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Deutsche Bank realigns

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Deutsche Bank has announced a realignment of its custody and related businesses around three core pillars; clients, products and regions.

The business, formerly known as Domestic Custody Services in the Global Transaction Banking division, has been renamed Direct Securities Services (DSS), and is comprised of the existing custody services, securities clearing, domestic fund services and agency securities lending units.

Rob Scott and Michael Aschauer become co-heads of global sales & relationship management, with a remit to further strengthen the business's focus on meeting increasingly complex client needs. In particular they will ensure clients have a single point of access to all products across all regions, and that Domestic Fund Services and Agency Securities Lending are fully integrated into the product offering to clients.

Thibaud de Maintenant becomes global head of domestic markets, unifying responsibility for all regions and domestic markets to further develop its people, products and services in local markets. Thibaud will also continue to improve the consistency of service delivery for clients across all markets and ensure the implementation of best practices globally. Thibaud will retain responsibility for domestic fund services globally.

Stephen Lomas becomes global head of custody & clearing. In this role he will focus on ensuring the business delivers a robust product offering across all markets. A key priority will be preparation for the implementation of Target 2 Securities in Europe and the continued expansion of our presence in emerging markets. In addition Stephen will continue to lead the group's important market advocacy and industry forum activities and will work with key customers to ensure that their feedback is central to new product developments.

Tim Smollen continues in his role as global head of agency securities lending, bringing existing and new clients into the group's lending program and focusing on further developing the service in evolving domestic securities markets.

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NEWS**IN**BRIEF

Investment managers less optimistic

Institutional investment managers have moderated their expectations for global growth, according to a quarterly survey conducted by Northern Trust Global Advisors (NTGA), and more than two-thirds of those surveyed expect that sovereign debt concerns regarding Portugal, Italy, Ireland, Greece and Spain will weigh on global markets for the next six months or longer.

In a significant shift from the prior four quarters, a majority of managers no longer expect global growth to accelerate over the next six months.

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BofA details error

Bank of America has given details of repurchase agreements that were incorrectly classified as sales. The mistakes were acknowledged in a letter to the US SEC and, says the Wall Street Journal, show the bank effectively hid debt worth billions of dollard.

Repurchase agreements on mortgage backed securities were incorrectly classed as sales, rather than repurchase agreements. The bank acknowledged the mistake in its first quarter earnings report, but the details were not announced until last week.

Bank of America said the mistake did not materially affect the bank's financial position.

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Deutsche Bank realigns

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Rob, Michael, Thibaud, Stephen and Tim will report to Roger Harrold, global head of direct securities services, and are all members of the DSS Global Executive Committee. Michael Aschauer will retain his existing responsibilities for the business in Eastern Europe and Rob Scott will continue to provide strategic input to the Securities Clearing business.

Commenting on the new structure of Direct Securities Services at Deutsche Bank, Dinkar Jetley, global head of trust & securities services/ cash management financial institutions within GTB said, “The DSS business offers a powerful combination of products to a diverse client base. We intend to significantly grow our business by taking full advantage of this unique platform, strong network and extensive product expertise with a client-centric approach to the market.”

Harrold said: “This new streamlined structure demonstrates our determination to keep the needs of our clients at the heart of our business and ensure we develop our product around the complex challenges they face in an increasingly regulated and constantly evolving market.”

BofA Merrill Lynch announces new platform

Bank of America Merrill Lynch has announced the creation of a strategic platform to enhance the delivery of its global liquidity product offering. The new Global Liquidity Platform is a centralised technology hub that enables the company to provide consistent, seamless and integrated liquidity solutions to clients around the world.

The Global Liquidity Platform encompasses operational, liquidity and product-specific components, or modules, that offer clients robust liquidity concentration products, global account connectivity and enhanced reporting capabilities. BofA Merrill embarked on this multi-million dollar platform last year as part of the bank’s commitment to innovative technology for its treasury management and corporate banking clients.

“As the financial climate has changed, our clients have become increasingly savvy about their liquidity needs and cash concentration structure,” said Greg Kavanaugh, head of global liquidity, pricing and segment integration at BofA Merrill. “The new Global Liquidity Platform gives clients access to a truly global product offering and enables the bank to bring new products to market faster and more efficiently. With a modular approach that operates through a single hub, we are eliminating dependency on multiple account platforms.”

The power of the new Global Liquidity Platform is evident with Interest Optimisation, which BofA Merrill launched in April. Interest Optimisation creates an end-of-day global position of client balances, which is important for client accounts held in multiple currencies in countries and regions around the world. Interest Optimisation takes that global view of balances into consideration when determining interest benefit to the client.

“Bank of America Merrill Lynch is dedicated to delivering innovative global liquidity solutions to clients in a timely fashion,” Kavanaugh said. “This platform allows us to provide solutions to help our corporate and commercial clients do business across the globe.”

Clearstream reports growth in June

The value of assets under custody held by Clearstream on behalf of customers registered an increase in June of six per cent to EUR10.9 trillion (compared to EUR10.3 trillion in June 2009).

Securities held under custody in Clearstream’s international business experienced a rise of eight per cent from EUR5.5 trillion in June 2009 to EUR5.9 trillion in June 2010, while domestic German securities held under custody increased by four per cent from EUR4.9 trillion in June 2009 to EUR5.0 trillion in June 2010.

In June 2010 3.06 million international transactions were processed, an 18 per cent increase over June 2009 (2.60 million). International over the counter (OTC) bond transactions grew by 15 percent from 1.51 million to 1.68 million in June 2010. Of all international transactions, 75 per cent were OTC transactions and 25 per cent were registered as stock exchange transactions.

On the German domestic market, settlement transactions reached 6.49 million, nine per cent more than in June 2009 (5.93 million). Of these transactions, 64 per cent were stock exchange transactions and 36 per cent OTC transactions.

For Global Securities Financing (GSF) services, the monthly average outstanding reached EUR527.8 billion. The combined services, which include triparty repo, securities lending and collateral management, collectively experienced a rise of 23 per cent over June 2009 (EUR478.9 billion).

In the Investment Funds services, 429,865 transactions were processed, a 35 percent increase over June 2009 (319,351).

HSBC hires Melvyn Ford to head financial institutions group

HSBC Global Banking has hired Melvyn Ford as managing director of hedge fund coverage in the Asia Pacific region. Sources within HSBC say his full title will be announced shortly.

Ford was previously a prime broker at Merrill Lynch and will now report to Andrew Roberts, global head of hedge fund coverage at HSBC in London.

Ford is expected to build on senior relationships with hedge funds, both new business and including those already in a relationship with HSBC, often through its custody and private banking operations.

Investment managers less optimistic

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Seventy-five per cent of those surveyed by NTGA in the second quarter anticipate that global growth will remain the same or decelerate, while 25 per cent still expect growth to accelerate. Accordingly, institutional managers are less concerned about the prospect of inflation or rising interest rates.

Managers are also increasingly optimistic about market valuations. For the first time since the second quarter of 2009, the majority of managers (62 per cent) stated that the US equity market, as measured by the S&P 500 Index, is undervalued. Select areas of international markets are also seen to be attractive: 40 per cent of managers now believe that emerging market equities are undervalued.

"Our second quarter survey revealed less optimistic growth expectations from our managers. In an environment where growth is less broad-based, employing managers that are strong stock pickers can be even more valuable," said Chris Vella, global director of research for NTGA.

The survey of approximately 90 institutional managers was conducted by NTGA, the multi-manager arm of Northern Trust Corp. Respondents, all of whom participate in NTGA's external manager platform, were polled in mid-June. Managers in the second quarter poll were asked for their views on the sovereign debt concerns regarding Portugal, Italy, Ireland, Greece and Spain. A strong majority of managers (68 per cent) expect the concerns over these Eurozone countries to weigh on global markets for more than six months. As a result, 21 per cent of managers have reduced exposure to these countries, while the majority of managers (57 per cent) have avoided these countries altogether.

"This quarter our managers revealed to us their concern that the issues relating to the Eurozone countries may be a longer-term problem." said Kelly Swiatek, NTGA investment analyst. "This issue is likely weighing on their views of global economic growth."

Other major findings from the survey include:
A shift in expectations of market volatility, as 29 per cent of managers expect the Volatility Index (VIX) to decrease over the next six months, up from only nine per cent that held that view in the first quarter. More than 40 per cent believe volatility could increase over that period, down from 51 per cent with that expectation in the first quarter survey.

Reflecting managers' views of the market, 62 per cent of managers believe the S&P 500 Index is undervalued, compared to 16 per cent who believe the market is overvalued. Regarding international markets, 53 per cent of managers surveyed believe that Japanese equity markets are undervalued, unchanged from the first quarter; while 40 per cent believe emerging markets are undervalued, up from 32 per cent in the first quarter.

Investment managers cited technology, energy, healthcare, emerging markets and industrials as the top five most attractive market segments. Consumer discretionary slipped out of the top five, while emerging markets moved up in the rankings.

A growing number of managers (80 per cent) are confident that interest rates will be steady over the next quarter. This figure is up from 66 per cent in the first quarter. About 18 per cent of managers surveyed expect interest rates to rise, compared to 32 per cent in the first quarter.

Concerns over global inflation diminished, with just 19 per cent of managers saying they expect increased inflation in the next six months compared to 46 per cent in the first quarter. An increasing majority of managers (60 per cent) predict that global inflation will remain the same.

Nearly a third of managers (31 per cent) stated that they are more risk-averse compared to three months ago, up from 23 per cent in the first quarter. At the same time, portfolio concentration has increased, with 24 per cent of managers saying their portfolios are more concentrated compared to 10 per cent in the last survey. That stated, 79 per cent of managers are within their normal range of cash holdings, holding steady from the first quarter survey.

For its survey, NTGA polled a select group of respondents, including fixed income and equity managers across value and growth styles, with a bias toward fundamental, bottom-up stock picking strategies. The survey is conducted quarterly so that NTGA and participating managers can examine trends in attitudes and allocations.

Cash contribution removes redemption restrictions

State Street announced last week that it recorded a second quarter 2010 after-tax charge of USD251 million, including a related cash contribution to certain common and collective trust funds managed by State Street Global Advisors (SSgA) that engage in securities lending (the SSgA lending funds). The one-time USD330 million cash contribution establishes a market-based net asset value (NAV) per unit of the collateral pools held by the SSgA lending funds of USD1.00 as of June 30, 2010. The cash contribution also enables SSgA to remove, as of August 2010, the redemption restrictions from the SSgA lending funds and mitigates potential liability concerns. Additionally, State Street accrued USD9 million of related costs, which are included in the charge.

State Street's securities lending operations comprise two components: the SSgA lending funds, with a broad range of investment objectives that are managed by SSgA; and an agency lending program for third-party investment managers and asset owners, the collateral pools for which are referred to as agency lending collateral pools. Redemption restrictions were instituted with respect to certain SSgA lending funds and agency lending collateral pools in the fall of 2008 during the disruption in the financial markets. State Street has identified potential inconsistencies with its implementation of those redemption restrictions applicable to certain agency lending collateral pools. The company has also established a reserve of USD75 million, reflected in the charge to address these issues.

For its agency lending programme clients, State Street has announced a plan to increase client access to liquidity. By the end of 2010, State Street intends to separate agency lending collateral pools, with total net assets of USD51.6 billion and a weighted average NAV of USD0.989 as of June 30, 2010, into two different pools. One pool will have complete liquidity, and the other pool, holding primarily longer-dated securities, will be subject to continued restrictions on redemptions.

Commenting on these actions, Joseph L. Hooley, State Street's president and chief executive officer, said: "Today's announcement demonstrates our commitment to resolving the challenges resulting from the market turmoil over the past several years.

ICMA and ISLA partner on GMRA workshops

The International Capital Market Association (ICMA) and the International Securities Lending Association (ISLA) will partner to hold joint public workshops on the Global Master Repurchase Agreement (GMRA) and the Global Master Securities Lending Agreement (GMSLA).

The two separate master agreements are the essential legal underpinnings for repo and securities lending markets respectively. These two close and increasingly integrated areas of collateral management are frequently handled by the same legal teams within a bank and the workshops covering both will benefit from natural synergies between the products and their documentation.

ISLA decided to develop a formal education framework in 2009 to help support the training and competence requirements of its members and other market participants. Rather than develop training modules in-house, the ISLA board decided to partner with a firm that has a proven track record in delivering quality training programmes and industry workshops. This is the second phase of ISLA's strategy which encompasses three training modules: an introductory course, a course that provides in-depth coverage of the Global Master Securities Lending Agreement, and a computer based module on the SLRC Code of Guidance (an industry best practice code). Having considered a number of potential partners, ISLA chose to work with ICMA on the GMSLA course.

ISLA Chief Executive Kevin McNulty said: "We are delighted to be partnering with ICMA to offer combined GMRA - GMSLA public workshops to our members and the industry. ICMA has been running a series of successful GMRA workshops across Europe, demonstrating clear industry demand for this type of in-depth legal knowledge delivered by market experts and legal professionals."

The new 3-day joint workshops will be delivered at locations around Europe by Richard Comotto (author of the ICMA European Repo Council's long established repo survey, and course director of the ICMA-ERC Repo Course and Senior Visiting Fellow at the ICMA Centre at Reading University), as well as legal and documentation professionals and representatives from ICMA and ISLA. The first is scheduled to run in London in September 2010. In addition to a detailed review of both legal agreements and their application, together with case studies, the operational and basic legal characteristics of the repo and securities lending markets will also be covered.

BlackRock to report 2nd quarter earnings

BlackRock will report results for the second quarter of 2010 prior to the opening of the New York Stock Exchange on Wednesday, July 21, 2010.

Chairman and chief executive officer, Laurence Fink, and chief financial officer, Ann Marie Petach, will host a teleconference call for investors and analysts at 9:00 am (Eastern Time).

BlackRock's second quarter earnings release will be available in the investor relations section of the Company's website before the teleconference call begins.

Singapore

Dwarfed by many of its neighbours in terms of securities lending activity, Singapore's ongoing stability during the financial turmoil means it remains an attractive destination for some investors

BEN WILKIE REPORTS

The tiny city state of Singapore is a major Asian financial market, but securities lending has not yet made a major impact. While the likes of derivatives and other complex financial instruments play a big role, administration is key to the country's success.

But it hasn't been all bad news, as the turmoil that engulfed the major markets over the past couple of years has left Singapore relatively unscathed.

"Singapore is a relatively small market for securities with the occasional special creating spikes in utilisation and rates," says Martin Corrall, director and securities finance Asia Pacific product head at Citi. "Over the past two years volumes have remained relatively constant and as such Singapore has fared relatively well during this time period."

Although the one party state is unlikely to promote any bad news, Singapore has not seen any major upset to its economy in the last couple of years. Indeed, visitors to the country are unlikely to notice much difference now compared to two or three years ago.

In terms of infrastructure, there are few jurisdictions that can compete with this one. Singapore has one of the best-educated workforces, strong communications links and a welcoming tax environment that encourages high earning ex-pats. This is coupled with a low cost of living and a historical connection to Western economies, so plenty of ambitious finance staff are attracted to the island.

While virtually every global banking player has a presence in the country, their securities lending operations tend to be run from Hong Kong or, occasionally, other jurisdictions. The securities lending market itself is mostly supported by local firms, often in association with the multinationals. "Opportunities are not as strong as in other markets in Asia and this does not give rise to fierce competition amongst firms or increase the maturity of the market in this region," explains Corrall.

"Singapore is typically regarded as the smaller brother to markets like Hong Kong. This is demonstrated by the fact that the majority of broker dealers' front offices are located in Hong Kong," continues Corrall. "However, Singapore tends to be more of an operational hub providing global support. Singapore is making steps to increase its attractiveness for broker dealers as evidenced by recent structural announcements at the SGX."

The Singapore Exchange has long been regarded as one of the more forward-thinking exchanges, and has made great strides in attracting new participants. All CDP securities holder can participate in the SGX securities lending programme. They can register as a lending participant even if they currently do not have eligible securities or the requisite quantity. Once registered participants have eligible shareholdings, the exchange will lend securities on their behalf.

By borrowing and lending in this way, lenders and borrowers remain mutually anonymous and with CDP as the principal all lenders are protected. Lenders can sell at any time, even if their securities are out on loan and lending is done based on an algorithm to maintain fairness.

From the start of July, the SGX has had a new organisational structure, which it says will capitalise on all opportunities within the Asian markets. There are now 10 business units and seven support units, which are designed to 'provide sharper focus on key products and customer segments'.

"Singapore is known as a conservative country, but SGX is a surprisingly fast-moving organisation," says one participant. "It tends to be much more proactive compared to other Asian exchanges, and it's this that is going to attract more participants, rather than the actual changes that are made - even if the market is not quite as big or dynamic as you would like, you know the SGX is going to make sure you can make the most of it."

Unlike markets in North America, there has been no restriction - temporary or otherwise on short selling, the regulators believing that the market was functioning perfectly well without them. But to put the market in line with other exchanges in Asia, the SGX recently implemented compulsory identification of short sales with daily published aggregated short selling volumes.

"The SGX made this move following the results of a consultation paper issued at the end of 2008 and after agreement with the Monetary Authority of Singapore," says Corrall. "We view this as positive in the fact that what this move provides acceptable is in line with other markets in Asia."

Corrall adds, however, that there is more that can be done, and certain changes have not helped the growth of the market: "The revised settlement day buy-in structure introduced last year has dampened interest in Singapore, which now presents operational challenges," he says.

"Enhancement of withdrawal of buy-in options and/or fails coverage would improve the process; at Citi we have received numerous requests by various participants to provide same-day coverage due to ongoing concerns."

But Corrall remains optimistic about the future: "The SGX is becoming more proactive in promoting itself in Asian markets as seen with the secondary listing of Prudential shares. We have also seen the introduction of Special Purpose Acquisition Companies (SPACs) to enhance Singapore's position as the capital market of choice. They have recently announced a new organisational structure... and I would expect to see more innovative product solutions and market positioning in the future."

Singapore has an uncertain future, says one participant. "It has been successful as a back office hub for decades, and this is likely to continue - although there will be competition from lower cost centres within Asia, especially India, which seems to be becoming the destination of choice for many of the world's largest financial services companies.

But it also wants to be seen as an investment destination, and this will be difficult. It's up against the likes of Japan, South Korea and China, but more importantly it's in competition with Hong Kong, and I can really only see one winner there. That said, its political and economic stability will always mean some investors will be keen to put their money on the island."

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Asian securities lending by lendable assets

Asset class	Lendable assets (USDm)	Total balance (USD m)
Japan equities	293,106.40	27,167.80
Australia equities	157,703.20	14,049.40
Hong Kong equities	139,819.30	15,081.10
South Korea equities	40,355.30	2,031.90
Singapore equities	33,740.90	3,747.80
Taiwan equities	6,888.50	1,230.30
Thailand equities	3,949.50	77.30
New Zealand equities	1,778.40	83.60
Malaysia equities	1,148.20	0
Indonesia equities	624.70	0
Philippines equities	553.20	7.80
China equities	501.30	0

Data correct end December 2009
Source: Data Explorers

The CCP debate

The perception of a CCP is that the benefits are heavily stacked in favour of the borrower. What's there for the lenders?

Justin Lawson, publisher

Making business decisions essentially involves gathering information, weighing the related costs and benefits and then deciding how to act. The same process applies irrespective of the decision being made. However the clarity of the proposition and the benefits accruing assist the making of decisions.

There are two key challenges facing the proponents of Central Counterpart(ies) in the securities lending business. Firstly, the need to make their proposition clear and understandable to a target audience that is unfamiliar with the concept. This is despite many of their organisations having extensive experience in other fields eg, The Depository Trust & Clearing Corporation's (DTCC) Fixed Income Clearing Corporation (FICC) subsidiary for the U.S. government securities marketplace.

Secondly, advocates need to communicate the benefits to the industry whilst understanding that they do not accrue equally to all participants and are less obvious to agents and their underlying counterparts.

Meeting these challenges is not helped by a tendency to commingle price discovery, risk management and capital savings into one message.

Regulations are assisting the making of the "cost benefit analysis" argument, although the protagonists cannot rely upon a regulatory driven compulsion to establish a Central Counterpart – a fear expressed at the SEC Roundtable in September 2009.

So the challenges are obvious even though the argument in favour might not yet be. We look forward to seeing when (not if) the penny will drop and who the victors and beneficiaries will be.

Mark Faulkner, founder and head of innovation, Data Explorers.

What are some of the drivers for an institution agreeing to lend and what do they want from a programme? Responses would encompass high percentage of utilisation, solid risk management, and maximum returns.

Utilising an exchange model incorporating central clearing and straight through processing provides a number of advantages for the lender that go some way to meeting those requirements. Increased distribution without the need for multiple counterparty agreements, and importantly, no increase in the risk, regardless of who is borrowing the underlying assets. Incorporate centralised daily mark to market and real time risk management and margining and the exchange solution becomes a stronger proposition. In addition, there is the unequivocal CCP guarantee that loaned positions and collateral are returned.

Add to this real time price discovery and the argument that it favours the borrower are lessened.

The additional benefit for borrowers that face a CCP is a reduction in capital allocation for counterparty credit risk to zero. Clearly a CCP model has benefits for all participants in securities lending.

Allen Postlethwaite, chief operating officer, SecFinex

For clarification, we will presume that, in this context, 'CCP' is being used in a general sense to mean electronic marketplace combined with the benefits of integration with a central counterparty. It is common for these two completely different elements to be combined under the generic heading of 'CCP'. The electronic marketplace provides the benefit of expanded market access and further automation for the securities lending trades, whereas the central counterparty (CCP) brings the counterparty risk reduction and, under Basel II, beneficial capital treatment for trades against a CCP.

Although there are clear benefits (which others will have identified), there are also some practical issues to be considered when transacting via an electronic marketplace and CCP.

These challenges are the same for the borrower and lender, and focus around automation of the straight through processing that is clearly desirable in an electronic trading environment. For securities lending trades this is not only the creation of the trades themselves, but also the processes that typically occur during the life of the trade, including rate changes and returns, which are likely to come from the electronic marketplace solution, but also the marks and other lifecycle activities like corporate action handling and fee processing, which will need to be integrated with the CCP. The automation of these activities is a major contributor to the benefits of an electronic marketplace/CCP offering for borrowers and lenders alike. At SunGard we have been working closely with Quadriserv (electronic market) and OCC (CCP) in order to ensure that our customers can have the opportunity to select this alternative route to market with maximum automation from an IT perspective.

Jane Milner, securities finance, strategy and business development, SunGard

A CCP for securities lending can bring counterparty risk mitigation, balance sheet efficiency and the potential for collateral processing efficiencies for both borrowers and lenders. EuroCCP believes it is well positioned to bring to the securities lending community the values and benefits of an innovative clearing solution in a timely fashion but before delivering a solution there has to be demonstrable support and demand to warrant it.

Andrew Simpson, vice president, head of business development, EuroCCP

Euroclear believes that the credit risk intermediation function that a CCP performs will be most useful in the securities lending world, especially in light of current borrower balance sheet constraints and credit-risk concerns. The traditional multilateral netting role of a CCP will be of less importance as the lending market is typically a one-way market, ie, between lender and borrower. There are no multiple chains, as in the repo world. Furthermore, it is also necessary to adapt the CCP business models to accommodate the specific needs of the lending world. For example, CCP admission criteria and collateral requirements might need to be reviewed in order to make CCPs accessible to beneficial owners.

Maria Carina, director, Euroclear

In recent months Eurex Clearing has been involved in intensive talks with market participants regarding the development of a CCP model for the OTC/bilateral securities lending market and I can confirm we were quite frequently confronted with that remark.

For certain, the borrower gets risks and margins netted on top of the capital relief due to zero-capital weighting of the CCP. So, what is there for the (agent) lenders? The simple answer is: a lot.

Firstly, they can open up their inventory to a much broader borrower audience without considering lines or exposure against those parties thereby profiting from increased market liquidity.

Secondly, they will benefit from the considerable increase in operational efficiency and STP processing which a CCP will bring to the market eg, for risk and collateral management or corporate actions. Thirdly, as the CCP becomes the counterparty and guarantees transactions, indemnification programmes could become obsolete.

Last but not least, they can stay as agents - if they like - as we have designed a specific license so that beneficial owners can become a direct counterparty to the CCP without paying margins.

Thomas Wissbach, senior vice president, Eurex Clearing AG

The benefits of a CCP are distinct for each type market participant and for the lender community the benefits include, among others, improved returns and reduced risk exposure. When lenders and borrowers have direct access to a liquid pool of securities, they are able to extract the maximum intrinsic value of each on-loan position. Using an exchange-based CCP approach as an alternate route to market, lenders can interact on a transactional basis with all forms of credit counterparties, improving their lending performance by increasing the universe of borrowers while reducing the beneficial owner’s reliance on cash collateral reinvestment, particularly when both rates and risk tolerances are low.

Timothy Keenan, head of sales, AQS

The move towards CCPs currently seems to be driven by the technology platforms, however there is some movement from the regulatory bodies showing that they are taking more notice of the CCP structure.

The European Commission recently produced a document with an emphasis on regulating CCPs, reflecting a possible push in this direction as a way of making markets safer and more transparent. The speed of any eventual uptake could well be determined by how much ‘carrot & stick’ is used.

At present it is very difficult to have a view and share our standpoint as there is a clear lack of information. Of course we understand that the benefits for the borrower are clear but, for both the borrower and the lender, you forgo a certain amount of flexibility. Additionally there is some elimination of counterparty risk but we look forward to more detailed analysis highlighting the pros and cons.

Richard Thompson, head of product development and
Kate Lander, head of international fixed income trading, Northern Trust

The majority of CCP offerings as constituted today tend to favor the demand side of securities lending, however all intend to extract a balance of demonstrable benefits to both supply and demand.

For the lender, primary benefits would include various levels of transparency, broader distribution, operational efficiencies, cost reduction and, perhaps most importantly, credit intermediation.

CCPs that provide credit intermediation among clearing members need to bring credit intermediation closer to, if not directly to, the lender which will bring balance to these benefits and aid in quantifying any true cost benefits and operational efficiencies.

CCPs that provide credit intermediation for the lender tend to have features similar to futures and options markets and require a thorough understanding of their requirements, operational flows, and costs prior to trading through them.

Mat Gagne, managing director, product development, eSecLending

Game changer

Supporting the growth in securities lending requires further automation, argues Information Mosaic's Manmohan Singh

ANALYSIS

Securities finance is one of the fastest growing activities in the capital markets space, making a significant contribution to investors and traders by providing liquidity, efficient pricing and facilitating hedging and financing businesses. Along with this growth, the business model for securities finance is also rapidly evolving to reflect a dynamic regulatory environment and shifting customer preferences and needs.

One of the key areas of securities finance is the securities lending and borrowing business – an area that cannot be underestimated in terms of the business potential and enormous opportunities it presents. Getting the right operational and technology infrastructure in place to manage this growth opportunity is key to controlling cost, managing risk and supporting new and existing regulation.

The picture today

Traditionally, technology solutions for securities lending have focused on either extensive and manual spreadsheet management, in-house developed solutions, or re-engineered existing systems. All these paths have inherent challenges owing to the dynamic nature and risk of the business:

Firstly, the 'over-the-counter' nature of this business means that each individual deal has to be treated 'individually', leading to specific agreements between dealing parties that may have nuances of various kinds;

Secondly, in the wake of recent economic upheavals, new regulations and compliance needs are evolving and devised almost every day. Adherence to these is not a matter of choice;

Thirdly, it is a challenge to correctly determine the entitlement benefits of a corporate action event (especially on positions lent out from pooled assets) and even if this is known, it is an even greater challenge to administer this in light of the challenges mentioned above.

These complexities have resulted in lending analysts spending a higher percentage of their days just looking for data required for servicing loaned assets. The process is extremely complex, time-consuming and risk prone. Everyone agrees that the time spent on organising documents, tracking and managing information would be better used providing value-added services to clients.

The need for breaklessness

With such complexities and dynamism in the securities lending arena, corporate actions systems have to keep pace, sometimes on a day-to-day basis, with changing market regulations and customer service needs. Systems that need to be closely managed and maintained simply cannot cope with the dynamism associated with this business model.

Such systems generally will have a number of break points where manual intervention and/or lags are necessitated. This is not only highly time consuming and therefore unscaleable, but also the costs associated with the inherent risks of manual intervention are too high to be ignored.

In a rapidly growing business, automation technology spanning both corporate actions and securities lending, removing historical breaks in the system, is the only efficient way to enable this business model. Financial institutions need a consolidated technology platform that can keep pace with evolving market standards and customer needs, while at the same time being flexible enough to enable organisations to provide customers with innovative products and services. This significantly improves efficiencies, increases productivity and drives down costs.

Using automation to tackle complex challenges

When a market is complex, the risk related to the business and to its participants increases. A lack of standardised processes and the lack of globally accepted market practice around these processes further add to the challenge. This is especially true in relation to corporate action processing on lent positions.

As the title of the security transfers to the borrower, the borrower becomes the legal owner of the security, and receives all coupon/dividend payments and any other rights such as voting rights till the loan is settled. However, all such entitlements may need to be conceded back to the lender, based on the underlying arrangement either from benefits received or by manufacturing them in case securities that have been transferred further, for example to settle a short trade. This raises complexities around benefit computation, position reconciliation, election management, taxes and claims while processing the corporate event.

The lack of a consolidated view of all books/positions is also a concern that leads to a lot of manual intervention and narrative being exchanged. An integrated single view not only helps in paperless processing but also lowers breaks, reducing reconciliation issues, and improves the workflow among the front, middle and the back office.

Adoption of existing market standards, particularly by third party agency lenders to correctly report positions out on loan along with other positions types will help the flow of information but static data in corporate actions legacy systems often do not support maintenance of trade agreements either at relationship-level or specific deal-level. Digitisation of agreements between participants to cater for all downstream processes for manufacturing corporate action benefits while taking care of tax regimes is the key to achieving efficient automation.

The standard practice when a corporate action is announced on lent positions is to transfer the manufactured benefits rather than the corporate action entitlement itself from the borrower to lender. This usually is credited on due date irrespective of payment receipt by the borrower. The challenge is to compute benefits or obligations as per contractually agreed terms and tax regulations.

Voluntary or choice corporate action events present an additional challenge in terms of determination of benefits as per lenders preference. The market recommendation on automating the election process with clear identification of an instruction for loan positions remains pending. Ability to send instructions on lent positions to the respective counterparty taking care of counterparty deadlines will smooth process breaks and manual intervention by lending analysts. The ability to manage recalls on loans at an appropriate stage of voluntary/choice corporate action events is imperative.

Finally, the payment of manufactured benefits presents major risks to borrowers. The current processes are strained by inefficiencies owing to non-existent industry standards for capturing, tracking, reconciling and settling claims raised by lenders. The complexity increases when there are different tax management arrangements per agreement.

> "The challenge is to compute benefits or obligations as per contractually agreed terms"

The solution lies in identifying processes which can be automated to remove unnecessary breaks. Broadly this can be achieved by automating the processes around claim identification, attribution and calculation (including tax) as per contractual terms and building claim instruction mechanisms which are sophisticated and flexible enough to be automatically generated on configured dates.

Further dissemination of claim information to the counterparty in formats like structured yet flexible email/fax is desirable. Features such as the ability to process special tax requirements and documents, template-based chasers and acknowledgement of claim instructions will go a long way in structuring a logical means for processing claims on lent positions.

The game changer

Securities lending processes have undergone tremendous refinement over the years to cater for the dynamic nature of this business, but standard industry practices are still in their infancy. In a period of rapid growth, the traditional approaches to managing securities lending from an operational and technology standpoint, using upgraded legacy or highly manual systems, have struggled to keep pace with business and industry requirements.

There is an urgent need to support securities lending business growth with a scaleable and breakless platform for process automation, reducing the cost and risk associated with reconciliation points and manual intervention. Such a breakless system is not a utopian dream – it is something that can be achieved with technology available today.

No financial institution should be limited in this opportunity for business growth - a firm with technology limitations is at risk of failure. As in so many areas of business today, technology represents a significant competitive advantage in the game. Breakless automation will be the game changer. **SLT**

Manmohan Singh is global head of product Leadership and India Operations, and an executive board member at Information Mosaic, the global provider of post-trade automation solutions for the securities and investment services industries. He has over 13 years' experience in the capital markets industry, specialising in delivering complex asset servicing solutions for large custodians and working with custodian banks, broker/dealers and asset managers across the globe.

A new focus in securities lending

Topics that were unthinkable two years ago are now top of the agenda, writes Data Explorers' John Arnesen. Chief amongst them is central counterparty risk

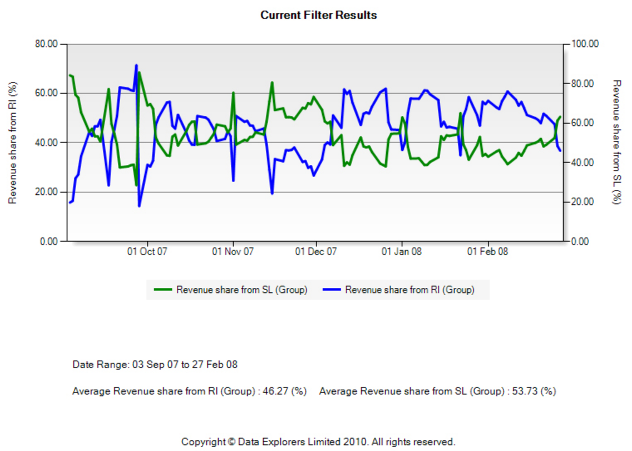
ANALYSIS

The IMN Boston conference last month covered a number of new topics that were in large in response to the conditions experienced in the last two years.

The debate around central counterparty is not a new concept but one that is becoming less theoretical and is likely to gain traction in the coming years. The panel on managing cash collateral in a flat market is certainly a reflection of times and explored the effects of the new 2a7 guidelines and the likelihood that they will form the benchmark of cash collateral reinvestment acceptability going forward. This panel also discussed the need to stress test certain market event scenarios that may have been discounted in the past as too remote a possibility. There was debate around was what happens if liquidity dries up completely across multiple assets classes at the same time, a subject that would not have been considered in a panel discussion at any conference in 2007. But then we live in very different times today.

Risk as a theme in all of its manifestations was mentioned in almost every panel and against the backdrop of the last two years, it will certainly remain high on beneficial owner's agenda as the most important consideration when entering a securities lending programme. The challenge with risk is that by its own nature, it is somewhat unknowable in the context of possible losses. When reinvesting cash collateral outright in unsecured obligations, unless the lender is purchasing put options on every issue in the portfolio, the risk of issuer default remains a real risk but with a low probability. The more likely risk is attempting to sell assets if needed and facing a loss due to changes in creditworthiness, interest rates or a lack of liquidity.

As cash collateral driven market, US beneficial owners are certainly adjusting to lower expected revenue streams from securities lending and a shift in the attribution between reinvestment return and rebate.

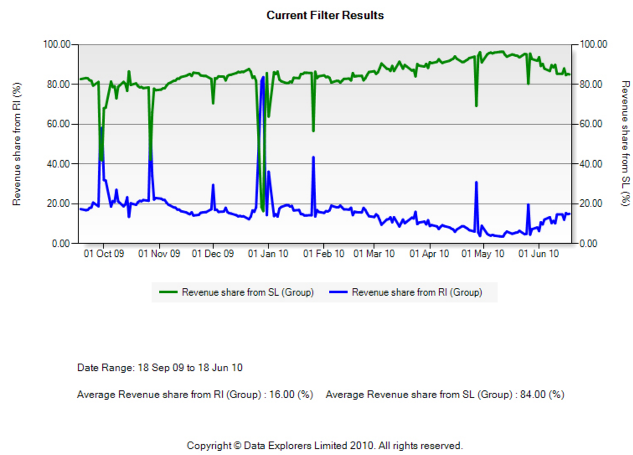


Our data shows a drop to 16 per cent in the last year compared to 44 per cent between September 07 and February 08 of the percentage contribution of reinvestment to total return (See tables 1 and 2). Underperforming assets and in some cases outright losses have sharpened focus on risk in general and for some, there was a lack of appreciation of not only where those risks lay but who was actually on the hook for them. Where outright losses occurred and made headline news, as bad as it was for some, these events may help shape how beneficial owners equip themselves with tools to monitor measure and mitigate risks in securities lending going forward.

On the basis there is no free lunch, risk is inherent in securities lending as it is in any other financial product and this is widely understood. What is emerging however is the appetite to generate returns only on the basis that the risk required to do so is justified.

To this end, Data Explorers in consultation with a number of agent lenders embarked on a project to deliver a series of outputs that gives both beneficial owners and agents a sense of how a lender compares to a chosen peer group in certain categories of programme make up. We took the component parts of return, the structure of collateral, risk, structure of loan book and a number of other outputs to generate a unique signature for each chosen fund that gives a beneficial owner a view of how and where they are generating revenue. In identifying the sources of programme risk as well as return, the framework allows lenders to benchmark to their chosen peer group.

In summary, it would appear that central counterparties are a long way off in relevance to beneficial owners, particularly if one is still grappling with reinvestment losses, unrealised or outright. Moreover, a central counterparty does not necessarily address this aspect of securities lending risk. The market has changed and greater oversight is already embedded in the psyche of many beneficial owner's and at the heart of this is liquidity and exposure to market risk. **SLT**



11th Annual Collateral Management

Date: 8th, 9th & 10th September 2010
Location: London
Website: www.mefinance.com/collateral2010

For this 11th annual marcus evans conference we both pick up on the changes to the collateral landscape as well as return to the great debates within the field to offer practical solutions for meeting these challenges.

IMN's 15th Anniversary European Securities Lending Summit

Date: 20-21 September 2010
Location: London
Website: www.imn.org

In September 2009, more than 250 attendees and 60 beneficial owners participated in IMN's 14th Annual Beneficial Owner Securities Lending Summit. Leading European decision-makers discussed important issues confronting beneficial owners and the securities lending industry at large

SunGard London City Day

Date: 23 September 2010
Location: The Brewery, London
Website: http://events.tenfor2010.com/citydays/london.aspx

SunGard is engaging with key customers and industry players to determine how best to meet immediate challenges and help prepare you for the new business priorities which lie ahead. We are busy building an impressive agenda to discuss how transparency, efficiency and networks will be key components for growth and sustainability of the finance industry. You can see the agenda develop by checking this site, and through the e-mail notifications we will send you after you register.

Industry Appointments

Societe Generale Securities Services (SGSS) has appointed Olivier Renault as Country Manager for SGSS in Luxembourg, replacing Michel Becker. Olivier Renault will report to SGSS Executive Management and becomes a member of the Executive Committee of Societe Generale Bank and Trust (SGBT), in charge of Securities Services.

SGSS in Luxembourg offers its clients international custody, fund administration and fund distribution services, as well as securities lending and borrowing & independent OTC valuation services, an expertise which is increasingly sought after by asset managers in the current financial context.

Jane Karczewski is to return in October. Having left Deutsche Bank in early July it has now been anounced she is set to join Citigroup as head of institutional supply and marketing within Citi Prime Finance based in London.

Karczewski will be expected to establish relationships with pension schemes, insurers and other institutional investors throughout Europe, with a view to persuading them to let Citigroup arrange the loan of their stock to hedge funds and others. These "vanilla stock lending services" benefit the institutional investors but also increase the supply of stock available for Citigroup to lend to its other clients.

Dechert LLP have recently announced that James Waddington has joined the firm in London as a partner. Prior to joining Dechert, Waddington was a partner at Orrick, Herrington & Sutcliffe LLP.

Waddington advises commercial and investment banks and private equity and hedge fund clients in connection with finance and derivative transactions, credit default swaps, lending and borrowing arrangements, debt and equity offerings, insolvency and restructuring matters as well as fund formation and fund investments. He is listed in Chambers UK 2010 as a leading lawyer for capital markets: structured finance.

He has practiced law in Paris, London and New York since 1985 and has previously worked as an investment banker at Bankers Trust Company (now Deutsche Bank). He is fluent in both English and French.

Dechert chairman Barton J. Winokur said "I'm delighted to welcome such a talented lawyer as Jim to the firm."

Co-chair of Dechert's global financial services group, Peter Astleford, commented added "Jim's expertise will further enhance our brand as a leader representing clients across the nexus where corporate, finance and fund matters meet."

Macquarie Securities last week announced Rupertus Rothenhauser has joined as head of sales for structured products & exotics, Europe. Based in Frankfurt, he will be responsible for sales and marketing of Macquarie's structured products across Europe.

The Macquarie Structured Products & Exotics business is represented in Germany, Switzerland, Austria and Italy by Macquarie Oppenheim, the equity derivatives and structured products business Macquarie acquired from Sal. Oppenheim in April this year, complemented by a growing institutional derivatives business.

Rothenhauser has extensive experience working across the European and Asian markets and brings with him more than 18 years of experience. In his new role, he will be focused on expanding Macquarie's activities in the European structured products market, including the development and marketing of new product issues.

"Rothenhauser's experience in the European structured products market will be invaluable as we expand our services within Europe and develop innovative products for our clients," said Frank Langer, head of derivatives, Europe. Mr Rothenhauser joins Macquarie from BNP Paribas where he was a managing director and head of retail listed products in Germany and Austria.

Todd Steinberg, global head of derivatives delta one commented, "We are committed to leveraging the strong structured products platform in place at Macquarie Oppenheim and to building our European presence. Rupertus' broad experience is an asset to the team as we deliver innovative products to clients throughout Europe".

In another recent Deutsche Bank departure Tonia Noschese has this week joined Pirum Systems Ltd as business development manager

Noschese has over 5 years of securities finance experience, most recently at Deutsche Bank where she was the stock loan relationship manager. Prior to Deutsche Bank, Noschese held stock loan client service positions at Morgan Stanley and was co-chair of the ISLA best practice committee for 2009-2010.

Three members of Axa Rosenberg have stepped down following an investigation into a coding error that may have impacted upon client portfolios.

An external review found that board member Barr Rosenberg and Tom Mead, the director of research, both acted to 'limit dissemination of information regarding the error and to preclude discussion about its correction and communications at the proper levels within the firm'.

Both men have stepped down with immediate effect. The review also found that Agustin Sevilla, global chief investment officer 'did not act in a manner that was consistent with the firm's Escalation Policy'. Sevilla has also stepped down, but will transfer to a senior research role.

Deutsche Bank has hired Anita Nemes as global head of capital introduction, based in London. She will spearhead the ongoing effort to provide Deutsche Bank's hedge fund clients with access to institutional sources of capital, which has been one of the most significant growth areas for hedge funds since 2008.

Nemes will join the bank in October from Merrill Lynch where she was Global Head of Capital Introduction. She will report to the regional heads of Prime Finance Sales.

Commenting on the appointment, Rich Herman, global head of institutional client sales at Deutsche Bank said: "Our hedge fund client base is very important to us and Anita's experience and excellent investor relationships will be an exceptional addition to an already high quality team."

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60 Second Resumé

Karen Costagliola

Meet Karen Costagliola, a securities loan professional with nearly three decades' experience.

Tell me a little about yourself

I started my securities lending career at Bank of New York in 1983. I was an administrative assistant and I quickly learned the operations side of securities lending, which meant I was soon moved to operations.

In 1987 I was promoted up to the trading desk, lending equities and corporate bonds. After a merger with Irving Trust Bank, I began lending international equities and Euro bonds.

In 1993 I moved to Cantor Fitzgerald to join my former boss from Bank of New York where he started a new securities lending programme. I was hired as the head trader. At this time I also began lending Government Securities and learning the reinvestment of cash collateral.

After September 11, 2001 I was moved to Metropolitan West Securities/Wachovia Bank to continue lending on the trading desk.

In June 2004, I decided to take a leave of absence and raise my family, I have been married for 16 years with two beautiful children. My husband is a former commodities broker and ran his own business on the floor until the industry moved to computerised trading.

What industry qualifications or relevant certification do you hold?

I am knowledgeable in almost all aspects of operations, from delivering securities over the Fed Wire and DTC, to system input of internal systems, processing marks, dividend claims domestic and international, reorgs, buy-ins, repricing of government securities and collateralisation. I have also tested new systems for lending programmes, especially when I started at Cantor Fitzgerald.

At Cantor Fitzgerald and Metropolitan West I did hold a Series 63 & 7. After years out of the business it expired.

What was your last position in the industry and what did you enjoy most about it?

My last position was at Wachovia bank trading government securities, and assisting on the reinvestment desk. What I enjoyed most about my job was the fast pace of trading and the many relationships I made both in the office and outside the office. Securities lending to me was a very tight knit and family oriented business.

What area are you looking to get back into?

I would like to get back into an area where I can utilise any or all of my skills that I acquired the 21 years I was in the business.

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

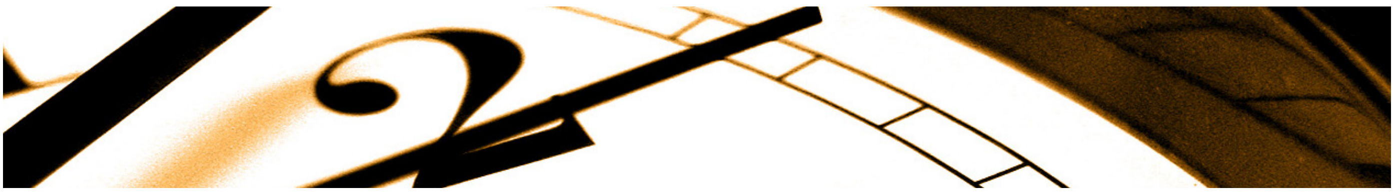
I feel I can bring energy, 21 years of knowledge in the industry from start up to trading.

What do you feel the industry needs most?

I feel the industry needs stability and trust.

Contact Karen

On LinkedIn, Facebook,
or email kcostagliloa@si.rr.com



SLTimes wordsearch

For your afternoon coffee break

Can you find all the names of the latest Industry Appointments (p13) from the previous page and a few extra names thrown in?

Especially requested by one of our esteemed industry colleagues.

w	e	a	s	f	i	k	s	w	e	z	c	r	a	k	e	n	a	j
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t	j	a	m	e	s	w	a	d	d	i	n	g	t	o	n	o	e	r

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