WRITTEN STATEMENT OF
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FOR THE
SECURITIES AND EXCHANGE COMMISSION
SECURITIES LENDING AND SHORT SALE ROUNDTABLE
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PANEL 3: IMPROVING SECURITIES LENDING FOR THE BENEFIT OF INVESTORS: TRANSPARENCY; ELECTRONIC PLATFORMS; CENTRAL COUNTERPARTIES; ACCOUNTABILITY.

Credit Suisse supports and is committed to improving the securities lending market for the benefit of investors and all market participants. The securities lending market is a well-established and well functioning market that is vital to the efficiency and health of the overall financial markets. Securities lending enhances market liquidity by providing opportunities for investors to engage in various financial transactions, execute securities transactions with minimal operational or settlement risk and increase returns on their securities portfolios.

The following is a summary of our thoughts on the topics that the SEC has asked this panel to consider:

Transparency

As the securities lending market has evolved, market participants have worked with vendors to increase transparency of the costs and availability of securities loans. As a result, there is widely available price transparency in the market for the most liquid securities and, indeed, the pricing for such securities is more predictable than pricing in the general collateral repo market. Approximately 90% of the market value of securities lent daily are priced using the US Federal Funds open rate, less a known spread established by lenders or their agents. Therefore, there is significant price transparency in the vast majority of securities available for loan. Pricing for the remaining 10% of the market, or less liquid securities, is determined by a bilateral negotiation between lenders or their agents and borrowers, which is largely set by the availability of such securities in light of the borrowing demand. Nonetheless, pricing information is also available for these securities from the various pricing services provided by data vendors such as Data Explorers and Astec Analytics, which are widely available to market participants by subscription. Many beneficial owners have employed vendor data to determine the “mark to market” value of their securities lending portfolios, as well as to ensure that they are achieving fair value for individual securities loans.

Transparency of counterparty exposures in the securities lending market has been increased through the Agency Lending Disclosure (ALD) Initiative. The ALD represents the culmination of a partnership between the securities lending industry and key regulators to increase access to counterparty trade information in order to more fully access counterparty credit and risk exposure. Prior to the implementation of this initiative, market participants could not adequately ascertain their true counterparty exposure and thus were limited in establishing credit lines for their trading counterparts. By establishing standards with respect to the information required to be transmitted between securities lenders and borrowers, the initiative has fostered greater accuracy in assessing the risk and credit exposure in the securities lending market.

Electronic Platforms

In the last twenty years, the securities lending market has experienced tremendous growth. Given the size and volume of the securities lending market, it is extremely important that transactions are settled quickly with minimal operational disruption. Credit Suisse believes that the use of electronic platforms and technology in securities lending has significantly reduced participant exposure to operational risk. Electronic securities lending platforms such as Equilend, Hedgehunter, Sungard's LCOR Service and Pirum provide market participants with the opportunity to execute securities loans in a highly automated, yet controlled environment, in a reliably auditable format. Additionally, the technology investments made by individual market participants have provided valuable straight-through processing to both clients and investors. We believe that the market is best served by allowing industry participants to choose among these systems in determining how best to effect their proprietary securities lending transactions.

Central Counterparties

The establishment of a central counterparty ("CCP") for securities lending raises important policy issues. There are many potential types of CCPs and they can provide different levels of credit and risk intermediation, depending on their structure and loss allocation processes. While Credit Suisse believes that the availability of a CCP for securities lending transactions should be further explored, this CCP must take into account the unique characteristics of the securities lending market to avoid increasing risk. Moreover, use of this CCP should be voluntary based on the value it provides.

In our view, a successful CCP for securities lending would incorporate the following components:

- streamlined operation which reduces risk but continues to allow market participants to interact on a bilateral basis, especially with respect to negotiating "hard to borrow" loans;

- seamless technology which will connect existing electronic platforms with the CCP;
- isolation of a loss due to a counterparty's failure;
- isolation of recall risk;
- restricted matched book activity; and
- stringent credit and capitalization requirements for participants.

Mandatory Pre-Borrow

It has been suggested that requiring broker-dealers to pre-borrow securities before executing a short sale would, among other things, curtail fails-to-deliver. Credit Suisse does not believe that a pre-borrow requirement is necessary, particularly for "easy to borrow" securities for which there is ample availability. For example, on average only 11% of easy to borrow securities are lent at any particular time. Further, we believe that the regulatory requirements enacted pursuant to Regulation SHO, including Rule 204, have achieved the goals of facilitating the timely settlement of sales of securities, which has dramatically reduced the incidence of fails-to-deliver.

We believe that a mandatory pre-borrow requirement would cause a dramatic increase in securities movements, which would inevitably cause a corresponding increase in delivery errors, trade breaks and corporate actions processing. It would also require enormous amounts of capital to effect the pre-borrows. These costs and risks are not justified by small number of fails that remain after the Commission's reforms.

Conclusion

Credit Suisse is very conscious of the need to improve the marketplace for the benefit of all investors. It should be a critical task for major market participants, in conjunction with the SEC and other interested parties, to explore opportunities to further reduce risk and enhance market efficiency and transparency.

Credit Suisse appreciates the opportunity to participate in such an important discussion and would be happy to discuss any additional questions that the SEC might have on these topics.