

NOT FOR SALE

Short selling bans increase as markets recover

EUROPE 12.08.2011

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

In France, the regulator has banned short selling for 15 days 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.

read

Northern Trust to transfer Irish operations

Northern Trust is to transfer its Dublin-based securities lending business to its London office, and the transfer of the securities lending business 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 it.

Securities lending on Brazil exchange jumps in Q2
short selling bans
Data analysis

SBL risks increase 'fight to safety' environment
Country focus: Malaysia

SBL trends show merit of owning uncommon shares
Industry events
People moves

OCC's securities lending up 24 per cent

Korea, Greece, Turkey announce
Interview: Nick Bonn

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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. 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

Continued from page 1

“It will also encourage the development of a cash repo market within the region,” said Paul Voce, global head of repo NBAD. “It will also encourage the development of a cash repo market within the region.”

market among local players and collateral.” The Börsen-owned Clearstream’s infrastructure.

Stefan Lepp, member of the Executive Board

K: 'Djæk k'f [j] Yk] 'f 'ÖBä` I'lg` 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 •] [] • [: • Ä , æ) c h c [Ä] æ : c æ \ ^ Ä [- Ä c @ ^ Ä à ^ } ^ , c • Ä [- Ä • ^ - curities 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 management, 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

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 (€151m) in September 2008, 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

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

Poor's (S&P) downgraded the US to AA+ from AAA.

The downgrade was slammed by White House of calculations, which was acknowledged by the rating agency. But S&P reiterated that the downgrade was a result of squabbling between Democrats and

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".

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How much money are you leaving on the table?

(Oops!)

SocGen shares suspended after Greek write down

Societe Generale has announced its results - months of the year.

Group net income totalled €747 million in Q2. Group net income for the second quarter is down over 30 per cent from €1.1 billion from the same period last year.

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"The Q2 results testify to the Group's resilience in 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 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 a multilateral interoperable clearing service that supports customer choice and encourages CCP price and service competition. Today's launch is an important one toward environment, which is an important one toward for Europe's market participants. We continue to encourage our participants to demand clearing

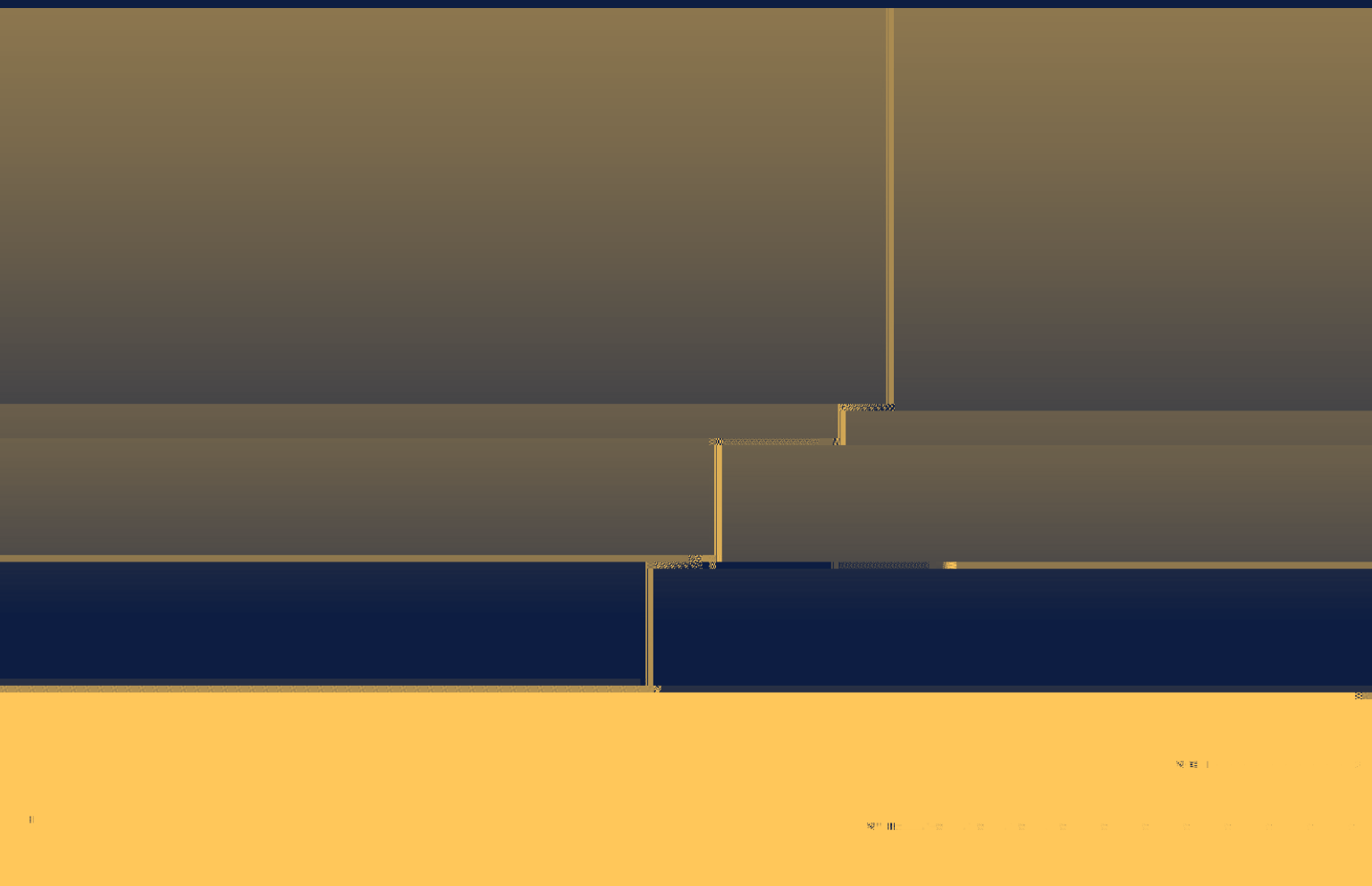
choice from all trading venues so that the full

Diana Chan, CEO of EuroCCP, said: "EuroCCP has long been a proponent of interoperability. bust 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 integrity and safety of the market. There is a real demand for interoperability involving all the CCPs."

5th ANNUAL COLLATERAL MANAGEMENT

5th - 6th OCTOBER 2011, BARCELONA



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 reinvested. 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

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From a largely rural country recovering slowly, it 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 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.

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,

set by the issuer, except where it has exceeded the company's Foreign Ownership Limit.

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 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 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 mode

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

Upcoming industry events

		<p>5th Annual Collateral Management 2011</p> <p>Date: 5-6 October 2011 Location: Barcelona Website: @cc]K00,)æ}&^É'^{à}*^~![]^É&[{</p> <p>The Fleming Group brings you Collateral Man-</p>

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 in the securities lending & collateral management services.

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

J.P. Morgan has announced new appointments