



Published Comments, SEC Roundtable

September 30, 2009

SEC Securities Lending and Short Sale Roundtable

Panel 1: Controls on “Naked” Short Selling: Examination of Pre-Borrow and Hard Locate Requirements

Written Statement of Thomas J. Perna, Chairman and CEO, Quadriserv, Inc.

Ms. Elizabeth Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Dear Ms. Murphy:

Pursuant to the Commission’s invitation to speak at the SEC Roundtable on September 30th, I appreciate the opportunity to submit a few brief thoughts on Quadriserv’s¹ role in the securities lending market as it relates to the panel entitled, “Controls on “Naked” Short Selling: Examination of Pre-Borrow and Hard Locate Requirements.” Additionally, I would direct the Commission’s staff to prior comment letters submitted by the Company which address the broader potential benefits of a modernized market structure for securities lending².

I would also like to make reference to the description of Quadriserv and the AQS system (the “Quadriserv Description”) contained in the published comments of Greg DePetris submitted for yesterday’s panel, “Improving Securities Lending for the Benefit of Investors: Transparency; Electronic Platforms; Central Counterparties; Accountability.”

I believe the commercial foundation of the AQS structure, as set forth in the Quadriserv Description, simply reinforces a more salient point relating to the role of AQS in the market. AQS’ technology was developed over a three-year period with the goal of “re-plumbing” many conventional securities loan-

¹ Quadriserv is a leader in delivering transformational market structure changes to the securities lending industry. Quadriserv, through its wholly owned subsidiary, Automated Equity Finance Markets, Inc., has developed the AQS® platform for securities lending. AQS, through its relationship with The Options Clearing Corporation, has created a centralized marketplace for securities lending transactions in the U.S., and plans to expand into the European market through its relationship with Eurex Clearing. As a FINRA member broker-dealer and a SEC regulated alternative trading system, AQS aims to maximize liquidity, access, credit and transparency, while mitigating systemic risk, through a fully automated trading environment. For more information about Quadriserv, please visit www.quadriserv.com or www.tradeaqs.com.

² File Nos. S7-30-08 and S7-08-09

processing standards. With that plumbing now in place, as a company we stand at the ready to respond to our Member's needs when an opportunity arises to make efficient use of existing AQS infrastructure.

AQS was designed specifically with the notion that, if or when they arose, certain systemic changes or requirements could be more economically implemented at a market hub than at each individual market spoke. In this regard, we view AQS as a market-based solution positioned to respond to challenges or address problems identified by the industry and/or regulators, and to be implemented in conjunction with our Members.

By virtue of this Roundtable panel, and judging by the many comment letters sent to the Commission during previous comment periods on modifications to Regulation SHO and Rule 204T, the current locate standard has emerged as an area of interest to the regulatory and legislative communities, as well as to public investors, and, by extension, to our Members. I share here a few brief observations made by AQS Members which have helped to shape our Company's view on the issue of current locate standards, and calls for the potential modified treatment of locates in the future:

1. Pre-borrow requirements. We are sympathetic to an emerging consensus view that any regulatory compulsion to pre-borrow securities will create balance sheet effects and implicit costs that will ultimately raise the net cost of borrowing stock for the public investor. We also acknowledge the objectives of those who seek mandatory pre-borrow requirements, which appear mainly to be grounded in a desire to see zero-sum inventory accounting between shares located and shares borrowed. In the interest of evolving toward the most efficient, reliable financial markets possible, we hope to see a middle ground forged between these two constituencies.
2. “Hard” locate requirements. We applaud any and all efforts to centralize settlement or inventory accounting to establish the validity of locate requests and approvals – clearly this would reduce settlement friction and contribute toward the industry’s collective goal of making markets more efficient for investors. With that said, we’re also cognizant of the complex challenges that face the broker-dealer community, in particular, with many of the proposed hard locate proposal standards. With the adoption of Rule 204 as a guiding indicator of success, we’re confident in the industry’s ability to arrive at a compromise solution that works for those on both side of the debate.



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Again, I thank you for the opportunity to provide these comments. On behalf of Quadriserv, we look forward to the continuing discussion concerning short sale mechanics and locate requirements, and remain committed to supporting the industry and regulatory community to continue moving the market toward a more efficient, reliable structure.

Sincerely,

Thomas J. Perna
Chairman and CEO
Quadriserv, Inc.