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Wells Fargo product to hit US market

Wells Fargo Securities will launch a self-clearing prime brokerage product for its hedge fund clients by the end of June.

The new product, which has been in the planning since Wells Fargo bought San Francisco and New York-based prime brokerage services and technology provider Merlin Securities in April 2012, is awaiting regulatory sign-off.

Head of prime services Eamon McCooey will be in charge of the prime brokerage team, which consists of approximately 70 front-office personnel across sales, trading, capital introduction, relationship management, product development, transition/onboarding, and client services.

Wells Fargo has also brought in additional personnel within legal, risk, compliance, securities lending, operations and information technology to service the new product offering. "Significant resources have been allocated to the product build out for the past 18 months," commented McCooe.

"The self-clearing product allows us to offer our direct product capabilities and balance sheet directly to clients and complements our existing market leading Introducing Broker product which Wells Fargo acquired through the Merlin acquisition. This will now allow us to service a broad spectrum of clients from emerging managers to large institutional hedge funds."

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LSE highlights collateral fight

Access to collateral could become a challenge as firms see wider sources of liquidity and assets, an academic study published by the London School of Economics and Political Sciences (LSE) has revealed.

The study, supported by The Depository Trust & Clearing Corporation (DTCC), showed that a shortage of collateral is unlikely despite new global regulatory obligations and tighter risk controls mandating increased collateral requirements.

Written by LSE professors Ronald Anderson and Karin Jõeveer, The Economics of Collateral's findings were based on a model of global collateral flows, which was developed specifically for the study.

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Synthetic prime time at 4sight

4sight has launched an equity derivatives software solution for synthetic prime brokerage.

The 4sight Synthetic Finance system supports the full synthetic finance lifecycle.

It offers a front-to-back office solution for swap transactions, including contracts for difference (CFDs), total return swaps (TRS) and portfolio swaps, over a range of underlying assets, such as equities, futures and bonds, on a single or cross-currency basis.

The system provides workflow and control for position management, trade entry, corporate actions, settlement and reporting.

Integration with 4sight's Xpose collateral solution provides collateral management and margining support.

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Wells Fargo product to hit US market

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The self-clearing prime brokerage product will initially be focused as a prime brokerage offering within a US broker-dealer structure and adhering to regulatory margin rules.

"Initially, we will be offering prime brokerage services for US-based assets but we anticipate having non-dollar capabilities by year end," said McCooey.

"The asset classes that we will offer prime brokerage services (clearing, margining, securities lending) will include equities, listed options, convertibles, corporate and other DTCC-eligible asset classes."

McCooey added that Wells Fargo is in "the early stages of a long term build out of [the] platform" that will allow it to extend product capabilities and client segments "to an even larger group of funds than … targeted day one clients".

"We are looking to partner with key clients who will be instrumental in helping define our future product capabilities."

"We believe that, given the impending bank capital rules that may lead to funding constraints in the prime brokerage market, Wells Fargo is in a unique situation given its balance sheet/liquidity profile and safety of assets to form core strategic relationships within the alternative investment market segment."

LSE highlights collateral fight

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The study showed that the supply of collateral will be sufficient to meet the demands expected as a result of worldwide regulatory reform and evolving market practice.

But the study cautioned that access to collateral and the ability for collateral to circulate freely across financial systems could become challenging as market participants seek sources of liquidity and assets.

As a solution, the study advised market participants and infrastructure providers to work together on technical solutions and processes that ensure streamlined access to collateral worldwide.

Anderson said that there has been "much debate on collateral shortage" and that their research has found the challenge "does not lie in the global supply of collateral in aggregate, but rather the accessibility of collateral across markers and participants".

He added: "The search for new methods to alleviate bottlenecks and seamlessly allocate collateral is the next challenge for infrastructure providers and participants."

"Collaboration between participants and infrastructure providers will be crucial to ensuring an efficient process."

Managing director of strategy and business development at DTCC, Mark Jennis, commented: "In order to support the flow of liquidity and propel economic growth we must ensure that we develop solutions that increase collateral velocity and provide operational scalability."

"We are actively working with market participants around the world and our peers to identify solutions that leverage global market infrastructure, while ensuring streamlined efficient access and processing of collateral worldwide."

Synthetic prime time at 4sight

Continued from page 1

As a real-time management and calculation system, 4sight Synthetic Finance is ready to meet the demands of regulatory reporting requirements for the US Dodd-Frank Act and the European Market Infrastructure Regulation, according to the firm.

It can also be installed as a standalone module or as an integrated component of 4sight's Se-

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curities Finance product suite, providing "prime brokers with a one-stop shop for prime financing, including synthetic and physical trading, real-time inventory, collateral optimisation, margining and financing."

"We are delighted to announce the launch of the new Synthetic Finance solution, which naturally complements 4sight's existing Securities Finance and Collateral Management product suite," commented Alastair Chisholm, managing director of 4sight.

"We expect significant growth in the equity derivatives and synthetic finance space in response to the regulatory pressures facing prime brokers and their clients. This latest addition to our product range enables 4sight's clients to take advantage of this trend and establish new revenue streams as synthetic trading gathers pace."

OneChicago to launch OCX.Weekly

OneChicago will launch a new line of products called OCX.Weekly, which will list weekly futures each Friday.

Listed using the OCX.NoDivRisk contracts, OCX.Weekly futures will be settled next day.

David Downey, CEO of OneChicago, said: "We created this product to meet the need of the equity finance marketplace to establish or re-establish stock positions within five business days after substituting a stock position for a legally binding contract."

The OCX.Weekly futures will be available to trade for six days. They will list on Fridays and then expire the following Friday at the close of trading.

Physically delivered OCX.Weekly futures will overlay the same underlying as the OCX.NoDivRisk futures (1D).

Each weekly offering will have a separate OneChicago symbol, which will generally be the underlying stock plus 1F for the first Friday of the month, 2F for the second Friday of the month and so on.

Downey added that over the five business days: "The securities owner will receive all payment of all interest, dividends and other distributions while maintaining both the risk of loss and opportunity for gain."

"This, combined with the ability to settle the cash and stock the next the day rather than the T+3 cycle, will be much more efficient and provide a significant utility to the equity finance marketplace."

SunGard makes trading easier

SunGard Financial Systems has released its Front Arena Cross-Asset Risk solution to increase trading capacity.

The new solution has been designed to help brokers and futures commission merchants (FCMs) make trading and trade processing systems easier by reducing the need for multiple risk systems.

The system provides real-time consolidated risk, exposure and margin calculations that will not only make trading more efficient, but will also benefit clients with real-time reports.

Christian Kromann, COO of SunGard's capital markets trading business, explained: "In the context of ongoing complex economic conditions and regulatory change, FCMs and brokers are still reviewing their business models to increase profitability and are also looking to expand or differentiate their services."

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SunGard helps firms to increase competitiveness and to achieve more with a single platform."

Dushyant Shahrawat, senior research director at CEB TowerGroup, added: "As trading continues to fragment, there is a strong demand for risk consolidation and mitigation, and for collateral and margining optimisation given the cost and scarcity of capital."

"Applications that enable brokers and FCMs to offer capital efficiency optimisation and portfolio-wide cross-asset margining to their clients are becoming essential for firms to be competitive, remain regulatory compliant and drive higher ROE in the future."

Transparency key for hedge fund managers

Hedge fund managers refusing to provide transparency is the single greatest reason for an investor veto, according to Deutsche Bank's latest survey.

The bank's Global Prime Finance group's third annual Operational Due Diligence (ODD) Survey, which polled investors globally representing over $2.72 trillion of assets, shows the five most frequently cited red flags are an unwillingness to provide transparency, inadequate compliance policies, poor segregation of duties, lack of experience in critical roles and inappropriate valuation policies.

Investors and regulators require more robust operating infrastructure across all levels of a hedge fund's business, according to the survey, while emerging managers in particular were identified as being more likely to provide greater transparency.

Expenses charged to funds came under scrutiny in the survey, 64 percent of respondents will investigate miscellaneous expenses and may place limits.

Investors have little tolerance for expenses such as employee compensation, marketing and non-research related travel being charged to the fund.

Valuation was in sharp focus for 38 percent of the responding investors in 2014, as valuation concerns were a top five reason investors issued a veto over the past year.

Hedge fund compliance and regulatory frameworks are also of critical importance, with 73 percent of investors to increase their focus on compliance and regulatory frameworks in 2015. Scott Carter, co-head of global prime finance and distribution for the Americas, said: "Investors increasingly access hedge funds as part of a broader set of portfolio solutions which deliver superior risk adjusted returns."

"With this comes an expectation for robust operational controls and we are seeing hedge funds successfully respond to these demands."

Eurex Clearing Prisma 2.0 offers cross margining

Users of the new risk system Eurex Clearing Prisma can now benefit from portfolio margining capabilities within an asset class as well as cross margining between listed fixed income products and the OTC interest rate swap business.

Commerzbank Corporates & Markets, Citi and Morgan Stanley are among the firms using the second release of Eurex Clearing Prisma, which promises potential margin efficiencies of up to 70 percent depending on the nature of individual portfolios, according to the European central counterparty (CCP).

The service, in operation since the end of May, allows clearing users to offset margin between listed fixed-income and money market derivatives.

They can also use their existing portfolios in these interest-rate derivatives traded at Eurex Exchange to offset their margin requirements for their interest rate swaps cleared via Eurex-OTC Clear.

"Cross margining solutions allow clients the potential to secure capital efficiencies, and it is likely to be a powerful driver of clearing flows and liquidity going forward as the OTC clearing market matures," commented Nick Chaudhry, head of OTC clearing at Commerzbank Corporates & Markets.

Silas Findley, Europe, Middle East and Africa head of OTC clearing at Citi, added: "Clients are increasingly focused on the complete front to back clearing experience, from ease and quality of execution to the optimisation of collateral and other post-trade processes."

"We expect that the ability to provide meaningful margin offsets will become a key differentiator amongst clearing platforms going forward. We are pleased to be working with Eurex Clearing to offer cutting edge cross margining solutions to our clients."

"As the first European CCP we are enabling our customers to cross-margin within listed asset classes and across OTC and listed derivatives markets. Eurex Clearing Prisma incentivises holding balanced portfolios which represent lower risk and have lower capital and funding requirements thus creating a win-win situation for the markets we clear," commented Thomas Laux, chief risk officer at Eurex Clearing.

Markit sets the benchmark

Markit is launching a new securities financing benchmarking service for lenders.

The service offers lenders and beneficial owners a consistent benchmark methodology reflecting security level inventory and loans, with the flexibility to customise timeframes and markets.

It also offers multiple levels of drill down at the counterparty, fund, asset class, market and sector levels, as well as at the instrument level.

The service will be available through multiple channels including the securities finance web portal, Microsoft Excel and API.

David Carruthers, managing director and co-head of securities finance at Markit, commented: "Every securities lending programme is unique and we are pleased to offer our core lending customers a reporting solution that accurately benchmarks this uniqueness."

"This further emphasises our commitment to consulting with customers to provide a single platform that meets the needs of all securities lending participants."

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The firm is also adding new screening functionality to its recently launched securities financing web portal. It will allow lenders and borrowers to identify trading opportunities, monitor markets and identify risks across their securities finance programmes.

The web portal, launched in March, already offers book management, interactive charting, market share analysis, trading flow highlights, and portfolio monitoring.

Markit demonstrated the new services at the International Securities Lending Association conference in Berlin, with both services being available to customers in July.

Small investors can do securities lending too, says Ireland

Smaller entities can access the securities lending market for their funding needs, according to Ned Ireland, vice president and lead underwriter at Cayman Islands-based private advisory firm Cal & Schwartz Capital.

"We looked at the market and were just so disappointed with what was out there. Sure, a market exists for securities lending and it's huge, but it's really only for institutional traders," said Ireland.

Ireland believes that Cal & Schwartz is positioned to capture market capitalisation that does not exist for smaller markets.

"Securities lending is written as this impossibly complex trading mechanism that doesn't work for smaller companies and that couldn't be further from the truth."

"We have found that in fact our product is superior and allows smaller companies the ability to raise capital in a environment much less stringent and quicker than transitional avenues."

Cal & Schwartz has provided smaller companies with collateral, including letters of credit and bonds, so that they can participate in securities lending since 2010.

The firm "can only work with sophisticated investors", said Ireland, adding: "We do have screening programmes put into place."

Devon County Council names Northern Trust

Devon County Council has selected Northern Trust for its £3 billion local government pension scheme.

Northern Trust will provide global custody and securities lending for the council's £3 billion pension fund assets.

Mark Gayler, assistant county treasurer at Devon County Council, said: "Northern Trust's ability to provide solutions to meet our requirements, combined with their leading expertise across the local government pension scheme (LGPS) sector, were key factors in their appointment."

"In addition, Northern Trust's strong securities lending capabilities supported our objectives to maximise our investment portfolio."

Penelope Biggs, head of the institutional investor group for Europe, Middle East and Africa at Northern Trust, said: "We continue to look for services we can offer pension funds faced with an evolving regulatory landscape."

Northern Trust supports nearly 200 UK pension fund clients and provides custody and ancillary services to 36 percent of the total LGPS market in the UK.

The bank re-secured a global custody, securities lending, cash management and foreign exchange services mandate with UK government pension scheme Strathclyde for the fourth consecutive term in December 2013.

At £13.7 billion in pension assets, Strathclyde is the largest local government pension scheme in the UK.

Clearstream enjoys increase in securities financing

Clearstream saw rises global securities financing and custody in May, and confirmed that its services' growth drivers remain strong.

For global securities financing (GSF) services, Clearstream's monthly average outstanding in May 2014 reached €593.7 billion. The combined services, which include triparty repo, securities lending and collateral management, collectively experienced an increase of 3 percent over May 2013 (€574.9 billion).

The GSF monthly average outstanding has increased 3 percent from the period year-to-date May 2013 (€569.4 billion) to the period year-to-date May 2014 (€584.7 billion).

Securities held under custody in Clearstream's international central securities depository (ICSD) increased 5 percent from €6.1 trillion in May 2013 to €6.4 trillion in the same month this year.

In May, the overall value of assets under custody held on behalf of customers registered an increase of 4 percent to €12.1 trillion. That value was €11.7 trillion in May 2013.

Securities held under custody in the German CSD increased 3 percent from €5.5 trillion in May 2013 to €5.7 trillion in May 2014.

For the period year-to-date May 2014, the combined value of assets under custody in the German domestic CSD and global ICSD business increased 5 percent compared to the same period last year.

The number of ICSD settlement transactions processed was down 1 percent last month, to 3.69 million, on May 2013, when they reached 3.74 million.

Of all international transactions, 85 percent were over-the-counter (OTC) and 15 percent were registered as stock exchange transactions.

On the German domestic market, CSD settlement transactions in May 2014 reached 6.56 million, 13 percent less than in May 2013 (7.57 million). Of these transactions, 59 percent were stock exchange transactions and 41 percent OTC transactions.

For the period year-to-date May 2014, the number of settlement transactions (OTC and stock exchange combined) processed for the Ger-

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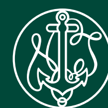

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man domestic CSD and global ICSD business combined increased 3 percent compared to the same period last year.

Investment funds services contributed to the growth in the ICSD settlement business as its corresponding transactions registered a 10 percent increase.

Marc Robert-Nicoud, member of the executive board of Clearstream responsible for strategy, commented: "High volumes and activity in May 2014 prove once again that our strategy and the products in our main business areas meet our customers' needs."

"Our growth drivers remain strong across our settlement, custody, collateral management and our investment funds services."

Lombard Risk unveils COLLINE update

Lombard Risk Management's latest version of its collateral solution will include an inventory manager and optimisation and substitution workflow functionalities.

Version 13 of COLLINE was unveiled at Lombard Risk's annual user group conference on 15 May in New York. It will be released in July.

Lombard Risk hosts two COLLINE user groups per year, in London and New York. The event provides users with the opportunity to see the latest version of the software and hear about future development plans.

They also hear from industry experts, such as keynote speaker Richard Paulson, principal in PricewaterhouseCoopers's financial services regulatory practice, who reviewed the latest regulatory drivers affecting collateralisation.

Jerry Friedhoff of Broadridge discussed why the integration of securities financing and collateral management is critical to providing capital markets and investment management firms with greater control.

John Wisbey, CEO of Lombard Risk, commented: "Our COLLINE user group is an ideal forum for our users to share their experiences and hear from industry practitioners on cutting-edge industry topics and at the same time learn about, as well as provide their input into, future product development and enhancements."

"Our product team listens to what the users have to say and works collaboratively to take clients' wishes into account in future releases of the product."

Minimum margin requirement 'a possibility'

A "broadly applicable" margin requirement to protect against capital exiting short-term funding markets in the event of a financial crisis would make sense, a US Federal Reserve governor has reportedly said.

Federal Reserve governor Daniel Tarullo, delivering a speech at the Association of American Law Schools Mid-year Meeting in Washington DC on 9 June, discussed corporate governance and financial regulation.

A question from an audience member that focused on short-term funding activities such as securities lending and repo prompted Tarullo to say that "it's a little hard, I think, to make a compelling case against doing something like" introducing a "broadly applicable" minimum margin requirement, according to reports.

Tarullo reportedly added that he does not think such a move, to protect against the mass exodus of capital from short-term funding markets during a financial crisis, would be controversial, given that indemnification and haircuts on collateral are common practice, or "just good counterparty practice", as the governor reportedly put it.

The Federal Reserve gave no sign as to when a margin requirement could be introduced, but new rules are already in place to force financial institutions to hold more capital to cover risks across the markets in which they operate.

One example is a rule, which becomes effective on 1 January 2018, that applies to US top-tier bank holding companies (BHCs) with more than $700 billion in consolidated total assets or more than $10 trillion in assets under custody and their insured depository institution (IDI) subsidiaries.

Covered BHCs must maintain a leverage buffer greater than 2 percentage points above the minimum supplementary leverage ratio requirement of 3 percent, for a total of more than 5 percent, to avoid restrictions on capital distributions and discretionary bonus payments.

IDI subsidiaries of covered BHCs must maintain at least a 6 percent supplementary leverage ratio to be considered 'well capitalised'.

Maijoor: securities financing needs to be clearer

The chair of the European Securities and Markets Authority (ESMA) has welcomed the EU's move to require securities finance transactions to be reported to trade repositories.

Speaking at the International Capital Market Association Annual General Meeting and Conference in Berlin on 5 June, Steven Maijoor said that measures are needed to better understand the collateral cycle.

Maijoor commented: "There seems to be consensus on the increased importance of the collateral market (securities lending, repo market, collateral transformation) and its role in the general functioning of the financial system and even on financial stability."

"We need measures to ensure that regulators have a good picture of collateral, and its risks to financial market functioning. Therefore, I am very happy that the European Commission has proposed a regulation that will require the reporting of securities financing transactions to trade repositories."

Securities financing transactions were left outside the scope of Markets in Financial Instru-

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ments Directive, "so it is now an opaque market", according to Maijoor.

"I am confident that such a change could bring the same benefits as we are now observing with the reporting of derivatives to trade repositories under the European Market Infrastructure Regulation."

Credit union sells trust business

Alaska Trust Company (ATC) is acquiring the trust division of Alaska USA Trust Company (AUTC), a subsidiary of the $5.5 billion Alaska USA Federal Credit Union.

ATC will acquire all the outstanding stock of AUTC. The transaction is subject to the negotiation of a definitive stock purchase agreement, as well as approval from the Alaska Division of Banking and Securities and the respective boards of directors.

They expect to complete the deal by the end of July.

ATC is an independent trust company offering administration and wealth management services on a nation-wide basis.

The company administers more than $5 billion of assets and has been operating in Anchorage for more than 17 years. In AUTC, it is buying a provider of investment custody and securities lending services to institutional investors.

Glenn Cipriano, president of AUTC, commented "The combined resources of these two experienced Alaska-based trust companies, with similar commitments to local service and value, will provide even greater benefits to individual clients in the future. The commitment to individual trust clients and excellent service are values both companies share."

Douglas Blattmachr, president of ATC, added: "It is comforting to know that the transaction will bring expanded expertise, investment management and trust administration options to clients of both companies as well as operational economies of scale. It will also result in trust-related job opportunities in the local area."

Alaska USA Federal Credit Union is setting up a new subsidiary, CU Trust Company, so that it can continue provide institutional trust services to its clients.

$114 trillion savings from triReduce compression cycles

TriOptima and LCH.Clearnet members have eliminated $114 trillion in notional principal since December 2013, thanks to the resumption of triReduce compression cycles within LCH.Clearnet's SwapClear service.

This brings the cumulative total of notional compressed by TriOptima and SwapClear to $302 trillion.

Lowering gross notional exposure contributes to bringing an institution's leverage ratio in line with regulatory expectations.

Trade compression cycles help ensure post-trade efficiency; and running regular cycles in a range of currencies reduces both the gross notional and the number of outstanding over-the-counter (OTC) derivative transactions in the clearinghouse.

Daniel Maguire, global head of SwapClear, commented: "We began providing the service in 2009 and, since then, new capital requirements have brought even greater incentives for banks to reduce the number of trades on their books. We look forward to continuing to reduce notional outstanding and drive market efficiencies through regular compression cycles."

Since the launch of triReduce in 2003, OTC derivative market participants have eliminated more than $476 trillion in notional principal outstanding using the service to terminate both cleared and uncleared trades across a broad spectrum of products.

A focus on regulation

Cometh the MiFID, cometh the man

The sizeable consultation and discussion papers for the implementation of the revised Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR) have now been released. With a deadline of 1 August 2014 for feedback there are a select, unlucky few who will have to scrutinise the 844 pages of text, posing 860 questions and containing 100 requirements for the European Securities and Markets Authority (ESMA) to draft Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS).

To put this task into context, the documentation is about double that was distributed for the European Market Infrastructure Regulation (EMIR) consultation process, but will have to be processed in the same amount of time. Unlike EMIR, which focused primarily on over-the-counter derivatives, MiFID II will additionally affect high-frequency trading, exchange-traded funds and data publication and access. Those charged with the task of responding fall into three key stakeholder groups: market participants, the industry authorities (such as the Financial Conduct Authority in the UK), and finally the general public, who are doubtless dying to read such a lengthy treatise.

For the regulatory and compliance officers of financial institutions, reading and understanding a 311-page consultation paper supported by a 533-page discussion paper is a tall order, but it may be possible to complete this before the 1 August deadline. What will really scupper their summer vacation plans, however, is the need to analyse each question, then conduct a detailed impact analysis on the firm's operations before carefully drafting a response to ESMA in order to mitigate any negative effects of the directives and regulation. The danger, therefore, is that market participants are either daunted by the task they have been set, or they may simply miss the response deadline, meaning that their feedback will not be heard, thereby increasing the chances of ESMA continuing along its default course of action.

The figures speak for themselves with only a limited number of working days remaining, the 860 questions across 844 pages actually means analysing and answering many many questions, each and every day. So if you're on a leisurely stroll through London this summer, spare a thought for the haggard souls appearing from Bank station with bags under their eyes and a briefcase bursting with regulatory guidelines, on their way to the office for another 14-hour stint.

It probably isn't worth mentioning to them either that this discussion paper will resurface as a further consultation paper on draft technical standards by late 2014, just in time for Christmas!

Jeremy Taylor
Specialist in operational processing and derivatives

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Fail to prepare, prepare to fail

The newly rebranded ISLA conference saw a range of topics on the agenda, from the collateral conundrum to the practical implications of regulatory change

STEPHEN DURHAM REPORTS

The debates at the 2014 International Securities Lending Association (ISLA) meeting in Berlin, now known as the Securities Finance and Collateral Management Conference, were spread across panel discussions, speeches and roundtables, with the opinions of the audience being broadcast throughout via electronic voting and Q&A sections.

The overarching theme of the conference was one of preparation and how it is the key component to success. This was summed up by the closing keynote speaker, former referee and financial advisor Pierluigi Collina, who highlighted the parallels between making decisions in the financial world and on the biggest stage in sport—the FIFA World Cup.

While, as ever, issues such as Basel III, collateral and liquidity played a large part in proceedings, other more specific opportunities and obstacles were singled out during the panels.

According to one of the main panel debates at the conference, the job of fostering recovery and resolution in the securities market is not finished, with a great deal of work to be done by industry players themselves.

The panelists commented that, although measures such as the European Market Infrastructure Regulation (EMIR) are starting to affect the industry, improvements still need to be made to the regulatory framework itself.

Transparency was singled out by the panel as being integral to the process of assessing how markets work, particularly in securities finance transactions.

Panellists spoke of a forensic approach to the analysis of balance sheets coming from some of the big European institutions, which could lead the wider market to follow suit.

Clearing was also raised as having the potential to make markets safer, though this is not yet the case as far as the panel or the audience were concerned.

A shortage of collateral in the future, though not deemed as a possibility by 59 percent of the audience, was highlighted as a real threat. One of the panellists commented: "For us to not have a shortage we have to take this very seriously. We need to go out there and invest in infrastructure in our organisations to bring collateral onto one platform. If we do not do this, I am convinced that this could become a very real problem."

In one of the opening roundtable discussions, Russia and Brazil were highlighted as key emerging markets by a panel of industry experts.

There is just over $100 million worth of securities on loan in Russia, with 23 names currently being lent, according the panel. The market in Brazil is more advanced still, with $1.7 trillion out on loan, as well as 200 names being lent.

The panel revealed that Russia's market is a concentrated one, with 60 percent of its market capitalisation made up of top names.

Fifty new laws and a five-year plan have been key to kick starting Moscow's rise as an international financial centre, which came about as part of drastic reforms over the past two years.

Other changes have been the introduction of T+2 settlement, the establishment of a central securities depository and moves to develop a 'mega-regulator'.

This development has pushed Russia to number three worldwide in terms of foreign direct investment, with a total of $94 billion reached in 2013.

Brazil's BM&F Bovespa is currently remodelling the country's securities lending service through several improvements that are set to make web trading available, increase transparency and simplify operational procedure.

Standard & Poor's ratings recently ranked Brazil's counterparty credit rating at BBB+, with an issuer rating of A-2. Moody's position Brazil at A3 as a global scale and Brazilian local currency issuer.

The repo market is still strong, according to one of the later panels, with a large proportion of the market shifting from unsecured to secured models. The audience were less optimistic, with 50 percent of them anticipating repo rates to decrease, rather than increase or stay the same.

Overall during the conference, the mood remained one of determined optimism. One of the panelists commented: "We believe that this business is the bedrock of everything that happens in financial markets. In some way, shape or form we need to figure out how to preserve it. I think it is going to become a little more mature and look a little different than it did 20 years ago—but it is still going to exist."

"The market has to become flexible, and that flexibility will definitely be tested in the coming years. At the end of the day, if we keep our minds open to what potentially exists out there, we will be able to navigate through it." **SLT**

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Balancing act

Rudolf Siebel, managing director at the German Investment Funds Association, reveals what his members think of securities lending, and much more

MARK DUGDALE REPORTS

Are German investment funds keen lenders? How much business do they currently do?

German investment funds are lenders of securities. Our larger members are keen users of securities lending, because they appreciate the profit flowing into their funds. Managers appreciate it, as the additional income stream may be split between the fund and the manager. The larger managers benefit from larger mandates and the support of custodian banks and specialised securities lending agents, which make it easier to conduct the business.

The market is picking up, mainly because of the collaterilsation requirements of laws such as the European Market Infrastructure Regulation. Collateral upgrade trades seem to create more business, especially among our members that hold high quality government bonds, which are in stronger demand. Some members are reporting reluctance because the process of lending securities is quite cumbersome to set up and requires additional funds, so it is not necessarily cheap, and, looking at the margins, some feel it is not a primary business objective for them to engage in.

In summary, securities lending is very important for our larger members because it adds margin, but it also requires substantial investment on both sides. It will not be used by all members, but for those that use it, it's a welcome and safe income source.

What is the situation with lending limits in Germany?

Theoretically, managers can lend out all the securities of the fund if there is enough demand. In practice, it has not happened because there needs to be a specific interest in equities or bonds on the other side. Besides having to be fully collateralised at all times, the total value of the securities lending transaction with one counterparty must not exceed 10 percent of the portfolio value, which makes it very cumbersome because you'd need 10 lending counterparties to achieve 100 percent. Therefore, the single counterparty limit is a major issue.

How has the regulatory environment in Germany given rise to third party agents such as Euroclear Bank, which manage collateral on lenders' behalf? Is this good for German investment funds?

The German law provides for two options: one is to engage qualified counterparties on the basis of standardised contracts, so bilateral securities lending transactions, and the other is to use of organised securities lending systems. Euroclear Bank and Clearstream are examples of this,

with the main advantages being that the fund can lend out all of its securities without having to observe the 10 percent counterparty limit.

In theory, most lending should go through these systems, but in practice that is not the case. Some report that the margins are not interesting enough for their funds to trade through these systems. Bilateral trades, on the other hand, require a depository bank or custodian, but not all custodian banks are fully equipped for the job. So there has been increased interest in using specialist third party collateral agents, such as State Street, which alongside the custodian would help with the clearing and settlement of the transactions.

Looking at wider Europe, what is the association's position on ESMA's guidelines for ETFs and other UCITS funds, particularly on the restrictions on cash collateral reinvestment?

The final European Securities and Markets Authority (ESMA) report on the guidelines came out recently. We have worked on a single basis and in strong coordination with the European Fund and Asset Management Association (EFAMA), especially on the reform of the collateral diversification guidelines. We obtained some relief, so the 20 percent counterparty limit will not apply to government collateral.

While we wait for the final ESMA report to be translated, we still see a huge issue: the restrictions on reinvestment of cash collateral. We think the regulators are blowing it out of proportion. We agree that regulators need to have a grip on long investment chains and systemic risk, so perhaps there needs to be some sort of cut somewhere in the reuse chain. But, in terms of the first level investment of cash, we believe that use of cash as collateral with a central counterparty is as safe as having the cash in place with a regulated bank, or a government security, which are the two investment options the law currently allows for.

We will continue to work with our European association to ensure that we get a reasonable allowance, especially in the central counterparty situation.

How has the association reacted to other regulatory initiatives affecting securities lending?

We participated in the various Financial Stability Board and International Organization of Securities Commissions consultations, while the subject that is near to our hearts is the reform of EU money market funds, and in this context specifically the use of repo in money market funds. The EU's first money market funds proposals could have essentially killed off the repo business in money market funds by restricting counterparty limits and collateral, such as US treasuries. This would have been a disaster, as the money market funds make up quite a bit of European money overall.

We have worked within EFAMA a lot on that subject, and I am a chair of their Money Market Fund Working Group. With nearly €1000 billion in assets under management, money market funds are an important part of the EU industry, so we need to ensure the products can be used going forward in an adequate manner. **SLT**

Rudolf Siebel
Managing director
German Investment Funds Association

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Hedge tremors

Hedge funds should aim for a single repository of all active financing transactions to make sound financing decisions and illustrate complete control, says Jean-Paul Musicco of Trading Apps

MARK DUGDALE REPORTS

New regulations are affecting securities finance in its entirety, but the buy side is thought affected more than most—how are hedge fund and prime brokers dealing with new regulations in terms of technology?

On a relative basis, I guess I would have to agree with you, if you consider how much regulation sell-side firms currently have to manage globally on a daily basis. On an absolute basis though, the buy side will most likely experience a limited amount of regulatory requirements when the first wave of regulation finally gets finalised and implemented. That's the direct impact on the buy side.

The indirect impact on the buy side over time will be much more impactful as prime brokers in the near future will become much more selective on which type of assets, the amount of leverage being provided and the amount of assets they take onto their balance sheet. For the past 20 years, prime brokers have been focused on bringing as many clients and assets onto their balance sheet as the overall impact on finite resources (unsecured cash, balance sheet and risk weighted assets) was minimal, and the profitability for selling all services as a bundled solution was maximised by this approach. By the time the new regulations are fully implemented, prime brokers will most likely be much more selective about the clients they choose to provide balance sheet and services to globally.

What that means to hedge funds is that they will now have to implement finance technology within their own environment that can handle all securities finance transactions (cash and derivatives), and depending on whether the fund is a single strategy fund or a multi-strategy fund, numerous types of assets and possibly many more financing providers of all types will drive the level of system complexity.

Treasury or trade administration roles for the larger funds should expand over time to play a more significant role, especially for the funds that leverage and trade both cash and derivative products. For the equity-based funds that in the past just defaulted delivery instructions to various prime brokers, they may have to start negotiating their long and short financing transactions more frequently.

Finally, with respect to the buy side, due to the impact of the financial crisis in 2008, a full treasury structure requiring the ability to handle cash management, margin management, custody management, multiple prime brokers and derivative counterparties should be at some phase of development to handle the new world requirements for financing assets.

For prime brokers, I believe some of the necessary changes for technology required will be around much more robust 'pre-trade' analysis and real time messaging of executed transactions to a centralised risk or treasury repository. End of day files or intra-day spreadsheets at some point in the near future will no longer meet the standard for regulatory calculations that would be required from various product groups to ensure that all relevant regulatory calculations are within the policies and procedures established by an investment bank.

Historically, securities finance systems have not been tasked with many pre-trade analysis checks to ensure that the potential transaction would be eligible to be booked, other than a price check, a credit check or to provide a locate affirmation. Most of these systems were looking to ensure simple compliance functions, before a trader could proceed with the booking.

In the future for prime brokers, I believe that in order for the business to be competitive as central management aggressively looks to achieve acceptable returns from each business, new transactions will require better front-end tools that will offer numerous pricing options for various inputs to fully understand if a trade will meet the business's overall target goals.

How are hedge funds handling multiple prime brokers and the associated technological challenges?

I see this as a bifurcated market for hedge funds. A small group (fewer than 100) of the top-tier hedge funds have dedicated information technology development groups that either build specific securities finance solutions or buy and modify vendor solutions that communicate with their core systems, as well as the prime brokers to support the dedicated finance staff.

For the remaining majority of approximately 10,000 hedge funds in the world, the operations or trade support team are using Microsoft Excel and other equally simple and certainly not scalable solutions to run mission critical components of the business. These funds will only consider making the investment if they are challenged by investors and/or regulators in the future to provide timely reporting about their activities. Securities finance systems that we offer will provide a full treasury solution.

What about transparency in terms of pricing is this a need, and is it being met?

I believe there are adequate solutions out there in the market if your firm has the staff or better yet, the systems to bring in this type of data. So yes it is being met if you are focused on seeking out a solution from one of the current vendors. We currently offer solutions that allow clients to import files from the various vendors as well as a centralised solution for their current prime brokers that illustrates all of the fields of data that the vendors offer.

What should hedge funds look to achieve with their securities finance technology?

Without question, having a single repository of all of your active financing transactions is the best way to make sound financing decisions for all of your funds and more importantly, to illustrate to your counterparties and investors that you have complete control of your financing positions.

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Jean-Paul Musicco
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To IPO or not to IPO

Short interest in newly issued securities is a great indicator of price volatility, but can't always show when the price is right, says David Lewis of SunGard's Astec Analytics

'I', 'P' and 'O' are three small letters that can mean so much to anyone involved in or subject to an initial public offering. They can mean the cashing out for owners and founders, or perhaps more commonly, a stage in the growth cycle for a company that has grown sufficiently to 'go public' and raise new capital for future expansion.

IPOs can also mean either a profit bonanza or a financial drubbing for investors willing to take a risky stake in a new public company.

IPO performance has been mixed and the last couple of years have seen some remarkable gains for some and some disastrous results for others. Facebook, Twitter and the Post Office/ Royal Mail in the UK all spring to mind as infamous IPOs that have caused damage somewhere along the investor or owner chain.

Facebook (FB) took 15 months to regain the heights of its issue price. Twitter (TWTR) fared better, initially demonstrating good price gains post IPO before crashing back through the issue price some five months later. TWTR remains about 20 percent under its issue price. By contrast, the damage inflicted by the Royal Mail IPO was on its issuers and managers—the UK government was accused of underselling the assets of what was, in effect, a national institution. The shares in Royal Mail peaked at more than 75 percent over the issue price and, having fallen back a little, are still trading at a 50 percent premium to the issue price.

Setting an IPO price is notoriously difficult—it has to be priced low enough to attract investors while being high enough to gain the maximum benefit for the owners in either proceeds or new capital for future development and expansion. In some cases, it certainly seems that IPO price setting is far from scientific, especially when the all-powerful force known as market sentiment must be wrapped into the equation. Several planned IPOs in the UK have been shelved recently, citing "market volatility", while others have not only gone ahead, but launched their IPOs successfully.

Twelfth June saw the IPO of B&M, the UK-based discount retailer, under the chairmanship of none other than Sir Terry Leahy, the previous Tesco CEO. During his tenure at Tesco, Leahy seemed to be able to do no wrong, a track record which has no doubt assisted B&M successfully raising £2.7 billion and a share price rising on its debut, albeit only 5 percent (18p). At this level of valuation, B&M has leapfrogged other longer established high street brands such as Ocado, Dixons and Home Retail Group. Another Sir, this time Sir Philip Green, head of the Arcadia Group, is launched a new company, MySale, on 16 June, and he will no doubt be looking to emulate his high-street compatriot.

However, it has not all been smooth sailing in the IPO world. BooHoo.com (BOO.L), the aptly named fashion website, has likely had its investors crying into their portfolios as it languishes 20p down from its 70p issue price three months post-issue. A significant uptick in short interest in May saw more than five million shares gain from about 10p of the overall fall in value.

Pets at Home (PETS.L), the specialist pet store, has also been in the doghouse. Criticised for using all of the money raised in its IPO to pay down debt, it has seen its share valuations remain about 8 percent below its April issuance levels. Short interest in Pets at Home has been more consistent than for BooHoo, with levels rising very quickly post-IPO and remaining elevated, suggesting the downward price pressure remains a real threat.

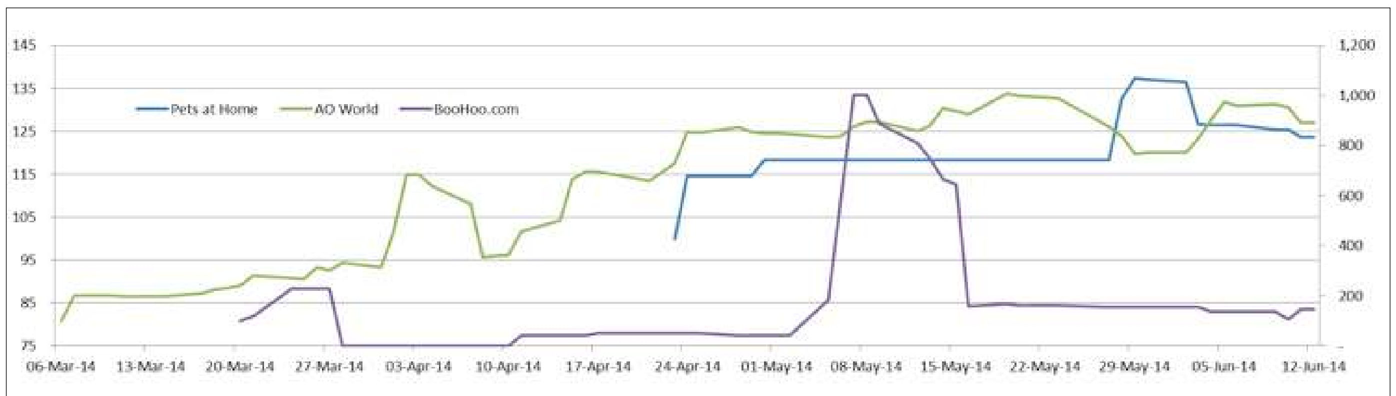
Finally, AO World, whose share price surged by up to 45 percent on its debut, suggesting a serious under valuation, has since suffered a long fall to now trade some 14 percent below its IPO price. Short sellers were quick to get involved with the ballooning price of this online retailer of home appliances and have profited handsomely from its spin downwards.

Figure 1 shows the short interest levels in BOO.L, PETS.L and AO World indexed to their IPO dates (each plot starts at the IPO the respective IPO date). Short interest commonly leaps on a shares debut as bookrunners and market makers compete for positions, but as Figure 1 shows, as lendable volume becomes available and short sellers take positions, some shares are affected more seriously than others.

Short interest in these newly issued securities, and indeed others in the past such as Facebook and Twitter, has been shown to be a great indicator of price volatility and, given the relative performance of these three recent IPOs, suggests that some will continue to be more volatile than others. What short interest cannot do is help to set what the market would truly accept as a "right price" for an IPO at launch, but it can certainly punish those that get it wrong. **SLT**

David Lewis
Senior vice president
SunGard's Astec Analytics

Figure 1: volume of shares on loan indexed to 100 at IPO date. Source: SunGard's Astec Analytics



Industry appointments

EquiLend has appointed **Iain Mackay** as product owner for post-trade services at its London office, effective immediately.

Mackay is responsible for the firm's post-trade services and will lead the execution of new post-trade products and features. Mackay will report to Dow Veeranarong, product strategy executive at EquiLend.

He joins EquiLend from the Royal Bank of Scotland where, most recently, he was global head of network management in the firm's securities finance group.

Previously, he has held management roles within the prime services groups at Deutsche Bank, Citigroup and Nomura International.

Mackay commented: "Post-trade managers are increasingly focusing on adapting to regulatory initiatives, complex trading strategies and more efficient cost management. With EquiLend's market-leading and seamless products, we are uniquely positioned to help them meet those demands."

"I am delighted to be joining EquiLend at such a pivotal point for the securities finance industry, when effective post-trade services are more vital than ever."

Brian Lamb, CEO of EquiLend, added: "Mackay is highly attuned to the inner workings of the securities finance post-trade industry, given his experience managing several prime services operations teams and as a member of various industry committees."

SEB have appointed **Steffan Jordan** as the new head of equity finance in Stockholm.

He will be relocating from Frankfurt, where he was previously responsible for equity finance at SEB.

Jordan will be replacing Jakob Burell who left in May to join Dankse Bank.

Joining Jordan in Stolkholm will be Marcus Segersten as head of equity finance hedge fund sales and Dan Murphy as head of equity finance.

Both have worked for SEB and will report to Jordan.

Cantor Fitzgerald has welcomed three new faces to its prime services group, **Paul Mandile**, **David Sklar** and **Robert Marietta**.

Marietta will serve as director in the firm's client service team, Mandile will serve as the managing director of outsourced trading and Sklar will serve as the senior vice president in electronic trading sales.

Sklar and Mandile join from Cuttone & Company where they both served as senior vice president in the prime brokerage and electronic trading division. Mandile also provided trading and portfolio management services to the firm's prime brokerage clients.

Marietta recently served as vice president at TradeStation Prime Services, where he focused on relationship management and sales. He was also previously a director of prime brokerage client services at UBS.

Shawn Matthews, COO of Cantor Clearing, said: "We are committed to exceeding our clients' expectations and building a multi-asset class prime services platform."

"Hiring seasoned professionals, with deep market knowledge underscores our dedication to providing top notch client service and expanding our market franchise."

Noel Kimmel, global head of prime services and COO of Cantor Clearing added: "We are thrilled to welcome these experienced professionals to the prime services team."

Doran Jones has hired **John Nolan** as full time president and chief operating officer of the firm.

As COO, Nolan will work on the strategy of the firm and ensure Doran Jones maintains its level of service.

Nolan has over 30 years financial services experience. He joins from Sustainable Insight Capital Management, where he served as COO.

He was also the global CAO at Deutsche Asset and Management, a part of Deutsche Bank Group.

Keith Klain has also been promoted to the Co-CEO of Doran Jones Testing and retains responsibility for delivery across both firms.

Terry Barton has left his post as senior repo and cash/collateral management trader at Danske Bank after 12 years.

Barton covered all aspects of government and credit repo in his career at the bank, as well as a full range of cash and collateral liquidity management functions.

Danske has recently undergone a major consolidation of roles and many positions within the organisation have been eliminated as a result.

Prior to his employment at Danske, Barton was employed for 13 years as a repo trader by Morgan Stanley following two years in money markets trade support at Yamaichi International.

It is understood that Barton is currently looking for fresh opportunities to use his knowledge and experience within the industry. **SLT**

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