# Now for the Opes wash-up

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Clients of Opes Prime are about to get taken to the cleaners.

When they struck their securities lending contracts with Opes, as was the case with Tricom, they signed away legal title to their shares.

Opes' bankers ANZ and Merrill Lynch own them now, and when large licks of stock began to cross through the market this morning it quickly became evident the banks were selling. They are not mucking around either.

Opes' clients have gone from bull-market heroes to unsecured creditors of ANZ's receivers Deloittes. The banks are the secured creditors, they rank ahead in a wind-up, and they won't be hanging about eking little lines of stock into the market to finesse their sales.

There is $1.05 billion in loans, split $650 million ANZ's way and $400 million Merrills, and though the banks reckon their loans are covered by the value of the shares, what precisely is the value of a small mineral explorer when there is a large line of stock to dispose of? There are two answers to this question - one, less than it was before and two, what a buyer in a falling market is prepared to pay for it.

This is where Tricom and Opes departed from accepted market practice. They made margin loans over speculative stocks - stocks which had no immediate prospect of earning a dollar - to unsophisticated retail investors. Not to put too fine a point on it, margin lending to mums and dads over tin-pot stocks is a bloody disgrace. Flicking their stock on to short sellers, is worse.

Still, the regulators allowed it.

Here is a taster of what we can look forward to over the next few days:

ASX release from Admiralty Resources this afternoon:

"Dear Sir,

Director's Shareholding securing Margin Loan.

The Company has become aware today that stockbroker Opes Prime Group Limited has been placed into receivership by the ANZ Bank today.

Director Phillip Thomas has advised the Company that entities associated with him have a margin lending arrangement with Opes Prime with a facility balance of $2.85 million, with a current gearing ratio of 55%. It is now expected that this margin loan will need to be repaid or refinanced as a result of Opes Prime Group Limited being placed into receivership."

Admiralty Resources may have admirable prospects as an exploration company but its balance sheet has $2.3 million of cash on $28 million of bank debts and its P&L shows income of $2.6 million on expenses of $39 million for a loss at the last report of $27 million. That is, it is high-risk. Yet this is the sort of thing which Opes, and Tricom for that matter, encouraged their clients to borrow against. LVRs of 75% against explorers.

Okay, buyer beware is a fair enough principal but as if these lenders were not going to blow up in the aftermath of the greatest bull market in history.

Opes's modus operandi was to lend money to a client, secured by the client's stock, then give that stock to their bankers as security for another loan at a cheaper rate - thereby clipping the ticket on the loan differential. There were stock lending fees too.

Just five weeks ago, Opes Prime told its clients that it was ''not in strife'' despite the ''Tricom fiasco''.

Today its bankers ANZ and Merrill Lynch told receivers they were appointed to Opes and began selling more than $1 billion worth of shares from the Opes loan book into the market.

Laurie Emini, the principal of the racy prime broker, was forced out by Opes this week before a voluntary administrator was appointed. ANZ appointed its own receiver from Deloitte yesterday to control the prospective wind-down.

Then the regulator, ASIC, announced this morning it was investigating following ''a number of internal stock and cash movement irregularities.'' The ASX also shut the gate firmly after the horse had bolted, declaring Opes had been suspended as a trading, settlement and clearing participant of the ASX.

Like Tricom, which is still trying to find a white knight to take it over, Opes Prime effectively pooled its clients shares then lent them out to professional market players to short them, providing title over the stock to its banker ANZ.

Like Tricom, ANZ and Merrill were the bankers and the securities were not all S&P/ASX 200 stocks as we noted. The small company holdings will be hard to offload without driving market prices down dramatically. Hence the release from Admiralty today, whose shares were getting trounced.

It is understood Merrill's and the ANZ's lending is covered by the value of the shares, but market speculation has it that the bankers may offload some stocks as low as Opes clients' loan-to-valuation ratios (LVRs) to protect themselves against a further drop in the market.

The Opes sell-off really rattled market confidence.

After the Tricom debacle, Opes sent out a letter debunking ''market commentators'' who had suggested the group was potentially in trouble. The departure of Opes boss Emini suggests things were worse than anyone had anticipated.

The letter, sent in late February, said the media speculation had been ''purely because we offer a similar offering under a similar legal structure (ie: Australian Master Securities Lending Agreement: AMSLA). The simple fact is that we are NOT in any form of trouble that Tricom encountered and there are some simple (& factual) reasons why:

1) Opes Prime Stockbroking is exclusively a securities lending and borrowing house _ we are not distracted by balance sheet exposures from FX, CFD's, ETO trading, Futures, Equity Dealing Desks, etc;

2) We specialize in our field and have systems, operational procedures and risk management controls in place to avoid issues that were encountered by Tricom;

3) Our collateral/loan book is closely monitored and managed on a daily basis by the securities lending desk;

4) Our primary financiers (ANZ & Merrill) have explicitly told us that they support our business, business model and risk controls;

5) We have spent in excess of $3mil on our Back Office system and we can collate appropriate reports to manage our book and risk profile;''

In light of this, said Opes, it was more than capable of refinancing any Tricom loans. ''Our LVR's are still a standout feature of our model and we can move loans across from Tricom with minimal disruptions.''

Anyone who took that advice would appear to have good grounds for calling their lawyers.

BusinessDay took a few calls today from Opes clients. One was in for $20 million, another who could less afford it, was in for $500,000, though he only had a 7% loan over his portfolio. Now they appear to be in the hands of the banks and how much they will recoup is uncertain, but they don't appear to have a say in the process. The ASX's comment that there had been "irregularities", would appear to be a euphemism of the highest order.

There is an irony in the decision by Opes Prime to use Reco Financial Services to effect a backdoor listing on the ASX.

Reco used to be an insolvency business. Opes now faces insolvency itself. It is yet to be determined what remains for retail clients. For the thousands of investors that used their services, perhaps not very much. At least market fortunes come to the fore when there is a forced sale. Many will be watching Wall Street tonight.

Opes was created five years ago by Julian Smith, a former head of securities lending at Ord Minnett and chairman of the Australian Securities Lending Association, and Laurie Emini, a former head of the securities lending business at ANZ McCaughan.

They later merged their business with that of Anthony Blumberg, a former banking specialist with Deloitte Consulting. When the deal was struck with Reco, the margin lending book was said to have topped $1 billion, and the value of Opes business was put at $100 million.

Smith and Emini were credited with masterminding the business plan behind the now struggling Tricom Securities, and Opes had in fact taken up some of Tricom's large securities lending book after Tricom was forced to reduce it by its lenders.

Just last week, Smith was in print in the mainstream press arguing the merits of securities lending, and the company had been assuring investors of the security of its own business.

It had been expanding rapidly. Recent recruits to the business include the former head of Lehman Bros in Australia Frank Dunphy, a former Austock and Potter Warburg broker Tony Iremonger, Merrill Lynch's Chris Holly and Adelaide Bank's Mark Rice.

Late Thursday, however, the directors appointed John Lindholm of Ferrier Hodgson as voluntary administrator after becoming aware of a cash and stock movement irregularities. ANZ, the main secured creditor, acted quickly, appointing Sal Algeri and Chris Campbell from Deloitte Corporate Reorganisation Group as receivers and managers of Opes Prime Group, Opes Prime Stockbroking, Leveraged Capital and Hawkswood Investments.

Staff at Opes, an active sponsor of the Australian Formula 3 racing circuit and of Indy and V8 Supercars, have spent the day with the grim duty of informing clients about the freezing of their accounts. The nature of the business means the clients rank behind the banks.

With ANZ and Merrill Lynch expecting to take only a small haircut, that suggests there will be not a whole lot left to the stock lenders. When it comes to insolvency, receivers come first, staff come second, secured creditors (usually banks) rank third and ... you know the rest.

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