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SecFinex products to be cleared by BNP Paribas

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SecFinex has announced that BNP Paribas Securities Services will become a General Clearing Member (GCM) of its platform.

SecFinex was the first company to introduce centrally cleared services in the securities borrowing and lending (SBL) industry in 2009 using LCH.Clearnet as the central clearer covering equity markets in Belgium, France, The Netherlands and Portugal.

The service has since been extended to cover Austria, Denmark, Finland, Germany, Norway, Sweden and Switzerland, with SIX x-clear as the central clearer, with coverage of the UK market planned for 2011.

The expansion of the SecFinex central counterparty service to include BNP Securities Services as a GCM will allow a wider range of firms to participate in securities lending transactions without the need for major infrastructural build. Participants will also benefit from a single entry portal to multiple supply and distribution points without the need for multiple participation agreements, reduction of capital allocation for counterparty credit risk, centralised daily mark to market, real time risk management and margining and full straight-through-processing.

Roland Bellegarde, chairman of SecFinex Board, and group executive vice president and head of European execution, NYSE Euronext said: "Increased regulatory focus, attention to capital usage and cost as well as Basel III implications are some of the drivers that are starting to encourage a fundamental shift in the way securities lending develops.

"Today's exciting announcement with BNP Paribas Securities Services, a leading provider of GCM services, demonstrates SecFinex's continuous commitment to providing participants with access to a centrally cleared market place for securities lending and to be at the forefront of market innovation."

Alain Pochet, head of clearing and custody services at BNP Paribas Securities Services said: "We are pleased to announce the addition of SecFinex to our service offering. By using their existing connections, our clients can now extend their use of our GCM services to trade on SecFinex and participate in the online global marketplace for securities lending."

NEWS**IN**BRIEF

FBR to quit prime brokerage

Just 16 months after its launch, FBR Capital Markets is closing its prime brokerage unit.

The unit, which described itself as a 'mini prime brokerage' recruited heavily from Shoreline Trading when it opened in August 2009 and specialised in servicing smaller hedge funds.

However, the financial crisis meant it struggled to gain clients.

North Carolina reduces securities lending loss estimate

North Carolina Treasurer's Office has lowered its estimates of losses the state faces through securities lending activity. The current estimate is now $280 million, $50 million less than the previous figure. Spokesperson Heather Strickland added that the final liabilities will be "around $195 million".

Strickland added that revenue from the state's securities lending programme still outstripped the projected losses. Over the past five years, the fund had earned over $410 million.

A reserve fund containing $146 million has been set up to cover losses from the programme.

INSIDE SECURITIES**LENDING**TIMES


US$ 12 trillion universe of lendable assets
100% need for customized solutions
One Credit Suisse
with 30 years of experience in Securities Lending

Fontana Capital charged

Hedge fund Fontana Capital and its manager Forrest Fontana have been charged by US regulators over alleged short selling violations.

The SEC says the fund earned over $1 million by breaking short selling rules involving three financial stocks, XL Capital, Merrill Lynch and Wells Fargo.

The SEC alleges that the short selling of those stocks breached Regulation M, which prohibits investors from participating in public offerings after having shorted the same securities.

Fontana's lawyer said the breach was a technical one and no fraud has been committed. Lisa Wood said the issue relates to "isolated, inadvertent, technical violations of Rule 105." "We disagree over the measure of damages."

If found guilty, Fontana - who is currently not managing a hedge fund - may be required to repay all the profits made on the trades, as well as facing further penalties.

S&P securities lending indices report significant drop

All three Standard & Poor's securities lending indices saw borrow spreads reach their lowest levels since 2009.

The December indices showed utilisation down 19 per cent, along with a 29 per cent drop in the opening benchmarking lending rate on the last day of the year.

During the fourth quarter, the S&P 600 Securities Lending Spread Index (down 40 per cent) and the S&P 400 Securities Lending Spread Index (down 57 per cent) indicated that small and mid cap US equities were loaned at average spreads of 17 and nine basis points respectively.

The spread versions of the indices are calculated by subtracting an index's aggregate securities lending rebate rate from the Federal Funds Open Rate. After averaging a spread of one basis point in the first nine months of 2010, the S&P 500 Securities Lending Spread Index was negative throughout December and the majority of Q4.

Given the low federal funds target rate (0-25 bps), as the aggregate rebate rate for the S&P 500 Securities Lending Index increased throughout Q4, spreads against the benchmark funding rate turned negative for the large cap index.

Swiss Newedge offices granted branch status

FINMA, the Swiss regulator, has granted Newedge branch licenses, which turn representative offices into branches in Zurich and Geneva.

With full regulatory approval, Newedge in Switzerland will be able to expand the scope of the service it has already providing to Swiss institutional clients. From the existing offices, Newedge has been offering an execution service across several asset classes: listed financial derivatives, equities and ETFs, and promoting clearing and prime brokerage services.

Swiss Clients will now be able to benefit from coverage served by a single local office, rather than dealing directly with several Newedge offices worldwide. There are currently 16 people working as account executives in Zurich and Geneva. The Zurich sales people will be able to execute client orders on a global scale while benefitting from Newedge's global liquidity. The company is in the process of hiring additional sales people with the aim of increasing the sales force by one third by the end of the first quarter 2011.

Franck Borgel, country head for Newedge Germany & Switzerland, commented: "We have been working for a long time under the constraints implicit of rep offices, so this new branch status really expands the opportunities of what we can do in Switzerland. There is a lot of potential for growth, as we continue to offer our clients existing benefits and a high level of service with an enhanced local presence."

Nicolas Breteau, CEO Newedge Group, said: "We are delighted to benefit from a branch status in Switzerland, one of the biggest markets in asset management. We view this as an important step in our strategy to deliver execution, advanced trading solutions and efficient clearing to clients, asset managers included. Newedge is a leader with global access to liquidity, and a trusted partner on service, innovation and ideas. We are committed to servicing Swiss clients for the long run."

Brazil restricts currency short selling

The Brazilian Government has announced that it is imposing a tax on short positions in US dollars, in an attempt to reduce the strength of the country's currency.

The real gained almost five per cent on the US dollar in 2010 and has jumped 14 per cent since May last year. Exporters and manufacturers have complained that speculators are costing them sales overseas.

The measures appear to be working; the real has already weakened slightly.

Record securities lending volumes at BM&FBovespa

The financial volume from securities lending on BM&FBOVESPA reached a record BRL 465,605,784,349.80 in 971,558 transactions in 2010.

Financial volume was up 80 per cent on the BRL 258,912,598,639.53 of 2009, in 711,987 transactions.

In December alone there were 91,926 transactions, with a record financial volume of BRL 9,366,371,690.42. Open-interest contracts at the BTC securities lending programme of the Brazilian Clearing and Depository Corporation (CBLC) ended December on a financial volume of BRL 22,161,521,363.56.

Christian School securities lending mandate won

CIBC Mellon Global Securities Services Company has been selected to provide a full suite of asset servicing solutions for Canadian Christian School Pension Trust Fund including custody, fund accounting, securities lending and performance & risk analytics.

"CIBC Mellon's market knowledge and technology are impressive," said Howard Van Mersbergen, vice president, employee benefits, Christian Schools International. "They provide us with the expertise and tools we need to enhance our pension fund management in today's environment."

"We are seeing an increased demand from pension fund administrators in partnering with an asset servicing provider that can help them effectively navigate through market and regulatory changes," said Thomas S. Monahan, president and chief executive officer, CIBC Mellon. "We look forward to providing Canadian Christian School Pension Trust Fund with world-leading capabilities and the local market insights they need to plan well in advance for industry developments and recognise new opportunities for growth."

ISDA looks to reduce risk in Asia

The International Swaps and Derivatives Association (ISDA) has published the Asia Pacific Portfolio Reconciliation Memorandum of Understanding (MoU) to promote portfolio reconciliation and reduce risk in the Asia Pacific region.

The objective of the MoU is to outline the process and frequency with which participating firms reconcile portfolios of collateralised derivatives transactions.

"Today, portfolio reconciliation is playing a key role in operational risk management and has already become market best practice in the west following the financial crisis," said Keith Noyes, regional director, Asia Pacific, ISDA. "ISDA is pleased with the efforts of the working group and the participating firms in driving global portfolio reconciliation initiatives in Asia Pacific through the MoU. ISDA will continue to work collaboratively with regulators to further advance the understanding and promotion of better collateral management practices."

The important characteristics of the MoU are:

− It is customised for Asia Pacific members to implement best practices;

− Facilitates a proactive approach that enables firms to identify and resolve discrepancies and risk exposures quickly and accurately;

− Contains flexible reconciliation choices and minimal data field requirements for ease of implementation. Firms can select a minimum of only three counterparties with whom to reconcile or choose to reconcile with all MoU participants.

With the support of the ISDA Collateral Steering Committee, the ISDA Asia Pacific Collateral Management Operations Working Group drafted the MoU standards in early 2010. This was followed by two successful pilot runs. During the two pilot runs participating firms, including both global and Asia Pacific-based firms, acknowledged the benefits of portfolio reconciliation which led to resolution of booking and mark-to-market discrepancies between counterparties.

OTC collateral agreements, such as the ISDA Credit Support Annex (CSA), are widely used to manage counterparty credit risks. However, the effective implementation of CSAs can be compromised if post-trade activities lead to discrepancies between the system records of the two firms.

Portfolio reconciliation was established to mitigate this risk by providing the necessary portfolio transparency to reduce and resolve collateral disputes. It provides baseline comparison of mark-to-market valuations. The process pinpoints discrepancies more readily and provides the ability to focus resolution discussions on problem areas by matching at the trade level, helping to ensure the accuracy and precision of cash flows to aid in overall risk management.

OneChicago reports December volume

OneChicago, LLC has reported that 637,012 security futures contracts traded at the Exchange in December 2010, up 83 per cent over December 2009. Total 2010 volume was 4,971,160; up 67 per cent from 2009.

Open interest stood at 360,336 contracts at the end of December 2010.

December Highlights

- December was the highest monthly volume for 2010, up 190 per cent over November, 2010
- 225,318 December futures valued at $954 million were taken to delivery, validating the use of single stock futures as an equity finance product. The December open interest represented 44 per cent of all existing open interest on expiration day.
- 605,738 EFPs and blocks were traded, representing over $8 billion in notional value.
- Exchange for Physical (EFP) 2010 volume was 2,511,569, up 475 per cent from 2009.

2010 Highlights

- OCX.NoDiv, the new innovative OneChicago product that removes dividend risk from SSF trading, was launched in October 2010. 24 per cent of all year-end open interest is OCX.NoDiv products.
- OneChicago successfully introduced OCX.RiskMan, a risk control product for the OCX.BETS trading platform, which supports a marketplace for EFPs and block trades in OneChicago products.
- OneChicago consolidated its clearing business at the "AAA"-rated Options Clearing Corporation in August 2010
- OCX added three industry experts to its Board of Directors in February 2010
- Four new Clearing firms began participating directly in OneChicago markets.
- OCX.Weekly futures were launched in January 2010

OneChicago (OCX) is the only US regulated exchange for trading security futures and the related EFP. OCX lists approximately 1,735 products, including ADRs, ETFs and OCX.NoDiv contracts. Contracts are cleared through the centralised counterparty, AAA-rated OCC, and are regulated by both the SEC and CFTC. Security futures, a delta one product, are utilised for synthetic equity strategies, equity swaps, equity repos and synthetic stock loan/borrow transactions.

OCX.NoDiv contracts are security futures with dividends removed from the pricing as the future's price is adjusted down by the value of the dividend on Ex-date.

OCC announces record year

The Options Clearing Corporation (OCC) has announced that total OCC volume in December reached 344,206,175 contracts, a 16 per cent increase over the December 2009 volume of 296,703,081.

OCC ended the year with cleared contract volume reaching 3,925,686,805, an eight per cent increase over the 2009 volume of 3,625,021,053. 2010 was the busiest year in OCC's history as a result of the eighth consecutive year of record options trading, futures volume that more than doubled, and significant growth in securities lending activity.

Options: Exchange-listed options trading in December increased 16 per cent compared to December 2009 with 341,207,420 contracts. Equity options volume was up 17 per cent from the previous December and set a record daily volume of 29,352,698 contracts on December 16th, four per cent higher than the previous record set in May 2010. Index options volume declined two per cent from the previous December with 20,741,853 contracts. Total options volume for 2010 came in at 3,899,068,670 contracts, an eight per cent increase over 2009's annual volume of 3,612,637,118.

Futures: Futures cleared by OCC finished the year with 2,998,755 contracts in December, representing a 74 per cent increase over December 2009 volume of 1,719,560. OCC averaged 105,628 futures contracts per day in 2010, more than double that of 2009. 2010 brought OCC futures clearing to its highest level with an annual total of 26,618,135.

Securities lending: OCC's stock loan programme, including OTC and AQS, saw a 51 per cent increase in new loan activity over December 2009 with 69,429 new loan transactions in December. Total securities lending activity in 2010 was up 64 per cent from 2009 with 656,749 new loan transactions. OCC's stock loan programme ended the year with an average daily notional value of $12,692,188,125.

Deutsche Bank launches prime services app

Deutsche Bank's Global Prime Finance business has announced the availability of GlobalPrime Mobile, a Prime Services mobile application for the iPad and iPhone. GlobalPrime Mobile allows clients to quickly retrieve daily margin information, and access portfolio reporting and analysis tools. The application provides a powerful set of filters to streamline report selection for mobile device users.

"As an industry leader, we are pleased to launch cutting edge technology to meet the dynamic needs of our sophisticated client base," said Barry Bausano, co-head of global prime finance and head of global markets equity in North America.

"We developed GlobalPrime Mobile to enable our clients to access vital information on the go, and ultimately streamline their investing process," said Jonathan Hitchon, co-head of global prime finance.

The Deutsche Bank GlobalPrime Mobile Application is available on the App store.

BBH launches securities lending apps

Brown Brothers Harriman has launched the firm's securities lending mobile application for the iPhone and BlackBerry smartphones.

Among other critical information, the application will provide immediate access to programme revenues, loan balances, and loan distribution by borrower, along with the latest market news and information about how market developments are affecting securities lending revenues.

"Recent market events and ongoing market volatility have intensified our clients' need for immediate access to financial information," said Chris Donovan, head of global securities lending for BBH. "At a moment's notice, clients want to know what securities they have out on loan, their loan exposure to any institution, and how a market event is affecting their portfolio.

"While clients can currently access detailed programme information via the web, our fully integrated mobile application is an extremely effective mechanism for accessing the information quickly and efficiently," continued Donovan.

The "BBH GSL" mobile application is the latest enhancement to BBH's reporting suite. The firm recently modified its securities lending reporting platform to deliver enhanced information delivery services that can be tailored to each user, and is planning additional updates in the year ahead.

Technology view

Securities Lending Times speaks to Sameer Shalaby, CEO of Paladyne Systems about his views on the market and the company's recent developments within the technology space

Exclusive

SLT: Before we look at the year ahead, how do you feel the securities lending industry fared in 2010?

Sameer Shalaby: We didn't see as much lending, shorting or borrowing as in previous years. Our prime broker contacts say it wasn't as good a year and this was because activity was down - hedge funds were not as leveraged as they have been in the past, so there was less borrowing.

The technology is evolving within the securities lending space. One of the features we introduced in 2010, Paladyne's Short Availability Manager, which provides hedge fund managers the ability to locate securities before they are shorted so they can view rates and availability. This connects directly to prime brokers for identifying short availability in real-time, tracking borrow fees and rebates, and managing borrow costs with full transparency.

Certain markets are eliminating naked shorts, and introducing regulations to ensure greater reporting. This means there needs to be an automated process and the technology is being developed for that. Some of the more forward-thinking banks have introduced the technology that makes securities lending availability more transparent, which makes it easy for funds to dynamically compare rates and track quotes. The banks that have already signed up to this are the major players within the securities lending industry; they are the leaders in the market so they're getting the lion's share of the business. But this automation is the way the industry is moving, simply because of the reporting requirements that are being introduced around short selling. We expect these systems will be introduced in more organisations this year.

SLT: What's your outlook for 2011?

Shalaby: No doubt there will be more reporting requirements. But also there is going to be a greater spotlight on compliance - so the ability to hook up your compliance engines to your securities lending function is key. If you don't have access to shorting within your compliance engines you are going to face problems.

Wherever we see new regulations coming through, we see a leading indicator from investors - they will be asking managers, and therefore Paladyne, for that functionality well in advance.

In terms of volumes, I expect to see increased activity across the board as it relates to securities lending. I believe assets under management in hedge funds will increase to over $2.5 trillion, possibly as much as $3 trillion in 2011 and from that there will be a lot of activity. Hedge funds are back in vogue and returns are good.

SLT: Paladyne has a solution for growing or start up hedge funds. Do you feel this market of boutique providers is set to grow?

Shalaby: We saw a surge in activity from Q3 2010 and the first quarter of 2011 also looks good.

But the challenge is the size of the funds and the cost of operating the business. The cost of starting a hedge fund is high and some funds with low AUM may not be able to survive. This new reality is weeding out a lot of funds. We see the quality of the funds is much higher - good managers, often using their own money and being willing to invest and build the business for a couple of years rather than cut corners. The assets come in as they are able to demonstrate to investors institutional grade operations and technology as well as pedigree and performance.

We see some managers from larger hedge funds that are spinning out to set up on their own. But what's also interesting is that we are seeing that they are often seeded by the larger funds.

SLT: Does the sort of service the vendors such as Paladyne offer mean that there is no real need for any hedge fund to manage their own technology?

Shalaby: The more appealing model now for smaller funds is an ASP turnkey solution that funds don't need to worry about.

Larger hedge fund managers are also looking to outsource. We've had discussions with some of the larger firms who have built their own systems about how they can outsource their technology so they can reduce their operating costs.

SLT: What are your clients talking to you about when it comes to their technology requirements?

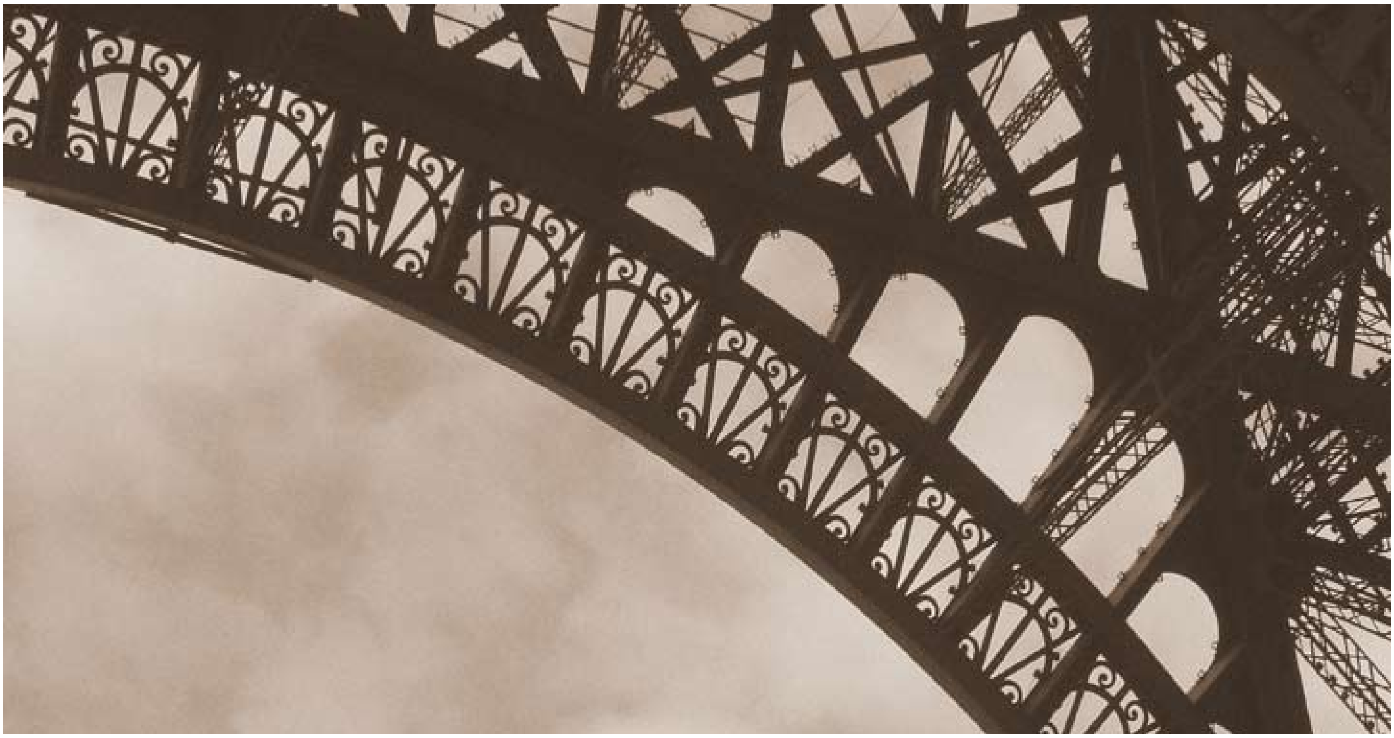
Shalaby: As well as start-ups, our clients include many of the larger hedge funds and asset managers, fund administrators and prime brokers. Compliance is the big area that everyone is talking about. Everyone wants more risk capability where the information is embedded in real time in the front end rather than just as an end of day VAR report. In general, everything that was done at the end of the day or on a T+1 basis is now required in real time. This is becoming increasingly important in today's 24/7 environment. Firms with traders around the world have real issues with when the end of day process happens. At the moment, there's no real solution for this - from a technology point of view, we wouldn't have a problem, but the issue is with counterparties and the need to fit within their windows.

SLT: What other challenges are you facing when it comes to developing both the market and the technology that supports it?

Shalaby: It's going to be concentrated between investor demands and regulatory changes - this has already started, and it's only going to continue.

There are other issues - latency trading and so on, but I don't think it's a major problem and it's not widespread.

The focus is going to be on more automation, STP on OTC products. In general the industry is about cutting costs, so the ASP model is crucial. This is the clear trend. **SLT**



France

The French securities lending industry is in reasonable health, but is under fire from many quarters.

BEN WILKIE REPORTS

As one of Europe's financial powerhouses, France was hit hard by the economic turmoil that engulfed the markets in 2008. Some government support was needed for a couple of the country's major banks, and the country was also hit by two major frauds - it was one of the major losers from the Madoff affair, and Societe Generale also faced heavy losses when trader Jerome Kerviel lost almost five billion euros arbitraging discrepancies between equity derivatives and cash equities.

That said, France is a relatively stable market, indeed some may say boring. Earnings on equities have risen, with Data Explorers saying the TRTL reaching over 40 basis points in 2009/10. Utilisation has fallen slightly, but remains at just under a quarter of lendable assets. Government bonds have seen a slight fall in interest, and returns are not as strong as with equities, but they still see a utilisation of around 30 per cent.

"After the downturn in 2008 that carried over to 2009, we had quite high hopes for the market last year," says a head of securities lending trading at one of France's major banks. "In fact it was quieter than expected, but this has not necessarily been a bad thing - it's kept the market on an even keel and we have not had any nasty surprises to deal with."

Equities

Unsurprisingly, the main lendable assets in France represent many of the country's largest companies. Short selling restrictions mean that the banking sector is relatively unrepresented, but the likes of telecoms, retail and oil firms dominate. France's securities lending activities remain quite conservative; specials don't play as big a part as in other markets, and because takeover activity has been muted, the main targets have been the stable multinationals that investors feel comfortable with.

The players

While the French banking sector undoubtedly has an international outlook, the key players within the country's securities lending industry tend to be local providers. The likes of HSBC and some of the American banks have a significant presence, but it's BNP Paribas, Natixis, Société Générale and the like who dominate the market.

"France has always had a strong banking sector and while it's relatively straightforward for a bank to set up in the country, it's tough for it to gain a foothold in this market," says one local. "The funds that want to invest in France like to see an entrenched local knowledge, while the domestic beneficial owners prefer to deal with French banks. This is not restricted to securities lending, or even institutional banking - French companies tend to prefer to deal with other French companies in general, and the same can be said for the consumer market as well. It's just the way France is."

The funds industry has taken a bit of a battering over the past couple of years, and this is not just because of any losses as a result of the downturn. It's also about the behaviour of the French funds in the light of new regulation.

Funds of funds became popular at the start of the millennium, with investors - particularly hedge funds actively pursuing opportunities in this market. Growth of up to 30 per cent a year was seen for several years, but when the financial crisis hit and the hedge funds looked to withdraw their investments, the problems took hold. Not all funds were able to repay the cash immediately.

One fund, AGS Group, allowed investors to get their money back on a daily basis. But the structure of the fund - and the funds it invested in - meant that liquidity was monthly or quarterly. AGS Group went to the Autorité des marchés financiers (AMF), the French regulator, to say it could not fulfil its redemption requests. Other funds followed suit.

The AMF then allowed funds of funds managers to retrospectively change the terms of their prospectuses to reduce outflows of capital. This, says one fund manager, has irreparably "tainted the image of the French funds of funds industry as a whole".

And they still haven't really recovered - investment is still down, although that's partly due to the market downturn rather than any trust in the fund managers - and France is seen as a less attractive destination for investment by some. But it's not all bad news, the derivatives industry is starting to see activity grow, and new types of funds are also launching. Multi-strategy funds of funds, hybrid products and customised portfolios are becoming increasingly popular.

Other investment options are almost treading water at the moment - the markets are certainly not falling, but the confidence that was seen at the beginning of 2010 did not live up to expectations. And while 2011 is expected to be a year of growth, the optimism has been tempered by the experiences of the past year.

"The French scrip trade that was quite lucrative in 2009 proved disappointing in 2010 due to falling markets," says Stephen Rudland, desk head, European trading at RBC Dexia Investor Services. "With reinvestment prices being greater than market prices, most scrip trades were 'out of the money', resulting in zero revenue from the profit sharing that was arranged with a select number of borrowers. There has been limited new deal activity and, consequently, a particularly low number of stocks trading special."

Regulation

As an enthusiastic member of the European Union, the French regulators work closely with their counterparts in Brussels, and are often the driving force behind some of the regulations that affect all members.

Nationally, the regulators placed short-term restrictions on short selling in 2008, as the crisis threatened to envelope some of the country's largest financial institutions. These restrictions have been extended regularly, and there remain some controls in place even now.

But even before the crisis, securities lending was under the spotlight, less because of short selling and more because there were concerns that some organisations were able to exert undue influence through securities lending when it came to shareholder voting on listed companies.

A working group on securities lending before general meetings of shareholders, chaired by AMF Board member Yves Mansion, published its report on 6 February 2008. The report recommended fuller disclosure of the type of interests held by shareholders, with the aim of curbing the influence that can be wielded during the general meeting season by shareholders with no permanent exposure to the economic risk of share ownership. In general this effort reflects the concerns – widely shared internationally – voiced by the industry groups representing listed companies.

France's notoriously complicated tax structure is actually pretty favourable to the securities lending industry. Securities lending arrangements in France are normally structured as two sales and as such are considered fully taxable transactions.

However, there are two main types of securities lending transactions which benefit from a favourable French income tax regime that levies no taxation on capital gains. First is the pret de titres, a securities lending agreement, while pension livree, equivalent to a repo contract has the same status.

To qualify for either of the tax-neutral concessions, the transactions must not have a dividend giving rise to a foreign tax credit distribution during the lending period; and the securities lent must be returned to the lender, even if they are not exactly the same securities, at the end of the transaction. Fees remain taxable.

The future

There remains a sense of optimism about the market in France, perhaps more so than in other European countries. The industry has come out of the recession, and the associated financial scandals, relatively unscathed, and the strength of the financial sector means that confidence in the banks is high.

Regulation of course remains an issue. Short selling restrictions are always on the horizon, and both the French and the European regulators are looking to tighten up controls. The strength of the euro also has some investors remaining cautious - the problems in Greece and Ireland have damaged the currency's reputation and there are fears that other markets will remain under pressure.

"We're confident about the securities lending activity rising in France in 2011, but we don't expect any big moves this year," says one expert. "We're seeing more inflows in from the hedge funds and there is confidence that activities will rise. But we're still waiting to see what the effects of the new pan-European regulation will bring." **SLT**

Security ranking by total return

Rank	Stock description	Security type
1	Total Sa	FR Equity (CAC)
2	France Telecom Sa	FR Equity (CAC)
3	Sanofi-Aventis Sa	FR Equity (CAC)
4	Gdf Suex Sa	FR Equity (CAC)
5	Vivendi Sa	FR Equity (CAC)
6	BNP Paribas Sa	FR Equity (CAC)
7	Lafarge Sa	FR Equity (CAC)
8	Axa Sa	FR Equity (CAC)
9	Carrefour Sa	FR Equity (CAC)
10	Société Générale	FR Equity (CAC)

Source: Data Explorers

Positive outlook

Andrew Shinn, vice president at SunGard Astec Analytics, says securities lending is primed to benefit from increased investments in hedge funds

Exclusive

Hedge funds faced a challenging market environment in 2010. In turn, the securities lending industry did not benefit from hedge funds' reduced demand to borrow and sell short.

During the credit crisis, hedge funds were forced to meet investors' redemption requests by selling illiquid assets for less than fair value. As a result, many funds were careful not to fall too far below benchmark returns lest more investors pull their capital. The cumulative effect was a trend toward accumulating cash and refraining from taking the same risks that hedge funds did in the past. According to anecdotal evidence, as hedge funds sat on cash, many prime brokers remained quiet on those days when there was little demand to trade.

It is hard to be critical of hedge funds, however, because banks and corporations also accrued and held on to enormous piles of cash. These organisations avoided making any big decisions because of the uncertainty in the economy and regulatory environment.

The situation may be changing, however. Over the past six months, investors have continued to increase allocations to hedge funds. Investors allocated an additional $15 billion to hedge funds in November, the highest monthly figure since February 2010. And investors in November allocated the most money to long-short funds, which bodes well for securities lending.

Pension funds increase leverage in 2010

On the beneficial owner side of the business, one new development that emerged last year was the move away from equities and toward leveraged fixed income portfolios and alternative asset classes. For example, it is atypical for pension funds to lever their fixed income portfolios. But despite the infusions they have received from their respective state governments to make up for losses in 2008, most are still underfunded and forced to take extraordinary steps to meet expected returns.

Pension funds in California, Wisconsin and Ohio argued that equities were relatively too volatile and that leveraging fixed income portfolios was the optimal choice in order to reduce volatility and boost expected returns. Of course the amount of leverage will be in the order of 1.1:1 or 1.2:1, rather than the 30: or 40:1 leverage ratios that have sunk hedge funds and investment banks in the past dozen years.

On the other hand, if interest rates increase unexpectedly, these levered portfolios could suffer outsized losses. While this remains an area to watch, it demonstrates that pension funds are continuing to make thoughtful investment decisions. This mirrors activity in the securities lending industry as pension funds as a whole remain committed to securities lending. Available assets to lend declined from 2008 through 2009, yet increased 25 per cent in 2010.

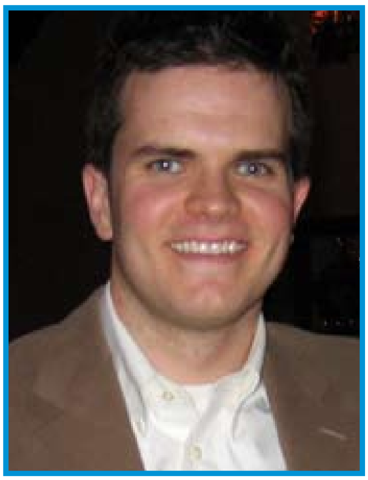
What's next for the regulatory environment

One reason hedge funds hoarded cash was because they were not sure what regulators would do next regarding short selling, for instance. Last February, the SEC decided to institute an alternative uptick rule on a stock-by-stock basis. The rule would take effect when a stock declines in price by at least 10 per cent on a single trading day. Although the SEC continued to push back the implementation date, it is now scheduled to take effect at the end of February 2011. The part that has investors concerned is whether the SEC will allow market makers to be exempt from the rule.

Insider trading scandal kept in perspective

An unfortunate recent development in the investment management industry has been the insider trading scandal. While the investigation is ongoing, the scandal does not seem to be negatively influencing hedge fund investors too much.

The number of defendants in the case that originated with Galleon increased to 27 in early January. Yet FrontPoint, a fund that was touched by the scandal when one of its managers was charged with insider trading, was able to launch a new $1 billion fund. This is a positive sign that investors are keeping it in perspective. **SLT**



Andrew Shinn
Vice-president, SunGard Astec Analytics
SunGard

The 15th Global Securities Financing Summit

Global liquidity management: The new reality

The Global Securities Financing Summit is one of the largest gathering of participants from the international repo and collateral management community in the world. The event provides an opportunity to meet up with counterparts in the repo market and also offers a great opportunity to establish new contacts.

This year the summit will be chaired by Roy Zimmerhansl. After 30-year-experience in senior positions in the securities industry, Roy is a recognised securities lending industry commentator and owns FinTuition and Zimmerhansl Consulting Services.

AGENDA

Tuesday 18 January 2011

From 19:00
Eurex Repo Bar
Venue
Brewery Clausel
Les Rives de Clausen
Luxembourg

Wednesday 19 January 2011

08:30
Registration and welcome coffee

09:30
Welcome remarks
Stefan Lepp, Clearstream Banking

09:40
12th annual Central Banks Forum

Impact of the crisis, lessons and the way forward
Chairman
Bob Currie, Financial Services Research
Panellists
– Silvia Marques de Brito e Silva, Central Bank of Brazil
– Lawrence Radecki, Federal Reserve Bank of New York
– Dirk Schrade, Deutsche Bundesbank
– Esmond Lee, Hong Kong Monetary Authority

10:50
Coffee break

11:20
OTC derivatives - Quo vadis
Introduction
Luiz Fleury, CETIP - Brazil
Chairman
Bob Currie, Financial Services Research
Panellists
– Luiz Fleury, CETIP - Brazil
– Jesús Benito, Iberclear
– Thomas Book, Eurex Clearing

12:30
Buffet lunch

14:00
Keynote speech
Dominic Hobson, Global Custodian magazine

Deutsche Börse Group Workshop

14:45
Global liquidity and risk management hub, shaping the future for you
Pascal Morosini, Clearstream Banking

15:45
Product development update
Jean-Robert Wilkin, Clearstream Banking
Marcel Naas, Eurex Repo

17:00
End of Day 1

19:00
Evening reception & buffet dinner
Venue
New Conference Centre
Place de L'europe
Luxembourg - Kirchberg

Thursday 20 January 2011

09:00
Registration and welcome coffee

09:45
Welcome remarks
Jeffrey Tessler, Clearstream International

10:00
Chairman's opening remarks
Roy Zimmerhansl, Zimmerhansl Consulting

10:15
Repo and liquidity management panel
Chairman
Roy Zimmerhansl, Zimmerhansl Consulting
Panellists:
– Jaime Comunion, Caja Madrid
– Johan Evenepoel, Dexia
– Tanweer Khan, Standard Chartered
– Guido Stroemer, UBS

11:30
Coffee break

12:00
Securities lending panel
Chairman
Roy Zimmerhansl, Zimmerhansl Consulting
Panellists:
– Mike Manna, Barclays Bank
– Thomas Wißbach, Eurex Clearing
– Arne Theia, Unicredit Group
– Sarah Nicholson, Aviva Investors

13:15
Lunch

14:15
Regulatory changes panel
Chairman
Roy Zimmerhansl, Zimmerhansl Consulting
Panellists
– Godfried De Vidts, ICAP
– Edward Corral, Morgan Stanley
– Sadat Mannan, Barclays Capital
– Eduard Cia, UniCredit Group

15:30
Chairman's concluding remarks
Roy Zimmerhansl, Zimmerhansl Consulting

15:45
Summit ends

15th Global Securities Financing Summit

Date: 19-20 January 2011
Location: Luxembourg
Website: www.clearstream.com

The Global Securities Financing Summit is the largest gathering of participants from the international repo and collateral management community in the world.

17th Annual Beneficial Owners' International Securities Lending and Repo Summit

Date: 13-16 February 2011
Location: Scottsdale, Arizona
Website: http://secure.imn.org/web_confe

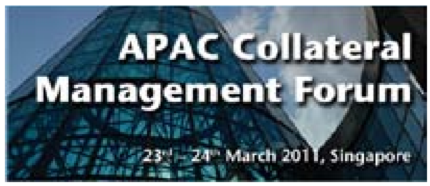
The largest, only must-attend event for the beneficial owner community 450+ attend annually, including over 125 beneficial owners

PASLA/RMA Conference on Asian Securities Lending

Date: 1-3 March 2011
Location: Singapore
Website: www.rmahq.org

This annual event combines the resources of both the Pan Asia Securities Lending Association (PASLA) located in Hong Kong and The Risk Management Association (RMA) located in the US

APAC Collateral Management Forum



Date: 23-24 March 2011
Location: Singapore
Website: www.fleminggulf.com

Fleming Gulf's APAC Collateral Management Forum, Singapore to be held on 23-24 March 2011 in cooperation with collateral management experts, aims to provide comprehensive insights on how to achieve a well managed collateral program in an increasingly complex and volatile market.

Industry Appointments

Huntington Bancshares Incorporated has appointed **Steven G. Elliott**, retired senior vice chairman of BNY Mellon, to its board.

During his 23-year career with BNY Mellon, Elliott served as chief financial officer, led a number of the company's servicing businesses and was co-leader of the integration of The Bank of New York and Mellon Financial Corporation when they merged in 2007.

Elliott also served as a director of Mellon Financial Corporation from 2001 until the merger in July 2007. He was then a director of BNY Mellon through July 2008.

A certified public accountant, Elliott joined Mellon in 1987 as head of finance. He was named chief financial officer in 1990, vice chairman in 1992 and senior vice chairman in 1998. As chief financial officer from 1990 to 2002, Elliott led strategic acquisitions, divestitures and restructurings. He also has held various line of business leadership roles in asset servicing, securities lending, foreign exchange, capital markets, global cash management and institutional banking.

Gar Wood Securities has hired **John McCorvey** III as senior vice president of its Global Prime Brokerage business unit.

Gar Wood CEO Bob Jersey stated, "Gar Wood is committed to its client-centric approach, consistently delivering high-touch client service across all facets of our business. We are very pleased to have John join our team and we look forward to the added value that this strategic move brings to our clients".

McCorvey joined Gar Wood Prime from Direct Access Partners where he was senior adviser of global prime services. Prior to his role at DAP, McCorvey was the senior vice president at Madison-Grey, (which at the time was Bank of Butterfield's domestic hedge fund administration business.

McCorvey stated, "I'm very excited to be a part of the Gar Wood team. The firm has a unique value proposition and focus on small- to mid-sized hedge funds – providing the same range and level of global prime resources as those of global investment banks serving the largest managers ($1bn+). Gar Wood delivers a comprehensive array of services including multi-asset class trading coverage, best execution, portfolio margining, stock lending, margin financing, technology, operations, reporting, traditional and seed capital raising, and cap intro."

EquiLend Europe has announced the appointment of **Yuka Hasumi** as business development associate and **Armina Raufi** as product development associate at the company's London headquarters.

Hasumi has extensive securities lending experience in London and Asia having previously worked at Sumitomo Trust and Banking, London and Citigroup Global Markets, Japan. She will be responsible for managing clients in Europe as well as supporting the needs of the Asian office, which is due to open in February.

Raufi, who has joined the company from Lockheed Martin, will be responsible for working with European clients to develop new products and service enhancements on the EquiLend platform.

Laurence Marshall, head of EquiLend Europe stated: "I am thrilled to bring on Yuka and Armina, who bring a wealth of diverse experience to EquiLend. It is very important that we have a product development resource focusing fully on our European clients as well as committing more resources to the daily management of our clients in Europe and Asia."

BTIG, LLC, a global broker dealer specialising in institutional trading and related brokerage services, has announced another expansion to its fixed income group with the hiring of **David Kallenberg** as a managing director for its new convertible securities desk in Los Angeles.

BTIG's convertible securities desk, led by Robert Langer, head of high yield and convertibles sales and trading, was launched in October 2009 to complement the firm's equities, fixed income and prime brokerage offerings.

"David brings a mix of extensive convertibles experience and deep institutional relationships that can be leveraged across the entire firm," said Langer. "With the addition of David, BTIG now has convertible sales coverage in Los Angeles, San Francisco and New York, as we look to continue to provide our clients with high touch local service."

Kallenberg joins BTIG from KKS Securities, a convertible securities boutique that he co-founded in 2008, which was then bought by Sterne Agee in 2010. Before KKS Securities, Kallenberg held a variety of US-focused convertible securities roles at Thomas Weisel Partners, Amaranth Advisors and William Blair, a Chicago-based brokerage firm, where he built the Convertible Securities desk and was head of trading and risk management.

Kallenberg joins a team of seven professionals on BTIG's Convertible Securities Desk that includes Jacob Creem, Bill Feingold, Will Frohnhoefer, David Lochmann, Kevin McGuire and Donald Pizzutello. BTIG's convertible securities desk is part of its global fixed income group that provides expertise and seamless execution across the capital structure for a broad range of institutional investors.

International law firm Eversheds has appointed leading structured finance and derivatives lawyer **Kingsley Ong** as partner in its Hong Kong banking and finance team.

Ong, who has over 10 years experience at both Mayer Brown (Hong Kong and London) and Clifford Chance (London), will be responsible for spearheading the structured finance and derivatives group in Hong Kong. He has extensive experience in setting up securitisations, derivative products and other structured finance transactions, as well as the unwinding of complex securitisation structures and close out of derivatives, repo and securities lending contracts.

Ong is the secretary-general of the Asia-Pacific Structured Finance Association (APSA), and was recently cited as a leading authority on structured finance, derivatives and securitisation in the US court by the Securities Industry and Financial Markets Association (SIFMA). He is fluent in Mandarin and Cantonese Chinese.

"Kingsley is a highly recognised and respected practitioner in the structured finance and derivatives market, and his expertise will drive forward our banking and finance team in Asia. The new group practice will complement and reinforce the firm's existing capabilities. We are committed to investing in new talent to grow our business in Asia and it is with great pleasure that I welcome Kingsley to the team." Nick Seddon, managing partner in Eversheds' Hong Kong office, commented.

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

Marketing: Steven Lafferty
design@securitieslendingtimes.com

Publisher: Justin Lawson
justinlawson@securitieslendingtimes.com
Tel: +44 (0)20 8249 0235
Fax: +44 (0)20 8711 5985

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16 Bromley Road
Beckenham
Kent
BR3 5JE
UK

Company reg: 0719464

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