

September 29, 2009

SEC Securities Lending and Short Sale Roundtable

Panel 3: *Improving Securities Lending for the Benefit of Investors: Transparency; Electronic Platforms; Central Counterparties; Accountability*

Oral Statement of Gregory W. DePetris, Co-Founder, Quadriserv, Inc.

Thank you Chairman Schapiro, Commissioners and SEC staff for providing us with the opportunity to appear before you today. We have been encouraged by both the Commission's and the industry's thoughtful consideration of structural evolution in the securities lending market, and we're honored to be here now for a more detailed discussion with a distinguished group of co-panelists.

Quadriserv is a privately held company whose owners include representatives from each segment of the securities lending supply, value and delivery chains, including borrowers, lenders, intermediaries, market makers, global exchanges and technology companies. Our goals reflect the simple objectives of nearly all marketplace innovation. To quote former Chairman Levitt, "the underlying essence of a market [is to be] a place where buyers and sellers come together. Every other feature of the marketplace – whether crafted by tradition or technology – exists only to serve that primary purpose."

To that end, we have developed and now operate a central market for securities lending. The market is comprised of an anonymous, publically accessible, electronic price discovery mechanism, the introduction of a central counterparty to guarantee credit and payment risk, and a straight-through-processing platform that connects to DTC settlement and the primary operators of industry-wide reconciliation services. We believe that this centralized structure will, as it has in so many other areas of capital markets, complement existing OTC market practices, provide dramatic improvements to the investing public and allow new efficiencies to grow the market overall.

This panel is charged with contemplating specific concepts for which definitions are important. When we talk about electronic platforms, we are talking about an infrastructure and price discovery mechanism that resembles what I just described. When we talk about central counterparties, we are talking about strong, reliable and highly rated central counterparties with histories of unblemished risk management and broad industry participation. And when we talk about transparency, we mean:

- **Price transparency:** such that all borrowers and lenders, including end-users, can publish the price at which they are willing to transact, see the price at which they have transacted, and make that information available to all market participants.
- **Operating transparency:** such that all borrowers and lenders transact in a standardized instrument, subject to common and universally applicable operating standards; and
- **Risk transparency:** such that all market participants are subject to commonly understood, robust and universally applicable risk management standards

Transparency, electronic platforms, central counterparties and accountability share productive histories in nearly every corner of our public markets - precedents that, looking forward, should be instructive and a cause for optimism. Over the last fifteen years, structural and technological enhancements to the markets for cash equities, equity derivatives, foreign exchange, futures and fixed income have led to improved liquidity, increased volume, reduced costs for public investors and a reduced cost of capital for publicly listed companies. Each of these market segments was unique, and each traveled a distinctive path to relative efficiency. Importantly along the way, however, participants were careful not to mistake idiosyncratic product features as limiting characteristics of the evolutionary process. Discerning these distinctions will be important as similar developments take place in the securities lending market.



Prepared Comments, SEC Roundtable

The National Market System was imbued with a fundamental American ideal: that fostering competition through innovation would help preserve the world’s preeminent capital market structure. We have succeeded in fulfilling that ideal in large part because as innovators we don’t stop at the question, “Is it good enough”, but rather ask the more difficult question, “Can it be better”. We’re here today not because the securities lending industry isn’t good, but because we think it can get better. Thank you and I look forward to your questions.