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Lendable value at all time high, says IHS Markit

The value of lendable assets passed the $17 trillion mark for the first time due to the persistent bull market, according to IHS Markit.

The record-breaking figure was chalked up in the opening days of May and is the result of a 15-month rally in inventory that saw the industry record a $3 trillion rise in lendable assets from the recent lows set in February of last year.

In an IHS Markit research note on the record, Simon Colvin said: "A deeper dive into this data shows that the nearly all of the recent rise in lendable inventory ($2.5 trillion) has come from equities, which have been the driving force behind the recent cash market rally. Astonishingly, the value of equities in lending programmes is now over three times higher than the levels registered immediately after the financial crisis when a less than $3.5 trillion of equities sat in lending programmes."

Colvin highlighted that Europe, Asia and North America all recorded a double-digit percentage rise in lendable inventory in the past 12 months.

Lendable bonds, which held up lending revenues as equities suffered in Q1 2017, did not match equities in value growth.

Colvin explained that bonds "registered a much more muted rise in inventory as the aggregate value of bonds available to borrow has only jumped by 8 percent over the past 15 months to $5.6 trillion. Despite the recent rise in inventory, the value of bonds available to borrow is still 15 percent off the levels registered before the financial crisis when $6.5 trillion of bonds were available to borrow."

IHS Markit data shows that value of all loans outstanding has only risen by 3 percent since the inventory began to rise in earnest in February 2016.

Colvin continued: "Our long/short ratio, which looks at the ratio of inventory to loans across the securities lending industry, has never been higher as there are now over $10 in assets in lending programmes for every outstanding loan."

"This trend is much more pronounced in the equities world where every loan is backed by over $13.3 of inventory, up from 11.7 a year ago."

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Securities lending is key for liquidity in Qatar, says stock exchange CEO

The Qatar Stock Exchange highlighted the importance of a functioning stock loan facility to reinforce capital market liquidity during its two-day roadshow in New York.

Speaking at the event, Rashid Bin Ali Al-Mansoori, CEO of the Qatar Stock Exchange, explained that the need for access to securities lending and covered short selling had been impressed upon him by international investors present at the roadshow.

Al-Mansoori said: "Our inclusion in the various emerging markets indices continues to promote new inflows and the work Qatar is doing in terms of margin trading and liquidity provision (already available) and market-making, securities lending and borrowing and covered short selling will all assist in growing liquidity for all investors including the international investors we have met in the last few days."

"Whilst liquidity in the secondary markets is a clear objective in terms of capital allocation objective we are also mindful of the exchange's position as a key to capital formation. Issuers are attracted to more liquid markets, since liquid markets reduce the cost of capital and lead to more accurate share price valuations."

Al-Mansoori said: "The Qatar Stock Exchange thus value the increased attractiveness to issuers and investors, as this has a direct link increased confidence in the market overall and brings benefits to the whole economy."

"Economies in broad terms benefit, because in part companies are able to access capital at a reasonable cost, subsequently increasing investment in their business and driving increased employment and their overall contribution to the economy."

The event was organised in partnership with HSBC and broker QNB Financial Services.

The focus on promoting the country's securities lending market is the latest in an ongoing initiative by the stock exchange to boost liquidity and encourage international investment in Qatar.

Qatar's exchange first declared its aim to develop a stock loan service in 2013 when it pledged to adapt its delivery versus payment mechanism to support securities lending.

Qatar is the second Middle Eastern market to recognise the value of an active securities lending market in recent weeks after Saudi Arabia fired the starting gun on its securities lending and covered short selling markets in April.

Securities lending, along with the potential for short selling that it will enable, will now be allowed in accordance with internationally established rules.

Banks and investment funds can act as agents and brokers for borrowers and lenders if they are custody members of the exchange.

The Saudi exchange also slowed its clearing cycle at the same time as its lending facility went live to bet to better align itself with other global markets. Saudi Arabia was the only market operated on a T+0 cycle but has now reverted to a T+2 in line with the EU. The US is also expected to move to a T+2 cycle from T+3 later this year.

Inside Securities Lending Times

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trueEX sues IHS Markit over anti-competition claims

Interest rate swaps exchange trueEX has brought an anti-competition action against Markitserv, accusing the IHS Markit business of cutting it out of the market.

According to trueEX, Markitserv, an over-the-counter post-trade platform, recently terminated their long-running trading relationship due to trueEX's unwillingness to allow Markit to manage its post-trade processes.

The decision means that Markiserv is no longer able to accept 'drop copy'-only messages from trueEX. The legal complaint was filed in

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the US District Court for the Southern District of New York on 8 May. It seeks an injunction delaying the termination of their agreement.

It has been alleged that Markitserv's decision to cut ties with trueEX comes in response to trueEX's launch of its own post-trade service provider truePTS in December 2015, which is eating into Markitserv's market share.

In a statement on the decision to file the legal action, trueEX co-founder and CEO, Sunil Hirani, said: "What I have surmised from my conversations with Markit, is they would like us to interact with them in a manner that most closely resembles the way voice broker IDB firms interact with them for voice trades—meaning the transaction would be executed on trueEX (FIX or UI) and then Markit exclusively would perform the matching, clearing and SDR messaging lifecycle events."

"This change requires trueEX to insert Markit in the middle of all of our activities in order to process, clear and report transactions, thereby creating additional workflow steps, potentially slower response times, additional software and connectivity changes and higher costs."

Hirani encouraged mutual clients of the two platforms to lend their voices to trueEX's calls for the trading relationship to be reinstated.

IHS Markit did not comment.

3M's pension fund under scrutiny

Washington DC | Reporter: Drew Nicol

The pension fund of 3M is under investigation by the US Department of Labor for its securities lending programme.

Technology giant 3M stated that its pension fund's private equity investments, expenses, securities lending and distributions of benefits are all being examined.

3M's pension plan was valued at $19.7 billion in its 2016 annual report.

It revealed in its latest Q1 filing to the US Securities and Exchange Commission that it was informed of Department of Labor's investigation in April 2015 and was issued with "certain subpoenas" in December 2016 relating to 3M and 3M Investment Management as part of the investigation.

The Department of Labor clarified that the case related to the federal Employee Retirement Income Security Act of 1974.

3M has produced additional responsive documents and is fully cooperating with the Department of Labor in its investigation, which is yet to be set a target completion date.

SIX expands equity repo baskets list with two new additions

SIX Repo has launched two new European equity index baskets for the CO:RE platform.

The CAC 40 and FTSE 100 baskets are open to equity repo financing and will be added to existing baskets list that track the Swiss SMI 20, the German DAX 30, the MIB 40 and the Spanish IBEX 35 index.

The decision to launch fresh equity repo baskets was driven by the increasing demand

for equity repo financing, according to SIX. Equity repos, baskets reproducing market indices, supplement the Swiss National Bank's (SNB) high-quality liquid asset (HQLA) baskets, SNB HQLA 1 and 2, which are traded via counterparties on the SIX Repo CO:RE platform.

Nerin Demir, head of SIX Repo, commented: "Different banks and non-bank financial institutions in the repo market have an interest in taking in more equity as collateral due to its liquidity, availability and for the diversification factor."

"There is a clear trend for equity and fixed income financing desks to come closer together and work towards a more singular view of the available collateral pool.

"This in turn attracts new participants, the latest of which is Natixis—the first of many new participants we are looking forward to welcoming aboard."

Ian Beattie, head of client development on the equity finance desk at Natixis and SIX client, said: "The straight-through processing capabilities of SIX, combined with the access to a broad range of counterparties makes the platform an attractive financing tool."

"Easy to use, it can cater for large volumes of transactions and is particularly supportive for equity repo transactions.

"We are looking forward to building balances and working with counterparties on CO:RE trading platform."

Another SIX Repo client, Thomas Roth, head of cash and collateral management at Bank Vontobel, added: "Having as many products as possible on a standardised platform like SIX Repo's CO:RE trading platform provides participants with the necessary flexibility to cover their needs and supports increasing volumes to fulfill the financing requirements within different asset classes."

Shadow banking on the up, says FSB

London | Reporter: Drew Nicol

The value of the global 'shadow banking' market increased in 2015 to $34 trillion, according to the Financial Stability Board (FSB).

The Global Shadow Banking Monitoring Report 2016, released recently, revealed that the alternative financing market was equivalent to 13 percent of total financial system assets and 70 percent of the GDP of 28 covered jurisdictions.

The report is the FSB's sixth annual study aimed at assessing global trends and risks in the shadow banking system, reflecting data up to the end of 2015.

There were a number of firsts in the 2016 report, including the addition of data from Belgium and the Cayman Islands, bringing the total number of jurisdictions to 28.

Another new feature of this report was the collection of data to measure interconnectedness among the bank and the non-bank financial sectors to assess the trends of short-term wholesale funding, including repos.

The FSB clarified repeatedly during its analysis that data availability needs to be improved.

It did highlight that, on an aggregated basis, both banks' credit exposures to and funding from 'other financial intermediaries' continued to decline in 2015, although they remain above the levels seen before the financial crisis.

Mark Carney, chair of the FSB, said in his letter to the G20 finance ministers and central bank governors ahead of their Baden-Baden meeting that in completing the work under the Shadow Banking Roadmap, "the FSB has not identified new shadow banking risks that currently require additional regulatory action at global level".

"However, given that new forms of shadow banking activities are certain to develop in the future, FSB member authorities must maintain and continue to invest in an effective and ongoing programme of surveillance, data sharing and analysis so as to support judgements on any required regulatory response in the future."

Dodd-Frank replacement clears first hurdle

Washington DC | Reporter: Mark Dugdale

The Financial CHOICE Act, the long awaited legislation that will repeal and replace the Dodd-Frank Act, is set to be considered by the House of Representatives in the coming weeks.

House financial services committee chairman Jeb Hensarling officially introduced the act in April, but a series of Democratic amendments and other delays were raised before the final vote was taken.

Speaking on the act's journey through Capitol Hill, law firm Arnold & Porter Kaye Scholer noted in a blogpost that "the markup session was a clearly partisan affair that is indicative of the bill's uncertain future in the closely divided Senate".

The replacement legislation promises to radically re-write several key aspects of Dodd-Frank, and scrap the rest.

Among the first casualties will likely be the Volcker rule, the much-maligned restriction on short-term proprietary trading using banks' own funds, which "discourages legitimate and needed customer-supporting market-making activities by imposing an overly complex and intent-based compliance regime", according to Securities Industry and Financial Markets Association executives speaking before a House committee hearing in March.

Deutsche Bank was recently fined $19.7 million for failing to comply with Volcker rule.

The Federal Reserve found gaps in key aspects of Deutsche Bank's compliance programme for the Volcker rule, which generally prohibits insured depository institutions and any affiliated company from engaging in proprietary trading and acquiring or retaining ownership interests in, sponsoring, or having certain relationships, with a hedge fund or private equity fund.

Deutsche Bank was also ordered to improve its senior management oversight and controls over its compliance with Volcker rule requirements.

Hong Kong short sellers fined

Two Hong Kong short sellers have been fined after pleading guilty to illegally shorting stocks.

The Eastern Magistrates' Court convicted Cheng Chi Fei and Wong Kin on April 27 of illegally short selling in the shares of China Agri-Products.

The traders face a fine of $16,000 and will pay the Hong Kong Securities and Futures Commission's investigation costs.

Cheng and Wong applied for rights shares of China Agri-Products in March, the court heard.

Before the rights issue became unconditional and the result of the allotment of rights shares was announced, Cheng illegally sold 2.97 million China Agri-Products rights shares, while Wong sold 5.5 million of the same stocks through his friend's account in the capacity of an authorised person.

The Hong Kong Securities and Futures Commission said the pair contravened Section 170 of the Securities and Futures Ordinance, which prohibits the sale of securities when a person does not have a presently exercisable and unconditional right to sell them.

OCC and EquiLend partner for CCPs

OCC and EquiLend are launching a joint central counterparty (CCP) clearing system for the securities finance marketplace.

EquiLend Clearing Services (ECS) has developed a middle-office platform that supports OCC's market loan programme by processing post-trade functions, including mark-to-market, returns, recalls and other trade lifecycle events.

The platform will also interact with OCC's proprietary system to facilitate settlements.

EquiLend has also developed the ECS Gateway, which offers straight-through processing between its trading and post-trade services to the ECS Middle Office.

OCC will use the ECS Gateway to facilitate all matched trades and lifecycle events for processing in the market loan programme on behalf of ECS and other loan markets.

The partnership has already completed bilaterally agreed disclosed trades via the new system.

OCC and EquiLend explained that clients that wish to leverage the full straight-through processing capabilities can link their proprietary systems to ECS.

By using the service, clients will have the ability to submit bilaterally agreed trades to ECS for matching.

ECS will then submit the matched trades to OCC using the ECS Gateway and ECS Middle Office systems.

Brian Lamb, CEO of EquiLend, said: "Our strategic alliance with OCC on the market loan programme is a critical step toward bringing greater access to CCP clearing services to the securities finance market."

"This collaboration between EquiLend and OCC allows us to jointly build upon OCC's strong foundation in securities finance clearing. With the launch of the ECS Middle Office and ECS Gateway, securities finance market participants have clearing access while benefiting from the efficiencies they are used to with EquiLend."

Chip Dempsey, chief commercial officer at OCC, added: "Our collaboration with EquiLend will enhance our clearing services for securities lending."

"EquiLend's culture, technology and network make them an ideal partner as we work to strengthen the resiliency of the securities lending market and introduce innovations designed to expand access to and utilisation of centralised clearing."

Pension funds given three-year exemption to EMIR central clearing

Pension funds have been handed a three-year exemption from central clearing of over-the-counter (OTC) derivatives under the European Market Infrastructure Regulation (EMIR).

The European Commission proposed reforms to EMIR on 4 May following a multi-year review of the 2012 regulation of OTC derivatives.

Pension funds will be given the three-year reprieve because they "do not have normally access to the necessary cash collateral, and no specific solutions have been developed so far", according to the European Commission.

The European Commission has extended the exemption for pension funds twice before.

They were due to comply with EMIR's central clearing obligation by August 2018.

"[The three-year exemption] will allow the various counterparties involved, including pension funds, central counterparties and the clearing members that provide clearing services, to develop a solution that enables pension funds to participate in central clearing without negatively impacting the revenues of future pensioners," the European Commission explained.

The EMIR proposal also introduces more proportionate rules for corporates, re-focuses the scope of the clearing obligation for financial counterparties to include additional relevant market players while exempting the smallest, and streamlines the application of reporting requirements.

It is also proposes improvements to ensure the quality of reported data.

Malaysia allows short selling of corporate bonds to boost liquidity

Securities Commission Malaysia has authorised the short selling of corporate bonds in a bid to boost market liquidity.

Principal dealers were permitted to conduct regulated short selling of corporate bonds from 13 April.

The initiative follows a roundtable, hosted by the Central Bank of Malaysia's financial markets committee, in which 30 delegates representing domestic and institutional financial entities discussed the health of the country's bond market.

Proposals were tabled for further expansion of the short selling framework to include bonds, as well as increasing participation in the repo, bond swap and interest rate swap markets.

"The further development of onshore hedging will complement the liquidity in the secondary market, particularly on the longer end of the yield curve," the Central Bank of Malaysia said at the time.

Securities Commission Malaysia said this latest initiative is part of continuous efforts towards enhancing the liquidity of the secondary bond market while ensuring a comprehensive and facilitative infrastructure and regulatory framework.

Northern Trust and Donnelley tackle N-PORT and N-CEN together

Northern Trust and Donnelley Financial Solutions have teamed up to provide mutual fund administration clients with an automated process for the collection, creation, review and filing of disclosure documents.

The bank will use Donnelley's ArcFiling solution to generate and submit the new N-PORT and N-CEN forms required under the reporting modernisation rules of the US Securities and Exchange Commission (SEC).

The reporting modernisation rules, which were adopted last year, will enhance data reporting for mutual funds, exchange-traded funds and other registered investment companies.

They will be required to file a new monthly portfolio reporting form, known as Form N-PORT, and a new annual reporting form, known as Form N-CEN, which demands census-type information.

The rules also will require enhanced and standardised disclosures in financial statements and will add new disclosures in fund registration statements relating to a fund's securities lending activities.

Most funds would be required to comply with the liquidity risk management programme requirements on 1 December 2018.

Funds with less than a $1 billion in net assets will be required to comply on 1 June 2019.

"Northern Trust continually looks for ways to enhance our processes to help clients comply with regulatory rules," said Dan Houlihan, head of Americas global fund services at the bank.

"With the ArcFiling tool, we will be able to streamline automated and efficient filing processes for our clients."

"This allows our clients to focus on the liquidity risk management programs for their funds."

Eric Johnson, president of global investment markets at Donnelley, said: "Our ArcFiling solution is designed to make it easier and more efficient for administrators and funds to manage the significant, monthly volume that N-PORT will introduce."

Citi joins Axoni's financing round

Distributed ledger technology developer Axoni has secured Citi as a contributor to its funding round, bringing the total amount raised to more than $20 million.

Citi and Axoni previously collaborated on a number of DLT projects that focused on optimisation of post-trade data management for credit default swaps and equity swaps, as well as the collaborative management of reference data among industry participants.

Axoni is also the distributed ledger technology provider for post-trade data management in NEX Group's Harmony network, the world's leading connectivity provider for foreign exchange trade data between prime brokers and their clients.

Other investors include Wells Fargo, NEX Group, J.P. Morgan, Goldman Sachs, and Thomson Reuters, among others.

"Having the support and domain expertise of a world-class institution such as Citi will allow us to execute our vision even more broadly and rapidly. We are delighted to have Citi join Axoni's investor group," said Greg Schvey, CEO of Axoni.

Apex receives investment and snaps up hedge fund adminsitrator

Apex Fund Services has simultaneously been recapitalised and acquired Equinoxe Alternative Investment Services, signalling its intent to expand within fund administration.

Private equity firm Genstar Capital has invested an undisclosed sum in Apex, which the fund administrator plans to use to boost its middle-office solutions and administer close to $80 billion in assets. Apex began with the acquisition of Equinoxe, a hedge fund administrator with offices in Bermuda, Ireland, the US, Mauritius, Malta

and Singapore. Financial terms of the deal, which is expected to close in Q3 2017, were not disclosed.

Peter Hughes will retain a significant equity stake in the combined business and will continue to lead it as founder and CEO. He said: "This is a significant step in Apex's ongoing development as a global institutional provider. The Equinoxe team has built a successful business and its combination with Apex will provide a strong strategic and cultural fit."

"We are extremely pleased to partner with Genstar, a firm that shares our guiding principles for delivering quality service to clients. We also share an ongoing commitment to growing Apex, both organically and through acquisition. We look forward to partnering with Genstar to continue to build scale and enhance Apex's ability to service clients across multiple jurisdictions."

Tony Salewski, managing director of Genstar, added: "There is a large and growing market for outsourced fund administration services to private and public market managers. The combination of these two leading and complementary businesses will immediately create a global fund administrator with significant scale, a full suite of solutions, global presence, and the expertise of an experienced management team."

"The opportunity to build a platform around Apex fits squarely within our approach of investing in leading businesses that provide critical tools and services to the investment management industry."

"We are excited to support Peter and his team in driving accelerated growth through strategic add-on acquisitions and expansion within high growth areas of the fund services market."

HSBC records sizeable securities services revenue bump for Q1 2017

HSBC achieved a 12 percent increase in securities services revenue during Q1 2017.

The bank's securities services revenue increased by $42 million during the first three months of 2017.

Revenue rose from $363 million to $405 million year over year, and from $391 million quarter over quarter.

Securities services was not representative overall for HSBC, whose revenue of $13 billion was down 13 percent due to currency translation differences and other issues, although adjusted profit before tax of $5.9 billion was up 12 percent year over year.

Stuart Gulliver, group chief executive at HSBC, said: "This is a good set of results. The increase in adjusted profit was driven by strong performances in three of our four global businesses."

Brexit could see London lose euro clearing, says Storm

EU leaders have a "strong argument" for bringing euro clearing into one of the remaining member states once the UK leaves the union, according to Roger Storm of SIX Securities Services.

Financial services have proven to be an early point of contention ahead of Brexit negotiations. A German politician recently revived the prospect of legislating to require euro currency clearing, the majority of which takes place in the City of London, to be carried out in the eurozone.

Amid reports that the European Commission is planning to propose legislation in June that would centralise regulation, and possibly even require firms undertaking euro clearing to relocate, Roger Storm, head of clearing risk and development SIX Securities Services,

said: "The precise impact of Brexit will boil down to whether the parties discussing the separation conclude a 'benevolent transition' or not. That said, if Brussels is intent on taking back euro clearing, issues such as competition, portability, licensing and access rights will all be secondary."

"In some senses, there is a strong argument for them to do so. Central counterparty (CCP) clearinghouses secure liquidity and reduce risk, but they also bring a concentration of risk. Many will argue that it's unreasonable to expect the European Central Bank to relinquish influence and control if a CCP in another market defaults—they need to have the control of the gas pedal and brakes of their car."

Storm pointed to Euronext's recent decision to place its clearing business with ICE Clear Netherlands, following the collapse of its deal to buy LCH.

Under the terms of their new partnership, clearing operations will be run from Amsterdam, while a new asset financing solution for inventory management and physical delivery for commodities will be built by Euronext and operated from Paris. Euronext will contribute a €10 million upfront investment in ICE Clear Netherlands, and both parties have promised to cut headline clearing fees by 15 percent. The agreement will begin in Q2 and run for 10 years.

Storm said: "I would expect that all major banks have run a thorough assessment of Brexit, with a few scenarios up their sleeve. In the event of a hard Brexit, one of these options may involve breaking up and shifting a portion of their trading, clearing and collateral back to their respective currency zones."

He added: "The outcome of conversations over the next few weeks is sure to make waves in the clearing and settlement sector, bringing an entirely new set of questions around collateral quality, access to clearing, and market consolidation."

The prospect of losing euro clearing won't fill the City of London with joy, as the loss of its ability to clear euro-denominated transactions would put hundreds of thousands of jobs at risk, according to a report from EY.

Law firm opens Luxembourg HQ

Law firm Norton Rose Fulbright is opening an office in Luxembourg.

The new office, which will be fully operational in June, will primarily serve the firm's corporate, tax, funds, banking and capital markets practice areas.

Stéphane Braun, most recently founding partner of BS Avocats, has joined Norton Rose Fulbright to lead the Luxembourg team, working alongside new partners Manfred Dietrich and Raquel Guevara.

Martin Scott, managing partner for Europe, the Middle East and Africa at Norton Rose Fulbright, said: "I'm delighted to welcome Stéphane Braun, Manfred Dietrich and Raquel Guevara to Norton Rose Fulbright. The establishment of our Luxembourg office will enhance our cross-border tax planning, private funds, corporate and real estate capability, particularly in Germany, as well as our EU investigations and risk advisory capabilities."

"In addition to growing links with China, Luxembourg has well established connections to Canada, the US, Moscow, as well as the major European countries. The strength and depth that this new team brings offers an excellent opportunity to address the needs of our clients by building upon our existing offering."

The new Luxembourg team includes Braun and Dietrich, who have extensive capital markets and funds experience.

Drew Nicol reports

TAO: Honing your competitive advantage

David Martocci, global head of agency lending at Citi, lifts the lid on the TAO securities lending platform, and why it's such a formidable tool for its traders

How have you seen the securities lending business change over the past few years?

The business is quite resilient and continues to adapt and make the appropriate changes to succeed. We are quite fortunate that our agency securities lending business resides in the markets and securities services division of our firm, as we have better access to technology as well as macroeconomic market data and insights to develop our offering.

The securities lending market is now much more competitive and investment managers are therefore more focused on using it as an active investment tool. For years, I have referenced securities lending income as the missing cash flow for investment managers who haven't participated in securities lending.

How has Citi changed its approach to securities lending?

We have seen the market dynamics change and over the past few years and have changed our focus accordingly. We definitely take a much more analytical and quantitative approach to securities lending. The focus of our programme has shifted towards extraction of maximum value in a portfolio with minimal risk to our clients. We hired dedicated quantitative analysts who sit alongside our strategic traders in order to understand the global trading processes, with the aim of making it more efficient from a risk reward dynamic. The result was a custom-built big data solution called Trading Analytics and Optimisation, better known as TAO.

TAO is our proprietary analytics engine that standardises and unifies our trading best practices globally. With traders in Sydney, Hong Kong Dublin, London and New York, it is imperative to have a unified tool that synthesises the market data and helps determine the best opportunity for distribution. TAO was designed to give our traders a single platform to access all relevant market data and also provide real time insights that leverage all external as well as internal sources—our proprietary trading data sets. All this data is fed into computationally heavy programs that run on cutting-edge technology and sift through billions of data points to identify revenue optimisation opportunities across our entire book. TAO went live in early 2013 and continually evolves to create efficiencies on the desk that enable us to stay one step ahead of the competition with smarter data-driven decision making.

How does TAO help Citi's traders to outperform their peers?

We focus on a number of factors to achieve the most optimal level of sustainable revenue from our clients' portfolio. Focusing solely on best rate is inefficient and can create large swings in daily revenue due to volatility of utilisation. TAO uses quantitative analysis to study the supply and demand equilibrium for each security and identify optimal revenue extraction opportunities based on multiple factors like fee, utilisation, and duration, to name a few.

TAO provides our traders comprehensive real-time descriptive analytics that identify market triggers. Traders use these to make well-informed decisions, for smarter price discovery, re-rate optimisation, intelligent distribution of inventory, and real-time analysis to monitor and minimise risk. We also created some proprietary metrics that guide our traders and prescribe them an optimal course of action for each security and ultimately aim to optimise revenue across multiple underlying factors. These metrics leverage Citi's large data sets of historical transactional data and are now central to our trading philosophy. The platform becomes an even more powerful tool for the traders with its use of Citi proprietary metrics. These metrics leverage our large historical data sets and guide our traders, prescribing an optimal course of action for each security that helps optimise revenue based on multiple underlying factors. TAO has put data at the heart of our strategic decision making process and the analytics have enabled our traders to improve effectiveness of their actions and consistently extract maximum value for our clients.

How important are the data sources?

One of TAO's biggest strengths is that it is global and therefore pulls in data for all securities lending markets at once. This transparency means if one trader is working through price discovery for a security then that information goes into the system and all our traders benefit from it in real time.

TAO leverages our vast internal data sets and also taps into external market data sources to pull down relevant information for all securities that are trading in the securities lending market. It then uses various data mining techniques to derive insights and discover patterns that point towards any repetitive behaviour. For instance, through these techniques we are able to better analyse borrowers' historical behaviour with respect to returns and re-rates, which allow our traders to find the best strategic placement for securities. Some of the metrics used in this analysis include the number of recent loans, their duration, their relative fee—all of which help frame the trading style of each counterparty within our global business.

How else does TAO strengthen Citi's hand?

Its value proposition is more than simply driving automation, efficiency and transparency. Having a consistent quantitative lens allows us to measure all aspects of our business and gives us real time visibility into our clients' earnings, balance, and availability profiles across various asset classes, markets, sectors, and supply chains. We use this information to carefully manage existing relationships, nurture special securities, and extract the optimal risk adjusted return for our clients.

TAO is already our core platform that sets rates for all electronic and auto-lending activities. We are constantly refining these rate tools and moving towards our ultimate goal of building a stable predictive model. TAO also enables us to be significantly more proactive with borrowers. We are able to streamline our engagement with borrowers to focus on higher revenue loans, reduce portfolio churn, and maximise loan duration. We have built intelligence in TAO that enable us to strategically push inventory in the market without cannibalising our existing book or perpetuating refinancing. This improves our relative utilisation and allows us to extract maximum relative value from our clients' portfolio.

How does TAO benefit your beneficial owner clients?

All beneficial owners that participate in our securities lending programme benefit from improved risk-adjusted performance of their portfolios. Using TAO's constantly evolving quantitative strategies and efficient decision making, our global trading team is able to outperform the market and achieve relatively higher total returns for our clients.

TAO gives our traders the ability to identify every upcoming corporate action opportunity, with an indicative timeline and potential revenue. Having this information readily available early on allows us to quantitatively assess the various routes to market (securities lending route versus execution market) and engage our clients to make better informed decision. In addition to driving the top line, TAO has a comprehensive suite of modules for risk monitoring that quantify

Citi's Trading Analytics and Optimisation solution

how much stock we can freely transact based on the perceived liquidity within the securities lending market and the execution market. This is particularly useful to manage recall risk in sensitive markets, without the administrative burden of programme-wide pre-sale notifications. We have also built custom dynamic liquidity measurement approaches for individual clients and implemented automated communications directly with their portfolio managers.

TAO looks at the macro factors as well as other esoteric risks especially relevant with securities lending in emerging markets to ascertain trends early on and allows us to carefully extract fair value with risk premium. For instance, having an automated solution to monitor foreign ownership limits allows us to unlock revenue from a deeper pool of assets in Asian markets. With our goal of extracting maximum risk adjusted returns for our clients, we have also partnered with some of our beneficial owners and built custom solutions in TAO to address their unique requirements.

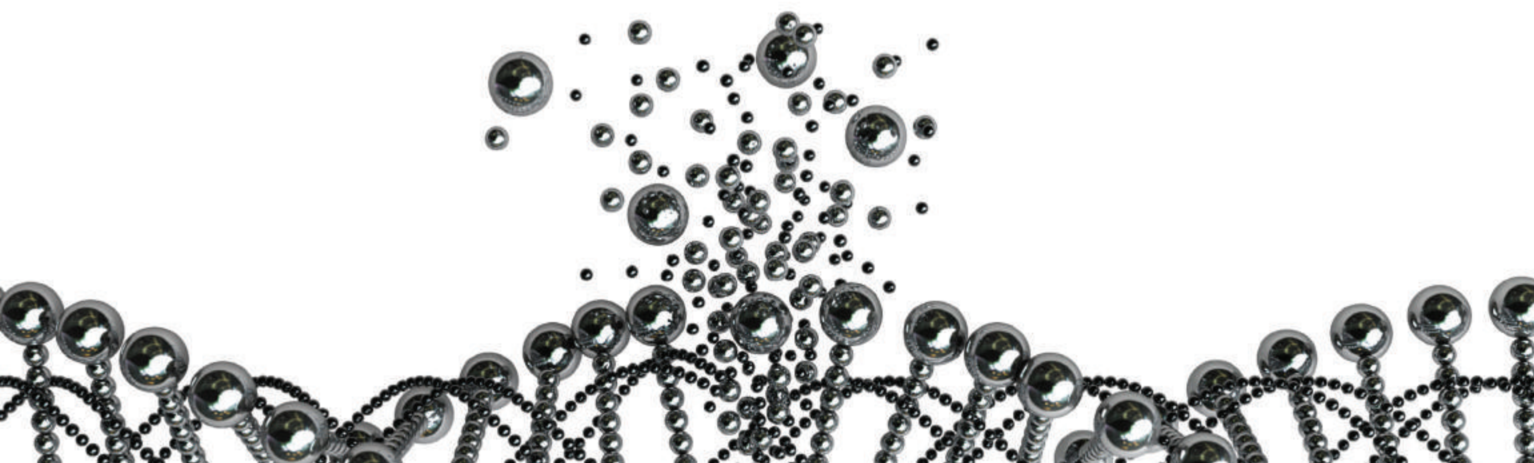
How do you review the performance of portfolios?

TAO has a dedicated module for measuring performance attribution which allows us to quantify relative outperformance for all securities in our entire global trading book. This module can be filtered to view performance for a specific client and allows us to drill down into a single security, market, sector, and portfolio.

Through this performance attribution module we get a lot more than just metrics of our relative outperformance. This module attempts to provide a comprehensive picture to help qualify our performance. It provides a granular breakdown of market factors that we were able to leverage for excess performance and transparently lays out any missed opportunities. Our client executives and relationship managers also have access to TAO Trends, which is a version of TAO that pulls in large data sets of historical information and presents visuals to understand trends, averages and ranking over longer periods of time.

TAO Trends also tracks performance benchmarking for some of our portfolios that trade as an exclusive. TAO Trends is also used during performance reviews to provide rich performance attribution analysis at an individual client portfolio level.

In conclusion, TAO has successfully become Citi's competitive advantage and has been one of the drivers of growth for our business. We have a significant head start in this venture and continue to invest more in building new iterations of this product. SLT



Death of the dirty diesel?

Short sellers are buckled up for a car manufacturer crash, according to David Lewis, senior vice president at FIS Astec Analytics

A couple of years ago, diesel engine cars were very much the way forward. Tax incentives, cheaper fuel, advancing performance technology and higher miles per gallon all attracted buyers to fuel the boom in diesel car sales.

The tax incentives were put in place by the UK government, and others, in order to promote sales and help towards the reduction of carbon dioxide emissions. This should have been the first clue that it was a mistake. As soon as politicians back something, particularly a technology or engineering, the clock has started ticking towards an implosion of some sort. The small matter that was missed, with regards to promoting diesel engines, was the increased emissions of nasty gases, such as nitrogen oxides, which are deemed to be much more harmful to the environment than the petrol equivalents. Cue political U-turn and a re-think of all the prior incentives turning attention more to hybrid and electric vehicles. What does this mean for the automobile industry, particularly in the UK and mainland Europe where diesel has become king?

In the UK and Germany, two of the biggest car markets in Europe, sales of diesel cars dropped 27 percent and 19 percent, respectively in April. These are changes too large and fundamental to be ignored as seasonal blips. The drop in demand for new cars is also just the tip of the iceberg, or, perhaps more appropriately, the edge of the black smog cloud gathering over the car industry. As much as 90 percent of UK car sales are now undertaken using a personal contract plan of some sort. Ten years ago, this was less than 50 percent. These packages allow the user of the vehicle, note, not the owner, to pay a small deposit and monthly payments, typically over 24 or 36 months, and take delivery of a shiny new vehicle. At the end of the term, they can pay a final fee and purchase the car or hand it back, to its legal owner, the finance company, and start again.

Sounds great. But if the residual value of the vehicle is less than the final payment, the client will hand it back to the finance company, which will take the loss. With falling demand for new diesel vehicles, residual values are also being hit hard. In the US, residuals are down some 20 percent as a result of the manufacturers ratcheting up the incentives to buy new cars to restart the stalled boom they were enjoying. The same knock-on effect is likely to occur in Europe as manufacturers look to make up the hole in their order books left by the disillusioned diesel buyers.

While electric vehicles are on the rise, they are far from being capable of taking over for some time yet.The impact on the car industry should not be underestimated. While share prices have been on the rise as the European economies enjoy greater levels of demand, there is certainly a cloud on the horizon and the short sellers have been quick to take their positions in the expectation of some potentially dramatic corrections.

The big four names, BMW, Daimler Benz, Volkswagen and Peugeot are all seeing increased short selling activity, as shown in Figure 1. Volkswagen, and others by association, have, of course, had their own issues with regards to diesel emissions and the management of regulatory tests, so the 26 percent increase in the Volkswagen share price over the past six months should be taken in context. Even now, at €144, it remains more than €100 a share below its March 2015 peak. All four companies have seen a healthy share price improvement over the past 12 months, but this appears to have only made them even more attractive to the short sellers.

As Figure 1 shows, the past month has seen significant jumps in short interest, and over the past six months BMW and Daimler Benz saw levels more than triple, Peugeot an increase of over 75 percent and Volkswagen, almost 50 percent.

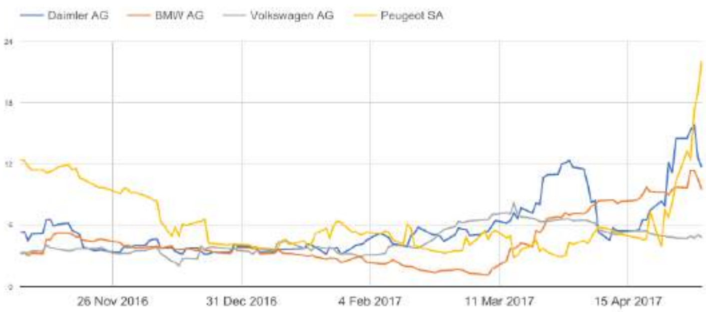
These major manufacturers, battling legislation and the environmental lobby, must insulate themselves against the march of the pure electric vehicles being produced by the likes of Tesla (US) and BYD Co (China), but that is not the only issue these groups face. With the rise of the personal contract plan method of buying new cars, these manufacturers have become large finance houses, and not just as a side line.

The finance arms of large car manufacturers are now big businesses. In 2016, the Volkswagen Audi Group made profits of €14.6 billion, which included the profits made by Volkswagen Financial Services of €2.1 billion. With falling residuals potentially leaving a financial time-bomb for the finance providers, which will have to take back cars worth less than the remaining finance, greater deposits and/or higher monthly rental charges will be needed, potentially squeezing the pockets of the 90 percent of people buying new cars.

While the share price performance of these companies looks attractive to the long investor, the rising share values and the potential slow motion car crash that may be just around the corner is certainly attracting those willing to take short positions against them, in the expectation of a significant correction that may be on the way. As a final thought to ponder, any interest in a 3.0 Audi A5? It's a diesel. **SLT**

Figure 1: Short interest volumes—November 2016 to May 2017

Source: FIS Astec Analytics



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BNY Mellon, OCC, Cowen Group and ICMA feature

BNY Mellon has welcomed Adam Goddard back into the fold as its new head of client management and collateral management for Europe, the Middle East and Africa.

Goddard, who moved back to the BNY Mellon in April, was a contractor for HSBC's collateral treasury between 2015 and 2016.

He will continue to be based in London.

Goddard previously served as senior relationship manager for the bank's global collateral services between 2005 and 2015.

He also briefly held a role as a senior sales executive at FIS immediately after leaving BNY Mellon.

OCC has regained Robert Bodnar, executive director at Morgan Stanley, as a member of the governing body of its educational arm, the Options Industry Council (OIC).

OIC's Roundtable is the independent overseer of the OIC, and is comprised of representatives from options exchanges, member brokerage firms, and OCC.

Bodnar is options product manager for Morgan Stanley's wealth management division. He is responsible for providing options strategy and sales ideas to financial advisors for their clients.

Mary Savoie, executive director of OIC, said: "It is a pleasure to welcome Robert Bodnar back to the OIC Roundtable. His vast experience and proficiency in the options markets will support OIC's mission to educate investors, financial advisors and the general public about the benefits and risks of exchange-listed options."

"We look forward to his contributions and those of our other roundtable members, as we work to further elevate OIC as the leading provider of unbiased options education content through the promotion of greater awareness and understanding of the value of the listed options markets."

Cowen Group has recruited Bernard Minsky to its international prime services team as head of risk management.

Minsky, who joined Cowen in April, will be based in London and reports to Kevin LoPrimo, head of international prime brokerage.

Prior to joining Cowen, Minsky founded Certior Advisors, a consultancy that provides risk management services to investors. Before that, he was the chief risk officer and COO of Callisto Asset Management.

LoPrimo said: "We are proud to welcome Bernie Minsky, a seasoned professional, to lead our international prime services risk management team. Bernie has more than 30 years of experience in the investment industry as a risk manager, business operator and consultant."

"Bernie and I had worked together before during our time at Goldman Sachs and are pleased to have the opportunity to do so again. He has a demonstrated ability to assess and navigate risk in a variety of market environments. We believe Bernie will serve our clients well and play an important role as we scale our international prime services business to clients in Europe and Asia."

The International Capital Market Association (ICMA) has elected a new chairman and board members.

Martin Egan, global co-head of primary and credit markets and origination at BNP Paribas, has replaced Spencer Lake, formerly of HSBC, as chair of the association.

Egan was previously UK head of fixed income at BNP Paribas and was responsible for overseeing day-to-day client activity and trading positions.

He is chair of ICMA's primary market practice committee and was previously vice chairman of the board of the ICMA.

At its annual general meeting, the association voted in new board members, including: Umberto Arts of KBC Bank; Juan Blasco of Banco Bilbao Vizcaya; and Jonathan Brown of Barclays Capital Securities.

The association also welcomed Mandy DeFilippo of Morgan Stanley International, Bertrand de Mazières of European Investment Bank, Armin Peter of UBS, and Andreas Utermann of Allianz Global Investors. **SLT**

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60 SECONDS WITH OLIVIER DE MAXIMY

Olivier de Maximy is looking to aim his 20+ years of financial experience in a new direction

What's your background?

I left my role as a broker at BGC Partners in February. I have in-depth knowledge of securities lending and repo and all delta one derivatives, including single stocks futures, synthetic forwards and total return swaps.

I started my career in banking as a temp in the interest rate swaps back office of Paribas in 1991, long before the merger with BNP. I was offered a permanent position to set up the middle office for the equity derivatives desk of the Paribas London branch, where I served for another year before moving on to the interest rate swaps middle office.

Between 1994 and 1995, I worked at a hedge fund until I deciding to enroll in a master's degree in market finance. Shortly after graduating I joined Commerz financial products to set up and head the equity derivatives middle office in Paris.

In 2000, I was asked by Ariel Winiger to assist in setting up an equity finance front-office desk at Dresdner Kleinwort Benson, which I did until March 2003. An unfortunate personal situation led me to move back to France to help in setting up a automotive business. After a few years, I knew my heart wasn't in it anymore and that my talents and training were better directed at financial services. I took up a position at ICAP in 2010 and have since served in a number of roles before settling at BGC Partners in 2015.

What area are you looking to get back into?

Throughout my more than 20 years in financial services, I have learnt what I enjoy and where my strengths are. This has caused me to turn down several roles from broking firms as I'm hoping to direct my energies and experience towards a fintech firm, or return to my roots in a more traditional front- or middle-office banking role.

What do you feel you could bring to a future role?

I am very enthusiastic and always looking for ways to improve and develop the business I am in. I offer a wealth of experience from more than 20 years in a variety of industry specific roles. I get on with everybody and I have a very good reputation in the market.

What do you feel equity finance needs most?

The equity finance industry is at a stage where it's becoming a mature market and now needs to move away from over-the-counter and trade on exchange where there is more transparency and much reduced credit risk due to the use of central counterparties.

The constraints regulators are putting on banks since the financial crisis, and the punishing balance sheet restrictions of Basel III are driving a major rethink of how banks approach this market.

In the US, OCC is clearing over $15 billion loan value on average daily. There is no equivalent in Europe or Asia. There are several initiatives, such as Eurex and Euronext in Europe, but none have really taken off yet. I believe there are huge opportunities at the moment and the cards are being reshuffled. The big players of yesterday may not be the big players of tomorrow.

What is the best way to contact you?

The best way to contact me is either via +44 755 780 7655 or demaximy@yahoo.com. **SLT**