



# Be Prepared

**Tim Smith**, executive vice president of SunGard Securities Finance looks forward to securities lending in 2011 - Ready?

**T**he motto of the Boy Scouts - "Be Prepared" - is also relevant to securities lending in 2011. While today's world usually resembles that of yesterday, and it's only the rare black swan that takes us by surprise, the securities lending markets and the entire capital markets are standing presently in an uneasy state of readiness. Never before have securities finance professionals been so utterly uncertain as to what is going to happen next. And we do not even know where the unknown occurrence will happen. Will it be BRIC? North America? Europe? Asia? Everywhere? Therefore, it's important that we continually remind ourselves of the Boy Scout motto in order to best protect ourselves and thrive in the changing environment.

In addition to any regulatory diktats, which may vary from region to region and country to country, there will be new operational memoranda issued by the industry associations. These will address regulatory concerns and attempt to head off any unnecessary and overly burdensome impositions. However, securities lending booking systems will need to be as flexible and as integrated as possible to ensure not only the ability to comply, but to do so without having to employ a vast army of manual workers. The latter would be fine in normal circumstances, but the time constraints will be far too great to allow for manual intervention in the normal course of business. It will have to be automated.

One of the major themes for 2010 was the expansion of the number of ways of doing business including central counterparties, single stock futures, and prime custody services. The new methodologies will co-exist because providers have established realistic assumptions in terms of market penetration. Nevertheless, they will still require support, monitoring and the ability to integrate the activity without disturbing legacy processes. As the whole proposition grows in complexity, banks, brokers, beneficial owners and hedge funds will realise that to be prepared means one of two things: either devote more resources to deal with non-core IT

infrastructure and data processing, or concentrate on bread and butter businesses and use experts to cope with the systems and the necessary regulatory compliance.

Qualitative controls and benchmarking will be another major push for 2011 in terms of both risk and performance. The problem with risk for securities lending businesses is that the business side looks at it from a different perspective than the corporate side. To cover it well, there is a need to satisfy both business and corporate, but most offerings out there usually concentrate on one or the other. Similarly, for the performance benchmarking technology, it will be important to provide all required users with easier access using familiar tools like Excel so that information can be shared internally more quickly.

Ask anyone about the current main area of focus and, chances are, you will receive the reply: 'collateral management.' Although a standard definition of collateral management eludes many people (and it can mean different things to different people), the common thread is efficiency, compliance, transparency, and managing balance sheets well for every business that touches trading. To this end, it will be necessary for serious players to adopt an across-the-board approach that will necessitate vast resource commitment. And maintaining it in an uncertain world will require an ongoing commitment.

The above may all sound very similar to what has happened in the past. However, this would be a mistaken impression. Securities finance is no longer a stand-alone business. There are too many variables and connections with other areas of banks to allow a piecemeal approach. There is also too much uncertainty as to the regulators' next steps in applying new forms of control and reporting. There are also too many opportunities arising from different markets and products. Consequently, it is certainly wise to work with both internal and external service providers to 'be prepared' for any eventuality.

