



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.*

Oral Statement of Thomas J. Perna, CEO, Quadriserv, Inc.

---

I would like to thank the Commission for the opportunity to appear here today. Quadriserv is happy to have been included in the Commission's review of the Securities Lending Process.

Our company holds a strong view on the need to continue to improve transparency and make settlement more efficient in the Securities Lending Market. As we've seen with Rule 204, pursuit of this objective should involve targeted regulatory improvements and market-based solutions that enhance transparency and efficiency. We have and will continue to support efforts that advance these important objectives.

Those responsible for implementing any proposals certainly would face challenges, and that must be carefully considered. However, many participants in the Securities Lending process have expressed a desire to move beyond the "reasonable determination" locate structure. The mandatory pre-borrow requirement, although having a benefit of zero-sum inventory accounting, between shares located and shares borrowed, is balance sheet intensive and would significantly raise the net cost of borrowing stock. We believe that the "unintended consequences" brought on by these additional costs would far outweigh the benefits.

In an interest of evolving toward the most efficient, reliable market possible, we hope to see a middleground. We believe that a logical middleground could be to develop an auditable, capital, and operationally efficient marketplace for locate supply and demand to interact. We believe there are technological and operational frameworks that exist, and that can be further developed to achieve this objective.

A centralized settlement or inventory accounting system could serve to further reduce settlement friction and contribute toward the industry's collective goal of making markets more efficient for investors. With that said, we are also very 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 sides of the debate.

If a common belief emerges on the need for incremental steps to be taken to address the "last mile" challenges of settlement date efficiency in this market, those steps should allow the supply and demand dynamics of a market where there is both a cost and a benefit to satisfying locate requirements and is easily auditable. This would allow for a market based resolution to a challenge where there are incentives for participants to participate in a solution.

Thank you.