SECURITIES TIMES

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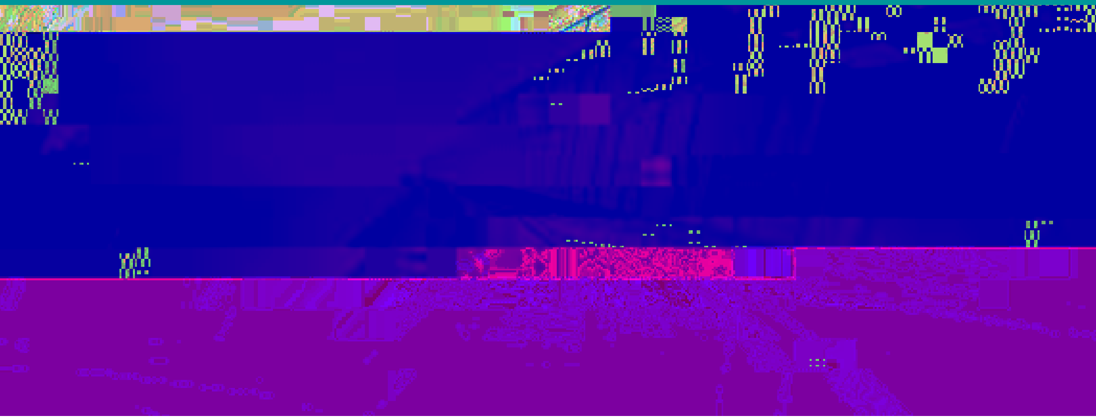

Greywolf Execution Partners has selected SunGard's Valdi Order Management System (OMS), Valdi Liquidity Solutions, MarketMap and SunGard Global Network (SGN) for its institutional trading business.

Greywolf chose SunGard to help simplify and manage its trade lifecycle across multiple platforms, creating trading and operational efficiencies.

NEW YORK 21.04.2011

are tremendous assets as we continue to expand the capabilities we offer Prime Services' clients."

"We are thrilled to join the Cantor Prime Services team," Wolkow and Angelou said in a joint statement. "This is an exciting time in the hedge fund marketplace with great opportunities to deliver value added services for our clients. The equity securities lending team enhances Cantor Prime Services' efforts to create a seamless platform and single point of contact for hedge funds. We look forward to helping Prime Services build an even greater market franchise by continuously addressing our clients' needs and developing services that meet their requirements."

The hiring comes on the heels of the announcement last month that both the management team of PCS Dunbar Securities and the majority of its clients had joined Cantor Fitzgerald's Prime Services Group. This transaction added a number of talented professionals to the Prime Services' team, expanded the client roster, and expanded the buy side trading off-dollar capabilities.

SEC approves OCC rule change **OneChicago changes fee structure** Bank of England reports on securities lending **Canadian market panel discussion** Beneficial owners panel discussion **Stephen Casner interview** Basel III **Securities lending indices** Data analysis **Regional focus: Latin America** People moves

If you think Treasury isn't sexy, look at these numbers.

HazelTree Treasury Suite: Selected Hedge Fund Profiles					
Fund Size	$500m	$1b	$1.5b	$3b	$6b
Long Exposure	90%	100%	100%	95%	110%
Short Exposure	80%	75%	110%	100%	85%
Avg. Credit Cash Balance	15%	10%	10%	10%	5%
Avg. Debit Cash Balance	10%	5%	15%	15%	12%
% Longs Hard to Borrow	10%	5%	7%	7%	5%
% Shorts Hard to Borrow	30%	30%	25%	20%	15%
Typical Treasury Impact on a Fund					
Cash Management	$125,000	$125,000	$375,000	$750,000	$750,000
Stock Loan Management	$900,000	$1,000,000	$2,100,000	$3,990,000	$19,800,000
Stock Borrow Management	$1,180,000	$2,212,500	$4,331,250	$6,900,000	$8,415,000
Total Performance Increase	$2,205,000	$3,337,500	$6,806,250	$11,640,000	$28,965,000
Impact in Basis Points	44.10	33.38	45.38	38.80	48.28

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SunGard's global trading solutions will help Greywolf enter new markets and trade new asset classes more quickly and easily and fnd new revenue opportunities. SunGard will also help Greywolf increase speed of execution with a more streamlined trade lifecycle. Greywolf Execution Partnershas also signed up for the Valdi Shares Reward Programme, which provides non-fduciary sell-side frms with the ability to earn credits toward technology fees and reduce their overall technology costs when executing or clearing trades through SunGard's Valdi Liquidity Solutions.

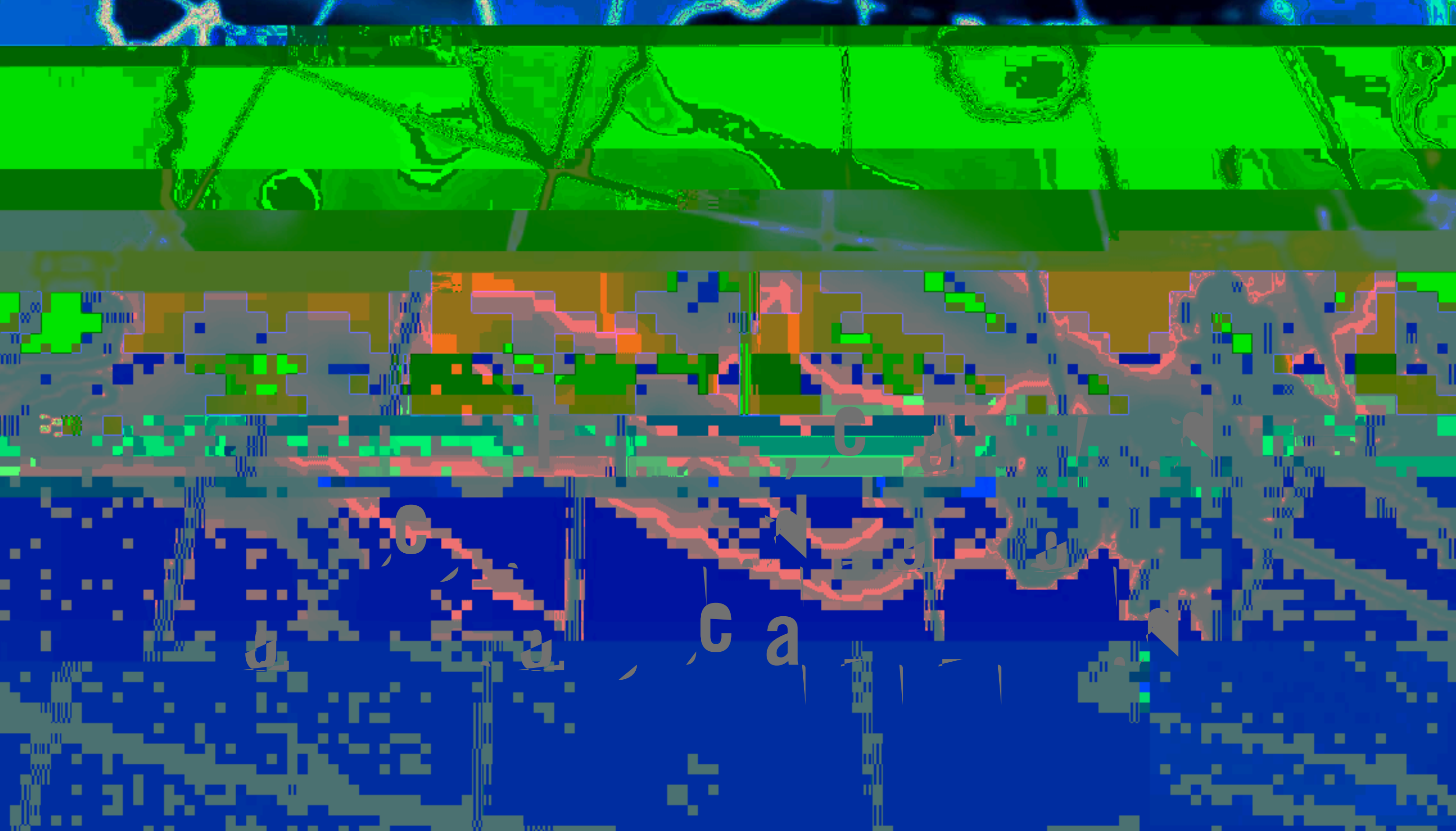
Christopher Martin, president of Greywolf Execution Partners, Inc, said, "Our goal is to provide our customers with a consultative approach to trading. We are able to do this because our frm has years of market experience and we are located on the foor of the NYSE. SunGard's Valdi and MarketMap solutions, and the SunGard Global Network will help us grow our business by helping us effectively manage and execute trades and broaden our reach into new asset classes and markets."

Raj Mahajan, president of SunGard's global trading business, said, "We provide a 360 degree approach to trading that creates economies of scale and cost savings for our customers.

of a company using dividend history, borrowing structure, dividend policy and the latest news fow to build their estimations.

dealReporter's dividend outlooks are backed up with analysis including discounted cash fow modelling, payout trends, option pricing, and dividend yield sensitivity. The dividend outlook service also includes a "Special Dividend Payment Rating" on the companies in our universe to help analyse how likely a company is to make a one-off capital return.

The analytical service is also backed up with breaking news from our team of reporters on



Along with Asia, Latin America is the big hope amongst the financial community for long term high growth, innovative product development and a range of opportunities. As one of the BRIC countries alongside Russia, India and China, Brazil is at the forefront, but there are a number of other territories where much is expected.

In the last ten years, several elements have come together to make Latin America a very exciting location for managers of and investors in hedge funds. These elements include a substantial and increasing population of wealthy and institutional investors, continuously improving managers and a flood of international investors looking for geographic diversification.

As the size of the market has grown, so too has its level of sophistication. Just as US, Asian and European investors have come to demand greater levels of operational and investment excellence, Latin American investors also now expect to receive the same standards. This includes institutional quality risk management, compliance, execution and a clear, repeatable and consistent investment methodology, among other things.

Wherever you go south of the US border, the international players can be found. Spanish banks have historically had a strong presence in most markets thanks to their colonial ties, and this has been strengthened with the mergers of Spanish and Portuguese providers. But the US banks are well represented, with Citi, J.P. Morgan and Northern Trust just three of the larger players. From Europe, HSBC has significant operations, as do Deutsche Bank and BNP Paribas. And there are a number of local providers who still claim to have the greatest market knowledge and the best service.

Mexico

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

“The increase is mainly an offshoot of additional Spa1(th

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footing. And that's a good advert for encouraging inward investment.

"We're also seeing more domestic funds involving themselves in lending securities. They have learned from their North American neighbours about the best ways to earn income while protecting themselves, and have an increased confdence in allowing their securities to be used. They still prefer the reassurance of a major in-

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Clearstream offers settlement access to Brazil

Clearstream is the frst international central securities depository (ICSD) to include Brazil in its cross-border settlement network. The company now offers settlement and custody services for all asset classes denominated in Brazilian Real. The link, which went live at the start of the year, gives Clearstream customers the opportunity to develop post-trade solutions for the Brazilian market using Clearstream as their single point of access. Itaú Unibanco is Clearstream's local partner and will act as sub-custodian.

Mark Gem, member of the Executive Board and head of network management at Clearstream, said: "The settlement link to Brazil is key in light of our BRIC strategy and an important additional element to our presence in Brazil where we have already developed a collateral management solution for the local market.

We are pleased to be the frst European market infrastructure provider to launch a post-trade service for Brazil with Itaú Unibanco as local partner who best knows the requirements of this very large and segregated market."

Ricardo Lima Soares, director of the Capital Markets Solutions Group at Itaú Unibanco, said: "We are very pleased to support the leading European post-trade services provider Clearstream to further enhance its presence in Brazil. The new settlement link will allow the large international investor base to more easily access the Brazilian market. We believe that our in-depth knowledge of the Brazilian and South American fnancial markets assures that Clearstream clients will be provided the best possible service on site."

Clearstream has a long-standing presence in South America and in Brazil specifcally. Its frst steps in the region date back to the early 1990s.

Clearstream and Brazilian Central Securities Depository (CSD) CETIP launched an initiative in June 2010 to jointly develop and distribute triparty collateral management services across time zones. In the frst phase, this service will be available for the Brazilian market. CETIP operates the leading marketplace for fxed income securities and over-the-counter (OTC) derivatives in Latin America.

Next issue:
Securities lending across Greece

SLT: HazelTree was formed after it was spun out from a hedge fund. Can you tell me a little about how the company was formed?

Casner: The reason behind the lift out was the technology the hedge fund had created – the fund had received several requests from other funds as to how to obtain that type of technology. At the same time, a private equity frm had a thesis that called for investment in next generation technology for hedge funds.

So the hedge fund and the private equity group together created HazelTree; that combination provided two advantages. First, we had the capital required for the commercialisation of the technology. Second, we created a "wall" between the foundation hedge fund and other potential clients who may have been concerned that their trading strategies and market views could be open to another fund - they now have the comfort that we are an independent technology company.

SLT: How has the technology evolved since the formation of HazelTree?

Casner: Any time a piece of technology is built for a single entity, it is built to cater to a specifc set of business practices. And although hedge funds exist to manage signifcant holdings and generate large returns, they are usually small frms - mostly with staff of less than 100 - so they fnd their own best practices and focus on their own strategies.

Take for example the use of currency and managing FX risk. When hedge funds make bets internationally, some will take the sector view and the currency risk at the same time, while others don't want the FX risk at all or just want to take on the risk in selected communities. So when we lifted out our technology from our frst

SLT: Do the buyers need to take the whole system as an off the shelf product, or can they focus on the parts of it that they need?

Casner: There is a set of core tools that go across all clients and they are all about the data. It's either about bringing data in or organising data from multiple sources. Once the data is organised, clients have a choice. Some use the cash management services, while others are less interested in that but need help in securities financing, cash reconciliation, margin or collateral management. We can deliver the power of the technology to provide a treasury function as an outsourced service, whole or in any part desired. We also provide an API for them to customise reporting and integration with other purchased and internally developed applications, making it a very compelling solution.

SLT: Are you targeting particular types of client?

Casner: There are three types of hedge funds. The first and most numerous are the smaller funds with only one prime or introducing prime broker and we don't expect to attract that market. On the other side of the spectrum are the well established larger hedge funds with several billion in assets. Most of these firms have already recognised the value of treasury in their operations and have built solutions to help them. With those organisations we can help them go through their systems and define the value of their treasury operations - we can help them release the trapped value in their fund.

The key part of the market for us though is the mid market - those with over $100 million under management but less established than the largest funds in our industry. Once a fund gets over the $100 million mark, it has to deal with a whole set of new complexities, especially counterparty risk. This drives most funds to begin planning a multi-prime broker strategy. That is when the value of treasury accelerates very rapidly and that's when the fund is under the most scrutiny from institutional investors. We provide those outsourced treasury services to these funds.

Whether funds use HazelTree or another provider, they should be thinking about their treasury the minute they go into a multi prime environment. If they don't, treasury functions can have a lagging effect on the fund - it can create reporting and other data aggregation issues, which can drag down the performance.

SLT: How has the downturn affected the industry?

Casner: Everything changed two years ago. Every major fund was watching counterparty meltdowns and suddenly realised that counterparty risk would make everyone reassess their banking relationships. We're leading the effort to help sort out the complexities that arose from that transition, not just on the obvious risk issues but also how to leverage these new relationships to truly create performance gains.

SLT: How do you see the securities lending side of the market?

Casner: Securities lending is a fascinating business. It's one of the few opaque parts of the trading business left to talk about. Every other type of transaction, be it futures, options and so on, has become commoditised. It's impossible not to see how the last couple of years has affected transparency within the markets. But there is no generic market for hard to borrow stocks, and there is extremely limited access to market intel-

in lending policies were primarily due to the reaction to the Lehman Bros collapse. Some funds withdrew from the market to re-examine the risk/reward balance. Most, but not all, have returned.

Bimpong: To date the impact has been an indirect one. Regulatory change and uncertainty, particularly with regard to restrictions and reporting requirements on short selling, have led to reduced hedge fund/PB borrowing demand (as well as potentially damaging efficiency and liquidity in the underlying market). By contrast, new rules on bank regulatory capital and liquidity have led to a further increase in demand for government bonds - particularly for term financing structures. Looking forward, from a European insurance industry perspective, the EU Solvency 2 directive looks set to have a profound effect on our clients' asset allocation strategy, with a knock-on impact on securities lending activity.

Johnson: It has not affected our programme, However we continue to review and ensure our programme is sound on a risk and regulatory basis

May: The regulatory changes that most affect our securities lending activity are the money market reforms that have been implemented, and as a result the reduced yield of those instruments. Money market funds are a tactical tool that we utilise in the reinvestment of our securities lending cash collateral, and this regulatory change has further narrowed spreads on lending transactions.

SLT: With margins increasingly tight on securities lending transactions, is it still worth lending general collateral?

Bimpong: Provided that the proper controls and procedures are in place, securities lending (even for GC) can still make a significant contribution to fund revenue for comparatively little risk. So, in a word, yes.

Moore: For local authority pension funds, income from securities lending tends to represent a useful additional income stream rather than being a key requirement. In previous times, it was sometimes seen as a means of offsetting or entirely covering costs of custody of assets, and was perhaps over-dependent upon the advice of the custodian as agent lender. Post Lehman, with the emphasis on education and risk management, there is greater awareness of the associated risks, and the nature of the risk curve, especially regarding the re-investment of cash collateral, as well as a greater awareness of other routes to market. This has meant that those larger funds which can comfortably accommodate and resource the explicit need for education and in-house expertise are more likely to remain in the market as a source of lendable supply.

For smaller funds, there is the same need for in-house expertise, but with potentially smaller income streams on the table, securities lending might well drop down their priority list. Wisely, there is an ongoing emphasis on offering accessible specialist training, which is of particular importance to smaller funds. The final point here is that there will be increasing prominence given to governance issues, especially in relation to the voting of shares.

May: We believe that general collateral lending is still a viable market, provided that it is balanced with specials, and that cash portfolios are able to achieve a spread to GC with little incremental risk. This could conceivably change if the current zero interest rate policy is maintained by the Fed for a longer than anticipated amount of time, but there are still opportunities if one is prudent in managing both the liability and asset portions of the trade.

Johnson: It is less attractive now than it has been in the past, but I would expect this might improve as more participants exit from lending general collateral.

We relaxed our investment guidelines to increase the yield on our invested collateral pool after the financial crisis as we believe it is better to be more aggressive after negative credit events and less aggressive after extended periods of good credit markets.

SLT: What is your attitude towards DIWCLV@&V@D0FUO OFPV0

Securities Lending

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Basel III is arguably most talked about piece of regulation affecting the global banking sector since the financial crisis. Given the sector's role in the securities lending industry, the implications of this upcoming regulation to the industry is becoming increasingly more talked about. Basel III will provide new global regulatory standards on bank capital adequacy and liquidity. It aims to avoid another financial crisis by requiring banks to have enough capital to ensure the amount that they lend matches the amount they have on their balance sheets.

The new bank capital and liquidity framework, which was endorsed by G20 leaders in November last year, sets out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio to support the risk-based requirement, measures to promote the build up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards.

A G20 communique said the framework aims to increase the resilience of the global banking system by raising the quality, quantity and international consistency of bank capital and liquidity, constrains the build-up of leverage and maturity mismatches, and introduces capital buffers above the minimum requirements that can be drawn upon in bad times.

The new standards will markedly reduce banks' incentive to take excessive risks, lower the likelihood and severity of future crises, and enable banks to withstand - without extraordinary government support - stresses of a magnitude associated with the recent financial crisis.

Allen Postlethwaite, chief executive officer of European securities trading platform SecFinex, explains that under Basel III, banks may have to consider their options to minimise the effects of the higher capital ratios imposed, among the options available are restructuring, reducing, cutting or finding another way to carry out their business. Secfinex has made its own calculations to demonstrate the Basel III effect. To do this it used a standard form of calculating the risk and therefore the capital requirement. Postlethwaite adds that banks have different ways of calculating risk, including the use of internal risk models approved by regulators, so the actual answers may vary.

The new Basel III framework will be translated into national laws and regulations, and will be implemented starting on January 1, 2013 and fully phased in by January 1, 2019.

However, Lord Turner, chairman of the UK Financial Services Authority, has said that the current regulatory framework is only the beginning and that as new financial instruments and risks are introduced, further regulation may be necessary: "The pre-crisis delusion was that the financial system, subject to the then defined set of rules, had an inherent tendency towards efficient and stable risk dispersion. The temptation post-crisis is to imagine that if only we can discover and correct specific imperfections – such as bad incentives or industry structure – that a permanently more stable financial system can be achieved," he said.

One other criticism of Basel III is that it maintains the status quo in terms of how fnancial organisations structure themselves. Dr Mario Onorato, head of balance sheet & capital management at Algorithmics, and honorary senior lecturer, Cass Business School in London says the new rules fail to refect the true relationship between liquidity and capital: “Continuing to view capital as a primary mitigant of liquidity risk fails to recognise the complete nature of liquidity risk,” he says. “Should a liquidity situation arise and the bank uses reserves set aside to absorb losses and meet obligations, the value of the company and of the capital are also likely to decline, because the bank will begin to be perceived as ‘riskier’. Liquidity risk and capital are therefore inextricably linked and cannot be addressed as separate silos.

“A truly effective risk management system will take a holistic approach to risk measurement and reporting; viewing and managing the interconnections between all risk factors, such that their potential impact on the balance sheet and stakeholders’ interests can be properly accounted for.”

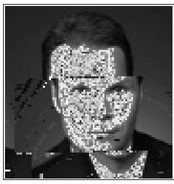
How does it affect securities lending?

As a consequence of the increased capital requirements and volatility adjusted risk calculations contained in Basel III, it will be more capital effcient to use a CCP in securities lending transactions. The use of a CCP could ensure reduced and centralised counterparty risks for market participants and improved operational effciency in the post-trade environment. Furthermore, regulators in some domicil(aA24(more)roca)143(r26sed)(r26sd)-132(26sfree132(26sd)-143(couied)(r27sfrom43(r26se)(r26sd)-)-102(re)]

View from the top

As CASLA prepares for its inaugural conference, we ask industry professionals for their views on the securities lending market in Canada.

Ben Wilkie, editor



Robert Chiuch
President
CASLA

Rob Ferguson
Co-head, global securities lending
CIBC Mellon

Yvonne Wylie
Head, securities lending
RBC Dexia Investor Services

Warren Maynard
VP Canadian account management
State Street Securities Finance

Dave Sedman
SVP and head of securities lending Canada
Northern Trust

Meeting you....
We look forward to meeting many of you at the CASLA event

Justin Lawson, publisher

SLT: Has Canada's relatively benign path through the global downturn resulted in more securities lending activity in recent years?

Yvonne Wylie: The Canadian market is generally more conservative and risk averse than in the United States or Europe and as a result was less affected by the downturn. With Canada still been one of the most signifcant factors in determining demand. As proftability of this business is so dependent on demand, those that accept a broad range of instruments will appeal to a wider set of borrowers and therefore can beneft from increased utilisation levels or returns. Additional opportunities have also emerged from an ever tightening regulatory landscape with those willing to structure specifc government bond trades for term. Once again it demonstrates that additional returns can be generated with a certain degree of fexibility.

Ferguson: While we haven't seen specials like those in the pre-crisis markets, and demand hasn't come back to 2008 levels, there has been improvement in the balances out on loan, a signal of improved demand. There has been a re-emergence of corporate activity in Canada, particularly M&A in the resource sector. As a result, overseas demand for Canadian securities has increased. On the technology side, the adoption of electronic trading and tri-party collateral services has provided effcient and cost-effective mechanisms for managing non-special lending.

SLT: Have the choices of collateral types changed in recent years?

Ferguson: Collateral fexibility is often cited as an important differentiator of lending programmes. We're able to give borrowers the choice between cash and non-cash collateral, as well as offer options on the non-cash collateral side - both bilaterally and through tri-party facilities. Clients in our lending programme are able to choose collateral classes that make sense for their needs.

Sedman: Similar to other markets, Canadian borrowers typically look to better manage their long inventories and reduce fnancing costs. In recent years, we have seen collateral parameters expand to include equities and corporate

lending transactions eliminated the concept of prescribed exchanges that had restricted the security markets from which securities lending could be conducted for Canadian resident clients. And most recently the Investment Industry Regulatory Organisation of Canada (IIROC) has announced plans to remove restrictions on short selling in falling markets. Under the Proposed Amendments, IIROC would proceed with the outstanding proposal to repeal the uptick test but will also continue to work with other Canadian regulators to enhance measures intended to identify and address incidents of “abusive” short selling.

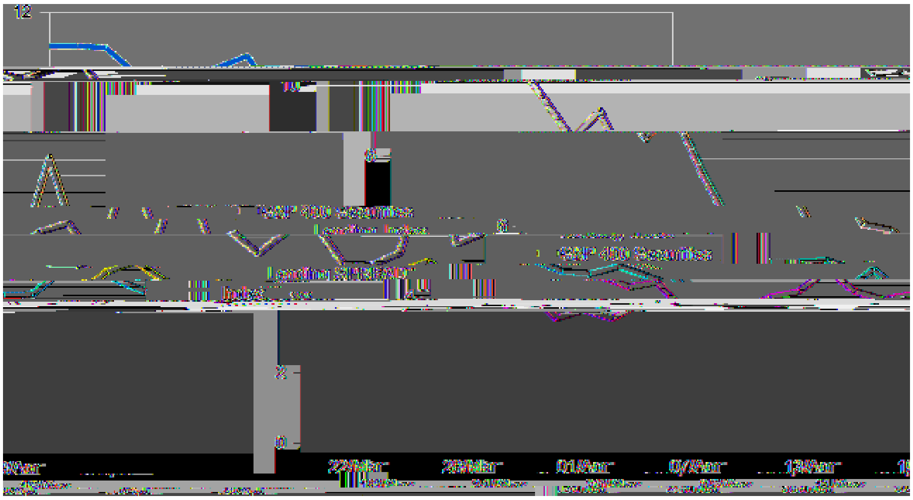
These amendments to the regulatory landscape are positive for the industry and demonstrate an acknowledgement of the importance of securities lending to capital markets.

Sedman: There have been a few regulatory and tax changes in the past few years that have allowed the Canadian market to continue to expand and grow. There was the changing of the “qualified security” definition in the Tax Act which allowed for securities lending in markets where previously Canadian participants were not allowed. After lobbying, the “qualified security” definition was broadened to include any security traded on any exchange globally. Until then, Canadian market participants were at a distinct disadvantage by not being able to lend in certain markets. Another change positively impacting the Canadian market occurred when the withholding tax on fees and interest on cross-border transactions was eliminated.

Wylie: The US has undertaken considerable changes to its regulatory landscape as a result of the recent financial crisis. Dodd Frank is increasingly shaping the future of the US banking industry. The Canadian market engages with US banks in a broad range of securities lending activities and these changes to the US regulatory landscape are expected to influence the development of the Canadian market. As there is still some uncertainty about the overall impact we remain engaged with industry associations and legislative groups to keep abreast of these transformational developments.

Maynard: Over the last couple of years the regulatory market in Canada has been loosened up as cross border tax implications have been eliminated, and as the restrictions on the number of lending markets that our clients can lend in have been removed. In Canada, we used to be restricted to lending Canadian clients’ assets in markets where there were prescribed stock exchanges, as securities lending was tied to restrictions around individual Canadian investment restrictions. We approached the regulators as a unified industry to have the prescribed stock exchange limitations for securities lending de-coupled from those for individual investors, and allow our lenders lend their assets in all markets where lending is permitted.

As for the Dodd Frank regulation, this will greatly impact all of our lending clients as well as Cana-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Chris Erickson is reported to be joining J.P. Morgan's prime brokerage division.

Erickson was previously chief operating offcer at UBS prime brokerage, but left the frm in the midst of a range of other departures some months ago citing personal reasons.

Tim Wannenmacher is to join UBS as head of

time...

In the latest of our 2011 series “A coffee with...” Securities Lending Times speaks with Alexa Lemstra of EquiLend. We look at how she made the big move to New York, relocated to Canada and her plans for the future.

Tell us about your career to date?

I made the big move to New York to work for the EquiLend client support team shortly after university graduation. Learning the platform at the most technical level, I was able to build a strong knowledge base that set the stage for moving into the Business Development team. The focus on relationship building and understanding the client’s business was a good ft.

In Autumn 2008, I was tasked with opening the EquiLend Canada offce to respond to the growing needs of the Canadian securities lending market. Over the last three years the offce DÞ D A ḫ

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Andy Clayton
Senior Vice President,
Head of Global Securities Lending
Northern Trust

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