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NOT FOR SALE

Short selling bans increase as markets recover

EUROPE 12.08.2011

Four more major European markets have announced temporary short selling bans.

Following a spate of announcements, France, Italy, Spain and Belgium are the latest countries to impose bans in a bid to restore market confidence.

So far, it's working. The Stoxx600 closed higher following the 11 August announcement, while bank shares rallied.

European Union regulators welcomed the "harmonised regulatory action".

The European Securities and Markets Authority (Esma) said the actions were intended to "restrict the benefits that can be achieved from spreading false rumours or to achieve a regulatory playing field, given the close inter-linkage between some EU markets".

But many market analysts see the move as political in nature, pointing to academic studies questioning the value of short selling bans in the establishment of orderly markets, in particular showing that SEC interventions in September 2008 failed to support stock prices, except possibly for US financial stocks.

In France, the regulator has banned short selling for 15 days on 11 financial stocks as a direct response to a plunge in prices after CDS sovereign spreads were seen rising over the week.

The rising spreads sparked rumours that France was being considered for a downgrade, though all three credit rating agencies have since denied this is the case.

"The short sale ban buys policy makers some time (maybe a week or two) but that itself does not solve the problems with the banks and with the popular unrest in Europe," said Jorge Vrljicak, macroeconomic analyst at Equity Research Desk.

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NEWSINBRIEF

Northern Trust to transfer Irish operations

Northern Trust is to transfer its Dublin-based securities lending business to its London offices following the completion of its acquisition of Bank of Ireland Securities Services.

Some custody activities will also be transferred. Insiders says approximately 220 of the approximately 750 staff will lose their jobs, including the vast majority of the securities lending team. It is believed there will be no staff transfers to London.

Northern Trust acquired the fund administration, investment operations outsourcing and custody business of the troubled Bank of Ireland group in a transaction that closed at the start of June. It paid around €60 million for the business, increasing assets under administration and custody in the country by approximately €70 billion.

The transfer of operations is expected to be completed by the end of this year.

First Middle East triparty cash repo trade settled

The National Bank of Abu Dhabi (NBAD) is the first Middle East financial institution accepting local counterparties as cash takers and Middle East assets, such as sovereign and corporate bonds out of the Gulf Cooperation Council (GCC) area, as collateral.

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Short selling bans increase as markets recover

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"The good news is that this kind of decision helps the market stabilise and clearly stops shorts based purely on speculation and rumour," said David Sagnier, CEO and president of Paris-based RFQ-hub, a multi-dealer RFP platform. "But it also reminds everyone of regulatory actions imposed in a post-Lehman situation, so it is a double-edged sword."

Whether or not these echoes of the 2008 credit crunch should be resonating remains to be seen. There are certainly signals that the equities sell-off this week has presented compelling buying opportunities. Still, Sagnier says the transatlantic debt situation should not be underestimated.

"It's easy to sell governments short when there is trouble," Sagnier said. "This is a very serious situation, governments have too much debt, the only way to get out of debt scenario would be to raise tax and to raise tax you slow down an economy that is already not doing well, so it is a vicious circle."

Still, the "cold shower" solution of a short selling ban will stop markets from bleeding while buying governments time to find longer-term strategies. One such solution, backed by UK chancellor of the exchequer, George Osborne, is to package debts of both weak and strong governments together to create a "eurobond".

But with 27 countries in the eurozone and 17 using the euro, that kind of consensus is unlikely to happen in the same week.

First Middle East triparty cash repo trade settled

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"Our first Middle East triparty repo trade will mark the kick-off point for the flow of liquidity within the region," said Paul Voce, global head of repo NBAD. "It will also encourage the development of a true triparty repo refinancing market among local players and collateral." The first trade settled in early July through Deutsche Börse-owned Clearstream's infrastructure.

Stefan Lepp, member of the Executive Board of Clearstream and head of global securities financing, said: "This is a further important step towards the extension of our Global Liquidity Hub in this important region. This initiative supports our global strategy to further strengthen transparency, reliability and efficiency in the financing industry in close cooperation with market participants, regulators and central banks."

Short selling and securities lending markets are part of the criteria required by MSCI to gain emerging market status, writes Data Explorers, adding that even in 2010 there were signs of momentum behind plans for the Qatar and UAE stock exchanges to open up securities lending.

Turkey curbs short selling on Istanbul Stock Exchange

Turkey has announced measures to curb short selling after the week's equities sell-off. Market regulators raised the minimum equity ratio to 70 per cent for short selling and announced a probe into activities on the Istanbul Exchange, according to various media reports.

Since transatlantic debt woes threw global markets into a tailspin, the benchmark index had dropped to its lowest since February 2010.

The move by Turkey follows other global regulatory action in Greece and Korea, where regulators have imposed temporary short selling bans.

Securities lending on Brazil Exchange jumps in Q2

BM&FBovespa reported that securities lending grew 39.3 per cent year-on-year to revenues of BRL 17.2 million (€7.4m) on the back of high volumes.

"This increase was mainly a result of the higher volume of lending services in connection with average open interest positions," said BM&FBovespa.

Average open interest rose to BRL28.3 billion, an almost 10 per cent rise quarter-on-quarter and a 42 per cent rise year-on-year.

CFO and investor relations officer Eduardo Refinetti Guardia said: "We are heartened by a number of strong performances in areas like securities lending, derivatives and high-frequency trading in equity."

Securities lending revenues represented 3.3 per cent of overall gross operating revenues, which were BRL 521.3 million (€225.2m), falling 1.5 per cent year-on-year.

SBL trends show merit of owning uncommon shares

US and European large caps with lower institutional ownership drop less in a crisis, according to Data Explorers (DX) analysis of securities lending activity last week.

"There is evidence within the large cap universe, that money was saved by owning shares that were slightly less popular with the traditional asset managers since they fell less far," wrote DX in a research note.

As well, DX analysis shows that the scale of short selling is dwarfed by the supply of shares to short, by nine times – nowhere near the levels reached ahead of the credit crunch.

Still, a "small bit" of evidence shows that more shorted US stocks on the S&P500 tended to fall further in last week's sell-off.

In Europe, however, there was no pattern when comparing price changes with short interest for large caps on the Stoxx600.

"This further reinforces our argument that last week's price drop had little do with short selling," wrote DX.

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SBL risks increase in "flight to safety" environment

Risk managers are warning of the impacts on the repo market of weakening sovereign prices in certain European countries.

"Few areas are more technical, nichey, or esoteric than securities lending," wrote Mitchell Shames, partner at Harrison Fiduciary. "If plan sponsors want to partake of the benefits of securities lending, then they must really understand the risk."

The last time securities lending programmes froze, it was on the back of mortgage-backed securities and related derivatives. This time, it could be sovereign debt, he notes.

Shames recommends scrutiny of two risk situations: short-term paper held by collateral pools and collateral posted by broker-dealers.

The role of the repo market has been brought into sharper focus since wrangling over raising the US debt ceiling increased the perceived risk of US Treasuries - when interest on T-bills turned negative. And BNY Mellon announced fees for deposits over $50 million in response to a sudden rise in cash holdings.

In Europe, sovereign debt contagion fears over Spain and Italy against a backdrop of equities selling off has prompted the ECB to intervene, according to various media reports.

Meanwhile, the Swiss National Bank announced a surprise cut in interest rates to almost zero and committed itself to a renewed round of quantitative easing to stem the appreciation of the Swiss franc, wrote Stefan Angele, head of investment mangement, Swiss & Global Asset Management.

Korea Exchange bans short selling for three months

The Korean Financial Services Commission (FSC) has announced a temporary ban on short selling for three months amid stock market declines and growing concerns over a double-dip US recession and deepening eurozone fiscal crisis.

"Short sales are significantly increasing in the falling markets, spreading market anxiety," the FSC said, adding that it will temporarily ease restrictions on the amount of shares that issuers can repurchase their own stocks per day.

The amount of short sales, which was KRW100 billion per day (€64.6m) on average in the first half of this year, has recently surged over KRW 400 billion (€258.2m), according to the FSC, exceeding the previous record high of KRW 234.6 billion (€151m) in September 2008.

Back then, the FSC banned short selling of all listed stocks, starting 1 October 2008, only lifting the ban on non-financial stocks on 1 June 2009, while leaving it intact for financial stocks.

Since last week, panic selling on Korea Exchange (KRX) prompted the bourse's officials yesterday to announce increased market monitoring. The Kospi Index dropped to its lowest since July 2010 at one point during the equities sell-off.

Greece bans short selling of listed shares

The Hellenic Capital Markets Commission (HCMC) has announced a temporary two-month ban on short selling of shares listed on the Athens Exchange. The ban takes immediate effect and remains in force up to and including 7 October.

Short selling of shares and ETFs is banned irrespective of the executing venue - regulated markets, multilateral trading facilities or OTC. The ban includes naked and covered short sales and sales which are settled with subsequent intraday purchases.

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Obtaining or increasing short exposure through listed or OTC derivatives is not prohibited, according to the HCMC, and some market-makers are exempt.

The move was prompted by a drop of almost six per cent of the ASE general index the day before.

US downgrade causes securities lending uncertainty

Market fears were confirmed when Standard & Poor's (S&P) downgraded the US to AA+ from AAA.

The downgrade was slammed by White House officials, who pointed out a $2 trillion mistake in S&P's calculations, which was acknowledged by the rating agency. But S&P reiterated that the downgrade was a result of squabbling between Democrats and Republicans in aligning fiscal policy.

Immediately after the downgrade, the Federal Reserve issued guidance to banking organisations, stating that "the risk weights for Treasury securities and other securities issued or guaranteed by the US government…will not change". This means that US banks will not have to put aside more capital against their holdings of US government-backed debt.

Additionally, the Depository Trust & Clearing Corporation (DTTC) stated that it will not make any changes in valuations of securities required for collateral. However, subsidiaries of DTCC were also downgraded one notch.

Moody's confirmed the US' AAA rating earlier last week, meaning the US has a split rating and markets seemingly have a choice. Still, the credit rating agency also assigned a negative outlook, warning of a downgrade if the US cannot get its financial house in order.

But it's the markets not under such direct control of regulators, such as securities lending, facing the most uncertainty as attention turns to the repo, derivatives and securitisation markets, which commonly use US Treasuries as collateral.

If risk-weight is increased, more Treasuries will be required as collateral, in effect reducing the amount that can borrowed. Treasuries currently enjoy a low haircut, averaged at two per cent, but if perceived risk increases, that could rise to three per cent, according to various media reports.

In Europe, the ECB is intervening in Italian and Spanish bond markets after leaders held emergency talks over the weekend. Yields tumbled in response and borrowing costs subsequently dropped.

OneChicago's July volumes

OneChicago has announced that a total of 115,974 security futures contracts were traded in the month of July 2011.

95,009 July futures valued at more than $374 million were taken to delivery, validating the use of single stock futures as a financing instrument.

July 2011 Highlights ▪ 40% of July month-end open interest was in OCX.NoDivRisk products - an equity finance tool which removes dividend risk from the security futures ▪ Top five contracts in July were: Pfizer, Microsoft, Goldcorp, Intel, Procter & Gamble ▪ 67 new listings were added in July to total 2745 issues including 387 ETFs.

OCC's securities lending up 24 per cent

New loan activity increased 24 per cent, or over 67,000 contracts in July compared to the same month last year, said Chicago-based Options Clearing Corporation (OCC).

The lift includes data from both its CCP securities lending markets, the OTC stock loan programme and AQS automated platform, which had an average daily notional value of $13.2 billion. Year to date, securities lending activity is up 37 per cent, or over 466,000 new loan transactions.

In overall derivatives activities, OCC cleared over 350 million contracts in July, a 26 per cent increase from the same period last year, and reports a 13 per cent increase in total volume year to date.

Futures' performance was mixed though overall it saw the biggest bump, up 55 per cent. Index and other futures soared 118 per cent to around 2.8 million contracts traded while US equity futures dropped 81 per cent, an indication of lower risk appetite as investors digest weak macroeconomic signals in a faltering recovery.

Exchange-listed options were up 26 per cent, with index options up 35 per cent year-on-year, but only one per cent year-to-date. Equity options continue to show strength, rising to almost 321 million contracts traded in July versus 257 million in July last year, up 25 per cent, also registering a bump of 14 per cent year-to-date.

Eurex Group sets new records in July

Eurex Group recorded an average daily volume (ADV) of 10 million contracts in July, a 24 per cent increase from the same period last year.

Eurex Exchange contracts accounted for a little over 70 per cent, jumping 23 per cent from last year to trade 151.9 million. The equity index derivative segment totalled 72.5 million contracts with the single largest contract traded being Euro Stoxx 50 Index futures at over 31 million contracts. The Eurex Kospi product set a new daily peak and monthly record with an ADV of 81,000 contracts.

Equity options and single stock futures were down almost 20 per cent year-on-year, partly on the back of contract specification changes in the first quarter this year when contract sizes were increased to match international standards. But extrapolating the figures would still result in a drop of almost 10 per cent, according to Deutsche Group analysis.

US-based ISE rose more modestly than Eurex Exchange, up 8.3 per cent to 57.3 million contracts traded.

All Eurex Repo markets - CHF, EUR and General Collateral (GC) Pooling - grew by 25 per cent setting a new life-time best at €301.3 billion average outstanding volume. The CHF Repo market recorded the highest growth, jumping 33 per cent year-on-year, reaching €167.3 billion.

The Swiss franc has been on the receiving end of "flight to safety" investing as Eurozone debt concerns take the wind out of the euro while the US debt crisis batters the dollar.

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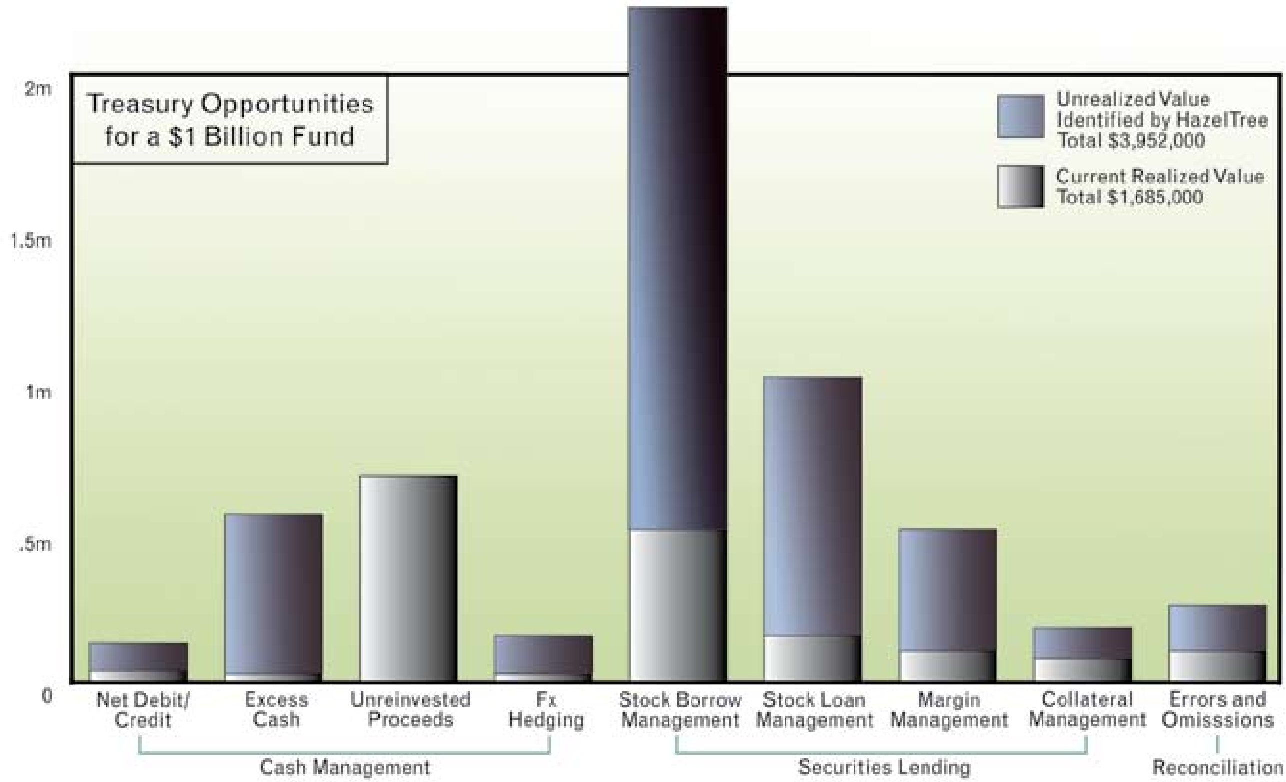

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SocGen shares suspended after Greek write down

Societe Generale has announced its results for the second quarter of 2011, and the first six months of the year.

Group net income totalled €747 million in Q2 2011 (€1.7 billion in the first six months of 2011) and reflects, says the bank, the global economic and financial situation which remained mixed with growing concerns over European sovereign debt resulting in risk aversion and erratic market movements, in line with political developments.

Group net income for the second quarter is down over 30 per cent from €1.1 billion from the same period last year.

"The Q2 results testify to the Group's resilience in an uncertain economic and financial environment," said Group chairman and CEO Frédéric Oudéa. "In addition… these results incorporate the write-downs booked on Greek government bonds, whose impact is nevertheless limited, as expected."

Write-down of Greek government bonds were €395m before tax, €268m after tax.

SocGen shares on CAC40 were suspended in Wednesday morning trading.

Oudéa also stated that SocGen will have a Basel III core tier 1 ratio of at least nine per cent by the end of 2013 but that "the Group net income target of €6 billion in 2012 now appears difficult to achieve within the scheduled timeframe".

Q2 Notes:

- International Retail Banking's earnings, which were impacted by the consequences of the political unrest in Africa and the Mediterranean Basin in Q1, enjoyed a recovery.
- Specialised Financing and Insurance's contribution to the Group's results continued to grow.
- Corporate and Investment Banking revenues proved highly resilient given the deteriorated market environment, whereas Private Banking, Global Investment Management and Services was impacted by an unfavourable market environment and non-recurring provisions in Q2.
- Generation of 0.5 pts of capital

The most recent European bank stress tests showed that core tier 1 capital ratio would stand at 6.6 per cent compared with the 5 per cent threshold.

BATS Europe offers multilateral clearing choice

BATS Europe has launched Preferred Interoperable Clearing, which provides its trading participants the choice of a preferred clearer from three interoperating clearing counterparties (CCPs), effective immediately.

EuroCCP, LCH.Clearnet and SIX x-clear are the three CCPs participating in BATS Europe's Preferred Interoperable Clearing service. Under this service, if participants on both sides of a trade select a CCP from the interoperable group via the online election form, then the executed trade will be cleared by the designated CCP(s).

Mark Hemsley, CEO of BATS Europe, said: "We are pleased to be the first market centre to offer a multilateral interoperable clearing service that supports customer choice and encourages CCP price and service competition. Today's launch is the first step toward a fully interoperable clearing environment, which is an important one toward significantly reducing frictional post-trade costs for Europe's market participants. We continue to encourage our participants to demand clearing choice from all trading venues so that the full benefits of competition can be realised."

Diana Chan, CEO of EuroCCP, said: "EuroCCP has long been a proponent of interoperability and of the benefits of increased competition. We are confident that our industry utility model, robust risk management practices and recent fee reduction will drive participants towards choosing EuroCCP as their preferred CCP."

Wayne Eagle, executive director, EquityClear, LCH.Clearnet Ltd, said: "A competitive clearing environment gives users real choice, delivering greater efficiency and reduced costs whilst ensuring the integrity and safety of the market. There is a real demand for interoperability involving all the CCPs."

Tomas Kindler, head of clearing relations, SIX x-clear Ltd, said: "Though this has been long in coming, we are delighted at the news. It vindicates our long-held position that interoperability in the clearing space benefits all constituencies - trading participants and, on a more macro level, the industry as a whole. This particular approach to interoperability is just the beginning and is set to change the clearing landscape in Europe for the future. We are pleased to be part of it."

EMCF will continue to provide clearing and settlement services for orders executed on the BATS Europe platform not designated to one of the three interoperating CCPs.

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- Regulatory Framework Developments: **How to Prepare for Basel III?**
- Which One Makes the Real Difference For a Successful Collateral Management: **System or Human Factor?**
- Collateral Management within a **Central Bank:** Eurosystem Practice and Infrastructure Improvements (CCBM2)
- The Role of Collateral in **Liquidity Management**: Adequate Tools to Monitor Liquidity Positions
- Collateral Management Optimisation: **Process Excellence, STP, Further Automation**
- Risk Standards for **Collateral Cost Capture**
- Collateral Management from the Buy Side: **Asset Managers' Perspective**
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Big Interview

SLT speaks to the head of the securities finance division at State Street during a time of extreme market nervousness

BEN WILKIE REPORTS

SLT: How has the attitude to risk within securities lending changed since the financial crisis?

Nick Bonn: It's changed greatly. Although State Street fared relatively well during the crisis, we have taken a difficult different tack to collateral reinvestment. So despite our successes we are much shorter in duration and more sensitive to risk. It can affect our returns, but that's because the credit risk is much more conservative.

Our non-cash programme, which was always more popular in Europe, has become more popular in the US - it doubled in 2010.

SLT: How has the US debt crisis affected your business

Bonn: [Prior to the announcement that agreement had been reached] we were having a meeting every three hours on the topic and talking to our clients, who were understandably nervous. I think State Street has done a great job holding on to clients during the crisis - they are still trading despite their aversion to risk and the lower returns but their confidence is very fragile and this has tested their will about staying in lending.

If treasuries are downgraded we can manage through that, but there will be industry wide liquidity issues. A default would have been the worst option - it would have changed the rules of the game.

A debt downgrade won't change the opportunities we have, but it will add volatility and affect margins. We take AA paper now - we may be taking a lot more in the future...

SLT: Is securities lending now transparent enough?

Bonn: The agent securities lending market is transparent enough. The issue the regulators have is with naked short selling, and additional rules on disclosure for securities lending agents won't help that. You'd have to get that information from prime brokers.

We publish our guidelines, holdings, returns and our reinvestment - all of it is transparent. But when it comes to naked short selling, it's often a mystery about who is doing it and where it's happening.

SLT: Are you seeing increasing numbers of beneficial owners coming to the securities lending market? Are existing participants increasing the amount of business they do?

Bonn: Until recently I would have said yes. We've hung on to our clients and our balances have remained stable, but nerves are fragile. We're paying a lot of attention to the issues with the US debt market and we're reaching out to our clients to ensure they are kept informed.

I'm not keen on the concept of sharing risk - especially in a market like securities lending where there aren't many players.

Half of my job is to reassure people. For example, some of our cash collateral is in European bank debt, our exposure hasn't gone down, but we do our credit checks very carefully and we haven't had any defaults - we ensure we are able to constantly reassure our clients.

SLT: How do you feel about CCPs?

Bonn: CCPs have an important role to play in the ever-developing securities lending industry and they may gain traction if they are legislated into existence. Currently, they tend to be a more expensive way of doing business and I'm not keen on the concept of sharing risk -especially in a market like securities lending where there aren't many players.

SLT: How much of your time is now spent on regulatory issues? Are the regulators getting it right?

Bonn: We're watching Basel III and the capital changes rules very closely. Even within big banks, capital is a commodity that is fought over. With Dodd Frank, the issue of credit concentration limits and how capital is calculated remains important. And when it comes to the transparency rules in securities lending, we're hoping and working towards ensuring they are sensible and don't just add up to a lot of work.

I believe that the regulatory requirements for providers could mean they become another barrier to entry for any firms considering involvement in securities lending.

SLT: What are you focusing on for the future?

Bonn: We have enough issues to focus on now! Sovereign debt is obviously going to be important, while regulation and how it changes the business we and our clients can do is taking up a lot of our time. We're looking very hard at the risk/return concept and we are doing a lot of risk reporting.

I do believe that while returns are down, so is the level of risk. But the best way to keep our clients on board is to ensure our reporting is as comprehensive as possible.

The growth is there, it's just taking a long time coming. We were expecting 2012 to be the year where the growth really took hold, but we've now revised that to 2013. **SLT**

Nick Bonn
Head of securities finance division
State Street

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Malaysia

At the heart of the growing Asian market, Malaysia is playing an increasingly large role in the global securities lending market

BEN WILKIE REPORTS

From a largely rural country recovering slowly from conflict a generation ago, Malaysia has fast become one of the region's economic powerhouses. It's now the third-largest economy in the region, and in the top 30 in the world. Moving from mining and farming as the country's core industries, it has become a high tech centre with a range of industries that bring in overseas cash - including natural resources, tourism and manufacturing. It is also a major centre for Islamic banking.

It's also highly regarded as an environment for international investors. The big international banks all have bases here, and Malaysia has provided significant returns for overseas funds. As with other countries in the region, it suffered during the Asian crisis, but its recovery has been swift.

In general, foreign ownership of Malaysian companies is restricted to 30 per cent as listed in their M & A or governed by Ministry guidelines. There are exceptions where the 30 per cent limit can be exceeded, in particular for companies, which mainly produce goods for export.

The aggregate foreign ownership limit in telecommunications companies is 61 per cent. However, a government restriction requires foreign companies to reduce their stake back to 49 per cent after five years.

The foreign shareholding limit for new entries in direct insurers was increased from 30 per cent to 49 per cent with effect from August 24, 2006, to harness the potential for financially strong and internationally known foreign players.

When it comes to shareholdings in the country's banks, the prior written approval from the Minister of Finance is required where a person or persons acting in concert with a person, who acquires or disposes of any shares of a licensed institution, equal to five per cent or more of the shares of that institution to any single person or persons acting in concert.

Except where the Minister of Finance otherwise approves, no person shall hold more than the following percentages of interest in shares of a licensed institution: In the case of an individual, 10 per cent; and in the case of a person other than an individual, 20 per cent

As of March 2005, the banking sector has been liberalised to allow foreigners to acquire up to 49 per cent stake in Islamic bank subsidiaries of local banking groups. Commercial banks can now sell up to 49 per cent of their Islamic banking units, subject to the condition that the Islamic bank remains a subsidiary of the commercial banking institutions.

Voting rights are generally available to foreign investors who hold shares at least three business

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days prior to voting or the specific record date set by the issuer, except where it has exceeded the company's Foreign Ownership Limit.

The Bursa SBL system, offered by Bursa Malaysia Securities Clearing, specifies which shares are currently eligible for borrowing and lending

Once the limit on foreign-owned shares is reached, the companies concerned can ask for a separate listing of their foreign and local contents. However, this is not mandatory. Note that there is no restriction on foreigners who wish to buy, hold or trade in shares which have reached their foreign holding limit or local shares where such shares are quoted separately. Such shares would be classified as "restricted shares" and the general practice with regard to the treatment on corporate action entitlements is that holders of these 'restricted' shares which have exceeded the prescribed foreign ownership limits will not have voting rights, but will rank pari passu with other ordinary shares in all aspects of entitlements declared by the issuer.

Short selling regulations were introduced in 1996, relatively early for what was then a very emerging market. The business didn't last long; at the heart of the Asian crisis less than a year later, securities borrowing and lending was suspended on all shares listed on Bursa Malaysia.

In 2007, a new system was introduced. The Bursa SBL system, offered by Bursa Malaysia Securities Clearing, specifies which shares are currently eligible for borrowing and lending - the numbers vary, but most publicly traded shares are permitted.

Securities borrowing and lending (SBL) activities in Malaysia must either be made through an approved clearing house acting as a central lending agency (CLA) under the SBL-CLA model; or entered directly over-the-counter between the eligible participants and facilitated by the approved clearing house under the SBL - negotiated transactions (SBL-NT) model.

The approved clearing house acting as a CLA and the eligible participants are deemed to be the authorised lender and/or authorised borrower, and the agreement between the approved clearing house and the eligible participants constituted by the documents (including the terms and conditions for lending participant or lender, terms and conditions for borrower, circulars and rules of the approved clearing house) specified in the rules of the approved clearing house for the borrowing or lending of eligible securities in accordance with the requirements of the rules of the approved clearing house are deemed to be securities borrowing and lending agreements approved by the SC (approved SBL agreement).

Only approved local licensed dealers may borrow securities from Bursa Clearing on standard terms, and the collateral provided has haircuts determined by Bursa Clearing. Each offer to lend to Bursa Clearing must be a minimum of 50,000 units.

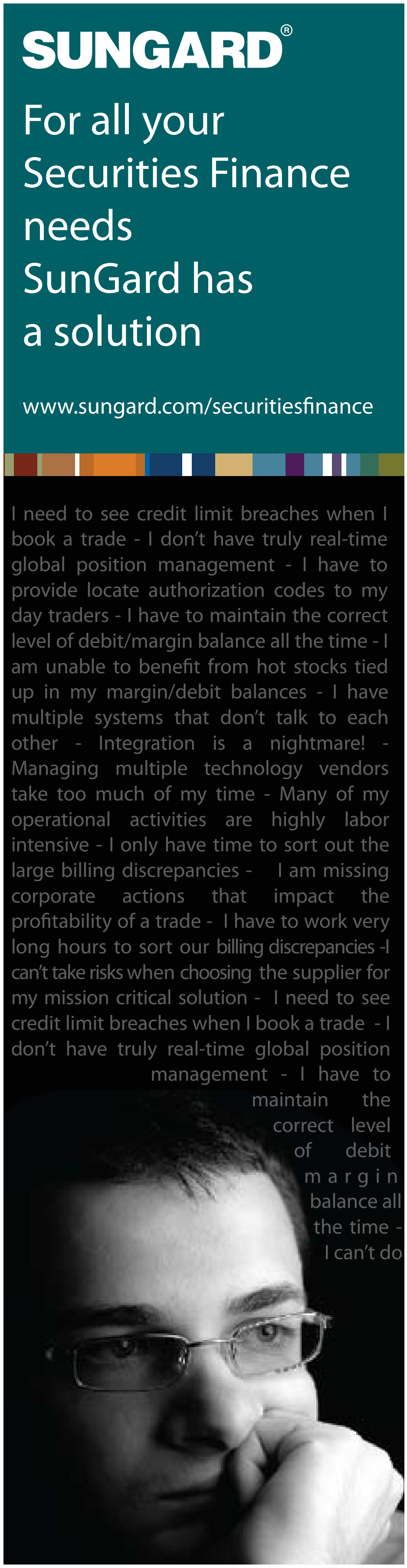
The SBL will be introduced in stages. In the subsequent stages, Bursa will enhance the SBL framework further for all participants. This may include securities borrowing and lending on an over-the-counter basis (OTC) in which the terms of borrowing and lending are negotiated between the parties.

The other option is RSS, or regulated short selling. RSS is defined as the selling of stocks which the person does not presently own but for which such person has made arrangements to borrow. Any individual can engage in RSS. The settlement of the short sales will be with the borrowed stocks. The borrowing must be made within the approved SBL framework established by Bursa.

Under the SBL CLA framework, the securities clearing house, Bursa Clearing will act as a Central Lending Agency

Under the SBL CLA framework, the securities clearing house, Bursa Clearing will act as a Central Lending Agency (CLA). As the CLA, Bursa Clearing will borrow from lenders and onward lend to borrowers. Any person who has the requisite number of stocks may lend stocks to the CLA. On the other hand, only approved local stockbrokers may borrow stocks from the CLA. Any other investors who wish to borrow stocks must go through the approved local stockbrokers.

Bursa had in August 2009 introduced the SBL NT (Negotiated Transaction) model where it provides both Approved Lenders and Approved Borrowers the avenue to agree SBL transactions an over-the-counter basis (OTC) and report such transactions to Bursa Malaysia via on-shore lending representatives or borrowing representatives. **SLT**



Gold outshines producers

Data Explorers' Will Duff Gordon examines how investors have been flocking to the base currency following turmoil in other markets

MARKET PERSPECTIVE

Gold rallied to yet another record high of over $1,800 an ounce, following the downgrade by Standard & Poors of the US credit rating to AA+. The SPDR Gold Trust ETF (GLD) has been in high demand, both by the long and short sides of the market in securities lending. Despite the onward march in the price of gold bullion, the shares in the gold producers have treaded water, rising an average of only two per cent over the past quarter to last Friday (a circa seven per cent rise if you exclude last week). In contrast, gold futures are up 13 per cent over the same period and 16 per cent YTD. We looked at holdings by institutional asset owners alongside demand to borrow to see whether investors think the lagging performance of gold miners presents a buying opportunity as investors search for quality? Companies covered include: US Gold Corp (NYSE:UXG), Detour Gold Corp (TSE:DGC), Gold Resource Corp (AMEX:GORO), Newmont Mining Corp (NYSE:NEM).

A screen of global gold producers with a market cap in excess of $100 million holds an average short interest of just 1.77 per cent of total shares outstanding. There are a number of stocks displaying bearish sentiment.

Investors short the explorers

Whilst most miners in the sector have posted impressive earnings for the second quarter, companies more focused on exploration have gained only marginally.

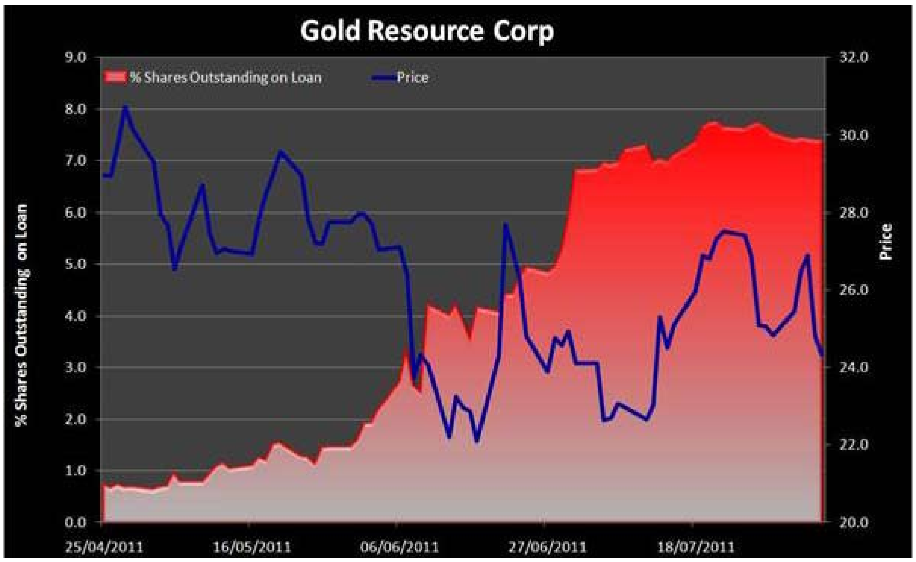
US Gold Corp (NYSE:UXG) reported its quarterly earnings at the end of last week with updates on how its exploration was going and saw its share price fall closer to annual lows. Institutional investors and those who lend have been bullish and raised their long exposure by over 50 per cent over the second quarter, perhaps believing this relative underperformance compared to the physical futures to be a buying opportunity. Yet this is the most shorted stock in the sector. Short interest trebled to annual highs of 16 per cent of the total shares in April, which represented half of the lendable supply out on loan.

Canadian listed Detour Gold Corp (TSE:DGC) is also focused on exploration and is the second most shorted stock in the sector. As the share price oscillated between CAD$24 and CAD$34 institutional ownership has been relatively flat and short interest has steadily increased since December from one per cent to record highs of 12.5 per cent of total shares outstanding. The recent price drop has led to some short covering over the past two weeks, reducing short interest to nine per cent of total shares outstanding.

A rush for small cap miners

Miner, Gold Resource Corp (AMEX:GORO) describes itself as a low-cost gold producer. Since declaring commercial production in July 2010, it has been drawing investor attention by paying out special monthly dividends. Its share price has performed well over the past year and institutional investors have been overweight their historical positions, having doubled holdings in the last quarter alone to 8 per cent of all shares. However, short sellers have been building positions since May, with short interest having trebled to eight per cent of the total shares, which represents almost all the stock that is available to be borrowed.

Newmont Mining Corp (NYSE:NEM) missed earnings estimates for the second-quarter due to lower output and higher production costs, but the impact was offset by the rallying gold price. In early trading yesterday, the stock was highlighted as a top gaining stock in the US markets. Short interest is low at one per cent of total shares outstanding but institutional investors have moved underweight and reduced their holdings by 13 per cent since March. **SLT**



Upcoming industry events

12th Annual Collateral Management

Date: 7-9 September 2011
Location: London
Website: http://www.marcusevans.com

This collateral management event, brings together senior figures from the collateral world in order to address key topics including regulatory reform, automisation, optimisation and how to attain best practice in operational procedures.

Sibos 2011

Date: 19-23 September 2011
Location: Toronto
Website: www.sibos.com

Sibos brings together influential leaders from financial institutions, market infrastructures, multinational corporations and technology partners to do business and shape the future of the financial industry.

The Finadium 2011 Conference

Date: 20 September 2011
Location: New York
Website: www.finadium.com

Themes for this year's conference include ETFs in securities lending, transparency in financing for hedge funds and their investors and the impact of CCPs on collateral management. Lunch is provided and networking is encouraged.

Collateral Management & Securities Financing Asia

Date: 21-22 September 2011
Location: Hong Kong
Website: www.collateralmanagementasia.com

Collateral management & securities financing framework is now a top consideration for Asian financial institutions.

16th European Beneficial Owners' Securities Lending Conference

Date: 26-27 September 2011
Location: London
Website: www.imn.org

For nearly 20 years we have been dedicated to meeting the needs of the European beneficial owner community and are proud to continue assisting beneficial owners in mapping a strategic course to navigate the opportunities and challenges.

5th Annual Collateral Management 2011

Date: 5-6 October 2011
Location: Barcelona
Website: http://finance.flemingeurope.com

The Fleming Group brings you Collateral Management, already in it's fifth year. Collateral managers from major European financial institutions will gather in the beautiful city of Barcelona to discuss latest trends and developments.

28th Annual RMA Conference on Securities Lending

Date: 10-13 October
Location: Naples, FL
Website: www.rmahq.org

RMA's Annual Conference on Securities Lending last year held in Boca Raton, Florida, rebounded from previous years and the effects of the unprecedented financial market events with over 425 SBL professionals from across the industry attended.

Data Explorers Securities Financing Forum

Date: 16 November 2011
Location: Hong Kong
Website: www.dataexplorers.com/hongkong

For nearly 20 years we have been dedicated to meeting the needs of the European beneficial owner community and are proud to continue assisting beneficial owners in mapping a strategic course to navigate the opportunities and challenges.

NeMa Asia 2011

Date: 15-16 November 2011
Location: Singapore
Website: www.informaglobalevents.com

NeMa Asia (Network Management Asia) - the sister event to NeMa, has now become the most important gathering of network managers, subcustodians and brokers in the industry.

Industry Appointments

Patrick Chisholm has been appointed by Kellner DiLeo & Co as vice president in securities lending. He will focus on custody banks and agent lenders, supporting the execution of model-based trading.

Chisholm joins after a similar role at Goldman Sachs and has 20 years experience in financial services.

He will report to Rory Zirpolo, director of securities lending.

J.P. Morgan has announced new appointments to its financing and market products (FMP) group in Asia Pacific.

Stewart Cowan is the new head of FMP in Australia, New Zealand and Japan but will continue to lead the securities lending operation.

Cowan's expanded role now includes oversight of J.P. Morgan's clearance and collateral management, transition management and foreign exchange solutions, building on his 20 years of experience, the last 10 of which have been with the firm in a variety of securities servicing roles.

Jane Perry, CEO of J.P. Morgan Treasury and Securities Services said: "In a sophisticated domestic market which relies heavily on financing and market products to manage risk, reduce cost and generate returns, Stewart will be instrumental in further enhancing our local and Asia Pacific clients' businesses while at the same time driving J.P. Morgan's success across these key markets."

The bank is emphasising potential for growth in Japan, where it sees a marked shift towards FMP solutions, especially for collateral management and securities lending services.

Additionally, **Michael Wynn** will join the Australian transition management sales desk. Wynn's most recent role at J.P. Morgan was on the passive currency overlay execution desk based in the UK.

"We are lucky to have someone with Michael's expertise return to Australia to service our clients' needs. With a proven track record across different areas of the business, he will be a valuable addition to the team," Perry said.

In a further move to raise the profile of its management team, Bank of America Merrill Lynch (BoAML) hired **Peter Johnson**, head of JP Morgan Chase & Co global futures, options and over-the-counter (OTC) clearing operations. It will be a lateral move for Johnson, who is expected to join the Chicago team in October.

Johnson held a variety of senior leadership roles during the last 19 years at J.P.Morgan, including previous posts as North American head of futures and options and head of the Chicago futures office, said BoAML.

Merlin has hired **Brian V.S. McKenna** as a partner in the Merlin Institutional Group (MIG). In this role, McKenna will enhance MIG's institutional sales efforts to large hedge funds and money managers in New York and the Northeast region.

"Brian's addition allows us to further expand the Merlin Institutional Group and broadens our ability to provide hedge fund clients with differentiated investment ideas and high-quality execution," said Stephan Vermut, founder and managing partner of Merlin. "Brian is well recognised within the institutional investment community, and I am very pleased to welcome him to Merlin."

Prior to joining MIG, McKenna was a senior managing director and global relationship manager for independent financial advisory group Collins Stewart Hawkpoint, where he covered relationships with major financial institutions.

He was also responsible for investment banking development, analyst recruiting and business development. Before Collins Stewart, McKenna served as a managing director for investment firm William Blair & Co., where he established both the Boston and New York offices.

MIG was established in April 2009 to provide original equity research, corporate access, trading ideas and execution to medium and large hedge funds. McKenna joins MIG's team of existing partners, Jesse Cole, Jason Mallor and Jim Magill.

"Merlin is one of the most well-respected brands in the prime brokerage services arena, and since 2009, the firm has built upon that success with a complementary and thriving institutional research, sales and trading effort," said McKenna. "I look forward to becoming part of such an innovative company, and continuing the growth of this division of the firm."

AS Bank will lose the head of its securities lending team, **Mun Yoshihara**, who will be leaving at the end of this week.

"After nearly five years at KAS Bank, I have decided to...re-migrate to Tokyo, Japan in order to engage in a new challenge in the financial sector," said Yoshihara in a farewell email.

He started as securities lending head in 2008, helping to navigate out of the crisis, finding it "extremely challenging but interesting and rewarding".

A successor is expected to be announced soon.

BNY Mellon has appointed **Diego Folino** as the company's country executive in Mexico. In that role, Folino will oversee capabilities and presence across all business lines in Mexico.

Folino will also serve as representative of the company in its office in Mexico and join the Latin America Management Committee, reporting to Rene Boettcher, BNY Mellon's chairman of Latin America. He will also become chairman of the board of directors for BNY Mellon's Mexican banking subsidiary, Institucion de Banca Multiple.

"Diego's extensive financial market and management experience, as well as his strong understanding of the needs of institutional clients in Mexico, will significantly enhance our prospects for ongoing growth and success in the country," said Rene Boettcher, chairman of Latin America for BNY Mellon.

Folino joins the asset management and servicing group with nearly 25 years of international banking, corporate finance and management experience.

Most recently, he served in a variety of senior management positions at Standard Chartered Bank, including as president and CEO of their private banking activities in the Americas based in Miami, CEO and country representative in Mexico, and head of corporate banking activities in Mexico.**SLT**

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