that some people wanted to stay away. And in Europe and Asia, there have been regular media reports about lawlessness in some areas of the country - while tourists are rarely exposed to the real dark side of the country, the reports have been enough to put some people off.

But while Mexico may have been battered by the last couple of years, it is by no means fallen. The country has major oil reserves, which make up a significant part of its economy, so has seen benefits from the huge price rises in oil over recent years. There is also an increasingly high profile wealthy elite who invest both internally and internationally - indeed, telecoms magnate Carlos Slim has at times been anointed the world's richest man with a fortune of around $50 billion. He's the first person from a so-called 'developing nation' to top the list. But while there was some pride within Mexico at his achievement, there was also anger from some in what is still in some places a desperately poor country.

While Mexico may have been battered by the last couple of years, it is by no means fallen

In an attempt to increase the prosperity of the country and its citizens, the Mexican Government's strategy has been to cautiously encourage foreign firms to build up huge stakes in the nation. The North American Free Trade Agreement, signed in 1994, saw a huge inflow of investment in the country from the US and Canada, which was swiftly followed by European and Asian firms.

Whether this has improved the lives of ordinary Mexicans may still be up for debate, but what is undeniable is that the financial infrastructure of the country is now on a par with most Western counterparts. And there are aggressive moves to keep Mexico at the top of the Latin American pile, and remaining a serious rival to its Southern counterparts in Brazil, Argentina and the like.

### The players

As with the rest of the Latin American region, Spanish banks make up a major part of the Mexican banking system. Citi has long been a major player in the country, but it wasn't until 1994, when the market opened up to international players that BBVA and Santander of Spain quickly gained a foothold, and they were soon joined by the UK's HSBC and Scotiabank of Canada, who snapped up domestic providers.

Since then, more multinationals have entered - Fuji, Societe Generale, Tokyo Bank, Deutsche Bank and ABN Amro are now major players with significant market shares in securities lending. There are few remaining Mexican-owned banks, and these are not active in the market.

"Mexico has an efficient and ambitious banking sector, and securities lending is well supported by the country's regulators for the most part," says fund consultant Enrique Sanchez. "But the growth is coming from the international players who are leveraging their experience and capabilities from other markets here.

"Securities lending - along with other complex financial instruments - is comparatively new to Mexico, and what remains of the local banking sector has not jumped on the bandwagon. In part this is down to an innate conservatism amongst the [domestic] banks, but it's also down to a lack of systems and knowledge about this type of market."

## The market

Although there are some players with a more pessimistic view, the general feeling is that securities lending has done remarkably well during the downturn. "Within Mexico, we have seen the volumes of securities lending increasing about 25 per cent in the last two years," says Patrick Avitabile, managing director and global securities finance head of equity trading at Citi's Global Transaction Services in New York. "The short sells are increasing, and therefore, the market need for securities lending has grown. Offshore, we have witnessed an increase of roughly the same magnitude.

At the start of 1997, a securities lending programme was launched by S.D. Indeval. The aims were to make the process of settling trades between brokers more efficient

"The increase is mainly an offshoot of additional borrowers participating in the Mexican market. We now trade with in excess of a dozen counterparties, where that number was two-to-three two years prior."

It's international players that are driving the market, agrees Sanchez. "We're seeing an increased confidence in the underlying strength of the Mexican market," he says. "Pretty much everything that could go wrong [in the economy] did go wrong in the last three years, yet the country remains on a firm footing. And that's a good advert for encouraging inward investment.

"We're also seeing more domestic funds involving themselves in lending securities. They have learned from their North American neighbours about the best ways to earn income while protecting themselves, and have an increased confidence in allowing their securities to be used. They still prefer the reassurance of a major international player to act on their behalf, however - at the moment, size really does matter when it comes to outsourcing these sorts of services."

The securities most lent and borrowed are the major companies of Mexico, especially those that are offshoots of multinational firms - the Mexican offshoot of Wal-Mart, for example, is very popular, as are telecoms, oil and mineral stocks.

When it comes to collateral, the eligible resources are set out by the regulators. Federal bonds are the most popular form, although corporate bonds remain an option. Cash is not allowed, which creates significant differences from the US market, while if shares are to be offered, they have to be in the most liquid and high-profile companies.

## VALPRE

At the start of 1997, a securities lending programme was launched by S.D. Indeval. The aims were to make the process of settling trades between brokers more efficient, enhancing liquidity, facilitating short sales and allowing for a greater degree of compliance in international trades.

The firm built an electronic system for arranging securities loans, called VALPRE. Through the system, brokerage firms, banks and investors are able to: enter bids to lend or borrow securities; establish and administer margins; look up corresponding movements; and determine the premium, amount of securities and term requested for each bid. It was the first electronic system of its kind in Mexico.

Several types of security can be used on the exchange: shares, Federal treasury certificates, bonds, inflation-adjusted bonds, banker's acceptances, bank certificates of deposit, bank promissory notes with yield payable on maturity, bank-backed commercial paper and bank bonds. The securities must be listed in the National Registry of Securities and Intermediaries and deposited at S.D. Indeval.

There are two types of securities lending transactions on the platform: standard and automatic:

Standard Loans
They are transacted directly by participants through VALPRE.

They are subject to maximum terms.

The borrower may redeem the loan in advance at any time after the first day of the term, In the bid record, both the lender and borrower must indicate the add-on rate applicable for early redemption.

Automatic Loans
They are extended to any depositor that does not have sufficient securities to settle a transaction on the settlement date.

Perhaps uniquely amongst emerging economies, it's difficult to find someone prepared to criticise Mexico's regulatory structure or the regulators themselves.

S.D. Indeval arranges the loan on behalf of the depositor in order to avoid default.

The borrower must pay an additional cost above the premium established by the lender in the corresponding bid.

## Regulation

Perhaps uniquely amongst emerging economies, it's difficult to find someone prepared to criticise Mexico's regulatory structure or the regulators themselves. "We have never had a serious problem with the regulators here," says a representative of one of the major Spanish banks, who adds that this is not the case in other markets on the continent, particularly Brazil and Argentina.

"As securities lending has developed within Mexico, the authorities have taken the attitude that this instrument is good for the market and they have applied a light touch that others really should learn from. That's not to say that the market is unregulated - far from it - but that they do not make knee-jerk decisions that damage the market. They make sure they understand what is going on and what the impact of any new rules will be before they act. It's a breath of fresh air." **SLT**

# Client side

## It can be difficult sometimes for technology companies to get a real feel for how the end user utilises new products. So getting the information from the horse's mouth is invaluable

**EXCLUSIVE**

Tonia Noschese and Chris Byrom recently joined Pirum's client service team having spent many years of their careers to date working in the securities lending operations teams of some of the industry's most significant market participants. Pirum's chief executive Rupert Perry talks to them to hear their first hand experiences of implementing and using the industry's contract comparison and billing tools from the end user's point of view and the effect that this had on the overall operational processes in their organisations.

**Rupert Perry: What did you find was the biggest impact of using automated contract compare at your firms?**

**Tonia Noschese:** As a relationship manager at Deutsche Bank, I found contract compare was particularly helpful in three different areas: 1) Risk and transparency of positions – you can easily see if the counterparty recognises all the positions you know, especially on stocks where urgent action might be required. 2) I could easily see the high level overview of the break issues with my clients and quantify the extent of any issue. 3) Client reps were able to reduce the time they spent on manual repetitive tasks and spend more time on value added tasks. (eg, root cause analysis of breaks instead of ticking back positions by hand).

**Chris Byrom:** I was involved in the initial rollout of contract compare at J.P. Morgan and probably the most notable effect I saw was on downstream processes. In particular, I found we were able to agree and settle our bills and process any corporate actions much more quickly than was the case previously.

**RP: How was the contract comparison process organised at your institution? Who was responsible for investigating and resolving any identified breaks?**

**TN:** I've seen it managed a number of different ways. In my early days, it was client aligned in that one person was responsible for contract compare, exposure, marks and calling in returns and this had an advantage in that you could see the whole picture across a series of processes. The disadvantage of this model was that contract compare was seen as a non time critical process and this resulted in other processes taking priority in busy periods. More recently, I've seen dedicated contract compare teams given responsibility to ensure that all breaks are investigated and resolved. This helps you manage the risk across all counterparties and enables you to prioritise the breaks that have the most material impact.

**CB:** We tried it a number of different ways. When we first rolled out contract compare, we had a dedicated team focusing on cleaning up the reconciliations before incorporating the process back into normal line teams. We tried attaching the contract compare process to various different teams but ultimately, we found that during busy periods it wasn't being given the attention it needed and we therefore found it was more effective to use a dedicated team to manage it on a daily basis.

**TN:** The general market trend for increasing use of offshore teams has encouraged a greater use of the dedicated team approach. This is because automated contract compare has made it much easier to identify the breaks and the facility to add comments to breaks on-line has made it one of the easier processes to be performed on a distributed basis. Increasingly, we are seeing the complete centralisation of contract compare where the comparison processes of all offices around the globe are centralised to a single offshore location.

**RP:** It's interesting you say that, as one of the things we have noticed amongst our client base is that we generally find contract compare break percentages tend to be lower when clients use client aligned multi functional teams rather than dedicated reconciliation teams. I suspect this is because someone doing the reconciliations client aligned can immediately see the downstream impact of any contract compare breaks on all of the other processes that they are responsible for (eg, marks/returns/settlements etc.)

**RP: What was the effect of introducing automated billing comparison and delivery?**

**TN:** One of the biggest frustrations I found with the manual billing process was that the billing team would spend three days every month printing bills, scanning them in to PDF format and then emailing them out to clients. We then had to manually reconcile the bills and this was especially time consuming when counterparties could not send us a standardised Excel format bill.

When we introduced automation to the delivery and reconciliation processes, the team was able to shift its focus onto investigating the breaks and rectifying any identified differences. As a result, I would say it advanced the billing settlement timeframe by at least a week and this enabled us to agree and pay the majority of our automated bills within the first 10 days of the month, in line with industry best practice.

> We generally find contract compare break percentages tend to be lower when clients use client aligned multi functional teams rather than dedicated reconciliation teams

**CB:** The main benefit I noticed was that we had a much improved ability to investigate and look at any billing differences prior to the numbers being locked down in our system. This in turn resulted in many fewer post lock-down adjustments being required to the beneficial owners' revenue, which improved the quality of service we supplied to them and their confidence in us as a Lender.

Another big area of improvement was the process standardisation around creating and delivering the bill. Whereas brokers used to send bills to us in widely differing formats, the automated billing delivery process enabled the team to review all bills in the same format and this streamlined the training of new members of staff and made it much easier for team members to cover unfamiliar clients when their colleagues were away. **SLT**

# Penalty strikes

## In the sixth part of our series on the ICMA White Paper looking at the European repo market, we look at penalties for fails

**ANALYSIS**

If it was decided to introduce a fails penalty convention in Europe, the following issues need to be considered:

US experience with the TMPG recommendation. This appears to have been positive but a closer look would be warranted.

The position of the cash market in Europe.

The convention would need to apply across all the repo and cash markets in Europe, in order to ensure that parties caught in a chain of delivery failures are not unfairly treated by having to pay a fails penalty to the counterparty on whom they fail without receiving equal compensation from the counterparty who fails on them. Where transactions are cleared through a CCP, the CCP (as a party to such transactions) would need to impose the same penalties.

The convention would need to be sponsored by a range of market associations and informally supported by regulators and central banks. The TMPG recommendation had the implicit backing of the New York Fed (FRBNY).

The convention would need to be agreed in writing between repo counterparties. Should it therefore be enshrined in standard legal agreements?

Fails penalties would have to be collected. Is this practicable on a bilateral basis? Could CSDs assist?

In the US, penalties for sell-side firms are processed automatically by the FICC.

However, as all sell-side firms are users of the FICC, the task is relatively simple in the US. In Europe, not all repo is cleared through CCPs and there are numerous CSDs.

At what level should the Threshold Rate be set? It is three per cent in the TMPG formula. It would be sensible to look at the data for delivery failures in Europe and analyse the correlation with general interest rate levels.

What money market rate or index, or central bank repo rate, should be used as the Reference Rate for each European currency?

## Other measures to reduce or mitigate delivery failures

The impact of delivery failures can be reduced by the operational measure of “shaping” settlement instructions, which means breaking them down into smaller standard amounts (called “shapes”). The ERC recommends shaping in the European repo market to EUR 50 million. This means that a repo of, say, EUR 250 million would be broken down into five shapes of EUR 50 million. A problem with one of the five settlement instructions would then only cause a delivery failure of EUR 50 million and not the whole EUR 250 million, thereby reducing the accumulation of delivery failures and the risk created by unsettled transactions. Shaping also reduces the liquidity requirements of settlement by allowing a smoother flow of smaller deliveries to be fed through the settlement system.

It has been noted that electronic repo trading and the use of CCPs assist in reducing the scope for delivery failures, in part, by matching settlement instructions, which helps to identify operational errors that could result in delivery failures. The bulk of repo trading is however executed directly rather than electronically and does not clear through CCPs. Nevertheless, a bilateral post-trade pre-settlement matching system is available for directly-negotiated repo transactions in the form of TRAX, now operated by Euroclear/Xtrakter.

Non-electronic repo business can also be reported to CCPs retrospectively via multilateral reporting systems: Euroclear's ETCMS, which uses its own CCP; and a facility created by BrokerTec and MTS, which allows directly-negotiated transactions in Italian government securities to be uploaded retrospectively, via the local CSD, into the two CCPs serving that market. Matching facilities also exist for securities lending (Equilend/Pirum and TriOptima). The matching of instructions is particularly valuable in identifying errors in term transactions, where instructions for the closing leg are often delayed, and for transactions requiring adjustments during their life, eg, floating rate and open repos.

It would be helpful if the generally-accepted market convention applying to delivery failures at the start of repos - ie, that the transaction is not cancelled and the seller is obliged to pay the full repo rate whether or not he receives the cash - was universally adopted in Europe. In the French market, if a repo seller fails to deliver at the start of an overnight repo, both legs of the repo are cancelled on the settlement date. The cancellation of unsettled repos means that the party failing is under no contractual obligation to pay the agreed repo rate to the party suffering the fail. There is therefore no economic incentive on failing parties in the French market to remedy delivery failures in overnight repo.

In order to restore the economic incentive, the settlement instructions for the opening leg need to be "recycled" within the settlement system (ie, automatically re-entered into the next day's settlement process) rather than being cancelled.

This would result in the two legs being netted off against each other, leaving a net obligation on the seller equal to the repo rate. It is apparently possible for parties to a failed overnight repo to fax the French CSD (Euroclear France) to request such netting (at a cost of EUR 230). However, this facility is reportedly not much used in practice. The ERC has asked the CSD to consider recycling failed instructions for the opening leg of an overnight repo back into the settlement process for up to 10 days, in order that it has the opportunity to be netted against the closing leg. Such a change requires a recommendation by AFTI (Association Francaise des professional des Titres) and the Banque de France. The AFTI has declined. It takes the view that the buyer in a failed repo is adequately compensated by retaining the use of his funds and that there are too few delivery failures in overnight repos to disrupt settlement. They also object that, if the first leg was recycled and matched with the second leg, this would introduce netting as a standard feature into what was supposed to be an RTGS system.

Many potential delivery failures can be resolved in advance of settlement deadlines, if sufficient notice of problems is given by the CSD to the parties to unsettled transactions, and if the CSD also allows access by the parties to the settlement system to amend, correct or cancel the relevant settlement instructions. However, such functionality is not available within all CSDs in Europe. The lack can be particularly problematic in the case of cross-border transactions, which have to be settled between a national CSD and an ICSD.

The need for better "interconnectivity" between all national CSDs and the ICSDs, as well as between the ICSDs, has been the subject of intense discussion in recent months as market turbulence has compounded the problems which are created by the fragmentation of settlement in Europe.

## Infrastructural inefficiencies contributing to settlement failures

The fragmentation of European settlement requires that international investors use multiple clearing and settlement systems, each with different technologies and business practices. This problem is frequently exacerbated by inconsistent fiscal, legal and regulatory frameworks. The inefficient transfer of securities imposes unnecessary costs and risks on European markets and obstructs market clearing. It also saps market liquidity by reducing trading opportunities (no same-day repo) and by making it harder to move collateral to whichever location or purpose it might best be employed. Costs include the reservation of securities in different CSDs in the absence of the ability to move them between CSDs efficiently, in order to ensure that collateral is available in all possible locations in which it might be required. Particular problems arise cross-border, because many international investors prefer to use the ICSDs as their settlement agents, while domestic investors use local CSDs.

In the context of the Single Market project, the European Commission commissioned the Giovannini Committee to examine the difficulties of crossborder settlement in Europe and suggest a way forward. In 2001, the Committee identified the 15 so-called "Giovannini Barriers". These were categorised into: national differences in technical requirements and market practice; differences in tax procedures; and legal uncertainty.

In April 2003, a second Giovannini report set out a strategy for removing these barriers within 15 years and a series of actions to achieve this goal, some to be taken by the private sector on its own and some which would require government intervention. The European Commission carried out its own examination of the issue, publishing communications in May 2002 and April 2004, followed by a period of consultation with market users, service providers and regulators. In November 2004, the European Council adopted the Commission's recommendations. To help push forward the work to remove the Giovannini Barriers, the CESAME (Clearing and Settlement Advisory and Monitoring Experts) group was set up to advise, monitor and co-ordinate the work to resolve private sector barriers by other groups, including ECSDA (European Central Securities Depositories Association) and the ESSF (European Securities Services Forum). Other catalysts for change have been COGESI (Contact Group on Euro Securities Infrastructures), chaired by the ECB, and CESR (Committee of European Securities Regulators). Outside Europe, similar work has been produced by the Group of Thirty (G30), IOSCO (International Organisation of Securities Commissions) and the CPSS (Committee on Payments and Settlement Systems).

Notwithstanding the considerable progress that has been achieved in resolving many of the problems that have plagued cross-border clearing and settlement in Europe, persistent issues include:

Giovannini Barrier 2 (national restrictions on the location of clearing and settlement).

Giovannini Barrier 4 (absence of intra-day finality).

Giovannini Barrier 7 (differing operating hours/settlement deadlines).

Giovannini Barrier 10 (national restrictions on the location of the activities of primary dealers and market-makers).

Special challenges continue to be posed by the lack of interconnectivity between some domestic CSDs and the ICSDs, which obstructs cross-border settlement and thus cross-border investment and market integration. Interconnectivity problems have been severely aggravated by the recent financial turbulence. In 2009, two joint industry working groups were set up, involving the ICMA's ERC and various subsidiaries of AFME (ESSF and EPDA – European Primary Dealers' Association), to tackle interconnectivity issues. As a result of their work, which mapped the operations of several European CSDs and their interaction with the ICSDs, a clearer picture has emerged of the desirable features characterising an efficiently-interconnected CSD.

The key features of an efficiently-interconnected CSD are:

On the business day before the settlement date (S-1), the results of the late (after close of business) daytime matching cycle of the ICSDs should be available to the CSD for the start of its own late daytime batch-processing or matching cycle, the results of which should, in turn, be available to the ICSDs for the start of their overnight matching cycles. The information provided will include details of unsettled instructions (potential delivery failures). Users should be able to input instructions into these cycles in order to validate and match them, and thereby identify potential settlement failures, well in advance of the settlement date. This gives maximum time to fix unsettled instructions. It also allows opposite transactions to be matched and netted off, in order to reduce settlement volume and improve settlement efficiency, as well as reducing demand for liquidity and collateral in what is effectively a test phase of settlement, by not requiring the commitment of cash or securities.

Alternative methods of validation and matching outside the settlement system, such as telephone pre-matching with custodian banks, are inefficient and delay input, leaving less time to fix unsettled instructions.

On the settlement date (S), the results of the overnight matching cycles of the ICSDs should be available to the CSD for the start of its main daytime processing cycle. This should permit validated and matched settlement instructions to be processed early on the settlement date, allowing users to focus their same-day operational activity on resolving unsettled instructions.

The main daytime processing cycles of the CSD and ICSDs should be in real-time or very frequent two-way communication, with instructions being presented for settlement between the depositories throughout the day. Feedback to users on the status of settlement instructions should be available within an hour. Timely feedback is essential for the management of unsettled instructions and in order to allow inward deliveries of securities to be re-used, thereby allowing efficient liquidity and collateral management.

The main daytime processing cycle of the CSD may be a single RTGS process (eg the RGV system in France), or dual RTGS and frequent multi-batch processes running in parallel (eg the Clearstream Banking Frankfurt system in Germany). Single RTGS processes should incorporate “technical netting”, which identifies, matches and nets off opposite instructions, or else run special netting cycles throughout the day. Both processes reduce the liquidity needed to lubricate settlement.

In dual-process systems, validated and matched settlement instructions from one process should be fed into the other without the need for reinputting by users.

RTGS processes should allow delivery-versus-payment (DVP) or free-of-payment (FOP) settlement. FOP settlement is needed for margin payments on collateralised positions.

Unsettled instructions should be recycled into the settlement process regularly and frequently (at least once an hour). This means that, if the opening leg of a repo transaction fails to settle, it will eventually be netted off against the closing leg.

Users of a CSD should be able to input new instructions on a same-day basis, over the entire settlement day. This facility allows them to resolve settlement problems by inputting corrections, amendments and cancellations to unsettled instructions.

All users should be able to input instructions over the whole daytime settlement cycle, which should run for the full business day. A long settlement cycle allows activity to be spread more evenly, making settlement easier to manage, avoiding concentrations of problems, easing the demand on liquidity and securities, and giving users more time to resolve unsettled instructions. There is no case for preferential access by a group of domestic users.

At the end of daytime processing cycle, it helps to have an “optional” settlement process which allows instructions for the next settlement day to be input, with the option not to proceed to settlement. This provides another opportunity to validate and match settlement instructions in order to identify potential delivery failures.

Settlement efficiency can be enhanced by the provision of self-collateralisation mechanisms, which automatically post collateral from a user’s securities account to allow credit to be extended to the users where it is necessary to achieve settlement.

Legal finality of settlement (irrevocable transfer of legal and beneficial title to securities) should be immediate in order to remove uncertainty and allow early re-use of securities. **SLT**

# A tantalising pairing

## Data Explorers' Will Duff Gordon examines how securities lending can work with ETFs

**ANALYSIS**

In light of Blackrock's European ETF event in London we are going to look at the pairing of ETFs and securities lending. We can come at this from all angles but securities lending seems a good starting point. To me the big picture is this: do investors want to invest or trade? The answer here will dictate the value of ETFs versus ordinary shares and have a knock on impact in the securities lending world.

It is no secret to anyone that lending and borrowing is one of the six pillars in the "why use ETFs" mantra, according to Blackrock's (makers of iShares) handbook from Q2 2010. From looking at the Data Explorers peer group, we see that US institutional investors hold many more ETFs than their European equivalents by about 6:1. Further, these super funds who lend (as a proxy for professional investors in general) own almost $7 trillion of plain global equities versus $65 billion in ETFs, which is a mere 0.97 per cent of their total equity holdings. This is slightly misleading in that brokers can create as much of an ETF as they want (generally), but it tells you the extent to which funds are switching from stock picking to ETF trading. In October 2007, the figure stood at 0.7 per cent so there has been some change but it is not a stampede!

The growth lies in the European ETF inventory - an increase of 209 per cent year on year, while the US has seen a 30 per cent increase from a higher base. Asia remains barren in contrast! The US dominates with, unsurprisingly, the S&P500 tracking ETF the most popular to own (State Street's SPY). Then, there is a rash of emerging markets funds and gold is in the top 10 (see chart below)

The big debate is quite simple: will ETFs overtake single equities as the common way to invest, and if so where and how soon? The answer to this will have a major impact on the profitability, and scale of securities lending. I say "scale of" since the decreasing need to borrow single names to support directional shorting in the US is stark, whereas the income from lending ETFs is 4.5 times more profitable than lending US equities at present.

A further element in the debate about ETFs is also about who should keep the securities lending revenue between the fund holders and the asset management firm or shareholders. Securities lending revenue from lending ETFs is key because demand is strong and margin tends to be very thin. However, beneficial owners can offset their custody costs (although some don't) by owning plain equities - so what is their motivation to switch to them? Sovereign wealth funds are sticking with active equity managers for now – but for how long? Of course, the most cunning use of ETFs could be as collateral as a liquid and neat counterpoise to a loan of similar instruments. How many banks take ETFs as collateral right now?

My own view is that ETFs versus ordinary shares boils down to whether people are interested in trading or investing. This is also the view of Vanguard's founder, John C. Bogle, who is aghast that you can trade an ETF of emerging Cancer-cure companies, for example. More trading and turnover means more costs (even if the costs are low) that drag on performance and take money away from investors and into the hands of those that process transactions - be they exchanges, banks etc. But is more trading the way to make more money?

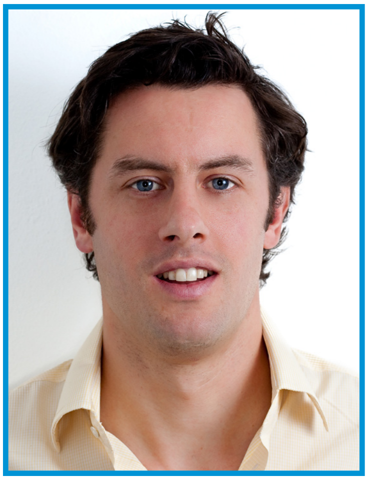
Like it or lump it, European investors do not yet understand ETFs and most retail investors have not even heard of them. In the US, how many of the so called retail investors using ETFs are actually professionals investing in their spare time? I suspect this just tells you that it is the people who understand these instruments who trade them. There are plenty of investment trusts in London that mirror a wide variety of share performance – and many of these are often at wide discounts to the value of their holdings! How will these be affected by ETFs?

Why are people borrowing these ETFs? Consider Vestas Wind's (VWS) profit warning. If you are a fund manager and have loaded up on European wind farm companies, a great way to hedge against a sector shock is to short an ETF that replicates the performance of Euro wind companies. Though at present, the US investors do this far more than across the Atlantic. A European hedge fund is more likely to hedge its long bias by asking their prime broker to createa custom basket of equities to short, known as a sector swap – or use futures or options. It is chicken versus egg syndrome – are they only doing this because there are insufficient European ETFs or because they prefer bespoke swaps in any case?

From a hedging perspective, the good news for securities lending is that you achieve a truer hedge by shorting an ETF than by buying the so called "inverse" ETFs that offer inverse performance to their constituents. An example is the Powershares Pro Short but these instruments are not mature or appropriate (is the nice way of saying it) – we are told. **SLT**

### Top 10 EFTs in Demand

| | |
|---|---|
| 2840215 | SPDR S&P 500 ETF |
| 2622059 | ISHARES-RUS 2000 |
| 2582409 | ISHARES-EMG MKT |
| B046RT1 | SPDR GOLD TRUST |
| B17N7R4 | SPDR S&P RETAIL |
| 2402433 | POWERSH-QQQ |
| 2971546 | ISHARES-BARCLAYS |
| 2402466 | SPDR-ENERGY SEL |
| B17N7NO | SPDR OIL&GAS EXP |
| 2605652 | ISHARES-DJ REAL |



**Will Duff Gordon**
Media director
Data Explorers

## Dubai Securities Financing Forum

Date: 11 November 2010
Location: Dubai
Website: www.dataexplorers.com

Data Explorers' Securities Financing Forum in Dubai is taking place on Thursday, 11th November 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

## Amsterdam Securities Financing and Buyside Breakfast

Date: 17 November 2010
Location: Amsterdam
Website: http://www.dataexplorers.com

Join Data Explorers and ISF at the Dylan Hotel Amsterdam for the Securities Financing and Buyside forum

## Global Custody Forum 2010

Date: 30 November -1 December 2010
Location: London
Website: www.icbi-events.com/globalcustodyforum

The only custody conference to bring together leading players from the buy and sell side in the industry to debate the critical issues with representatives from over 20 countries.

# Industry Appointments

**Brett Langbert** has been appointed managing director and team leader for UBS prime brokerage business in the US.

He will join the bank from Morgan Stanley, where he was equities managing director. He has also held positions at Goldman Sachs. Langbert will report to Jon Yalmokas, who heads up UBS prime brokerage sales.

"Brett's multi-product experience and diverse client relationships will help us to continue to develop our client focus into a wider strategy set," Yalmokas and Stuart Hendel, co-head of global prime services, said in a statement.

Spectral Capital Corporation has appointed **Stephen Spalding** as chief financial officer and director.

Spalding brings over 30 years of extensive experience in executive management, corporate governance, risk management, control design and development. He has supported early stage companies throughout his career. His education includes: MBA, Quantitative Analysis, University of Arizona; B.S. Finance and Management, B.S. Physics (solid state), B.S. Mathematics, all from Eastern Illinois University.

Spalding is also a frequent guest lecturer at Singapore Management University (SMU) and has instructed a senior/graduate class in IT Audit and Controls in the Accounting Department at San Francisco State University (SFSU).

Spalding's professional experience includes founding partner with KPMG's Information Risk Management Practices and served as a partner in its Strategic Services & Enabling Technology practice for thirteen years. He also served as regional practice partner with Deloitte and Touche's Controls Technology Development & Implementation and Enterprise Risk Services Practices for six years. As such he had responsibility for the firm's west coast technology practice and some of the firm's largest clients (Microsoft, Boeing, Safeway).

The US Securities and Exchange Commission has announced that **Thomas A. Bayer** has been appointed as the SEC's new chief information officer (CIO) and will oversee the agency's information technology functions.

Bayer comes to the SEC from Maris Technology Advisors, where he advised banking and financial services clients on technology strategy, software development, and programme management solutions. In his new role directing daily operations in the SEC's Office of Information Technology (OIT), Bayer will oversee applications development, maintenance, infrastructure, and user support for the agency. He will report to Jeff Heslop, who was named the agency's COO earlier this year.

The SEC is in the process of revamping its technology systems for reviewing tips, complaints, and investigative leads and referrals provided by whistleblowers. The agency also is undertaking various technology initiatives to provide the infrastructure and software necessary to implement various regulatory requirements under the Dodd-Frank Act.

"Tom possesses the wide-ranging experience and technology strategy necessary to effectively manage our OIT operations as the agency continues to meet new challenges and develop new technology solutions," said Heslop. "Tom can provide expert leadership as we continue to vastly improve our technology for receiving thousands of tips, complaints and referrals from the public. He will spearhead our continuing transition from a disclosure system that's document-based to a system that's data-based and more useful for investors."

Bayer added, "The SEC plays a critical role in our government and our nation's economy, and I'm pleased to join an agency where technology is of ever-increasing importance as we serve the financial markets and the investing public." The SEC's Office of Information Technology works with the chairman, commissioners, and the agency's divisions and offices to incorporate technology into all SEC programmes to serve investors, maintain orderly markets, and promote capital formation. OIT operates the EDGAR system, which provides investors with access to more than 7 million public company financial statements and other filings.

Among Bayer's other private sector positions prior to his consulting experience at Maris Technology Advisors, he was vice president, head of software development at GSI from 2007 to 2008, and he was vice president, business information officer at CapitalOne from 2002 to 2007. He also worked nearly five years at Citicorp and Citigroup in New York in various leadership positions involving global technology infrastructure and network services, and spent more than eight years at Sprint Corporation where he held several product management and product development roles with increasing responsibility and technical diversity.

**Daniel Kalt** has been appointed UBS' chief economist in Switzerland, as the bank increases its focus on its home economy.

Kalt has been at UBS since 1997, when he joined as an economist in the research department of the bank. While at UBS, he has worked in credit portfolio management for the corporate and private client business. He has held management roles within the wealth management research division.

In his new role, he will analyse developments in the Swiss economy. He will report to Andreas Hofert, chief economist for the bank's wealth management and Swiss bank division.

GlobeOp Financial Services has appointed **Philip Tazza** as global head of Investor Services. Tazza will report to Vernon Barback, GlobeOp president and chief operating officer, and is based at the company's Harrison, New York office. He will also serve as a member of GlobeOp's Operating Committee.

"Phil will continue to strengthen GlobeOp's services and initiatives related to the increased transparency, due diligence and performance data our clients' investors now require," said Vernon Barback. "Responding to the market's evolution, he will also focus on the support we can offer fund managers, both as they serve their existing investors and reach out to potential new investors."

Bringing nearly 30 years of financial services experience to GlobeOp and its clients, Tazza most recently served as head of North American operations for J.P. Morgan Hedge Fund Services. In this capacity, he was responsible for overseeing Investor Services as well as middle office operations, fund accounting, and operational risk and control.

Prior to J.P. Morgan, Tazza was chief operating officer for alternative investments at UBS Wealth Management. Having begun his career at Price Waterhouse, he subsequently held senior positions at Bank of America, Merrill Lynch and Bankers Trust Company.

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