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FSOC: more triparty protection needed

Additional steps may need to be taken to further increase triparty repo borrowers' protection against funding runs in the broader context of liquidity regulation, according to the US Treasury's Financial Stability Oversight Council (FSOC).

The FSOC, which is mandated to identify risks and respond to emerging threats to financial stability, said in its 2014 report that significant progress has been made over the past year in reducing market participants' reliance on intraday credit from clearing banks.

Last year, the FSOC discovered that market participants relied heavily on intraday credit from clearing banks, and that there was weakness in their credit and liquidity risk management practices.

It also found that a mechanism for ensuring that triparty repo investors do not conduct disorderly, uncoordinated sales of their collateral immediately following a broker-dealer's default did not exist.

The share of volume funded intraday by clearing banks fell from 92 percent in December 2012 to under 20 percent in December 2013, according to the FSOC's 2014 report.

This is projected to fall below the Tri-Party Repo Infrastructure Reform Task Force's goal of 10 percent by the end of 2014.

The task force was set up in 2009 at the request of the Federal Reserve Bank of New York to reform triparty repo. Representatives from J.P. Morgan and BNY Mellon, key clearing banks, are a part of the task force.

The Federal Reserve Bank of New York revealed in February that J.P. Morgan and BNY Mellon are providing more than a trillion dollars less in intraday credit to market participants on a daily basis than in February 2012.

readmore p2

Penson executives 'misled' regulators, says SEC

Four former officials of the now-bankrupt clearing firm Penson Financial Services intentionally and systematically violated a naked short selling rule with their securities lending dealings, according to the US Securities and Exchange Commission (SEC).

The SEC brought the charges against Penson's Thomas Delaney II and Charles Yancey on 19 May, accusing the pair of violating Rule 204 of Regulation SHO, which was implemented in 2009 to prevent abuses in naked short sales.

Two former Penson securities lending officials—Michael Johnson and Lindsey Wetzig—were charged in administrative proceedings and have agreed to settle the charges. The SEC intends to litigate the charges against Delaney and Yancey in a separate proceeding.

readmore p2

BNP Paribas adds new markets to Collateral Highway

BNP Paribas Securities Services has extended its partnership with Euroclear Bank's Collateral Highway to include four new markets.

The triparty collateral management service has been extended beyond Italy and Spain to Belgium, France, Germany and the Netherlands.

Frederic Hannequart, chairman of Euroclear Bank, said: "Our partnership is part of the ongoing extension of the Collateral Highway to more markets globally. The technology used allows for the automatic mobilisation of both fixed income and equities collateral at a lower cost than other cross-border triparty collateral providers."

readmore p3

FSOC: more triparty protection needed

Continued from page 1

"Both clearing banks have re-engineered the settlement process in ways that require much less intraday credit extension and have increased the price of credit they still provide. Market participants now face stronger incentives to manage their risk prudently; many dealers have extended the weighted-average maturity of their triparty repo funding thereby sharply reducing their rollover risk exposure."

But the risk of collateral fire sales persists, argued the FSOC in its report.

"The risk of fire sales of collateral by creditors of a defaulted broker-dealer, many of whom may themselves be vulnerable to runs in a stress event, remains an important financial stability concern given the destabilising effect such sales may have on markets and their potential to transmit risk across a wide range of participants.

While regulatory reforms implemented since the financial crisis, such as increases in the amount of capital, liquidity, and margin changes for US broker-dealers, "may help to mitigate the risk of default", the FSOC believes more can be done.

"The council advises all US regulators of firms that rely on this market for funding to assess whether additional steps may need to be taken to further increase triparty repo borrowers' protection against funding runs in the broader context of liquidity regulation."

"The council also urges coordination between market participants and financial regulators to address the risk of post-default fire sales of assets by triparty repo investors."

General collateral finance repo activity, which settles on the triparty repo platform, is still relatively reliant on clearing bank intraday credit to facilitate settlement, the FSOC also found. It urged market participants to work to extend improvements in the triparty repo settlement process to general collateral finance repo settlement "as soon as possible".

Penson executives 'misled' regulators, says SEC

Continued from page 1

Rule 204, adopted in response to the financial crisis, addresses the negative effects that fails to deliver have on markets. Penson violated the rule when it loaned securities held in customer margin accounts to third parties and the margin customers sold those securities, but waited until the settlement date (T+3) to recall the stock loans.

"This practice resulted in serial failures to deliver at the firm level. Rule 204 required Penson to purchase or borrow sufficient shares to close out those failures to deliver no later than the beginning of regular market hours on the sixth business day after the sale (T+6)," according to the SEC.

Johnson and Wetzig allowed the firm-level failures to deliver to persist until the borrowers returned the recalled shares, which often did not happen until the close of business on T+6.

Penson chief compliance officer Delaney had direct knowledge that the firm's procedures for sales of customer margin securities were violating naked short selling rules, and actively assisted violations because he did not want to incur compliance costs, alleged the SEC.

President and CEO Charles Yancey, meanwhile, ignored significant red flags about Delaney's involvement in the violations and the fact that he was concealing them from regulators, according to the SEC.

"This enforcement action seeks to hold Penson executives responsible for choosing profits over compliance with Regulation SHO," commented Andrew Ceresney, director of the SEC's enforcement division. "We will aggressively pursue those who disregard this important rule, especially when they take affirmative steps to mislead regulators."

Daniel Hawke, chief of the SEC enforcement division's market abuse unit, added: "Com-

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pliance officers are a critical line of defence against violations of the securities laws, and we rely on them to help prevent infractions from happening in the first place.”

“Delaney, however, crossed the line when he participated in the firm’s Regulation SHO violations and affirmatively acted to perpetuate or conceal them.”

Johnson has agreed to pay a $125,000 penalty and is barred from the securities industry for at least five years, while Wetzig will be censured. In settling, the pair neither admitted nor denied the SEC’s findings.

Lawyers for Yancey and Delaney have vowed to fight the charges.

BNP Paribas adds new markets to Collateral Highway

Continued from page 1

“The partnership will enable mutual sell-side clients to manage equities and fixed-income securities collateral held at both BNP Paribas and Euroclear in each domestic market.”

Alain Pochet, head of clearing, custody and settlement at BNP Paribas Securities Services, added: “Our Collateral Access - Connect service is part of our wider Collateral Access suite of products and services, which helps our clients source securities and maximise the use of their assets.”

BNP Paribas joined the Collateral Highway of Euroclear in March 2013.

The Collateral Highway links commercial and investment banks, supranationals, central banks, central counterparties and other capital market infrastructure providers across time zones and markets.

It mobilised an average of €787 billion of collateralised transactions daily in 2013, a 12 percent increase year-on-year.

HSBC bags £6.5 billion mandate

HSBC Securities Services has been appointed global custodian to the Local Government Pension Scheme (LGPS) funds for Norfolk, Suffolk and the London Borough of Hackney.

The bank will provide global custody, investment accounting and securities lending services for £6.5 billion of assets under management.

The mandate, which will run for five years, is the first to be awarded under the National LGPS Framework for Global Custody Services. The framework was introduced in 2013 and is designed to provide a quicker and more efficient method for funds to select a global custody provider.

“HSBC Securities Services offers us competitive and transparent pricing together with a comprehensive custody and reporting solution and strong relationship support which will help each of us move forward in terms of efficiency and performance,” commented Glenn Cossey, chief investment officer for the Norfolk Pension Fund.

Arjun Bambawale, head of HSBC Securities Services in Europe, said: “This win emphasises HSBC’s understanding of the LGPS requirements and our ongoing commitment to providing the highest quality service.”

HSBC already provides fund services to local government authorities, including the pension funds of the West Midlands, West Yorkshire, South Yorkshire and Swansea, Dorset County

Council, and the Northern Ireland Local Government Officers Superannuation Scheme.

Faster settlement times for international securities

A number of operators of European securities markets have announced that they will implement the migration to T+1 from T+2 for repo transactions and to T+2 from T+3 for cash.

Central securities despository regulations state that the migration should not apply to transactions that are privately negotiated and executed on a trading venue, or transactions that are executed bilaterally but are reported to a trading venue.

Transactions on the International Capital Market Association (ICMA) market are out of the scope of CSD regulations, as they are transactions in international securities.

But ICMA members will change the standard settlement cycle from T+3 to T+2, unless otherwise agreed, to allow for the orderly trading of all fixed income securities traded under ICMA rules.

All of the proposed changes are to take effect as of 6 October.

SEC commissioner wants more disclosure

Funds should disclose the percentage of assets out on loan and how they split revenue with sponsors, Kara Stein of the US Securities and Exchange Commission has suggested.

Commissioner Stein delivered a speech to the Council of Institutional Investors on 8 May in Washington DC, in which she pinpointed securities lending as an activity that requires greater disclosure.

"Investment company disclosures regarding securities lending activities are also something that we should explore. Shouldn't a fund disclose both the percentage of its assets out on loan, and how it splits revenue from securities lending with its sponsor?"

She went on to call for disclosures to be more made "more accessible and useable".

"In an era where nearly all data is electronic, it baffles me that such a huge portion of public disclosures are presented in a format that isn't structured and easily accessible for analytics."

"We should be making sure that as many disclosures as practicable are required to be submitted in useful, structured formats that investors, the public, and the commission can use."

New collateral platform from SIX and CME Clearing

SIX Securities Services and CME Clearing Europe have partnered to provide European Market Infrastructure Regulation (EMIR)-compliant platform for banks and buy-side clients in Europe.

SIX and CME Clearing have collectively created software, that manages collateral for European clients.

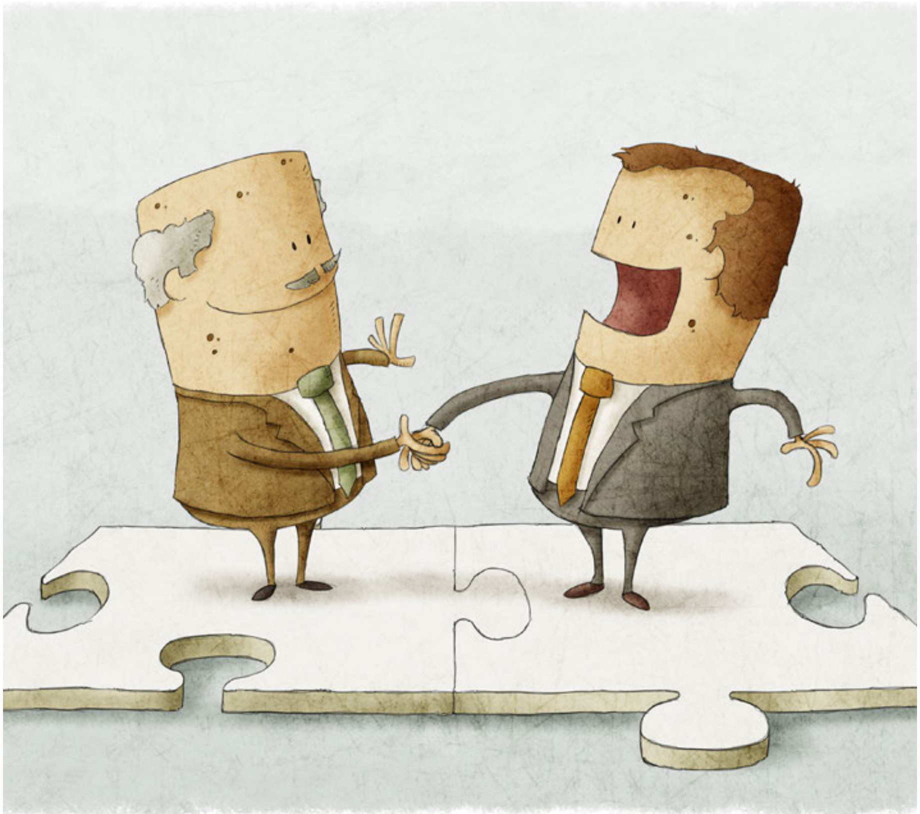
For the first time in Europe, market participants will be able to provide collateral direct to a central counterparty's (CME CE) account at the central securities depository (SIX SIS) to meet margin requirements.

The new software will allow users to check their collateral use at any given time, and will automatically create collateral segregation for compliance and risk control.

Lee Betsill, CEO of CME Clearing Europe, said: “Our close collaboration with SIX Securities allows clients to optimise the use of their existing pool of securities held with SIX SIS for their clearing needs in real time whilst keeping them in Switzerland.”

The collaboration will give CME Clearing Europe’s clients access to SIX’s virtual liquidity pool and collateral mobilisation capabilities.

“The agreement with CME Clearing Europe is another milestone in European clearing. Our new platform offers clients high-value collateral management services as they adjust to EMIR,” added Thomas Zeeb, CEO of SIX Securities Services.



Societe Generale finalises Newedge deal

Societe Generale has finalised its purchase of Credit Agricole’s 50 percent stake in Newedge.

This acquisition combines Societe Generale’s activities and Newedge’s execution and clearing services.

As part of the deal, it has also sold 5 percent of Amundi to Credit Agricole, bringing Societe Generale’s stake in the company to 20 percent.

“The finalisation of the acquisition of Newedge is a significant strategic initiative which will allow us to position ourselves as key player in the rapidly growing sector of post trade services for investors”, said Christophe Mianne, deputy head of Societe Generale’s global banking and investor solutions.

“We will be able to offer our clients the best of both institutions: the financial guarantee and financing capacities of a leading bank, allied with Newedge’s leading market positions, in particular in prime brokerage and clearing services. We are thus strengthening our international presence, whilst positioning ourselves favourably in the new regulatory environment.”

These transactions are expected to result in a moderate positive impact on the group’s earnings and a impact of approximately 10 basis points on the group’s Basel III core tier one ratio in Q2 2014.

Clearstream improves again

Clearstream has surpassed its 2013 results by posting increases for the year ending April 2014, with the monthly average outstanding for global securities financing (GSF) reaching €589.8 billion.

The combined services, which include triparty repo, securities lending and collateral management, collectively experienced an increase of 1 percent over April 2013 to €583.8 billion.

The GSF monthly average outstanding has also seen growth by 3 percent from the period year-to-date April 2013 (€568 billion) to the period year-to-date April 2014 (€582.5 billion).

Clearstream’s overall value of assets under custody held on behalf of customers registered an increase of 5 percent to €12.1 trillion, compared to €11.6 trillion in April 2013.

Securities held under custody in Clearstream’s international business as international central securities depository (ICSD) increased by 4 euroclear

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Securities held under custody in the German CSD increased by 5 percent from €5.4 trillion in April 2013 to €5.7 trillion in April 2014.

For the period year-to-date April 2014, the number of settlement transactions (OTC and stock exchange combined) processed for the German domestic CSD and global ICSD business combined increased by 7 percent compared to the same period in 2013.

The investment funds services business contributed to this growth in the ICSD business as its corresponding transactions registered a 13 percent increase.

Milwaukee pension in the hands of Northern Trust

Northern Trust has been entrusted again with the Milwaukee pension fund.

The City of Milwaukee's Employees Retirement System (CMERS) has reappointed Northern Trust as the fund's global custodian.

CMERS has previously worked with Northern Trust, which has provided securities lending, custody and compliance services for the $4.9 billion fund.

Northern Trust has signed a fiver-year contract with CMERS, which will see it continue to provide the same services as before.

David Silber, chief investment officer of CMERS, said: "We're satisfied with Northern Trust. We had good faith negotiations with them. They've done well, and there's always a little risk to change custodians."

Lombard Risk Management posts record results

Lombard Risk Management saw revenues climb by £3.6 million to £20.4 million for the financial year ending 31 March 2014, amounting to a compound revenue growth in the last four years of almost 23 percent per annum.

Earnings before interest, taxes, depreciation, and amortisation, adjusted for share-based payments, increased from £5.3 million in 2013 to £5.9 million in 2014 and profit before tax increased from £3.9 million to £4.4 million.

Both profit before tax and revenues were ahead of market expectations.

In addition to these revenues, Lombard Risk also posted a record revenue backlog/order book going into the new financial year.

The group continues to benefit from its a strong market position in two important and growing segments of the financial industry: namely regulation such as the European Banking Authority's common regulatory reporting network and collateral management.

In the company's year results document, it stated: "Additional growth can also be expected to come from the compliance area, where we have a new product, and from our increased use of alliances with major global firms or leading regional firms."

"Our professional services team is extremely busy billing its time to meet the COREP deadlines of seventy clients, but the programme is on track. We remain confident of further growth in the new financial year and beyond."

Lombard Risk CEO John Wisbey commented: “We have entered the new financial year with recurrent revenues at another all-time high of around £8.6 million, our highest ever year end level of order book at £5.2 million and with a good sales pipeline.”

Growth for GemCap in Columbus

GemCap has opened a new office in Columbus, Ohio, which will be managed by Jim Thieken, executive vice president of the firm.

GemCap has also expanded its portfolio management department with the hire of Ashley Eckels and David Arzumanov joining as senior collateral analysts.

Eckels previously held the position of accounting officer coordinator at SB Capital Group where she managed accounting for a subsidiary.

Arzumanov joins from Waddell and Reed, where he served as a financial advisor.

Richard Ellis, co-president of GemCap, said: “We are happy to welcome Ashley and David to GemCap, they are a great addition to our expanding team.”

David Ellis, co-president of GemCorp, added: “Having a mid-west office is part of our strategic growth plan, we are excited to have Thieken on board to oversee this new location.”

UOB becomes first Eurex Clearing member in Asia

United Overseas Bank Ltd (UOB) of Singapore is the first member of Eurex Clearing in Asia.

The company will be able to clear business for Asian and international trading members, and provide respective services to them.

UOB Bullion and Futures (UOBBF), a subsidiary of UOB, has been a trading non-clearing member of Eurex Exchange since 2008.

In 2012, Eurex Clearing received confirmation from the Monetary Authority of Singapore to admit clearing members from the jurisdiction.

Thomas Book, CEO of Eurex Clearing, said: “Having one of the largest banking institutions of the region is an important step to extend the offering of our clearing capabilities into the Asian time zone and increase our clearing footprint in Asia.”

Terence Ong, head of global markets and investment management at UOB and chairman of UOBBF, added: “Our dual membership allows us to offer our clients one-stop broking and clearing solutions that provide lower associated risks and greater peace of mind.”

UOB also launched its Taiwan Futures Exchange Link (TAIFEX) recently, so trading participants and brokers can benefit from clearing services for new Eurex TAIFEX products in Taiwan.

Ong added: “The TAIEX contracts are one of the most heavily traded derivatives in Asia. We believe that trading demand will continue to grow following the launch of the Eurex futures.”

UK leads European hedge funds

The majority of European hedge fund managers that have set up business in recent years have been in the UK, according to data from Preqin.

The UK is also the most prominent country in terms of hedge funds being launched in Europe, representing approximately 50 percent of all known European hedge fund launches in 2013 and 2014.

UK-based hedge fund managers have seen a net increase in assets under management (AUM) of around $57 billion between January 2013 and April 2014, in contrast to hedge fund managers based in France, Spain and Germany that have seen a net decrease in assets over the same time period.

The UK far eclipses other countries in Europe in terms of total hedge fund AUM, with $423 billion, ahead of Sweden ($34 billion), Switzerland ($31 billion), France ($20 billion) and Netherlands ($9 billion).

Amy Bensted, head of hedge funds products for Preqin, commented: “Europe is experiencing a slowdown in terms of new hedge fund managers setting up business in contrast to North America, which has seen an increase in the number of new fund managers coming into market in recent years.”

“This can be partially attributed to Alternative Investment Fund Managers Directive within Europe, which is deterring some prospective new firms setting up a hedge fund business in the region.”

“Over the course of the rest of 2014 it will be interesting to see if UK continues to see increasing volumes of new manager launches and if regulation and other hurdles continue to hinder start-ups in the rest of Europe.”

SunGard identifies trends in managed services

SunGard has identified four trends that it claims will aid the growing adoption of managed services over the next 12 to 18 months.

The research has suggested that multi-system environments and siloed infrastructures can slow innovation and market strategies for new products and geographies.

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This can drive investment in trusted vendors and provide a reduction in the total cost of ownership, driving firms to migrate core and non-core operations to trusted third-party managed services to help control costs.

To mitigate operational risk and inefficiencies and optimise system uptime and processing reliability, SunGard has recommended that firms should adopt a combination of software deployment paired with business process outsourcing (BPO), or an outsourced business process as a service (BPaaS) platform from providers with deep domain and industry expertise.

SunGard identified tighter vendor management as being key to financial institutions as they deploy more managed services.

As firms continue to outsource more of their operations, they can increasingly rationalise the number of strategic vendor partnerships to create a cohesive network of trusted partners.

"By 2016, approximately 50 percent of financial institutions will use managed services to outsource the management of their IT infrastructures. This model will become more mainstream in helping firms address the challenges in our industry," said Larry Tabb, CEO of SunGard.

Steven Silberstein, chief technology officer, added: "Many firms will underpin business strategies with managed services models to help address the complex and wide ranging challenges facing the industry."

Major merger for Vastardis Capital and Conifer Group

Vastardis Capital and Conifer Group will merge to become one of the largest global fund administrators.

Vastardis and Conifer have signed a merger to create one of the largest fund administration businesses, which will place Credit Suisse and UBS in the pool for Securities and Exchange Commission-registered managers.

The deal will enable the firm to provide hedge fund services and funds of hedge funds, endowments, foundations, private equity and venture capital.

The new company will also will provide portfolio accounting, reporting, tax and investor services as trade execution, prime brokerage and technology services.

Once combined, the firm will reportedly have gross hedge fund assets totalling $47.1 billion.

The merged company will be based in San Francisco under the name Conifer Financial Services.

Jack McDonald, chief executive of Conifer, will become president of the new company, while William Vastardis will serve as its chairman.

CalPERS states its beliefs

The California Public Employees' Retirement System (CalPERS) board of administration has adopted a set of pension beliefs that articulate its views on public pension design, funding and administration.

CalPERS board members, executives and staff will use the 11 pension beliefs in their communications with members, employers, policy makers, other pension systems, the media and other stakeholders.

The fund believes that these principles will be beneficial for all pension systems and policy leaders to consider during the ongoing state and national policy debates about pensions and retirement security.

Rob Feckner, president of the CalPERS board, said: "These pension beliefs reflect our commitment to our core mission and will help advance and steer today's dialogue on public pensions."


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"The pension beliefs support CalPERS role as an advocate for the value of defined benefit plans, which have professionally managed funds with a long-term horizon, and incorporate pooled investments and pooled risks."

CalPERS claims that pension benefits are deferred compensation and the responsibility for appropriate funding should be shared between employers and employees.

Another of the beliefs states that a retirement system must meet the needs of members and employers to be successful.

Inadequate financial preparation for retirement is a growing national concern, according to CalPERS, and they claim that all employees should have effective means to pursue retirement security.

The CalPERS board and staff began development of the pension beliefs in October 2013 and worked with key stakeholders to gather feedback for further refinement.

Discussions with external partners, board members and executive staff focused on six key areas of a pension system to guide the development of the pension beliefs.

The areas focused on were administration, education, funding, governance, plan design and risk management.

"Retirement security for all America's workers is one of the more noteworthy beliefs and I'm proud that CalPERS will play an advocacy role in this effort," said Priya Mathur, chair of the pension and health benefits committee.

Regulatory uncertainty threatens systems

The unclear regulatory landscape is the biggest challenge cited by banks in implementing their counterparty risk and credit valuation adjustment (CVA) platforms, according to a whitepaper by InteDelta and Murex.

The respondents cited data issues as the second biggest challenge.

The paper presents the results of a survey that looks to establish the management processes, measurement and systems that banks use to control counterparty risk, paying particular focus on two important metrics in counterparty risk: potential future exposure (PFE) and CVA.

Half of the surveyed banks have already established a CVA desk while the remainder said they have plans to do so. Just under half of surveyed banks carry out some form of CVA hedging.

The paper claims that advances in counterparty risk/CVA require major investment in systems platforms. Despite the synergies between CVA and counterparty exposure, only 17 percent of the banks surveyed use the same platform.

Another finding in the paper stated that the new standardised approach for measuring counterparty risk recently issued by the Bank for International Settlements will force banks off more simplistic measures of regulatory capital measurement and may prompt more banks to move directly to the Internal Model Method.

Michael Bryant, managing director of InteDelta, said: "Banks have had to adapt to enormous changes in the area of counterparty risk and that change is still ongoing."

"It was not therefore surprising that our survey uncovered wide areas of differences in practices amongst the surveyed banks. Whilst it is generally true that the largest western banks have the most sophisticated practices, we identified many smaller institutions with well developed practices and some larger banks which did not have the controls and practices that might have been expected."

"I doubt that we are heading for a completely homogenised set of practices around counterparty risk and CVA—each institution needs to choose the practices that are most appropriate to its business and risk culture."


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Latin lowdown

Jon Whiting of State Street Global Markets provides a short update on Latin America for agent lenders and beneficial owners, revealing that the continent is on its way—in Brazil at least

MARK DUGDALE REPORTS

How would you describe the current state of securities lending in Latin American markets such as Brazil, Mexico and Chile?

Securities lending is quite well established for onshore participants in Brazil and it's developing for non-local entities. The agent lender and beneficial owner communities are increasingly knowledgeable of Brazil's lending market structure given their interest in the market's potential return relative to more mature lending markets.

We've participated in Mexico's developed lending market for a number of years. It's an efficient, same-day settlement market with strong supply liquidity, but there are limited pockets of demand.

Finally, while we see some demand for Chilean equities—and particularly for those held by onshore lenders—a tax withholding issue in connection with cash collateralised loans remains.

Is any country (eg, Colombia, Peru and Chile) closing on Brazil in terms of market cap and lending activity? If so, what would you attribute this to?

I don't believe any of the countries listed are close to Brazil in terms of market cap, lending volumes or development of their lending structures at this time. We've seen initial interest in Colombia, Peru and Chile, but I would say it's muted at best. On a relative basis, the interest for the latter Latin American markets is minor in comparison to Brazil.

What is the situation with collateral in Brazil?

Collateral can be held offshore in Brazil, but it would be in addition to the collateral requirements documented by the BM&F Bovespa/BTC. I don't think the ability to hold collateral offshore (as the primary collateralisation of lending contracts) is an absolute must for Brazil to become an established lending market for offshore entities.

However, the current collateral restrictions definitely limit the growth and total size of the Brazilian lending market given that they essentially prevent certain client types and clients from certain domiciles from participating. SLT

Jon Whiting
Vice President, head of international equity trading, securities finance
State Street Global Markets

Adept at change

Zürcher Kantonalbank's Roger Reist discusses the restructuring of his unit, business at the moment, and why the FTT should not be ignored

MARK DUGDALE REPORTS

Why has Zürcher Kantonalbank restructured, with yourself and Ueli von Burg both being promoted?

When Felix Oegerli was promoted to the new head of trading, sales and capital markets at Zürcher Kantonalbank, it was a good opportunity to restructure the unit slightly.

Being responsible for the securities lending and repo business already, and now for CHF STIR and short term funding for the bank, allows us to take advantage of synergies. Due to this new structure, we can offer our clients more products, and decision making processes are even shorter.

How is business at the moment, and how would you compare it to last year?

As we gained a new client recently, our pool of lendable assets increased by about $1.5 billion. As a consequence we could lend some of these assets to the street. Apart from that, we have seen some good demand for long term repos and upgrade trades. However, the volume for corporate bond shorts is lower compared to a year ago, as fixed income trading desks and hedge funds are less active.

What are the most lucrative areas of business for you this year, and what would you attribute this to?

As a AAA-rated bank, we act as a liquidity provider and have seen some good demand for long-term repos and upgrade trades. As mentioned above, we have gained some new clients for our securities lending programme where Zürcher Kantonalbank always acts as a principal, which is an important fact for most of the lenders.

How are the transaction taxes in Italy and France affecting your business in Europe, and what will the EU version mean for you if it is implemented in its current form?

The transaction taxes in Italy and France have hardly affected our business. Since the implementation of the planned EU version has been delayed, the topic seems to not be top priority any more for some market participants. In my opinion, this might be a mistake as the impact of this regulation would be devastating for the securities lending market. The same is true for the repo business.

Which regulations are you paying the most attention to, and why?

The EU Financial Transaction Tax is in my focus because of its big negative impact on our business.

It's also impossible not to think of Basel III when talking about regulations. Sub-topics of Basel III such as the liquidity coverage ratio (LCR), net stable funding ratio (NSFR), leverage ratio and specific rules of national regulators are key topics, too. All of them have direct and indirect effects on our business.

Funding for trading desks is under discussion, with regulatory requirements likely to put a squeeze on collateral—how are requirements affecting traders on the front line?

In recent years, much focus has been laid on regulations with regards to funding and liquidity requirements. Such regulations have to been taken into account especially when it comes to term trades. Depending on the internal models and policies of the different institutes, the charges are higher or lower for such trades. As a consequence, trades that were profitable in the past might not be any more in the future. The landscape of liquidity providers and takers has changed much in the past couple of years due to new regulations. **SLT**

Roger Reist
Head prime finance trading
Zürcher Kantonalbank

A close second

CASLA's 4th annual conference highlighted the strengths of the world's second most important securities lending market—and participants' ongoing efforts to keep building for the future

JUSTIN LAWSON REPORTS

The Canadian Securities Lending Association (CASLA) welcomed more than 170 local and international agent lenders, borrowers, regulators and other industry stakeholders at its fourth annual conference in Toronto on 8 May. The event has become the preeminent industry gathering for Canadian securities lending market participants, and this year measured up to all expectations.

Rob Ferguson, president of CASLA and senior vice president of capital markets and product delivery at CIBC Mellon, welcomed attendees with a preview of the day's themes, highlighting CASLA's ongoing work with regulators and other market participants to foster understanding of securities lending market practices; the challenges associated with global regulatory expansion; and the impacts of central counterparty settlement. Ferguson took great care to contrast the well-earned global acclaim for Canada's financial services sector with the perennial underperformance of Toronto Maple Leafs's ice hockey team, as well as crack a few jokes at the expense of the infamous Mayor Rob Ford.

Chris Benedict of DataLend was likewise unable to resist a few "poke checks" at the local hockey squad before turning to a well-received analysis of the Canadian securities lending market. As of Benedict's 23 April snapshot, Canada has very strong participation in securities lending, with CAD$73 billion of equities, CAD$10 billion of corporate debt, and CAD$80 billion of sovereign and other debt on loan. These figures make Canada the world's second largest securities lending market, ahead of Germany (third) and the UK (fourth).

In addition to the big picture, Benedict took participants through a deeper dive into movers in the Canadian market, such as BlackBerry, Loblaw/Shoppers Drug Mart and Telus. Benedict also contrasted Canada's primarily general collateral fee bands with more seasonal markets in Europe, as well as the supply issues that have driven higher fee bands in Asia.

Regulation—a central theme for CASLA conference participants and players around the world—was the topic of the first panel, featuring moderator Christopher Steeves of law firm Fasken Martineau DuMoulin LLP, along with Lesley Charkow of RBC Investor & Treasury Services, Michael McAuley of BNY Mellon and William Young of State Street. Charkow, who also chairs CASLA's legal and regulatory subcommittee, highlighted the group's work over the last year "to demystify securities lending to the regulators ... highlighting, educating and fostering understanding to help the regulators continue to find appropriate balance ... understand which information is relevant, and collect the right information".

The regulatory panel members devoted substantial time to the challenges associated with greatly expanded disclosure requirements under the Foreign Account Tax Compliance Act (FATCA). For an example, the panel cited the case of Canada-US dual citizens, where FATCA rules require various disclosures to the Internal Revenue Services, while Canadian privacy laws prevent those disclosures.

Back by popular demand after its introduction at the 2013 CASLA conference, the hedge fund panel was moderated by Les Marton of Scotia Capital and featured Anthony Venditti of BMO Capital Markets, Daniel Dorenbush of Scotiabank, Colin Stewart of JC Clark and Nick Neary of Polar Securities. Given that Canadian hedge funds as borrowers drive up to half of Canadian securities lending activity, there was understandable interest in the hedge fund managers' views. Panellists underscored the importance of cross-border securities lending activity, given that the smaller size of the Canadian market and more restricted liquidity can make it difficult to hedge against small cap companies, meaning Canadian managers often hedge against US sectors.

Panellists expressed frustration that many non-Canadians underestimate the size and sophistication of the Canadian hedge fund industry, while taking some pride in the growing acceptability of hedging strategies among institutional investors. The panel noted that hedge funds are tapping asset servicing providers for back-office infrastructure to satisfy the risk and reporting needs of pension plans and other conservative institutional investors.

Vendetti cited the trust that Canada's big banks bring to the hedge fund equation, providing funds with start-up funds and offering security and confidence through their prime brokers. He also noted that Canadian banks have been "much better at protecting their turf than places like Japan, where US banks have come in and taken a lot of market share". Conversely, Venditti also suggested that Canadian banks could get better at retail distribution, helping hedge funds sell through their investment advisors.

In response to a question from CIBC Mellon's Rob Ferguson about what agent lenders could do better, panellists praised Canada's securities lending industry as "mature, sophisticated and responsive", before expressing a desire to see even more pension funds participate, meaning greater liquidity. There was also hope that beneficial owners would express greater openness to high-volume, low-fee trades, versus focusing exclusively on small-volume trades with high per-unit costs.

Next up was the fixed income panel featuring Charles Lesaux of RBC Capital Markets, Chris Tigert of BNY Mellon, Steve Novo of State Street and Jeffrey Benner of Northern Trust. Tigert noted that Canadian market participants are taking a characteristic "wait and see" approach when it comes to using evergreen structures to secure some capital relief, which has depressed demand. "This has in turn contributed to increases on the cash collateral

market, as players leverage cash reserves to underpin securities lending activities."

Panel moderator Nick Chan of BMO Capital Markets echoed this point, noting that "Canadian banks are run conservatively, with capital ratios well in advance of Basel requirements", and pointed out that over time, Canadian institutions will likely respond to market pressures and move to structures that deliver funding in line with leverage ratios and the cost of capital.

Lesaux highlighted Canadian banks' push to participate in central clearing of repo trades, which would help mitigate risks, improve liquidity, provide netting benefits and reduce balance sheet usage—although concern remained around being unable to choose counterparties.

Novo said that Canadian supply remains extremely tight: "The global supply of AAA-rated bonds is down 60 per cent since 2007, and for the first time ever there are more AA-rated sovereign bonds than AAA-rated bonds." Strong demand is compounded by the limited supply: the Bank of Canada retains 20 percent of every bond issue, the Canadian dollar remains one of the International Monetary Fund's seven official reserve currencies, and a move to staggered maturities from twice-yearly maturities meant additional constraints. As a result, 14 percent of Canadian bonds are trading special. Novo noted that as the Canadian economy picks up and the Canadian government moves to surplus budget territory, this could lead to fewer bond issues and further supply constriction.

The final panel of the day focused on equity, with Rob Dias of Bank of America Merrill Lynch moderating Steve Schneider of Morgan Stanley, Daniel Yardin of BNY Mellon, John Whiting of State Street, Brendan Eccles of Scotiabank GBM and Paul Larkin of CIBC World Markets. The panellists agreed that Canada is probably at an inflection point for the lending of equities, with the significantly increased costs associated with complying with expanded regulatory requirements and a move toward finding a new balance in terms of capital usage constraints. The forecast is for higher rates, a continued move toward cash collateral, and expanded collateral costs.

As one panellist noted: "Risk based capital requirements have a significant impact. It's a natural evolution of the securities lending market. Collateral wasn't always properly priced in the past, but now it is being much more accurately priced in."

Time and costs are associated with complying with more complex regulatory requirements, which means additional overhead and increased costs—all of which need to be accounted for when considering whether a given activity makes sense. Forecasting the future, panellists expected greater focus on seeking balance sheet friendly trades, such as equity-for-equity trades for equity, etc, in order to keep up with new Basel requirements.

Yardin pointed to several impacts from Europe, including expanded regulatory requirements increasing costs, while tax harmonisation meant softening some demand. He also noted the prospective EU Financial Transaction Tax—currently proposed at 10 basis points—could significantly impact securities lending.

Some time was given over to considering the current state of the market. The Canadian market saw a significant volume of share buybacks in 2013, which are dwindling in favour of expected M&A activity in 2014 as companies begin to have the confidence to deploy their capital on acquisitions.

Canadian beneficial owners face some restrictions on collateral. Canadian regulations do not permit mutual funds to accept equities as collateral, and they can only reinvest cash collateral out to 30 days. As a result, CASLA and other stakeholders are lobbying the regulators to level the playing field between mutual funds and other funds.

Future growth opportunities include Canadian participants expanding into new markets (particularly in Asia) and encouraging more owners to participate in lending. Areas of potential challenge include Basel requirements that may preclude or substantially raise the costs associated with offering indemnification for owners, as well as the big change of moving to a central clearing market.

The 2014 CASLA conference was very successful in bringing a range stakeholders in the Canadian securities lending industry together. The panels were lively and interesting, and the discussions and networking successful. The post-event festivities were excellent as expected. **SLT**

Pfizer's bid for AstraZeneca—is price everything?

David Lewis, senior vice president at SunGard's Astec Analytics, checks the temperature of the proposed pharmaceutical company acquisition

The Pfizer (PFE) bid for AstraZeneca (AZN) has rarely been out of the news since the bid broke cover around 20 April. Whether it has been politicians, other pharmaceutical companies or the business owners and investors themselves, it seems everyone has something to say about this vast US to UK acquisition, a deal that now appears to have foundered with AZN's official rejection of PFE's 'final offer' on 19 May.

Only a month before the bid, analysts were scratching their heads over the resilience of the AZN share price with some describing it as the "sell that has been a great buy". With major products heading to the end of patent protection, few new drugs in the pipeline and those treatments for diabetes and cancer that were coming out not meeting expectations, it was hard to see how AZN outperformed the FTSE 100 by a factor of three over the past two years.

Looking at the securities lending volumes for AZN, as a proxy for short selling, over the past two years there have been few points worth writing home about; with borrow volumes relatively benign a positive tone could be inferred. However, prompted by some negative performance for new drugs and a lack of optimism from the AZN board regarding future sales expectations, the short sellers dived in towards the end of January 2014 (see Figure 1). Jumping to more than 3.5 times the two-year average volume, short sellers were clearly expecting a price correction, but AZN battled onwards. With short positions largely closing out by the end of March, the share price had actually climbed 1 percent. Certainly not a great loss, but no big pay day either.

One month later, Pfizer went public with the news it was considering a bid for AZN in order to create an industry giant. Short positions had once again drooped, but the support from the Pfizer bid soon provided a boost. In the following week, AZN's share price leapt 23 percent, peaking at 27 percent at the start of May just as the inflated short positions also hit a peak, expanding more than three-fold over the same period. Still well short of the two-year peak hit in January, it would appear that short sellers were less confident of betting against AZN once again.

Short selling in PFE, by contrast, has been remarkable in its near flat-line behaviour over the past two years, with one very notable exception (see Figure 1). Undoubtedly to Pfizer's chagrin, it is perhaps best known for just one among its many popular and vital drug treatments—the patent for Viagra in the UK expired in June 2013 and without its support the share price flagged and fell about 5 percent on the expectation of lower profits and income. The UK National Health Service alone spent almost £40 million a year on Viagra prescriptions and was expecting to make significant savings buying medicines now devoid of patent protection.

Securities lending volumes in PFE are barely 7.5 percent of the peak of almost 500 million shares hit in June last year, but this should be taken in context. Adjusting for the peak volumes, the two-year average on loan for PFE falls from 47 million shares to 26 million. Ahead of the announced bid for AZN, share volumes rose from 18 million to more than double at 37 million by 9 May, about 40 percent higher than the two-year average levels.

The deal as proposed, the largest-ever foreign takeover of a British company, certainly polarised opinion. Promoted as a logical joining "of assets, people and scientific expertise", according to PFE spokesperson Mackay Jimeson, it is seen as a threat by some to jobs at both companies across the globe not assisted by PFE's reputation as a post-acquisition cutter of costs and jobs.

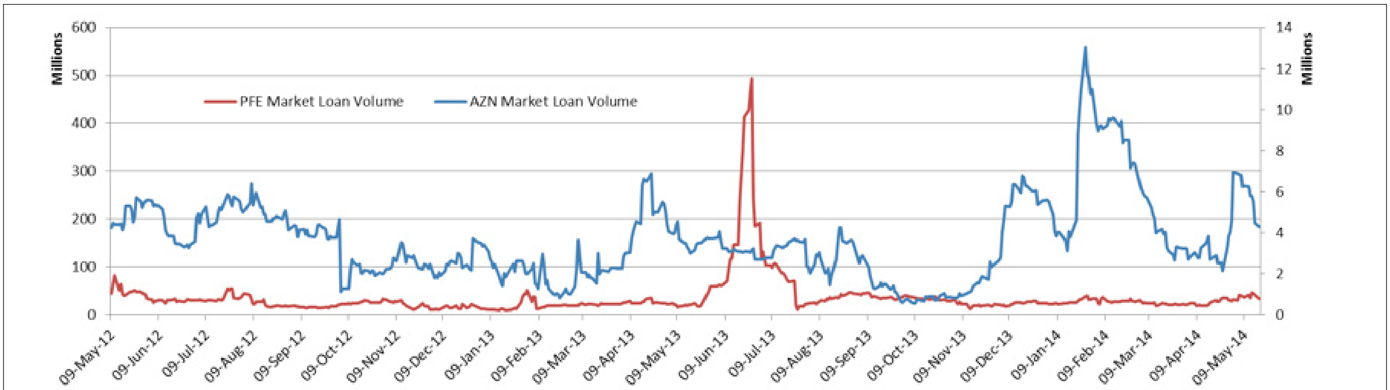
AZN continued to spurn the PFE bid, which squeezed a sweeter but "final" offer of about £55 per share (£69 billion all in) out of the acquisitive firm, but with so much political interest focused on this deal, it may be about more than a simple price valuation. This would certainly explain the rather lacklustre positions being taken by short sellers as the outcome was far from predictable in this case.

Despite analysis to the contrary, AZN has outperformed many rivals and peers both at home and overseas. Whether it can continue to do this without forming an alliance with PFE remains to be seen and all eyes will be on AZN's performance going forward to see if rejection was the right decision. The rejection itself has had a predictable and immediate effect of AZN's share price, shedding 11 percent within hours of formally announcing its final rejection. Our intraday data showed approximately 20 percent of short positions in PFE being closed out by lunchtime with about 4 percent of AZN shorts taking their profits as the share price fell.

The long-term prognosis is harder to forecast, but this particular patient will be monitored very closely by the same shareholders who rejected returns today to keep their independence for tomorrow. **SLT**

David Lewis
Senior vice president
SunGard's Astec Analytics

Figure 1: securities lending volumes for PFE and AZN over two years to May 2014. Source: SunGard's Astec Analytics



Industry appointments

BNY Mellon's **Phil Zywot** and Scotiabank's **Stewart Udall** have joined the Canadian Securities Lending Association (CASLA) as representatives.

Zywot is taking over from his BNY Mellon colleague Rob Chuich, who recently became global head of equities and fixed income for securities finance trading at the bank.

Similarly, Udall joins CASLA as a representative in place of Scott Reed, who was previously the global head of securities lending at Scotiabank.

Speaking at the CASLA Conference on Securities Lending today, association president Rob Ferguson praised Chuich and Reed for the great work that they have done.

Brad Schoening is to join Doran Jones as part of its senior management team.

Schoening has been a senior technology manager and software architect working with both financial services and technology firms.

Prior to Doran Jones, Schoening was an engineering manager for Coraid, a Silicon Valley cloud-storage solution provider.

Schoening has six software patents for his work at Cisco Systems. He is a certified scrum master and an adjunct professor of computer science.

Before Coraid, Schoening worked as director of key accounts at Noveda Technologies, delivering cloud SaaS solutions for real-time energy monitoring

Schoening has also consulted at Cisco Systems, leading the desktop client development of Cisco EnergyWise, an Ethernet energy management technology.

Jakob Burell is to join Dankse Bank after leaving his position as global head of equity finance at SEB.

Although the move has been confirmed, what Burell's exact job title at Dankse Bank will be is still unknown.

Burell had worked for SEB for more than 14 years, during which he held a number of positions.

After a short period of gardening leave, Burell will begin his new job on 1 September 2014.

Dr Patrik Gisel, **Lorenz von Habsburg Lothringen** and **Søren Mose** have been elected to the board of directors of the Six Group.

The trio replaces Christoph Gabriel, Dr Pierin Vincenz and Eduardo Leemann, who did not stand for re-election.

Gisel of the Raiffeisen Group will represent the Raiffeisen regional and savings banks; Lorenz von Habsburg Lothringen of the Bank Gutzwiller & Cie will represent private bankers and banks; and Søren Mose of Saxo Bank will represent foreign banks.

The new board of directors also appointed **Robert Jeanbart** to division CEO of the financial information business area.

He replaces Marcel Bättig, who held the role on an interim basis for almost a year.

Zürcher Kantonalbank has promoted **Ueli von Burg** to head its cash and collateral trading and management desk, taking over from Felix Oegerli.

He will be responsible for stock loans, repo and synthetic finance, CHF STIR, operational the liquidity management for the bank, as well as trade support and OTC derivative collateral management within the management units.

Roger Reist has also been promoted as head of the cash and collateral trading. He will report to Burg.

Burg has served at Zürcher Kantonalbank for more than 17 years holding trading roles within securities lending, collateral trading and prime finance.

The National Association of Pension Funds (NAPF) has hired **Jackie Wells** as head of policy and research and **Alison Binks** as head of business development.

Wells will be responsible for leading the NAPF's policy and research activity.

She previously led consultancy projects for the Financial Services Authority/Financial Conduct Authority government departments, not-for-profit organisations, and financial services firms.

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Wells also worked with the UK Department of Working Pensions on the pensions commission reforms.

Binks's former role included leading a business development team at the Chartered Institute of Public Finance and Accountancy.

Julian Mund, commercial services director at the NAPF, said: "The introduction of a business development team will help us build even closer relationships with our members. I am delighted that Binks has joined us."

Binks added: "This role provides a great opportunity to establish an internal business development team that can help the NAPF grow its commercial activities." **SLT**

Russian Securities Forum 2014

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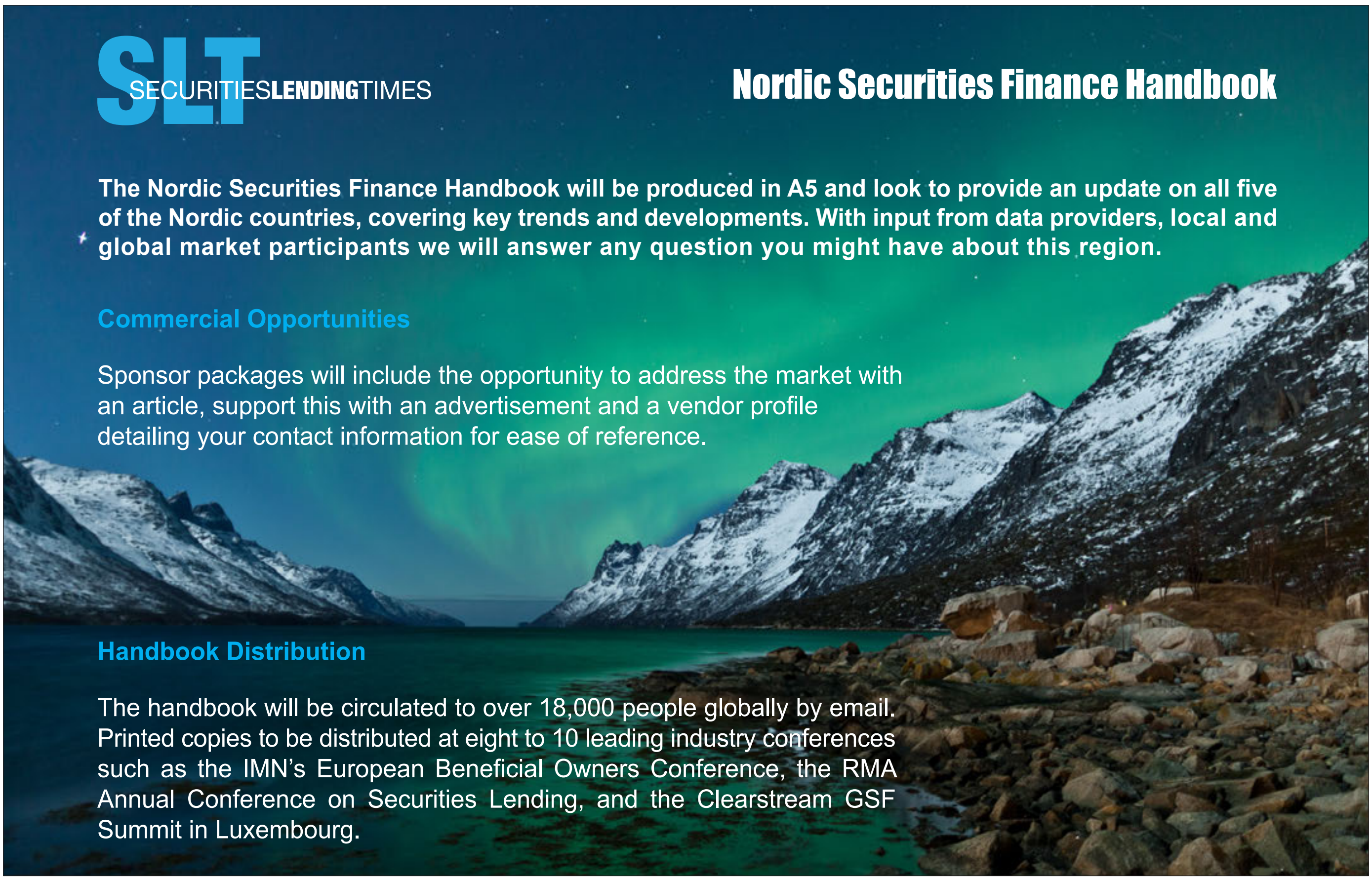
Enterprise Collateral 2014 is the only conference to bring together the treasury, front, middle and back office from financial institutions to source enterprise wide solutions for optimising collateral.



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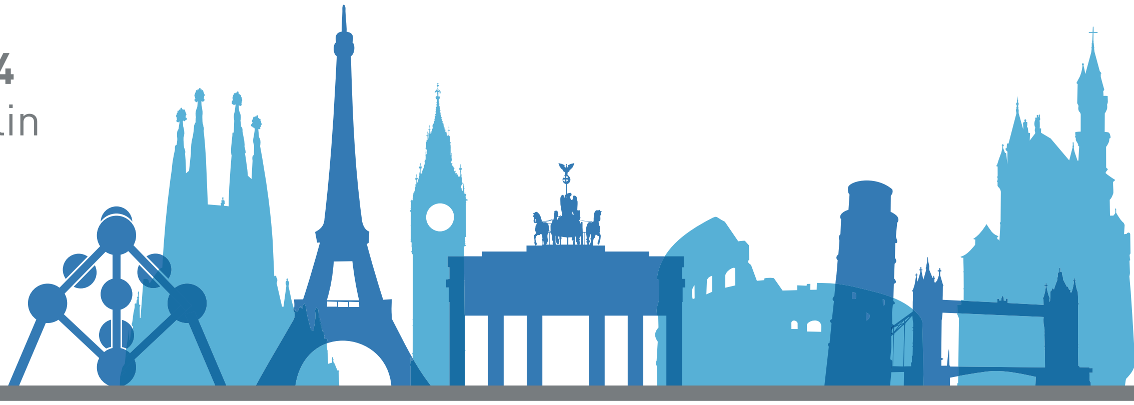

ISLA is delighted to announce its two keynote speakers for this year's **23rd Annual Securities Finance and Collateral Management Conference**. The opening keynote speech will be given by **Dr Levin Holle**, Director General of Financial Markets Policy in the German Federal Ministry of Finance and the conference will conclude with a speech from one of the most recognisable figures in sport – **Mr Pierluigi Collina**, former international football referee and financial advisor by profession.

SPECIAL KEYNOTE ADDRESSES

Dr. Levin Holle
Director General, Financial Markets Policy Department
Federal Ministry of Finance, Germany

Pierluigi Collina
Former International Football Referee and Financial Advisor by profession

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FULL AGENDA LIVE

Moderators and speakers have now been announced! For all the latest agenda developments join our linkedin group.