SLT
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NYSE to close SecFinex

LONDON 30.11.11

Securities lending MTF SecFinex will no longer be operational, SLT has confirmed. The trading platform will cease to take new business as of close this Friday while NYSE management works with the regulator and clients to close out any business. Though no timeframe could be provided, it is not expected to take a "lengthy period of time".

Lee Hodgkinson, head of European sales and relationship management at NYSE Euronext, said that though the company believes central clearing will play a major role in the securities lending market over the long term, in the current economic climate, SecFinex has struggled to gain sufficient traction.

"Shareholders, including NYSE Euronext, have reviewed their strategic investment in SecFinex and have determined that providing further financial support for the company in this climate is no longer appropriate," Hodgkinson said, adding that CCP clearing for securities lending transactions is unlikely to be a high priority for major banks until there is an explicit regulatory push and Basel III starts to impact capital requirements. NYSE projects the timeline for this to be at least another 12 to 18 months away.

In terms of staffing, the Exchange declined to comment.

In 2000, SecFinex became the first in Europe to introduce a stock loan electronic platform with the launch of a private bilateral market.

NYSE Euronext bought a majority stake in the MTF in 2007 and SecFinex continued to extend its CCP offering throughout Europe in Austria, Germany, Switzerland, Nordics and the UK when it added Six-x clear in 2010, with BNP Paribas becoming the latest general clearing member to sign on this year.

NEWSINBRIEF

Taiwan regulators warn insurers of short selling risk

Taiwan's regulators urged insurers to stop lending securities to short sellers, seeking to bolster equities after heavy losses on markets, according to Businessweek.

Although denying media reports of securities lending bans, officials have called insurance companies to remind them that lending stock for short sales may result in the reduction of value of their own stocks, a spokeswoman at the Financial Supervisory Commission (FSC) told BW.

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ANZ settles with Primebroker Securities

ANZ has agreed to pay \$20.5 million cash to the liquidator of failed broking house, Primebroker Securities, reports Sydney Morning Herald (SMH).

The settlement puts a stop to a "torturous and fiercely expensive" series of six concurrent Victorian Supreme Court legal cases that threatened to drag on until at least February.

Principals of Primebroker Securities, Sal Catalano and Ian Pattison, accused the bank of misleading and deceptive conduct when ANZ, their securities lending counterparty, and its agent led them to believe that Primebroker would be supported with an investment of \$55 million that never materialised.

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INSIDE SECURITIESLENDINGTIMES

Taiwan regulators warn insurers of short selling risk

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The FSC is trying to stop investors from profiting from declines in markets at a time when surging borrowing costs in the euro region are stoking concern the region's debt crisis will derail global economic growth.

Earlier, Reuters reported that the FSC has introduced a measure whereby only 20 per cent of a stock's average trading volume in the past 30 sessions could be used for short-selling. Previously, up to three per cent of a company's total outstanding shares could be used.

ANZ settles with Primebroker Securities

Continued from page 1

SMH reported that as part of the deal, ANZ will release numerous properties owned by the pair, but which the bank had claimed as security and in addition will not claim in the insolvency for the estimated $150 million it says it was owed when Primebroker collapsed in July 2008. It will allow the receivers it appointed, PwC, to hand the liquidator their book of Primebroker's receivables, which could generate another $20 million.

Primebroker's liquidator, Laurie Fitzgerald of BDO, yesterday told media it was too early to know exactly how much would be distributed to client-creditors, who are owed about $90 million.

ANZ has not made any admission of liability, reported SMH.

European short selling bans and CCPs on BoE committee's agenda

Members of the Bank of England's Securities Lending and Repo Committee (SLRC) noted that European short selling bans were disruptive for the equity securities lending markets and considered inviting CCP providers to future meetings.

Commenting on the short selling bans in France, Belgium, Italy and Spain imposed this summer, Richard Thompson, member of the Securities Lending and Repo Committee representing the International Securities Lending Association (ISLA), reported that, for equities, the bans had caused an unwelcome distraction in the securities lending markets as market participants had to interpret rules at short notice during difficult trading conditions.

Not surprisingly, the eurozone debt crisis and US sovereign downgrade were the key themes in fixed income. "In Europe, there continued to be short interest in Greek sovereign debt but there was reportedly less interest in short selling of 'core' European sovereign debt, such as German and French government bonds," the committee reported.

And though the market for US treasuries as collateral saw temporary lower demand amid concern that the US debt ceiling would not get raised, at the same time, it quickly returned to normal after the measure passed as well as after the subsequent sovereign downgrade.

Meanwhile, in a further signal that CCPs are becoming more ingrained in the securities lending industry, members agreed that the SLRC could act as a useful forum and that discussion would benefit from increased representation of CCPs on the committee. Some of the identified obstacles facing the advent of clearing in the securities lending industry are product design considerations and practical issues for implementation.

4sight partners with Trace for CREST system interfacing

4sight Financial Software has partnered with Trace Financial to develop a full service interface with Euroclear UK & Ireland's CREST system in the 4sight Securities Finance system. The interface offers fully automated DEX messaging to support securities lending and collateral management life-cycle events and is part of a project for a major European bank.

To support the interface, Trace Financial configured its CREST Bridge product to communicate with the 4sight Securities Finance solution. Trace also customised the Bridge's business logic to support the multiple CREST system trade types involved in securities lending, repo, and delivery by value (DBV) processing.

The CREST Bridge also includes a browser-based window offering views of CREST system business transactions and their settlement status. It offers a drilldown to underlying messages and the ability to export a range of data views as reports or spreadsheets.

Within the 4sight Securities Finance system, a newly developed transaction manager window allows the user to convert allegements into trades, split transactions, and control settlement priority (freeze/un-freeze). In addition, the system's new CREST collateral window allows users to manually book DBV transactions.

Judith McKelvey, 4sight global sales director stated: "We selected Trace Financial for their CREST system expertise at both the business and the technical interfacing levels and have been very pleased at the way Trace has helped us to meet our client's requirements. The CREST system messaging support will significantly increase the straight through processing the 4sight Securities Finance and Xpose Collateral Management solutions can offer to our user base."

John Murphy, managing director of Trace Financial, said: "This project underlines the high technical adaptability of our solutions, as well as our staff's business-level expertise in complex areas such as CREST system processing. We look forward to deepening our excellent relationship with 4sight in the future."

Algorithmics signs on US hedge fund for UCITS reporting

Algorithmics has announced its US hedge fund reporting service has been selected by Optima Fund Management for UCITS reporting.

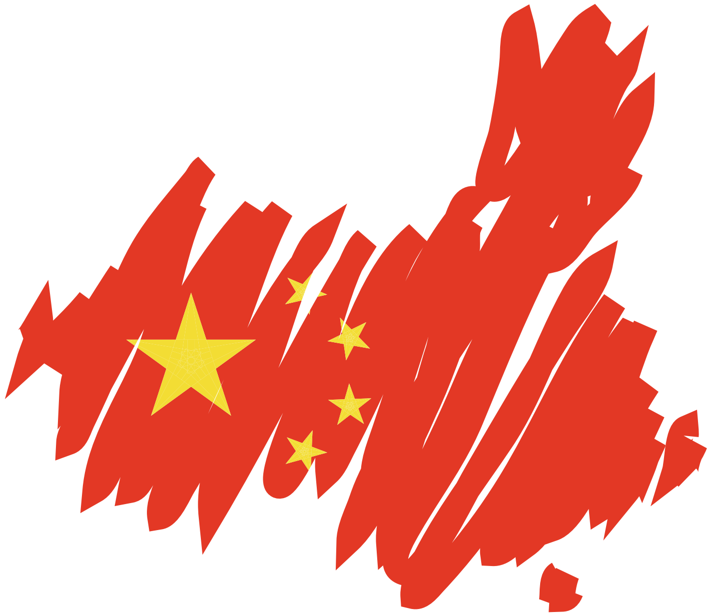
The service, Algo Risk Reports, provides pre-configured, static reports for regulatory, investor and internal stakeholders. Aimed at hedge funds that have chosen not to build certain parts of their risk management systems in-house, it meets funds' demand for better asset coverage and more flexibility for derivatives.

Commenting on Optima's selection of Algo Risk Reports, Geoffrey Lewis, CFO, Optima Fund Management, said, "Algorithmics' reporting service addressed our needs to meet UCITS regulations in Europe, as well as providing Algorithmics' analytics for our own investment reporting in a cost-effective manner. Following a rapid implementation we are now in a position to pursue opportunities in the European retail market."

Short selling on UAE regulator's agenda

Short selling in UAE markets may be approved as early as the second half of 2012, said financial regulator, the Securities and Commodities Authority (SCA) at a SunGard Dubai City Day event held on 23 November.

Dr Mounther Barakat, senior adviser for research and studies at the SCA and member of the committee writing regulations, said that regulators have come a long way, with three-quarters of the work completed, however, the UAE has a lengthy regulatory process and regulations are



unlikely to be out or implemented before the end of the first half of next year.

Draft regulations for market making, securities lending, short selling and liquidity provision were released in November, with a comment period extended until the end of the month. The move underpins the region's bid for MSCI emerging market status.

"We have huge international interest in our regulations, we get hundreds of pages of comments and will require a couple of months to look at them…we have to do training for the markets and brokers and raise awareness…so it will take time," Dr Barakat said.

Also speaking as part of the panel discussing the struggle exchanges are facing in raising liquidity, Olivier Gueris, COO of Qatar Exchange, described the "long wish list" sitting with regulators.

"Securities lending and borrowing...it is tested, it is working, we just need regulator approval, same thing with liquidity provision, market making schemes...these are concepts that the West is very familiar with but here they [can be] outlandish concepts for a regulator...it is a lengthy work and things happen at their pace here in the Middle East," Gueris noted.

Citi to provide securities lending for Chinese asset manager

Citi's Securities and Fund Services will be providing securities lending solutions for Da Cheng International Asset Management (DCIAM), one of the top 10 largest firms in China.

This is DCIAM's first public fund launch in Hong Kong and will be one of the first public funds launched in the city by a Chinese asset manager.

Under the front-to-back office fund administration mandate, Citi will provide a range of securities services to manage DCIAM's Hong Kong-authorised funds, including securities lending solutions, fund administration, transfer agency, global custody services and trustee services.

Doris Lian, CEO of DCIAM said, "Da Cheng is committed to our clients and giving them the right products both in this region and overseas. We need a strong partner to provide us with sophisticated and comprehensive fund services. Citi is a good choice for us, with their global network and local expertise, and we look forward to working with them further to develop our business."

Citi provides mainland fund managers with both fund distribution opportunities in Hong Kong as well as direct market access in the US.

Euroclear France secures local market liquidity with collateral

Euroclear France, the French central securities depository (CSD), has launched its first triparty collateral management service for the French market. In cooperation with the Banque de France, the new service will collateralise exposures arising from domestic credit operations conducted by the French central bank. Now, for the first time, more than €2 trillion of securities held in Euroclear France can be used for this purpose.

With the new Euroclear France service, all the collateral management tasks associated with these credit operations will occur in a fully automated manner. The CSD will also reduce the challenges of delivering and monitoring the precise amounts of collateral required to access central bank credit.

Banque de France supports this initiative, which will provide the financial community with an additional tool to access liquidity within an operational framework.

It has been adapted to meet the new risk management and automated processing needs triggered by the crisis. Furthermore, the service will reinforce the role of Paris as a leading financial centre in the Euro area.

Valérie Urbain, chief executive officer of Euroclear France, Euroclear Belgium and Euroclear Nederland, stated: "Our arrangement with the Banque de France heralds a new era for eurozone collateral management efficiency, particularly for central banks and institutions that rely on such credit.

We pay tribute to the Banque de France for having the foresight to ease the use of securities collateral held within the French CSD for monetary policy purposes."

Early in 2012, Euroclear France will extend this service to the French banking community to automate the processing of collateral movements associated with interbank repos and other securities financing transactions using securities held in the French CSD as collateral. These new services are also expected to be offered to the entire ESES (Euroclear Settlement of Euronext-zone Securities) community. As a result, all interbank repos and securities financing transactions in Belgium, France and the Netherlands will settle in central bank money, supported by the same collateral management system and procedures.

Jo Van de Velde, managing director and head of product management at Euroclear, added: "We look forward to fully extending our triparty services across the group and to other markets from Europe and beyond. Our triparty collateral management services are sufficiently flexible to allow for the mobilisation of collateral wherever it is held, even outside the Euroclear group, to mitigate any credit exposure, including those relating to derivative transactions.

Asian hedge funds prefer full-service primes

Asian hedge funds prefer to use full-service prime brokers that offer research and back-office capabilities as well as access to IPOs and Chinese stocks, according to the Nomura Research Institute (NRI).

In terms of research capabilities, European and US hedge funds - tagged as the main drivers for growth in the AUM of Asian hedge funds - tend to place more priority on short-term trading strategies than on fundamentals. Strong demand for research is noted for help with selection of stocks in emerging countries such as India and Indonesia in addition to developed regions such as Hong Kong and Singapore.

Meanwhile, back-office capabilities are an issue particular to Asia, where market infrastructure is not yet fully developed. Prime brokers that reliably perform functions such as trade and settlement reconciliation and issuance of settlement instructions are highly preferred since up-to-date, accurate information is not always readily available in emerging countries.

"Following the financial crisis, many hedge funds have started to use multiple prime brokers instead of entrusting their assets to the custody of just one," wrote Mari Inoue, researcher at NRI's Financial Technology and Market Research department, adding, however, that the shift toward using multiple prime brokers appears to have nearly run its course.

NRI identified four major prime brokers best-placed to provide those kinds of comprehensive services: UBS, Goldman Sachs, Morgan Stanley and Deutsche Bank. These firms collectively account for a 73 per cent share of the Asian prime broking market compared to 55 per cent in North America.

"The Asian prime broking market looks likely to remain an oligopoly dominated by the aforementioned four major investment banks for a while longer," Inoue wrote.

GlobeOp forecasts rise in hedge fund redemptions

Hedge fund redemption requests for November measured 3.4 per cent, a rise on last month's 2.5 per cent, according to GlobeOp Financial Services' Forward Redemption Indicator.

"We expect fund redemption requests to increase as year-end approaches," said Hans Hufschmid, CEO, GlobeOp Financial Services. "January is typically the largest month as investors rebalance their portfolios. Redemptions this year are similar to 2010 and there are no signs of unusual investor activity."

Forward redemptions as a percentage of GlobeOp AUA have trended significantly lower since reaching a high of 19.3 per cent in November 2008.

Lithuania's authorities merge

Lithuania's parliament approved a merger of the Securities Commission and the Insurance Supervisory Commission with the country's central bank.

The Bank of Lithuania will be taking over the supervisory role of financial market institutions starting in 2012. After completion of the restructuring process, the Securities Commission and Insurance Supervisory Commission will be liquidated.

"After restructuring of the financial market supervision function, it would be financed from instalments of the companies engaged in the financial services. At present, the Bank of Lithuania provides financing for supervision of the credit institutions from its own resources, the Securities Commission is financed from the budget and the Insurance Supervisory Commission – from instalments of insurance companies," wrote SEB in a client note.

OCC securities lending falls 17 per cent

OCC's stock loan programme, including OTC and AQS, saw new loan activity fall 17 per cent compared to November 2010 with 52,838 new loan transactions in November.

Despite this decline, year-to-date securities lending activity is up 33 per cent from 2010 with 698,597 new loan transactions in 2011. OCC's stock loan programme had an average daily notional value of $19,903,866,686.

Year-to-date cleared contract volume is up 19 per cent with 4,278,547,237 contracts, passing four billion contracts for the first time ever in November. OCC cleared contract volume in November reached 346,584,214 contracts, a two per cent decrease from the November 2010 volume of 354,897,569 contracts. OCC's year-to-date average daily contract volume stands at 18,521,850 contracts, nearly three million contracts higher than the average daily volume of 2010.

Options: Exchange-listed options trading volume reached 344,377,310 contracts in November, a two per cent decrease from November 2010. Index options trading volume in November was up 16 per cent from 2010 with 26,880,172 contracts. Total options volume year-to-date through November was 4,242,423,240 contracts, 19 per cent higher than at the same point last year.

Futures: OCC cleared 2,206,904 futures contracts in November, a decrease of 23 per cent from November 2010. OCC equity futures cleared volume reached 358,037 contracts in November, a 63 per cent increase over the same month last year. Year-to-date total contract volume for futures cleared by OCC has reached 36,123,997, more than double the volume at the same point last year.

NorthPoint renamed as ConvergEx Prime Services

ConvergEx Group has changed the name of NorthPoint Trading Partners to ConvergEx Prime Services, effective November 30.

"Since joining ConvergEx in 2009, our organisation has expanded and changed in tremendous ways. The synergies that have been created have made us truly unique in the prime services industry and allowed us to offer our customers differentiated services and powerful technologies that, previously, could only be accessed by the largest institutions," said Douglas Nelson, chief executive officer of ConvergEx Prime Services. "Our new name is a great expression of our company today."

"This name change was a logical step in the evolution of this business and it is a reflection of our commitment to growing and developing it as an integral part of ConvergEx Group," said Joseph Velli, chairman and chief executive officer of ConvergEx Group.

Nelson and Michael DeJarnette, president of ConvergEx Prime Services, will each continue in their respective roles. The business will continue to be based out of Atlanta, Georgia, and all of its clearing and custody arrangements, products, partnerships and projects will continue uninterrupted.

Securities lending on Middle East and Africa agenda

With Nigeria recently implementing securities lending mechanisms in its market, Kenya and UAE are showing some forward motion as well, note Standard Chartered's personnel from those regions at a recent frontier markets seminar.

John Odhiambo, head of Security Services for Kenya, said that the Capital Markets Authority has appointed a manager with an eye to implementing securities lending by the end of 2012. "It may not be as sophisticated as in other markets, but it will enhance liquidity," he said.

Stewart Adams, regional head, Investors & Intermediaries, Transaction Banking for the MENA region, also noted that liquidity mechanisms are moving forward, particularly in Qatar, reinforcing widely held beliefs across the financial services industry that the country's exchange will be the first to implement short selling.

One of the problems, Adams explained during his presentation, is that when lending against local shares, there are restrictions against forcing the sale of shares.

Speaking on the sidelines of the forum, Adams also commented that the region's upgrade to emerging market status, currently under review, looks promising.

Data Explorers undergoing "strategic review"

Data Explorers is conducting a strategic review with Deutsche Bank, attracting media speculation towards a potential sale.

In a recent article, the UK's Daily Telegraph speculated an asking price of £300 million for the securities lending data firm, which sells data on some £2 trillion of short positions taken against companies and adds that interest is expected from such firms as Thomson Reuters.

Data Explorers declined to comment, however, a spokesperson said that it is business is usual and the service to clients remains unaffected.

OneChicago announces November volumes

OneChicago saw its EFP activity post best year-to-date month with over 130,000 contracts, representing more than $1.2 billion in notional value and up 30 per cent over October. A total of 358,037 security futures contracts were traded in November.

Security futures volume at the exchange in November 2011 was up 63 per cent year-over-year. 81,060 November 2011 futures valued at more than $430 million were taken to delivery.

Open interest stood at 533,486 contracts on the equity finance exchange at the end of November.

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Leading markets?

SIX x-clear's Tomas Kindler discusses the status of the CCP model, and points to the developments in the market that will increase it acceptance

ANNA REITMAN REPORTS

At every securities lending forum, the industry considers the issues surrounding CCPs. There is no doubt that acceptance is forthcoming - the Bank of England's Securities Lending and Repo Committee (SLRC) recently considered inviting representatives of CCPs to meetings. But there are big question marks over competing models. The committee identified three hurdles for CCPs: conceptual issues such as the purpose, construction and scope of the offering, product design and practical issues for implementation.

SIX x-clear, the CCP of SIX Securities Services, had a relationship with SecFinex, the securities lending trading platform majority owned by NYSE Euronext. Just hours after *SLT* caught up with Tomas Kindler, head of clearing relations at SIX Securities Services, NYSE announced that SecFinex was closing its doors in an admission of the difficulties CCPs face gaining traction in the market.

But even before the announcement, Kindler noted that the trading platform had negligible market share. Speaking on the sidelines of the Global Custody Forum, here is his take on the advent of CCPs in the securities lending space.

SLT: What is the situation right now for CCPs in the securities lending industry?

Tomas Kindler: To a large extent it is still a bilateral market that is cleared bilaterally, I don't know the market share of the trading venues that are out there but it is clearly below 10 per cent…so at the moment it is linked to trading venues. When I look at the regulation, the main focus is on OTC derivatives, but the Bank for International Settlements (BIS) has recently conducted a market consultation on capitalisation of bank exposures to central counterparties. For the BIS, OTC derivatives, securities lending and repo are all one mass and they apply the same framework to all three asset classes. That is particularly relevant when we look at capital requirements. If you clear against a qualified CCP, it is two per cent capital underlying, if it is not CCP cleared, it is at least 20 per cent if your counterparty is a bank, or as much as 100 per cent if it is not a bank. So even though there might not be the regulatory push that we see in the OTC derivatives space, from a capital requirements perspective this is creating a strong incentive with the securities lending market to use CCP clearing.

One of the key questions is how can CCP clearing be introduced for the OTC securities lending market?

SLT: How can CCPs overcome some of the difficulties they face in gaining market acceptance?

Kindler: I think the lower capital requirements will certainly help, but bottom line is the market has to be ready to pay for risk mitigation and I think some market participants are ready to do that and others might not be ready because it might impact on some of the commercial models, particularly when it comes to agency lending. The fee splits can't support additional costs for collateral, so that might have to change and maybe there will be two products in the future, one for the CCP clearing and one for bilateral.

One key element is when you look at the membership criteria of CCPs. Many market participants do not qualify as direct CCP members because they are not regulated banks or brokers or they might not fulfil the capital requirements - by definition they have to go through an intermediary, a general clearing member. One of the points raised by the BIS is, how can these market participants, while going through an intermediary, benefit from the lower capital requirement of CCP clearing?

And what they recommend is that, given there is an appropriate level of segregation on the beneficial owner level in the CCP, when it comes to margin, collateral and assets, the lower capital requirements could also apply to indirect clearing members. I think that is an important element going forward to make CCP clearing more attractive in that space.

SLT: Of the competing models, Eurex seems to be addressing the bilateral relationship most, what is the industry response?

Kindler: It is an OTC model, so I think they have understood the requirements. As I understand it, one element is a special clearing licence for long only lenders so they don't have to provide margin collateral. What they are trying to do is to replicate the current OTC model in a CCP, and I guess we need to see how the final solution and offering will look like. But for the time being, what I am hearing in the market is that there are a couple of question marks around that model, at the same time it addresses OTC. **SLT**

Tomas Kindler
Head of clearing relations
SIX Securities Services

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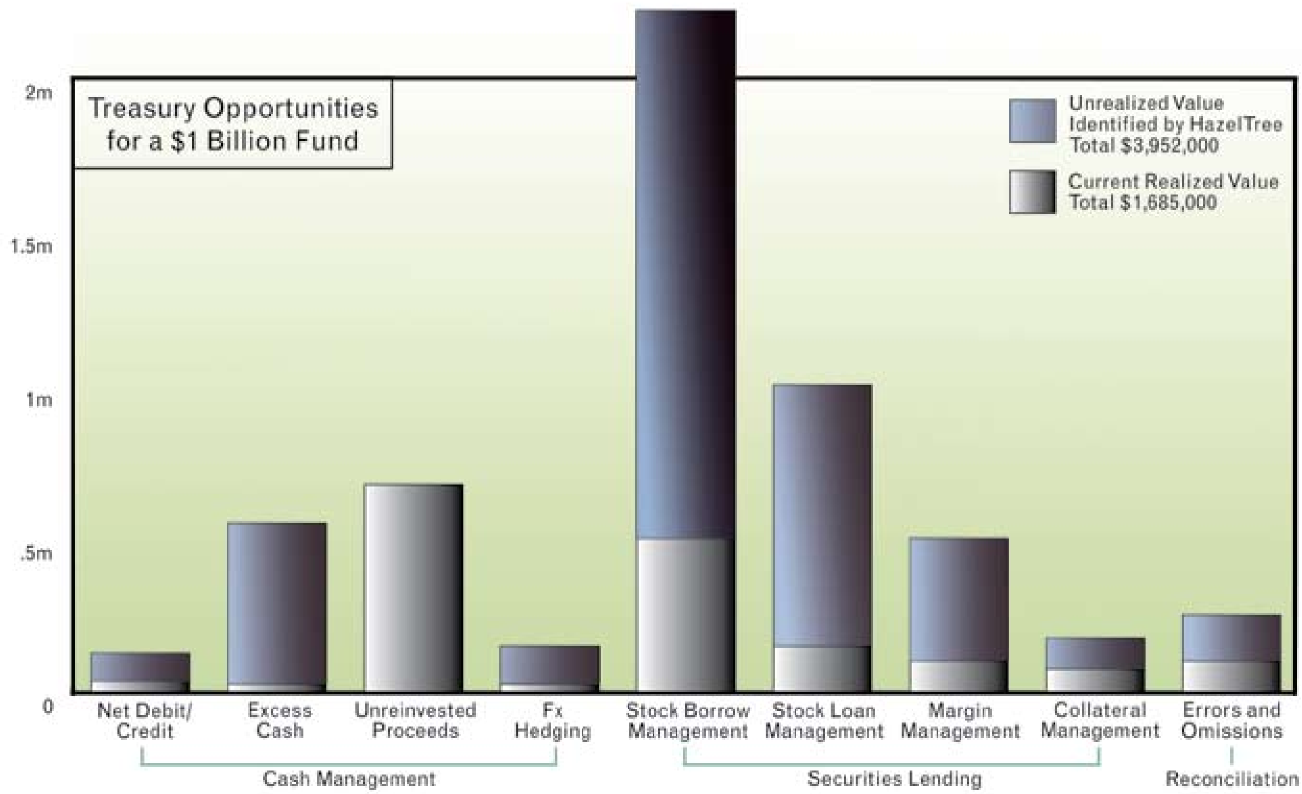

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UK

It's going to be a long slog to recover from the financial crisis, which means the attitudes of many are changing

ANNA REITMAN REPORTS

The UK is facing the longest recovery since the end of the First World War. Domestic demand is expected to shrink throughout 2012 and the labour market remains slack.

A large part of the slowdown is due to weak domestic demand, which in turn is a result of developments in international financial markets, writes the National Institute of Economic and Social Research (NIESR) in a recent economic review.

As of October, UK equity prices have fallen by over 10 per cent in July, with bank stocks in particular down some 20 per cent. Meanwhile, the spread of corporate bonds over 10-year gilts in the UK has widened significantly over the past few months to levels last seen in 2009.

Meanwhile, the recent Autumn Statement from Chancellor of the Exchequer, George Osborne, resulted in the think tank revising economic growth forecasts downwards.

NIESR now expects the UK to experience a short recession followed by growth in the second half of 2012 and forecasts GDP growth at 0.1 per cent for the year, and growth in 2013 at 2.2 per cent.

"The Chancellor can do little to resolve the eurozone crisis. It remains our view that in the short term fiscal policy is too tight, and a temporary loosening would improve prospects for output and employment with little or no negative effect on fiscal credibility," it wrote in a statement.

The forecasts are affected by an assumption that European leadership will continue to struggle through current difficulties as opposed to taking decisive action. The Office for Budget Responsibility (OBR) too revised its outlook for the economy and public finances under this scenario. However, there is some upside risk to these forecasts should decisive action among European leadership materialise.

Simon Kirby, senior researcher at NIESR, does note some welcome initiatives announced in the UK's Autumn Statement targeting youth unemployment as well as credit easing for small and medium sized enterprises, but points out that there are not enough details at the moment with which to evaluate what impact these initiatives might have on the UK economy.

At the time of writing, markets were rallying across the board to recently announced coordinated action among five central banks – Bank of Canada, Bank of England, Bank of Japan, European Central Bank (ECB) and Swiss National Bank - to ease USD tightness by making it cheaper for the ECB to lend USD into European banks. The move is seen as beneficial for eurozone banks, those with junk credits and with liabilities in USD and earnings stream in another currency.

But economists have pointed out that this action is no panacea for the eurozone crisis.

"The fundamental point is that the biggest boost to the UK economy at the moment would be a resolution of the euro area crisis," Kirby says.

Economic fallout

John Arnesen, head of agency lending product at BNP Paribas Securities Services, agrees that the outlook is somewhat bleak both for the pan-European and UK economy, affecting the level to which clients are interested in value-added products such as securities lending. It is a bit of a paradox he notes, since asset managers are fixated on risk and securities lending is coming under that scrutiny, while at the same time, those that engage in lending incorporated as part of their risk strategy produce additional incremental returns.

However, the European situation is presenting an opportunity as well, because government debt in Europe is no longer created equal, a trend noted in many parts of the continent. The resulting collateral upgrade trade presents a compelling revenue generating opportunity.

"Germany has become the defacto benchmark for the pan-European market place and when you step outside of those handful of triple-A rated countries into the other European members of the union, the spreads are enormous…taking those securities as collateral [presents] a large opportunity to generate revenue…particularly because of the shift for investment banks which will need to manage their capital requirements more closely…fixed income markets are not being driven by shorts, but by the wholesale need for highly liquid triple-A rated government securities that you can fund on an overnight basis," Arnesen says.

BNP Paribas has both an agency and principal securities lending capability and, as a major global custodian, provides services for the world's most authorative clients, including central banks, sovereign wealth funds, pension funds and asset managers. He notes that the business is becoming more about collateral management, automation and speed of execution while IT staff and the solutions they develop are increasingly gaining prominence as part of the industry.

In terms of equities, he notes that the UK market never really disappoints as it has an abundant supply and relatively predictable demand drivers. The overall spread from UK equities is increasing, but utilisation is quite low and it remains a mostly non-special market.

UK equities out on loan are at some $30 billion against a lendable supply of around $550 billion - putting the LongShort ratio at just over 21, meaning there are over 20 times more longs than shorts, according to Data Explorers' research.

However, as asset managers' attentions shift to Asia, so too does the securities lending industry, particularly in light of the additional returns on equities from such countries as Korea, Taiwan and Hong Kong. As an example, if UK equities are making somewhere in the neighbourhood of 35 basis points annualised return, Taiwanese equities are in the hundreds of basis points. Even given that there are regulatory hurdles unique to each location, this level of return is compelling.

"The UK is a great market to be in, there is lots of supply here, particularly where the supply is not necessarily UK-based…the UK is a massive buying centre in general... [there are] very large pension funds based here but also a multinational approach, so the assets may not be UK but the domicile of the fund is here. That has always been an extremely important revenue stream of any agent lender," Arnesen says.

Still, with 2012 largely predicted to be a lost year for investment on the back of pan-European economic woes and an anticipated slowdown in global growth, the industry might take a hit, especially in light of numerous regulations that are coming down the pipeline which may increase costs of doing business.

"At the end of the day, if [regulation] moves the market in a different direction slightly or if we have more expense to deal with compliance, that has to get paid for somehow, now whether that is covered by the institutions or whether that causes some pricing changes, it is either going to get passed on or absorbed somehow," Arnesen says, adding that short selling bans have been proven to be misguided by both academic research and regulator remorse after the fact.

"Securities lending is an activity that shouldn't impact on the main purpose of the portfolio, which is to generate income or to generate return, and you will have selected a particular portfolio with particular assets because it meets your investment criteria...As soon as a securities lending activity impacts on that, then that is not good news," Martindale says.

Attitudes towards wider European trends, which favour term trades are a case in point. With an active investment manager, booking term trades may interfere with overall strategy depending on how active in voting a pension fund may be. Meanwhile, other options, such as accepting equities as collateral are heavily dependent on the beneficial owner's risk profile.

Though RPMI Railpen has accepted UK equities as collateral to a limited extent in the past, Martindale lined up collateral and loan currencies to mitigate risk. Other collateral risk mitigation strategies are to take equities in the same market or a basket of equities.

I don't believe that securities lending should have ever been anything more than a low risk, low utilisation addition in terms of a handful of basis points of return to a portfolio

John Arnesen
Head of agency leading product

The risks, he adds, are that the returns become more subdued and that there is too much supply chasing continued dampened demand, especially if an agent lender's business model has not embraced the full use of technology to keep costs down. At the moment, market pressures have led to disproportionate fee splits in a bid to win business at any cost, a kind of race to the bottom, which Arnesen points out is an industry heading in the wrong direction.

"I don't believe that securities lending should have ever been anything more than a low risk, low utilisation addition in terms of a handful of basis points of return to a portfolio …the minute it becomes something else, we should call it something else and that should be with the full understanding of the client involved or the beneficial owner as well," Arnesen says.

Beneficial owner POV

Joyce Martindale wears several hats - she works for RPMI Railpen, which looks after the £18 billion UK Industry wide Railways Pension Scheme, is a member of the National Association of Pension Funds (NAPF) Investment Council and also represents NAPF on the Bank of England's Securities Lending and Repo Committee (SLRC). She reinforces the view that though investments which can deliver extra returns or offset fees are welcome and recognised, beneficial owners in the UK are hesitant to interfere with investment portfolios.

It is much the same issue with the introduction of CCPs into the securities lending market, which she is watching with "some trepidation". Even if a CCP provides for a bilateral offering without expecting the lender to post collateral, if there is a lien or claim on the assets resulting in a disruption to the primary purpose of an investment portfolio, it is sure to make beneficial owners think twice about the value proposition, Martindale notes.

Still, the main barrier to entry is a lack of education about the securities lending industry and, to some degree, a mismatched conversation between lenders and borrowers. As part of her work on the BoE SLRC, Martindale served on the Education sub-committee, which produced an introductory guide and question checklist for lenders as well as information about the kinds of disclosures agent lenders should be providing.

What some securities lending industry practitioners don't understand, she explains, is that just because consumers don't know how to rebuild a car engine does not mean they can't pick out a suitable car.

In summarising some of the advice contained within the BoE SLRC document, Martindale says, "Make sure you know what you are getting into, make sure you understand your risk versus reward criteria very carefully, understand what you want to do in terms of voting, what kind of collateral you are happy to accept and communicate clearly about [those things]." **SLT**

Deficit demand

Short sellers are drawn to firms with pension deficits, writes Data Explorers' Will Duff Gordon

MARKET PERSPECTIVE

We look at whether there is a strong crossover between companies with large pension deficits and those with high short interest. We have found that companies that have large pension deficits do have higher short interest and we try to understand why. Looking at the pension deficit as a proportion of market cap we find that the most shorted shares in the UK market have large pension deficits. Shares highlighted include Thomas Cook (LON:TCG), Dixon Retail (LON:DXNS), Mothercare (LON:MTC) and Premier Foods (LON:PFD). This pattern is also mirrored in the US with steel firms US Steel (NYSE:X) and AK Steel (NYSE:AKS) as well as retailer Supervalu (NYSE:SVU).

Pensions are the proverbial gift that keeps on giving, guaranteeing loyal employees steady income long after clocking off for retirement. The guaranteed income set forth by generously defined benefit pension plans can become unrealistic in the face of economic downturns and shifts in demographics. The recent volatility in markets has seen equity indices erase much of their gains over the last decade, whilst bond investments have been devalued by rounds of quantitative easing, ensuring that pension managers have ever dwindling assets to pay for larger than anticipated liabilities as retired employees live longer than first anticipated. Needless to say, plenty of companies have come unstuck in this game of actuarial roulette.

In the UK, we screened the FTSE 350 and took the net pension assets/liabilities recognized on the company's balance sheets and divided it by each company's respective market cap to normalize the results across companies. We find that FTSE 350 companies have a median pension deficit worth two per cent of market cap and an average short interest of 2.3 per cent of shares. The following table highlights the companies with the greatest pension deficits as a function of market cap.

Across the FTSE 350, we found that shares with high pension liabilities tend to have higher short interest with the 20 companies with the largest pension deficit having an average short interest of 3.6 per cent.

Highlights include Dixon Retail with a short interest of 13.4 per cent of shares (see chart), making it the third most shorted share in the FTSE 350 with its current 260 million USD pension deficit representing 70 per cent of its market cap. Fellow retailers Mothercare and Kesa Electricals (LON:KESA) also feature in the list with short interest representing a respective 11.7 and 6.3 percent of shares.

Premier Foods currently has the highest pension deficit which represents nearly 3 times its market cap. Unsurprisingly, it has 4.2 per cent of its shares shorted (see graph) being almost double the index average level. Thomas Cook features as the company with the second largest pension hole, although that number is exacerbated by the recent collapse in market valuation. Its current short interest represents 10.3 per cent of shares.

This raises an interesting point. To a certain extent the high short interest in firms with large pension deficits is a coincidental crossover. When the share price falls a long way, as is the

FTSE 350 with Large Pension Deficits to Market Cap Ratios								
Name	Ticker	Industry	Short Interest as % of Shares	1 Month Change	YTD Stock Price Performance	Net Pension Assets (USD Mil)	Pension Deficit as % of Market Cap	Long Inventory as % of Shares
Premier Foods Plc	PFD	Packaged Foods and Meats	4.23	32%	-75%	-321	-283%	16
Thomas Cook Group Plc	TCG	Hotels, Resorts and Cruise Lines	10.35	28%	-89%	-415	-264%	19
Dixons Retail Plc	DXNS	Computer and Electronics Retail	13.37	-6%	-53%	-259	-70%	21
Ws Atkins Plc	ATK	Research and Consulting Services	1.81	2%	-13%	-350	-60%	27
Bae Systems Plc	BA.	Aerospace and Defense	0.47	69%	-21%	-3386	-41%	24
Invensys Plc	ISYS	Industrial Machinery	1.06	20%	-46%	-458	-31%	27
Mothercare Plc	MTC	Department Stores	11.74	16%	-75%	-38	-29%	18
Balfour Beatty Plc	BBY	Construction and Engineering	1.22	-17%	-27%	-441	-29%	28
Tui Travel Plc	TT.	Hotels, Resorts and Cruise Lines	6.33	6%	-35%	-493	-29%	18
Gkn Plc	GKN	Auto Parts and Equipment	2.55	26%	-21%	-600	-23%	30
Taylor Wimpey Plc	TW.	Homebuilding	1.17	-20%	18%	-249	-22%	23
Whitbread Plc	WTB	Restaurants	1.21	-90%	-14%	-488	-18%	23
Aviva Plc	AV.	Multi-line Insurance	0.44	-9%	-24%	-1448	-18%	24
Kesa Electricals Plc	KESA	Computer and Electronics Retail	6.26	-10%	-47%	-72	-17%	17
Firstgroup Plc	FGP	Trucking	4.04	-8%	-21%	-248	-17%	25
Howden Joinery Group Plc	HWDN	Home Furnishing Retail	1.62	-21%	1%	-99	-16%	26
Britvic Plc	BVIC	Soft Drinks	3.52	19%	-29%	-118	-15%	18
Carillion Plc	CLLN	Construction and Engineering	1.62	0%	-24%	-182	-15%	24
Ds Smith Plc	SMDS	Paper Packaging	1.08	-14%	-8%	-115	-15%	22
Yule Catto And Co Plc	YULC	Specialty Chemicals	1.87	15%	-24%	-66	-13%	31

case with many UK retailers this year (many down over 50 per cent), it clearly attracts short sellers seeking to profit from this decline. A side effect rather than a cause of the price fall is an increased pension deficit when judged against company value. It would be rather different if judged against income.

This makes the low short interest in firms like BAE Systems (LON:BA), Aviva (LON:AV) and Invensys (LON:ISYS) rather interesting. Short selling is low despite pension deficits above 29 per cent of market cap.

In the US, a recent FT Report looked at shares with a pension deficit greater than 25 per cent of market cap (see table). The average short interest across the firms highlighted in the report is a very high 11.2 per cent of shares, nearly four times the SP 500 average of 4 per cent of shares.
Retailer Supervalu sees a massive 26.9 per cent of its shares shorted a level that is double the amount of shares shorted at the beginning of the year (see chart). Steel Firms US Steel and AK Steel also feature prominently in the list with 22.4 per cent and 14.6 per cent short interest respectively.

Short sellers are steering clear of Raytheon (NYSE:RTN) despite the fact that the company has a USD4 billion pension hole. The firm's short interest is a relatively low 0.7 per cent of shares outstanding.

Conclusion

People tend to focus more on how a company is trading rather than a structural weakness such as their pension deficit when judging their prospects. However, an ageing population means pensions need to be paid for longer while the volatile stock markets and low interest rates are making life extremely tough for those relying on a decent return on their assets held in their pension funds. This suggests that pension deficit issues may increasingly play a key role when forming judgments about a company's future. Hedge funds may be tempted to close short positions once a certain profit has been reached citing the fact that picking the bottom of a share price is as hard as calling the top. Many do not like shorting shares whose P/E ratio is below 5 for example. But taking Thomas Cook's recent experience as an example, if the pension or other debt deficits have suddenly shot up to levels that would prompt action from banks or trustees, is it worth keeping the position on? **SLT**

Will Duff Gordon
Research director
Data Explorers

S&P 500 Shares with Large Pension Deficits					
Name	Ticker	Industry	Short Interest as % of Shares	1 Month Change	Long Inventory as % of Shares
Supervalu	SVU	Food Retail	**28.40**	22%	35.64
US Steel	X	Steel	**21.12**	-13%	25.30
Donnelley	RRD	Commercial Printing	**17.30**	25%	31.14
AK Steel	AKS	Steel	**14.75**	-10%	20.46
Lockheed Martin	LMT	Aerospace and Defense	**6.48**	8%	20.35
Textron	TXT	Aerospace and Defense	**6.28**	-18%	24.40
Ford Motor	F	Automobile Manufacturers	**3.53**	-11%	17.79
Goodyear Tire & Rubber	GT	Tires and Rubber	**2.46**	-13%	25.68
Raytheon	RTN	Aerospace and Defense	**0.71**	-17%	29.68

2012

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16th Global Securities Financing Summit

Location: Luxembourg
Date: 18-19 January 2012
www.clearstream.com

As previous years, we will organise the Eurex Repo Bar as a prelude of the summit on Tuesday 17 January 2012 and the selected venue for this year is the Chateau de Septfontaines (Villeroy & Boch).

The 18th Annual International Beneficial Owners' Securities Lending Summit

Location: Phoenix, AZ
Date: 29-31 January 2012
www.imn.org

The 18th Annual International Beneficial Owners' Securities Lending Summit details to follow

ITAS 2012 International Transfer Agency Summit

Location: Luxembourg
Date:29 February - 1 March 2012
www.informaglobalevents.com

Last year, the 10th Anniversary of ITAS saw 250+ attendees at the event. The positive feedback led all involved to declare it a resounding success in terms of catching up with business partners, listening to and debating with some of the leading figures in this industry, and having great fun at the evening functions. Already there is great anticipation in the market for coming along to ITAS 2012.

9th Annual PASLA RMA Conference on Asian Securities Lending

Location: Taiwan
Date: 6-8 March 2012
www.informaglobalevents.com

Keynote Speaker - Robert A. Jaeger, senior investment strategist, BNY Mellon Asset Management, Author of "All About Hedge Funds: The Easy Way to Get Started"

Industry appointments

As part of a new executive committee focused on clients, **Massimo Cotella**, CEO of SGSS Italy, will be developing new solutions using SGSS' cash and securities liquidity management offerings.

These committee activities are in addition to his current position, where Cotella supervises sales and marketing activities, as well as SGSS' Liquidity Management services such as securities lending, treasury and foreign exchange.

Headed by Bruno Prigent, global head of SGSS, the new client focused governing body will continue to accompany institutional investors who need services that are increasingly more extensive, multi-product and multi-country.

Other members of the committee are Pascal Berichel, head of fund distribution services and Didier Rolland, global head of client and business support within the Corporate and Investment Bank's operations department. He supervises clearing, custody services and issuer services of SGSS.

As part of the committee, Berichel and Rolland are responsible for reinforcing transversal management and synergies among the SGSS operational activities and ensuring quality multi-products in multiple countries in an ever moving context.

Paul Vinton, executive vice president of SWS Group, is retiring effective December 31, 2011.

Vinton, joined SWS Group in 1995 and has served as senior vice president and executive vice president of the company's principal broker-dealer subsidiary, Southwest Securities, and executive vice president of SWS Group since 1998. In addition to risk management, Vinton's responsibilities with SWS include the oversight of Southwest Securities' clearing services, agency trading, portfolio trading and securities lending businesses.

Vinton's duties will be assumed by several current members of SWS Group's senior management team. In addition, the company is currently recruiting for a chief risk officer, who will assume Vinton's risk management responsibilities and oversee enterprise risk management planning.

Prior to joining SWS Group, Vinton held management positions with several financial services firms, including chief financial officer of BancOne Securities and president of DFW Clearing. He has been active in numerous industry organisations and committees, including the Depository Trust & Clearing Corporation's settlement advisory board, the Texas Stock and Bond Association, and state regulation and legislation activities for the Securities Industry and Financial Markets Association.

SIFMA has announced the election of **Jerry del Missier**, co-CEO of Barclays capital as chair of the industry association for 2012.

Tim Ryan, CEO and president of SIFMA, said, "Jerry's valuable insight on issues facing the global financial industry, especially derivatives and capital charges, will be a tremendous benefit to SIFMA and our industry as we continue to move forward with financial reform implementation."

Other new principal officers to join SIFMA's board included **Chet Helck**, Raymond James Financial as chair-elect, **Kent Christian**, Wells Fargo Advisors as vice chair and **Bernard Beal**, M.R. Beal & Company as treasurer.

Nomura Securities has confirmed the appointment of **Daniel Kelly** as executive director of its US prime brokerage sales force. He will be based in New York and has previously worked at Barclays Capital, Lehman Brothers and Goldman Sachs in various prime brokerage roles.

He will report to Darci Tobin, head of prime services origination for the Americas, hired in July from Credit Suisse.

Nomura continues with expansion plans looking to add sales people in the US region, according to a source.

Several redundancies have been reported at Bank of America Merrill Lynch's (BAML) prime brokerage division as part of an overall review.

SLT has confirmed media reports that among those let go was **Dom Addeo**, director, Americas head of Prime Brokerage Client Integration. In addition, directors **Andrew Neese**, **Paul Morelli**, **Bob McDonough** and **Steve Doran**; **Tony Rosasco**, vice president; and **Paul Bacanovic**.

A source familiar with the situation said the shake up is not targeted at its prime brokerage division and the firm will continue to ensure that the business is aligned with client needs. No particular regional considerations were made in the "small numbers" of redundancies announced.

BAML has made a number of strategic hires at the prime brokerage division, including **Stu Hendel** as the global head, **Peter Klein** as global head of FX prime brokerage and **Charlotte Burkeman** as co-head of EMEA brokerage, among others.

Deutsche Bank has appointed **Thibaud de Maintenant** as global head of Direct Securities Services (DSS) within its Global Transaction Banking division.

Based in London, Thibaud de Maintenant will report to Satvinder Singh, global head of Trust & Securities Services (TSS) and a member of Global Transaction Banking's Executive Committee.

Satvinder Singh said, "Thibaud is a leading industry figure who brings to his new role vast experience across Asia and Europe that can be harnessed to ensure DSS is well positioned in the rapidly changing regulatory and infrastructure landscape. With considerable experience in running businesses and working with clients, Thibaud will help position DSS as the leading provider in the industry."

Thibaud de Maintenant has over 17 years' experience and is extremely familiar with the DSS business. Thibaud, who started with Deutsche Bank in 2000 firstly in Europe where he was instrumental in building the sub-custody franchise, initially focussing on Western Europe. He then moved to Singapore, taking on the role as head of DSS Asia Pacific where he further enhanced his reputation in successfully running and growing businesses. Thibaud recently relocated back to Europe as head of DSS Markets across all regions. **SLT**

SECURITIESLENDINGTIMES

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

Journalist: Anna Reitman
annareitman@securitieslendingtimes.com
Tel: +44 (0) 20 3006 2888

Marketing director: Steven Lafferty
design@securitieslendingtimes.com
Tel: +44 (0)784 3811240

Publisher: Justin Lawson
justinlawson@securitieslendingtimes.com
Tel: +44 (0)20 8249 2615
Office fax: +44 (0)20 8711 5985

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Kent, BR3 5JE
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