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INTERNATIONAL SECURITIES LENDING GOES ELECTRONIC

As activity in securities lending heats up worldwide, two communications and computer services companies, I.P. Sharp Associates of Toronto and Financial Telecommunications Ltd. (FITEL) of London, have developed electronic systems to streamline messy back-office operations for borrowers and lenders of securities. The systems can help brokers who borrow foreign securities to cover hedged trades or "fails" and also aid the institutions and banks that lend securities for a fee (See SI, Aug. 3).

Both companies are already known for their electronic clearing and settlement systems used for international trades by clients around the world. The software each has developed for securities lending can be used with its settlement technology. Sharp's settlement system, Instant Link, used by some 50 clients, has been operating for two years, and FITEL's Equinet, with a network of 25 clients, was launched last January.

While FITEL'S securities lending system, Equiloan, won't be ready until the end of the month, Sharp's system, called Blend, has been handling domestic loans in the Canadian market for more than two years. The system serves a network of 25 clients including major brokerages, banks, and investment institutions—eight of which are based outside of Canada. Blend can be used independently of Sharp's settlement system to set up, confirm, and track the loan.

Sharp officials say Blend serves two functions—"matchmaking" and accounting. Through its "broadcasting" capability, the system can bring together the borrower and the lender. The lender broadcasts the availability of securities over part or all of the network, and the borrower broadcasts his need. This is particularly helpful in international loans, because the borrower often doesn't know where to find foreign securities, and the lender doesn't know who might want them. "It brings people together who wouldn't know their needs could be met," says Brian Traquair, Sharp's international director for financial services. The two parties can confirm the deal on the screen.

Blend also takes care of billing and the tricky back-office processing operations of the business. It tracks the rates charged for the loan, the rebates owed on collateral invested, and the changing price of the security. The system's multicurrency function also converts securities denominated in foreign currencies into dollars to reflect exchange-rate fluctuations that might affect the terms of the loan. The company expects the system to be able to track corporate actions, such as dividend payouts, by early fall.

Although so far FITEL has no clients on its securities lending network, all users of its Equinet settlement system can potentially use Equiloan, because the software is a refined extension of that used to settle trades. Once operational, Equiloan, like Blend, will serve to marry the two parties in the deal and confirm the terms of the loan. The system will automatically send confirmation of the transaction to the agents or custodians for both parties if they are part of the network, or send telex confirmations if they aren't. Blend doesn't do this, but Sharp says that by autumn, agents plugged into the network will have access to information about pending deals. Still, users question whether agents, who now work with tested telex, will accept electronic notification as a valid procedure.

FITEL doesn't expect to provide multicurrency securities pricing data until early next year, when it hopes to have joined hands with a firm that tracks that information. Blend incorporates pricing information furnished by Reuters, which recently acquired I.P. Sharp.

Both Sharp and FITEL charge borrowers and lenders on a per-transaction basis. An international loan done on Blend costs \$3 to \$5, a little more than for a domestic loan, but users pay a \$10,000 installation fee and an additional \$1,000 for each overseas location. FITEL charges \$35 per loan, but no installation fee. Users would rather pay a vendor than spend the \$1 million to \$3 million Sharp estimates it would cost to build a system in-house. An in-house system "wasn't even a consideration," says one Blend user.

Although Blend doesn't yet offer all things to all people, the system is especially helpful to brokers. "It makes sure the bargain you strike is indeed a bargain. It gets pretty costly when mistakes are made," says John Ferguson, executive vice-president at Morgan Stanley Securities Services, who has used the system to borrow foreign securities for about a month. He adds that before Blend, "a lot of our work was tedious and manual." And he appreciates the system's communications network and timely multicurrency pricing.

By Ann Goodman in New York