Sweden warns on short selling ban

“Too often - I know as I was once a politician - politicians are a bit shortsighted and don’t take

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Fle ible and f a d hinking
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Although some investors take political considerations in mind when looking whether to operate in Israel, the market has done surprisingly well over the past few years.

It's one of the few countries to have survived the credit crisis relatively unscathed - Israeli investors are comparatively conservative and didn't invest in the riskier markets that have brought down their international counterparts.

"Israel is one of the strongest markets in the world, and has recently become an OECD member as well as being part of the MSCI developed world indices and has hardly been affected at all

at Contact (ISR) Management and Consulting. "Clients have made only a few very simple CDOs and the CDS transactions we have done have tended to be the vanilla-type trades, we've steered clear of the complicated structures both

Israel has a vibrant technology and medical services sector, with an educated workforce and an

markets. It's also a comparatively wealthy market, with large numbers of well-to-do retirees moving to the state.

Cautious investments

Although short selling and securities lending are established and approved features of the Israeli market, local investors have traditionally avoided short sales - the cautious culture of investors means they are just not a popular investment option.

Short selling is permitted provided that a corresponding securities lending transaction is in place to cover the short position, in accordance with the Tel-Aviv Stock Exchange rules.

"We've been able to have a successful market

one manager. "However, the fact that it is available adds stability - we certainly wouldn't want

Two tier

While securities lending is alive and kicking within Israel, there are two distinct types of mar-

much controlled by the Israeli banks. Here, they tend to trade within themselves, with few external transactions taking place.

In part, this is down to the way the banks work. There is little standardisation even between the local banks, let alone with the international players. Industry standard contracts are not common, and are often in Hebrew, while the techsays Abarbanel, little desire on the part of the banks to change their systems, and they are happy to work with the OTC market.

“The banks are not looking to develop securities

fact that any time you try to develop a market it creates competition within that world.

“They are maintaining the market but they’re not making the effort to improve it. Their systems don’t work with other systems. We use systems that are up to international standards. It’s two different attitudes.

“We are not trying to get the international market to transact with Israeli banks, but with Israeli pension funds and insurance companies. There are more securities for us to work with than all the Israeli banks have put together. The pension fund and mutual fund market is valued at $1.2 trillion,

Regulation

Securities lending is permitted. At present, the SECH is not a party to the lending transaction. TASE rules prohibit intentional short selling unless there is a lending/borrowing agreement in place prior to the short sale. TASE regulations require that all intentional short sales not covered by a securities lending agreement, be covered within 24 hours of the creation of the position.

The regulations for short selling and securities lending appear in the TASE and SECH regulations. As noted above, the SECH is not a party to securities lending transactions. These are concluded between members and their customers or between two customers directly. All securities lending agreements must be reported to the SECH, whether they are transacted directly between two end customers without the involvement of the local custodians, or whether the lending is from the custodian.

The requirement to report stock borrowing transactions applies only in the event of short positions at the borrower’s account. If borrower and lender made an agreement overseas and the lender delivers shares to the borrower’s account, the borrower is not is short position, and in this case- the borrower’s local custodian does not need to report the transaction to SECH as borrowing transaction.

Israeli companies trading on the Tel Aviv Stock Exchange will now be able to list on European stock exchanges without publishing an additional prospectus. An Israeli company seeking to list on one of Europe’s stock exchanges will be able to use its Israeli prospectus, with an additional list of 15 disclosures required by the ESMA. Finance Minister Yuval Steinitz welcomed the decision, saying that the EU’s regulatory standards were an

Big Interview

In the frst of a two-part feature, SLT speaks to Rule Financial's Alec Nelson and Kevin Neville to gauge their views on the industry

BEN WILKIE

Rule Financial started out as a technology focused consultancy back in 1997, but

Euro trades

Part two of the ERC-ICMA semi-annual survey of the European repo market

RESEARCH REPORT

The dramatic surge in the share of the US dollar

in December 2009 – which was driven by the

– was substantially but not completely reversed by December 2010. The share of the US dollar fell back to 20.1 per cent.

Because the reversal in the share of the dollar was only partial, the shares of the euro and sterling did

A notable feature of the latest survey was a sharp increase in reported cross-currency business to a record 5.6 per cent from 3.2 per cent

that cross-currency business was being under-reported (evidence included the fact that the proportion of dollar cash far exceeded the proportion of US collateral, suggesting many US dollar repos were being transacted against collateral denominated in other currencies).

The recent increase in reported cross-currency repo would seem to be an indication of underlying growth rather than wider reporting.

In data provided directly by the ATSs, there was

franc to 6.2 per cent from a record low of 2.6 per cent, mainly at the expense of the euro, which fell back to 89.1 per cent from 92.9 per cent. In contrast, the share of the euro in tri-party repo jumped to a record 81.8 per cent from 68.8 per

US dollar to 12.2 per cent from 22.6 per cent and, to a lesser extent, sterling (down to 4.9 per cent from 6.6 per cent).

The euro also fell back in voice brokered business (to 55.4 per cent from 58.6 per cent), as sterling, the dollar and the yen advanced (to 35.9 per cent from 34.5 per cent, to 5.0 per cent from 4.0 per cent and to 1.9 per cent from 0.7 per cent, respectively).

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share of that collateral to 13.7 per cent dominated the December 2010 survey. German, Ital-

regained share, notably German and UK government securities. The recovery in the share of Spanish collateral (to 5.2 per cent from 4.0

Spanish repo market. Greek collateral remains

collateral (to 2.5 per cent from 2.0 per cent) matches the growth in the use of yen.

The share of government bonds within the pool of EU-originated collateral fell slightly to 76.6 per cent from 77.6 per cent. The share of government bonds within the pool of EU originated collateral also fell back in directly-reported tri-party business, touching 49.3 per cent, down from

in the use of Italian, Portuguese and Spanish collateral in tri-party repo (to 9.0 per cent, 1.2 per cent and 8.7 per cent from 6.9 per cent, 0.6 per cent and 3.5 per cent, respectively).

The historically low level of government securities in the main survey contrasts with the historically high levels of government securities in directly reported tri-party repo. The contrast is paradoxical, given that the fact that the tri-party market is the traditional venue for repos of non-government collateral. The increased use of non-government collateral in bilaterally-settled repo includes collateral issued in countries unaffected by sovereign credit concerns, so doe(in)-138(the)-138

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forward start transactions were very short-dated (1-day to 1-week) and 1 to 3-month transactions (all short dates increased to 62.5 per cent from 55.3 per cent and 1 to 3-month transactions to 15.2 per cent from 11.3 per cent).

Short-dated transactions also grew in voice-brokered business, to 31.6 per cent from 26.9 per cent.

It should be noted that the sharp increase in long-term tri-party repo shown in the data contributed directly by tri-party agents (to 18.9 per cent from 1.1 per cent) was the result of an improvement in reporting by one triparty agent rather than a shift in the market. Otherwise, it can be seen that tri-party business is dominated by one-day and open repos.

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The December 2010 survey was dominated by the unwinding of most (but not all) of the exceptional transactions reported in the June 2010 survey

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The share of Spanish collateral increased in electronic trading (to 7.0 per cent from 3.8 per cent), while the share of Irish collateral fell back (to 0.8 per cent from 1.7 per cent).

per cent from 10.1 per cent in the main survey and to 12.8 per cent from a record 14.3 per cent in directly-reported electronic business. This -

terest rate changes.

There was an unwelcome increase in December 2010 in undocumented sell/buy-backs to 3.6 per cent from 2.6 per cent.

Anecdotal reports of increasing volumes of long-term repos by banks seeking to lock in liquidity, in part, to meet regulatory requirements, are not

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Conclusion

The December 2010 survey was dominated by the unwinding of most (but not all) of the excep-

survey. These transactions propelled the headline number of the survey by over 20 per cent to -

centrated in forward-start repos of US dollar cash

the market shares of other types of transaction. But with most of these transactions apparently running off by December 2010, the pattern of business in the repo market swung back towards that of December 2009 (although the increases -

lateral have only been partially reversed).

Adjusting for the unwinding of exceptional transactions, it would appear that the market has resumed a more modest (and sustainable) path towards recovery. Thus, the headline number in December 2010, although more than 15 per

above the December 2009 total of EUR 5,582

It is now easier to discern once again the major trends within the market. These are the continuing growth of electronic trading, the shift towards greater use of CCPs (accessed not only through electronic trading but also by post trade registration) and a recovery in tri-party repo. The grow-

continued greater sensitivity to risk following the recent crisis.

[redacted]

Despite exciting developments in the world of non-traditional ways to predict share price move-

movements), it remains the case that value, growth and momentum remain the core factors.

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cial information assembled at the FactSet Investment Process Symposium in Florida this week to discuss and share their views on the state of investing. Quant style investing has had a tough few years, but this event proved they are rebuilding their models, which are set to pay dividends.

FactSet Research Systems (consolidators of

the investment process) were the hosts and reinvigorated an event that had taken a two-year sabbatical. We were there to speak and participate in a place where many of the United States' largest asset managers had gathered. Most attendees worked for companies who lent their shares, but very few were major short sellers. Some had launched 130:30 funds but the consensus was that these strategies were facing an uphill struggle at present.

It is worth repeating one or two of the messages given by Blackrock's managing director, Ronald Kahn in his opening address, since these themes ran through the whole event. He laid bare the lessons that people are trying to learn after the credit crunch. There is a tacit understanding that quantitative investing has struggled ever since the redemption-led wobble in August 2007. Fortunately, the momentum gained by the steady and strong returns achieved from this group in the years prior ensure that they retain the faith of many investors.

, director, institutional sales at OneChicago and the company have parted ways after two years, it is understood Aronovitz felt the time was right to move on to the next step in his career, his next move is not known at present.

This is the second recent departure; , general coun-