

December 2007

## Dear Reader



*Francisco Gonzalez,  
Head Eurex SecLend*

This year will write history in many aspects. Record market prices on certain commodities and currencies, as well as the fading housing market. An uncertain economic outlook drive markets by headlines. But it is not only these events making headlines these days. On November 1, the new MiFID directive came into effect and that seems only the beginning of more restrictive regulations in financial markets. Although not yet directly related to our segment, MiFID will certainly have some effects on the market practices in international securities lending & borrowing (SLB). One might say that from a regulatory point of view SLB markets are still not standardised compared to other financial market segments. As a result, regulatory changes to be implemented remain a complex matter. But MiFID rules and other regulatory initiatives like the Basel II accord or the "Code of Conduct" enabling multiple access in the value chain require our close attention.

The overall market interest and demand for SLB is strongly on the rise. Asset managers and pension funds are increasingly turning to lending as an important source of revenue (for example 130/30 strategy). Commercial banks and prime brokers are falling over themselves to secure business from hedge funds and other specialised investors, which continue to drive demand for securities. The arrival of fresh lenders and the opening of new markets (for example Asia) create promising opportunities, but also complexity and risks (operational, legal, tax, et cetera). In contrast with rising demand, market participants stick to historically grown market practice and partnership with service providers, thus they remain tightly coupled to the market of the related service organizations through contractual and financial arrangements. With its fragmented settlement landscape, SLB markets in Europe have strong decentralised characteristics with limited cross border activity. This has created many separate SLB "markets".

The rising demand associated with regulatory changes and coupled with the vision for full automation including fast market information access and execution on a global basis becomes the "triangle" of success in the near future. That is where electronic market places like Eurex SecLend come into play. Those markets with broad post trade connectivity, which attract deep and wide market liquidity, are in pole position for the next generation of SLB trading. Although numerous attempts of electronic markets are out there, the race for the top position has just started. In the race for liquidity, innovation is the strategic success factor. Innovative tools and services must serve to simplify all aspects of market processes. The list of innovations such as global locating facilities; Collateral standardisation, re-use; Trading and auctioning of hard to borrow stocks etc. seems endless. All these endeavours are on the wish list of leading market participants, but require regulatory initiatives to be incorporated. On the other hand, efforts for improvements also face strong resistance to change for many reasons. Ultimately, that remains the challenge for the market participants as well as electronic market providers to break this slow moving and complex process in times of fast growing and expanding markets!

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## Interview with Roger Widmer, Head of Collateral Trading, Bank Julius Baer & Co. Ltd., Zurich

**Dear Mr. Widmer, you are a specialist in the securities-lending field. Could you introduce yourself to our readers?**

*I have been working in the lending industry for almost eleven years. I started out as a trader at Bank Julius Baer in Zurich and am now responsible for the collateral-trading desk. This comprises repo and SLB trading, tri-party finance, collateral management and marketing initiatives.*



**You already have a certain amount of experience with electronic trading platforms. How do you feel about electronic trading in general?**

*It's mostly the same story. Eventually it all comes down to efficiency and technology properly deployed. Often traders are initially averse to electronic trading, mainly because of the personal relationships that suffer from switching to e-trading. In time, this perception may change, and electronic platforms may come to be seen as a means to streamline trading and settlement.*

**What do you think the future of electronic trading will look like?**

*A growing number of institutions will be striving for automated processes when covering their GC and special business and will therefore introduce or further develop electronic trading. This will push the volume of electronic transactions to new highs. I do not, however, feel that conventional OTC trading in our industry will ever be completely replaced. We work in a many-faceted and non-standardized environment that will make it hard to commoditize the entire product range.*

**Do you feel that upcoming regulations will affect electronic trading?**

*So far, regulations have not had a big influence on e-trading – the goal has been to improve efficiency. Looking ahead, I imagine Basle II will most likely put trading-platform providers into a favourable position.*

**Do you think electronic and standardized marketplaces are the future of securities lending?**

*On the one hand, standardization is being driven forward and will help to shift manual OTC business into e-trading business. There is a great potential on the collateral-management side for working with mutually agreed baskets, which promotes electronic trading. On the other hand, our market is very fragmented and "special" driven, so harmonization is an intricate and lengthy process.*

**What do you think of the Eurex SecLend marketplace in particular?**

*The Eurex platform covers a broad spectrum of functionalities comprising both borrowing and lending and repo markets. A great advantage is that it offers a comprehensive service. In combination with SIS, it allows seamless straight-through processing along the entire value chain, that is trading, clearing and settlement, corporate actions, billing and collateral management. In addition, links to further ICSDs are planned. We are currently trading equities on Eurex, but we are about to expand into the fixed income segment.*

## Private Chat Functionality

Communicate easily with the Eurex SecLend community by using the private chat functionality.

### Practical example

Click on "Chat" on the main bar and then on "Start". (figure 1)

(Or set it in the "User Defaults" by ticking "Start Chat" to start the chat functionality automatically)

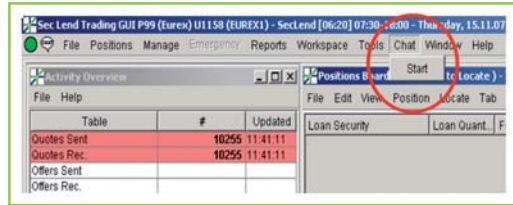


figure 1

The new chat window opens. Click on "Room" on the main bar and then on "Create New". (figure 2)

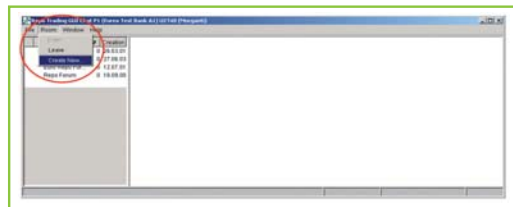


figure 2

Give a room name, for example "SecLend", in the given field and click "OK". Tick the "Private" box and then the button next to it. (figure 3)



figure 3

Double click on a bank name, select the requested person and click "Add" and "OK". (figure 4)

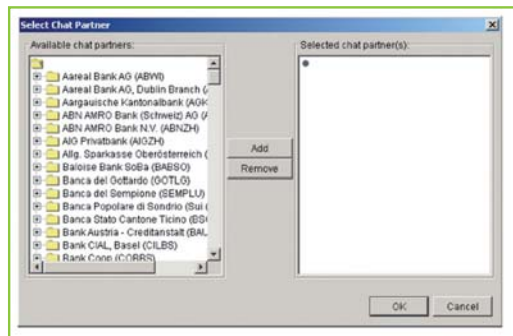


figure 4

Your private chat window is now ready and you can now chat privately. (figure 5)

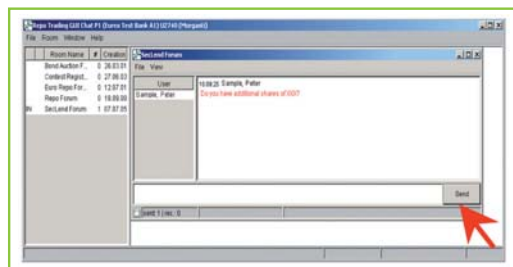


figure 5

To add further private chatting contacts please start again from figure 2.

## Your Direct Line to Eurex SecLend

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## EVENTS AND TRAINING

### Upcoming Events and Training in December 2007, January, February, March and April 2008

	Place	Date
Special Xmas Repo & SecLend Bar	Zurich	December 13, 2007
Repo & SecLend Bar	Frankfurt	February 26, 2008
Securities Lending Forum	Spitalfields Advisors Ltd / London	March 11, 2008
Repo & SecLend Bar	Geneva	March 18, 2008
Repo & SecLend Bar	Zurich	April 15, 2008
Eurex SecLend Training	Zurich / London	On request



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