

August 2007

Dear Reader



Marcel Naas

The impact and benefit of electronic trading is now starting to be seen in the securities lending and borrowing market (SLB). As with other markets, SLB participants recognize the need to introduce efficiencies along the entire deal chain. As well as these general factors, there are other dynamics which are more SLB specific, such as the increased efficiency at the trading level, that is handling thousands of names to be distributed to a large number of counterparties at once or a growing need for more standardization.

There is a growing demand to improve transparency in the SLB market. How much transparency is introduced ultimately depends on the level of information that SLB market participants want to disclose. Electronic markets like Eurex SecLend allow participants to smoothly move towards the desired level of transparency as it has to be remembered that the market has extremely strong bilateral dynamics. However, there is a growing recognition that as transparency improves it will help to attract fresh players to the market.

This has already been seen in numerous other markets. The lessons from these suggest that even if the margins tend to become lower, the resultant increase in volumes will almost certainly provide more than adequate compensation. This will prove particularly true in the general collateral (GC) mass business. What this segment really needs is automation. Delivering this will allow GC traders to react to market changes and access, trade and settle collateral in a seamless straight-through-processed environment. Having all of these links of the chain in place reduces the workload of all traders and strategists, and just as importantly in a market where efficiency is crucial, it significantly lowers the trade error and exception rate.

The special SLB market will arguably benefit from increased automation and standardization to an even greater extent. In this segment, there is a clear need for improved price discovery. Also, in an increasingly international trading environment there is growing demand for seamless and efficient access to a global universe of fixed income and equity issues. Electronic trading addresses all of these issues.

Fund managers are changing the way they manage their assets and many more are now prepared to enter various trading strategies to boost their returns. They want easy and efficient access to both the special and GC SLB market. As this trend continues, it will further drive the move from single stock lending towards more standardized basket versus basket trading. As a result, there is increasing competition in the SLB market, but also opportunities for profit optimization.

CONTENT

Editorial

Dear Reader (1)

Voice of the Market

Interview with Matthias Maertens,
Managing Director, RBS
(Luxembourg) S.A., Luxembourg (2)

Trading Application Tips and Shortcuts

Quick Locating & Quoting (4)

SecLend Inside

New Participants
on Eurex SecLend (5)

Eurex Wednesday Night Fever
Event @ ISLA/RMA in Monaco,
May 2007 –
Winners of the Drawing (5)

Your Direct Line
to Eurex SecLend (6)

Events and Training

Upcoming Events and Training:
in September, October, November
and December 2007 (6)

Automation across the deal chain, from the front end through to processing, risk management and loan and collateral management is, as it has already proved in other markets, becoming a business differentiator.

Eurex SecLend has anticipated these trends and is playing a pioneering role in the SLB market's development. By delivering efficiency across the deal chain and providing innovative solutions to the needs of all SLB market participants, Eurex SecLend help volumes grow for the benefit of all its clients.

VOICE OF THE MARKET

Interview with Matthias Maertens, Managing Director, RBS (Luxembourg) S.A., Luxembourg

MiFID comes into effect on November 1, 2007 and introduces a number of requirements that firms will have to adapt to and that will have many business implications. Best execution and transparency requirements will have many impacts on the securities industry.

Matthias, you are a specialist in this field. Can you please introduce yourself to our readers?

I am currently employed as managing director by RBS (Luxembourg) S.A. which is a subsidiary of "The Royal Bank of Scotland Group" offering fund management company services to third party investment funds which are mostly structured as UCITS investment funds. The company's "raison d'être" is investor protection and the focus on compliance oversight over the activities of the fund actors and risk monitoring.



What are the main goals of MiFID?

The Markets in Financial Instruments Directive (MiFID) – also known as the second Investment Services Directive which MiFID replaces – is a major part of the European Union's Financial Services Action Plan, which aims to build an integrated market for financial services. MiFID is one of the most comprehensive pieces of financial services legislation and can be regarded to be the constitution of the financial services market in Europe. MiFID affects almost all financial services companies offering securities services from the buy and sell side companies to vendors, securities exchanges and technology companies.

Will this new regulation affect/benefit the SLB industry?

MiFID actually consists of three main pieces of legislation, two directives dating from April 2004 (Dir 2004/39/EC) and from August 2006 (Dir 2006/73/EC) which need to be transformed into national laws and one regulation also from August 2006 (no. 1287/2006) which applies directly in the member countries because the EU Commission felt that the harmonisation of some aspects covered by the regulation should not allow the member states to have a large degree of flexibility in transforming the rules into national law. On the other hand, this means that some rules are subject to interpretation and national transformation which can also lead to different results in different countries like we have already seen in the harmonisation process for the investment fund industry.

Searching in all three documents for references to the SLB activity shows that Art. 28 in the April 2004 directive which deals with the post trade disclosure requirements by investment firms states that the Commission shall adopt implementing measures to clarify the application of the requirements to publish the volume and the price of transactions as close to real time as possible. At this time in 2004, nobody in the market really knew how this could be applied to the SLB activity and in the UK, the International Securities Lending Association (ISLA) strongly voiced the opinion that MiFID never intended to include the SLB activities. ISLA also strongly argued against the inclusion of the SLB activity under the best execution requirement based on the experience that the SLB activity is highly specialised and diversified and that no SLB transaction can be seen as being alike which makes any comparison of the return on the transaction with other transactions highly meaningless. According to ISLA there are a number of reasons to exclude the SLB activity from the requirement of best execution. If one starts with the idea to compare one individual SLB deal involving only one security – so one specific bond or equity – then one could see a certain value in comparing the SLB returns received in similar SLB deals involving the same security as one really compares similar deals with similar main features. However, such direct comparisons will be rather limited as even a detail like changing the start and end date of the SLB deal might fundamentally change the economic rationale for the entire deal if – for example – there is an interest or dividend record date in the period or not. If one then looks at SLB programmes involving entire portfolios made available for SLB, then the comparability of the actual SLB activity is very difficult to achieve as each portfolio being composed of sometimes several hundred different securities can not be easily compared to another portfolio which is the main motivation for ISLA to argue against the application of the best execution principle to the SLB activity – most of the SLB activity is just too complex to compare it with simple securities transactions.

With the publication of the August 2006 regulation, the SLB activity was captured in Art. 2 under the definition of a “securities financing transaction” which is described as “an instance of stock lending or stock borrowing or the lending or borrowing of other financial instruments, a repurchase or reverse repurchase transaction, or a buy-sell back or sell-buy back transaction”. However, Art. 5 of the regulation then states that – for the purpose of the regulation – a reference to a transaction is a reference only to the purchase and sale of a financial instrument which does not include securities financing transactions with the exemption of Chapter II of the regulation which deals with record keeping.

This record keeping requirement was then further clarified by a recommendation of The Committee of European Securities Regulators (CESR) in February 2007 (CESR/06-552c) which states about the indicative content of the record to be: “The identity of client financial instruments that are available to be lent, and those which have been lent as well as information to evidence client consent...” and that the record needs to be established on such assets being made available for lending and on such assets being lent.

It now seems that – besides obligations mentioned in the August 2006 directive to keep the clients assets separate and to have the client agree to the SLB activity (which should be in place already now anyway) only record keeping requirements remain as an obligation for the SLB activity under MiFID.

Is the SLB industry prepared for MiFID?

At this stage, a lot of the MiFID requirements which could have applied to the SLB do not apply to the SLB activity and therefore, the record keeping requirement does not seem to impose a heavy burden on the SLB market if one compares that to the MiFID obligations imposed on investment firms in general.

Quick Locating & Quoting

The Position Board can also be used as a Quick Locating & Quoting tool as follows:

Practical example

A list of identification numbers, for example copied out of an Excel Spreadsheet, are to be pasted into the Position Board. (figures 1+2) (Note: View of Position Board must be set on "Quick Quoting" and User Default, Numbering Agency must be set on ISIN.)

	A	B	C
1	DE0005190003	BMW	50000
2	ES0173516115	REPSOL	20000
3	IT0000062072	Generali	100000
4	FR0000133308	France Telecom	33000
5			

figure 1

The Locate process is now to be activated to screen the counterparties' quotes by using the locate functionality. (figure 2)



figure 2

If the locate cannot find matching quotes, the pasted list of securities can easily be used to create quotes. Add the quantity, fee percentage, open date and fee currency or any other valid values. (figure 3)

Loan Security	Loan Quantity	Fee Percentage	Open Date	Fee Currency	Recipients
FRANCE TELECOM	100000	0.1000	26.03.07	EUR	
GENERALI ASS					
REPSOL YPF					
BMW					

figure 3

The positions are now to be released as Quote via Entry Form (or if set up directly by adding Template Values). (figure 4)

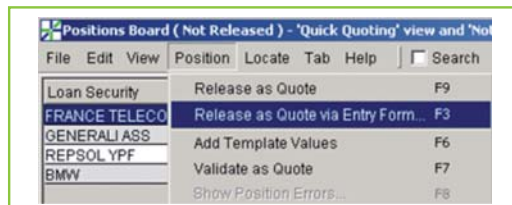


figure 4

The released quotes run into the Quote Book. This whole process only takes a few moments. (figure 5)

Lend/Borrow	Term	Open Date	Close Date	Counterparty	Own	Loan Basket	Loan Security	Loan Quant.
Lend	1W	17.07.07	24.07.07	AB	*		FRANCE TELECOM	100000
Lend	OPEN	17.07.07		AB	*	DE OVT	DEUTSCHE BANK	
Borrow	OPEN	17.07.07		AB	*	DE OVT	DEUTSCHE BANK	200000000
Lend	1W	17.07.07	24.07.07	AB	*		SWISS LIFE	100000000
Borrow	OPEN	17.07.07		AB	*	DE M EQU	DEUTSCHE BANK	50000
Lend	OPEN	17.07.07		AB	*	DE M EQU	DEUTSCHE BANK	50000
Borrow	OPEN	17.07.07		AB	*	ICH M EQU	NESTLE LN	1000

figure 5

New Participants on Eurex SecLend

We welcome BNP Paribas as a new Eurex SecLend participant.

Eurex Wednesday Night Fever Event @ ISLA/RMA in Monaco, May 2007 – Winners of the Drawing:

Prize: Swatch & Eurex Wednesday Night Fever CDs			
Winner	Company		
Jones, John	Bear Stearnes		
Olley, Lee	J.P. Morgan		
Strubel, Michael	LBBW		
Prize: Eurex Wednesday Night Fever CDs			
Winner	Company	Winner	Company
Artigala, Francois	BNP Paribas	Keenan, Timothy	Barclays Bank
Bach, Stephen	BNP Paribas	Larke, Cindy	Threadneedle Inv.
Bakker, Jeroen	RBC Dexia	Lehmann, Martin	Bank of America
Baldwin, Tony	Daiwa Securities	Lilipaly, Reza A	ING
Biewald, Andreas	Dresdner Kleinwort	Lovati, Luca	Caboto
Bresslaw, Jonathan	Citigroup	McConnachie, Jamie	Barclays Bank
Butavand, Amanda	UBS AG	McDowell, Steve	RBS
Butterworth, David	Merrill Lynch	Micciulla, Peter	Sumitomo Trust
Calderoni, Clarice	UniCredit	Mollé, Nathaly	Fortis
Celiker, Ali	Mitsubishi	Nagler, Karin	Erste Bank
Chhana, Rajesh	Investec	Nepola, Brigitte	Oberösterr. Volksbanken
Cope, Andy	Barclays Bank	Peach, Mark D.	Dresdner Kleinwort
Crawley, Lewis	GFI	Perlman, Mikkel	Fortis
Dearlove, Mark	Barclays Bank	Postigo, Manuel	Fortis
Demir, Nerin	Dresdner Kleinwort	Rost, Thomas	AC Capital Partners
Donald, Ed	ABN Amro	Seth, Saurabh	Mitsubishi
Elfver, Marcus	Danske Markets	Smith, Mike	ABN Amro
Flood, Ruairi	Hypo Public Finance	Smolders, Lucas	KBC
Foley, Bill	Deutsche Bank	Trew, Daniel	Deutsche Bank
Geneslay, Laurent	HSBC	Van de Putte, Ruud	KAS Bank
Gleeson, Luke	UBS AG	Walker, Stelios	Merrill Lynch
Held, Hans-Peter	UBS AG	Weber, Joe	Goldman Sachs Int.
Herve, Gilles	BNP Paribas	Withnell, Barry	Dresdner Kleinwort
Jené, Carol	Kredietbank	Wittenzellner, Andreas	LBB
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EVENTS AND TRAINING

Upcoming Events and Training: September, October, November and December 2007

	Place	Date
Repo & SecLend Bar	Berne	September, 4
Clearstream Global Securities Financing Summit	Luxembourg	September, 19-20
Repo & SecLend Bar	Vienna	September, 25
European Beneficial Owners' Securities Lending & Global Custody Summit	Dublin	October, 16-17
Repo & SecLend Bar	Luxembourg	October, 23
Special Xmas Repo & SecLend Bar	Zurich	December, 13
Eurex SecLend Training	Zurich / London	On request



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