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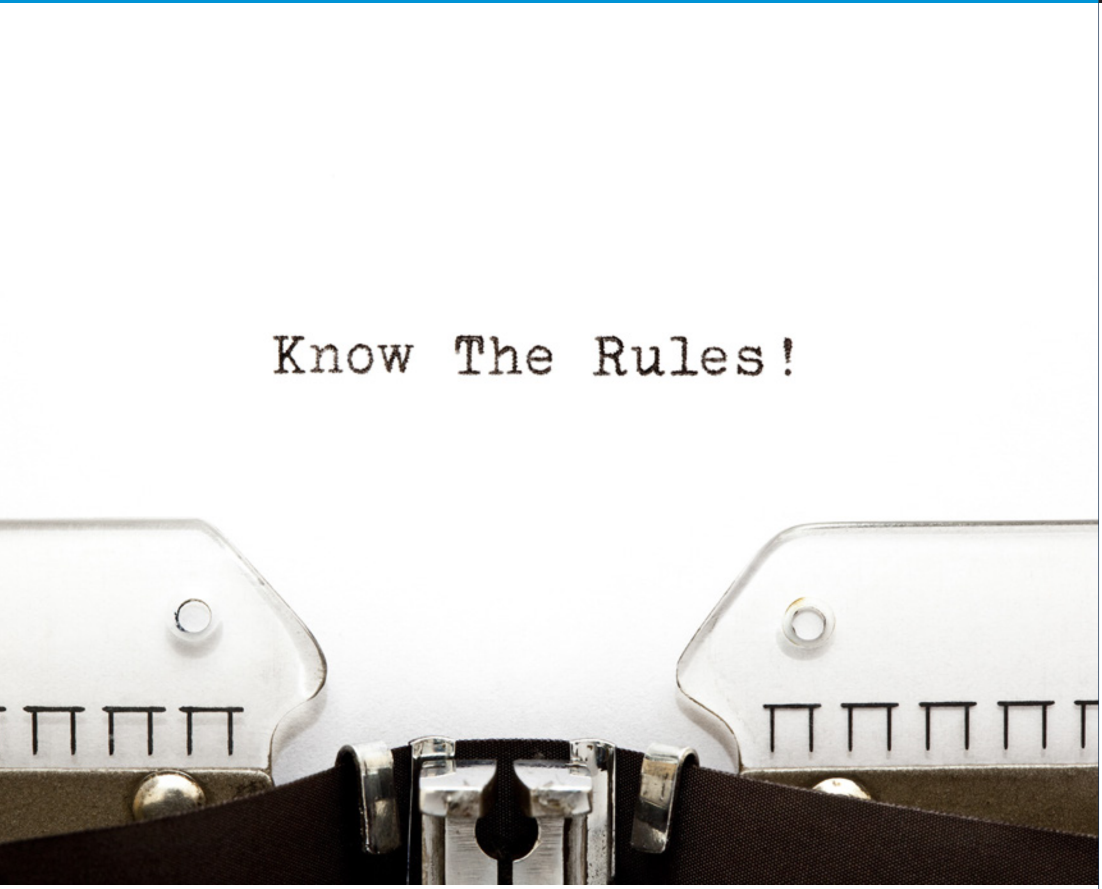

Canadian funds get new lending rules

All investment funds engaging in securities lending in Canada will be subject to enhanced disclosure requirements from September, while restrictions and operating requirements for non-redeemable investment funds will also come into force.

The final amendments to National Instrument 81-102 Mutual Funds were published in late June, as a part of the Canadian Securities Administrators's (CSA) Modernization of Investment Fund Product Regulation Project.

The CSA, the council of the securities regulators of Canada's provinces and territories, coordinates and harmonises regulation for the Canadian capital markets.

Initially proposed in March 2013, the amendments will require the aggregate market value of securities loaned under lending transactions or sold in repo transactions by an investment fund to not exceed an amount equal to 50 percent of the fund's net asset value.

This was previously a fund's total assets. New non-redeemable investment funds must comply with the rule change by 22 September. Existing funds have until 21 September 2015 to comply.

"This amendment is intended to offset the effect of leverage employed by non-redeemable investment funds, whereby a non-redeemable investment fund's total assets may be substantially greater than its NAV," explained the CSA.

read**more p2**

Pierpoint selects SunGard for securities finance management

Pierpoint Securities has selected SunGard's Loanet to help manage its expanding securities finance operations, including trading, inventory management, accounting and settlement.

To help Pierpoint achieve growth and reduce the total cost of ownership, in front office trading and back office operations, SunGard offered a fully integrated solution to streamline trade processing.

By streamlining, operations would be simplified and consistent up-to-date information would be provided. The solution would also adhere to regulatory reporting requirements.

Bruce James, COO of Pierpoint, said: "We needed to identify a service that would support the expansion of our financing capabilities into securities lending."

read**more p2**

BNP Paribas Securities Services extends DNA solution

BNP Paribas Securities Services is extending its interactive reporting solution, Data Navigation Analysis (DNA), to its agency clients.

DNA is a data visualisation solution designed to enhance access to information for financial organisations across the investment cycle and will help expose insights and trends in large volumes of data.

The platform gives BNP Paribas's agency lending clients, including central banks, asset managers and asset owners, complete and flexible oversight and control over their lending activity.

read**more p2**

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Canadian funds get new securities lending rules

Continued from page 1

"The CSA do not expect this amendment to have a material effect on mutual funds, as mutual funds are generally not permitted to employ leverage and their liabilities are generally not significant relative to their total assets."

Under the new disclosure requirements, mutual and non-redeemable investment funds must disclose a reconciliation of the gross amount generated from the securities lending transactions of the investment fund to the revenue from securities lending disclosed under Section 3.2(4) of NI 81-106.

A disclosure must include the identity of each person or company entitled to receive payments out of the gross amount generated from the securities lending transactions of the investment fund and the amount that each recipient is entitled to receive.

"The purpose of this disclosure requirement is to better highlight the costs and returns of an investment fund's securities lending activities," according to the CSA, because chargeable fees can be skewed by broader custody or fund management services.

Similarly, investment funds must also disclose the name of their securities lending agents in their prospectuses, as well as the relationship of the agent to the fund's manager.

"By modernising these important investment fund rules, the CSA aims to create fair and consistent product regulation across the spectrum of retail investment funds," commented Bill Rice, chair of the CSA, and chair and CEO of the Alberta Securities Commission.

Following changes in October 2012, securities lenders and borrowers in Canada can trade any trust that is listed on a stock exchange, including exchange-traded funds (ETFs), US real estate investment trusts and foreign trusts.

The definition of "qualified security" under Canada's Income Tax Act was expanded to include any trust that is listed on a stock exchange, meaning that ETFs and other exchange-listed trusts can be lent and accepted as collateral in securities lending transactions.

Pierpoint selects SunGard for securities finance management

Continued from page 1

"Choosing a solution that is delivered as a service, such as SunGard's Loanet, enables us to efficiently grow our securities lending business and interface with our clients effectively for functions such as trade matching, processing, automated margin and securities settlement for our securities lending business transactions."

John Grimaldi, president of SunGard's North American securities operations and securities finance, added: "As a growing company, improving efficiency and productivity with a comprehensive solution is critical as Pierpont continues to expand its service offerings to institutional and middle market fixed income investors."

"Through our market vigilance and close working relationships, we strive to ensure our customers are provided a reliable and effective solution that reflects the continually changing regulatory and market needs."

BNP Paribas Securities Services extends DNA solution

Continued from page 1

Clients will be able to access DNA through BNP Paribas's NeoLink web portal.

Head of agency lending at BNP Paribas Securities Services, John Arnesen, said: "The objective was to provide our clients with an interactive tool that would enhance transparency and improve reporting. DNA does this by providing them with a consolidated view of their securities lending programmes."

"Providing high-end data on performance is crucial in today's financial markets and we are pleased to

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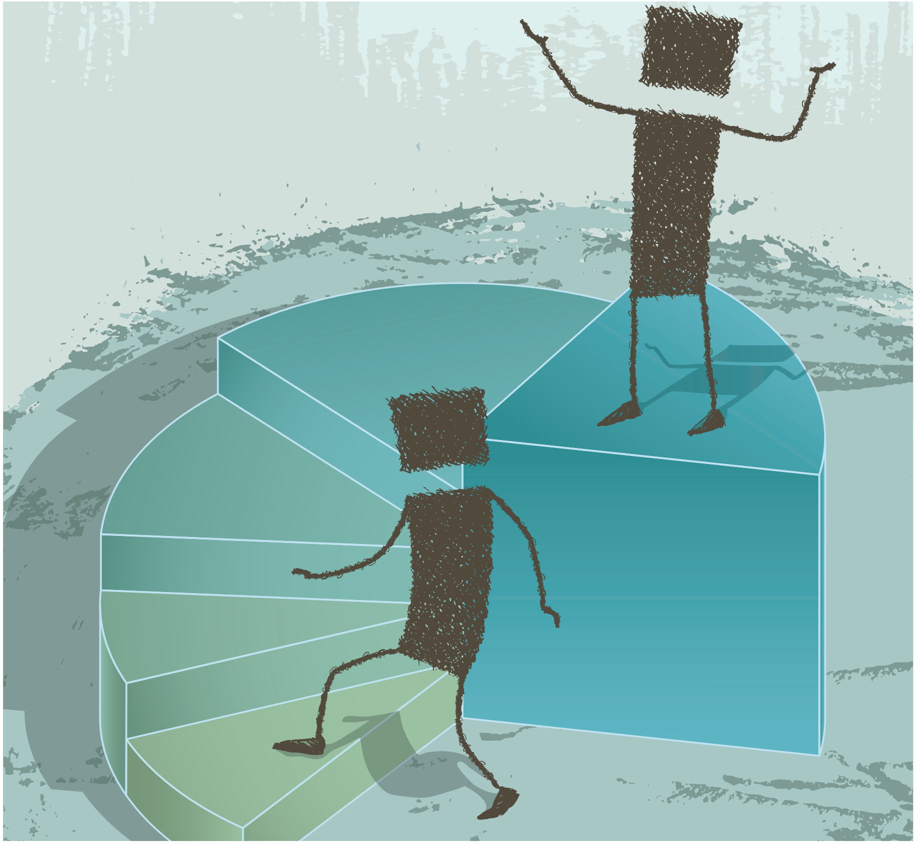

Successful H1 2014 for hedge fund services

New flows into equity and credit funds drove H1 2014 to becoming the industry's best opening stretch since 2007, according to data from eVestment.

After industry assets reached a new all-time peak in April and surpassed $3 trillion for the first time in May, hedge fund assets continued to rise until the end of Q2 2014 to stand at just over $3 trillion.

Investor flows to hedge funds were positive, but slowed at the end of Q2 2014. The $6.1 billion added in June was the lowest total since January and marks the end of a four-month span of elevated inflows that averaged over $22 billion per month.

The combined $99.7 billion of inflows in H1 far surpasses 2013 flows and the industry's 2014 annualised core growth rate of 7.1 percent is its highest post-financial crisis level.

June flows were a microcosm of both Q2 and H1 2014. Investors preferred equity exposure, but interest in credit continued to rebound while commodity and managed futures flows continued their negative slide.

The biggest winners on a strategy level in Q2 were event driven funds, receiving $15.5 billion in new capital.

Activist investors continued to be an influential event driven subset, receiving $2.4 billion in June and $6.2 billion in Q2.

Year-on-year growth for Clearstream

The monthly average outstanding for Clearstream's global securities financing (GSF) services reached €626.9 billion in June 2014.

The combined services, which include triparty repo, securities lending and collateral management, collectively experienced an increase of 8 percent over June 2013, when the figure stood at €581.9 billion.

In the same month, the overall value of assets under custody held on behalf of Clearstream's customers registered an increase of 6 percent to €12.3 trillion (compared to €11.6 trillion in June 2013).

Securities held under custody in Clearstream's international business as international central securities depository (ICSD) increased 5 percent from €6.2 trillion in June 2013 to €6.5 trillion in June 2014.

Securities held under custody in the German CSD increased 6 percent from €5.4 trillion in June 2013 to €5.8 trillion in June 2014.

Year-to-date in June 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 in 2013.

Also in June 2014, 3.6 million ICSD settlement transactions were processed, a 7 percent increase over June 2013 (3.4 million). Of all international transactions, 86 percent were OTC transactions and 14 percent were registered as stock exchange transactions.

On the German domestic market, CSD settlement transactions in June 2014 reached 6.3 million, 3 percent less than in June 2013 (6.5 million). Of these transactions, 56 percent were stock exchange transactions and 44 percent OTC transactions.

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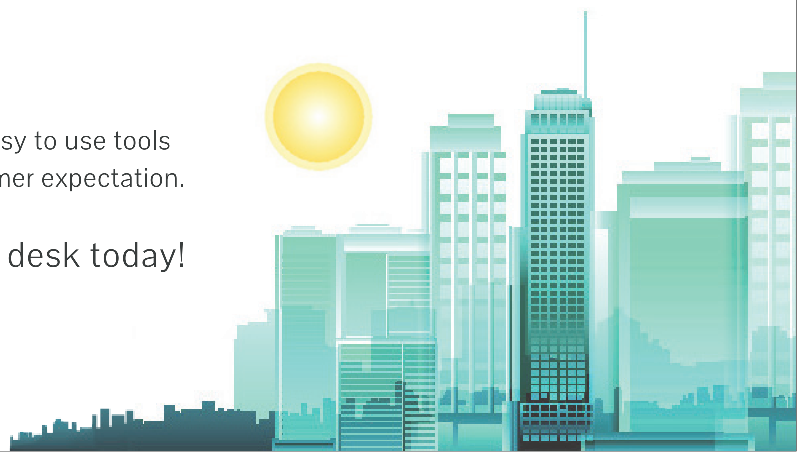

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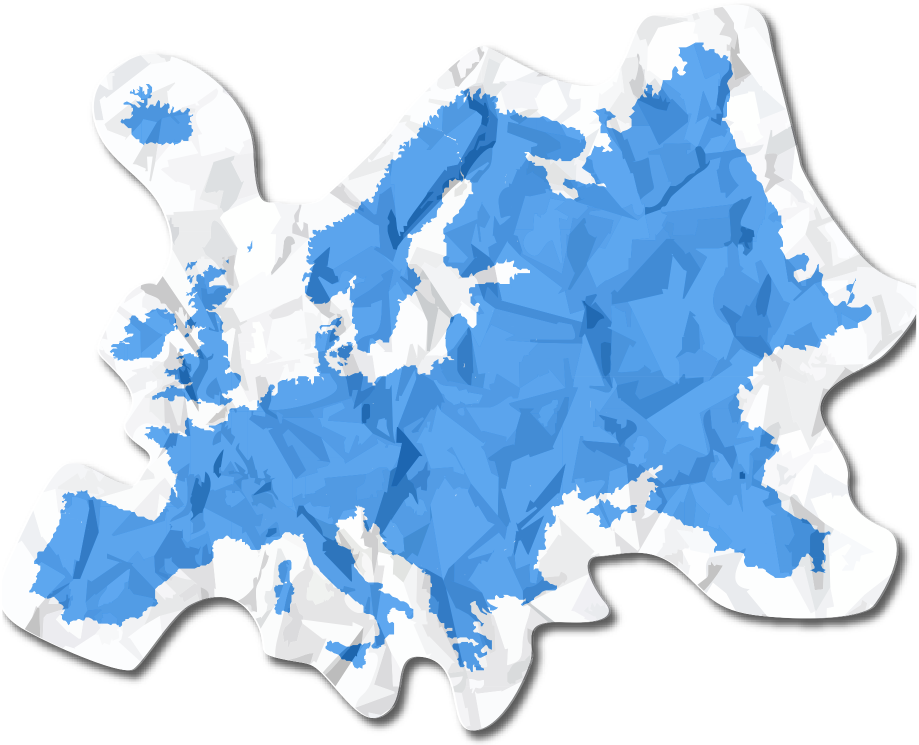
Year-to-date June 2014, the number of settlement transactions (OTC and stock exchange combined) processed for the German domestic CSD and global ICSD business combined increased 3 percent compared to the same period in 2013.



Deals in Europe picking up, says Deutsche Bank

Though M&A was less noteworthy than previous months, convertible bond deals in Europe increased, totalling €1.48 billion in May, according to research by Deutsche Bank.

In the US, short sellers focused on biotech firms Medivation and Pharmacyclics. The sales tax increase in Japan resulted in record high inflation and a decline in sales that garnered short interest for the retail sector.

In China, banks experienced the largest quarterly increase in bad loans since 2005 bringing attention to Minsheng Bank and China Cinda Asset Management. Political turbulence in Thailand led to a doubling of outflows from Thai tourism, property and retail.

After two months of losses, hedge funds achieved gains in all strategies in May with the median fund increasing 1.01 percent for the month.

Globally, emerging markets equity funds led the recovery gaining 1.80 percent. However, distressed and credit strategies continue to lead year-to-date gains at 5.74 percent and 4.35 percent, respectively.

CCPs the way forward for Eurex

Central clearing significantly reduces systemic risks and their amplifying factors in financial markets, according to a whitepaper by Eurex Clearing.

In addition, the paper stated that the regulatory agenda to broaden the use of central counterparty (CCP) clearing together with high regulatory requirements makes financial markets more robust and transparent.

"The whitepaper shows the macro-prudential advantage of a centrally cleared market versus a bilateral one, CCPs demonstrated their resilience and benefits during the recent crisis," said Thomas Book, CEO of Eurex Clearing.

"As the new regulatory regime takes shape the positive features of cleared markets will be further strengthened. Of great importance are the recovery and resolution frameworks which ensure that systemic events can be managed appropriately."

The second part of the paper outlines the necessary standards and features that need to be met when operating a CCP.

An analysis of past disruptions of CCPs against regulatory requirements shows that the European Market Infrastructure Regulation already sets high standards and can serve as a regulatory benchmark globally.

The final part of the paper discusses the ways in which the CCP mechanism permits markets to recover, or be wound down, if unprecedented market shocks overwhelm the existing safeguards without disrupting the entire financial markets.

Hedge fund flows hit six-month low for SS&C

The gross return of the SS&C GlobeOp Hedge Fund Performance Index for June 2014 measured 1.16 percent, while hedge fund flows as measured by its Capital Movement Index declined 1.77 percent in July.

Total assets under administration on the GlobeOp platform represent approximately 10 percent of the estimated assets currently invested in the hedge fund sector.

"Due to semi-annual redemptions, net flows were negative for the month and represent a new 6-month low," said Bill Stone, chairman and CEO of SS&C Technologies.

Cumulatively, the SS&C GlobeOp Capital Movement Index for July 2014 stood at 148.66 points, a decrease of 1.77 points over June 2014.

The index has declined 0.33 points over the past 12 months.

Short selling bans for Banco Espírito Santo shares

A temporary short selling ban on Banco Espírito Santo in the UK came to an end at 23.59 on 16 July, following a steep drop in the price of the Portuguese bank's shares.

The UK Financial Conduct Authority (FCA) implemented the short selling ban on 11 July, with was due to finish at the end of that day.

The Portuguese Securities Market Commission (CMVM) banned the short selling of Banco Espírito Santo in Portugal on 10 July due to a price drop.

It lifted the ban a day later, but implemented a new two-day ban due to "a significant fall in price following the original temporary restriction", followed by another. Short selling of Banco Espírito Santo shares could not resume on Euronext Lisbon until 23.59 on 16 July.

The FCA implemented its own ban of short selling in Banco Espírito Santo shares following "a similar price fall … on UK trading venues". That 24-hour ban, due to end at 23.59 on 14 July, was extended twice in parallel with the CMVM in Portugal.

SunGard's hottest stocks

The hottest stocks from around the globe have been compiled by SunGard's Astec Analytics.

Quindell (QPP.L) is Astec's top pick for the Europe, Middle East and Africa (EMEA) region for the week beginning 14 July 2014 after it raised its profitability target and reassured investors there was no need to raise additional funds.

Following in the wake of asset manager Fidelity doubling its stake in the company, Quindell lifted its guidance for full-year earnings before interest, taxes, depreciation, and amortisation (EBITDA) from 35 percent of revenue to 40 percent, and reported a 117 percent increase year-on-year for first-half revenue to £355 million.

Air France-KLM (AF.PA) also broke into the list after lowering its 2014 earnings guidance because of weak demand and troubles it has suffered repatriating revenue from Venezuela.

The news helped bring about a 15 percent drop in its share price over the week, while the securities lending figures show that, with use of the available stock over the 90 percent level, the cost of borrowing is being driven higher as demand to short sell remains strong.

The metric peaked at almost seven times its level of the previous week.

In the US, AbbVie (ABBV) pharmaceutical company is the top pick for North America, as its ongoing moves for UK-based rival Shire took another turn, after the company said it had re-

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ceived another takeover proposal from AbbVie, valuing it at more than $53 billion.

As its share price has moved up and down in recent weeks, Astec's data suggests that short sellers have been sceptical of any gains—borrowing of ABBV shares climbed 43 percent during the stock rally between 25 June and 3 July.

The action camera-maker GoPro (GPRO) has also made its way into Astec's hottest stocks after its second week of lending activity following its initial public offering. The lending data suggests short selling has continued to rise, even as its share price began to lose ground.

Although still early days in terms of net volume, the previous week saw the number of GPRO shares being borrowed climb 47 percent, while the cost of borrowing those shares rocketed even further as demand to borrow them grew.

Astec's top pick for the Asia Pacific region is Nissan Motor Company (7201), following news that it is set to undergo its third high-profile football sponsorship deal, with the full details set to be released later in the week.

The deal comes amid a broader two-year strategy to shift its marketing budget away from other areas, such as marathon runs and European motorsports, in hopes that the football's worldwide reach will help push its global sales.

A mainstay of Astec's list, the Anhui Conch Cement Company (0914.HK), has seen its share price climb 11 percent over the previous 10 sessions as it continues to benefit from an unexpected jump in its profits.

In the securities lending arena, as the company's utilisation level hovers around the 80 percent level, Astec's data shows the weighted average cost of borrowing has been steadily increasing since May and is now double what it was at the start of June.

This hints that demand to short sell the stock has been climbing overall, even as net positions have been holding fairly steady in July.

ESMA names new CCP

The European Securities and Markets Authority (ESMA) has updated its list of central counterparties (CCPs) to include Keler CCP.

There are now nine CCPs that have been authorised to offer clearing in accordance with the European Markets Infrastructure Regulation (EMIR).

Ian Salmon, global head of business development and application performance specialist at the ITRS Group, said: "As the industry continues to search for new ways to provide greater efficiency and stability around the clearing of transactions, it is pleasing to see another CCP on-board."

"However, while it is important to have more venues authorised, there are still challenges facing the industry, as EMIR allows one counterparty to delegate transaction reporting to the other."

"Given the nature of workflows surrounding derivatives, this only adds new layers of complexity when trying to assign responsibility for the reporting of a trade."

The other authorised CCPS are Nasdaq OMX Clearing, European Central Counterparty, KDPW_CCP, Eurex Clearing, Cassa di Compensazione e Garanzia, LCH.Clearnet and European Commodity Clearing.

Salmon continued: "For market participants, it will become increasingly important to map workflows across their disparate systems across the front, middle and back-office."

"The next step will be creating a full view of transactions that enables them to identify potential break points where key data can slip through the net."

Rocky way for Nordea

Asset management firm Nordea will begin using Rockall Technologies's collateral management solution.

The technology company's software, STOC, will enable Nordea to manage its collateral in Denmark, Finland, Norway and Sweden.

System extensions will be applied in other countries in the future, according to Rockall, which has offices in Dublin, Ireland, and in the US.

High-cost companies are underperforming, says Markit

The most expensive companies have consistently under performed in US markets over the last two years by a cumulative 15.58 percent—3.06 percent of which came since the end of Q1 2014.

Markit Securities Finance found factor performance in Q2 to be excellent, though it noted a reversal of signal in June.

The performance is only relative, however, as US markets have marched higher unabated for the past two years despite shares in the most expensive group on average increasing by 1.2 percent each month.

While energy firms continue to make popular shorts, names in the pharmaceutical and biotechnology sector have become the most shorted, as these firms see both the largest number of constituents in the most expensive 10 percent of shares.

The market is led by Organovo, which again ranks as the most expensive stock within the sector. With plans to develop a human tissue 3D printer, Markit found that short sellers continue to bet this will not become a reality.

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Swiss fatigue

Switzerland holds a high status in the banking world, but recent trends suggest that the securities lending market may not be in the best of health

STEPHEN DURHAM REPORTS

While not everyone is in agreement regarding the state of Swiss lending and borrowing, it seems that the recent lull in activity is difficult to deny. Data in support of this can be found on the Swiss Performance Index (SPI), which shows the average percent of stock out on loan in the country.

Simon Colvin, an analyst at Markit Securities Finance, says that the appetite of the short seller is currently lacking, with Switzerland demonstrating worrying trends that can also be seen across Europe and in the US.

Colvin comments: "The Swiss market did see quite significant short covering until a dip that hit its lowest point in January 2014. Since then there has been renewed demand to borrow and more shorting in the market, so it has definitely picked up. To some extent this is as a result of the time of year, but we saw this all-time low in short interest across every market."

Nobel Biocare Holding only just made it into Markit's top 10 stocks even though 20 percent of its shares were being shorted at this time in 2013—it currently has less than 5 percent. Despite its share price showing good short-term growth since the pick-up in February 2014, it is still markedly lower than it was only a year earlier.

The story is the same for even the most popular and consistently shorted names on the Swiss exchange. For example, companies such as Meyer Burger Technology and Logitech International have always graced the list as the most shorted companies. Although Meyer Burger currently tops the list, as it has 15 percent of its shares shorted, at the corresponding point in 2012, it had 22 percent.

Colvin says: "This gives you an indication that, even though we have seen shorting increase since the beginning of 2014, the appetite for even the most shorted names is not there. Once you get to 0 percent on a particular name it tells you that there is no appetite there. We do still see some borrowing and loans with these names, but it is very minimal."

Although some of these percentages swing quickly one direction or the other, such as Dufry, Colvin claims that this is often related to corporate deals, rights issues and so on, rather than the performance of the stocks themselves.

As well as specific names trading less, the country's overall statistics also make grim reading for Swiss bankers.

According to DataLend, as of 9 July, equities on-loan in Switzerland amounted to $14.02 billion from a possible inventory of $237.38 billion. This puts utilisation at 6.92 percent, which is the second lowest in Europe.

In terms of fixed income products, the current on-loan value is $1.89 billion, while the inventory value stands at $59.45 billion. This results in utilisation of just 2.7 percent—the lowest in Europe.

DataLend director Chris Benedict comments: "Swiss equities, generally speaking, command lower fees to borrow and have lower utilisations compared to other countries in Europe. Swiss fixed income is mostly Swiss sovereign debt and a few corporates."

"There is not much to speak of in this asset class. Equities appear to trade mostly in the general collateral range, also with relatively low utilisations, but we do see some volatility in a few of the names where the volume weighted average fee (VWAF) can swing up or down from day to day."

Despite these numbers, some in the Swiss industry are seeing business pick up. Zürcher Kantonalbank's Roger Reist commented: "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."

Colvin also admits that, while there is clearly less activity than there was in 2013, there has also been strong momentum in equities, which has allayed the need to self-short.

He says: "It is a very tough market to call. Switzerland is probably one of the more bullish markets and if you look at the composition of the SPI, it shows that it still has one of the strongest markets in Europe. It tallies up that you would not necessarily see much shorting activity in that kind of market as a whole."

The question that remains is whether anything is likely to happen in the coming months that will fundamentally change people's views on Swiss equities. Although the data suggests possibly not, it would be wise for anyone to take the broader continental and international trends into account before going into mourning prematurely. **SLT**

Hedge lines

How will hedge funds react to the changing collateral landscape?

MARK DUGDALE REPORTS

Hedge funds have long been heralded as an important source of collateral in the financial markets. International Monetary Fund senior economist Manmohan Singh has pinpointed them as a key provider of reusable assets—along side major custodial agents' securities lending activities—which they do through two means, as a pledge against a loan provided by a bank, and repo agreements.

In a 2011 study, Singh found that the total primary supply of collateral from securities lending and hedge funds dropped to $2.4 trillion in 2010 and that velocity dropped to 2.5, resulting in a total amount of collateral received by the considered global dealer banks of only $5.8 trillion.

A recent London School of Economics and Political Sciences study, conducted in conjunction with The Depository Trust & Clearing Corporation, challenged this theory, suggesting that it "may be alarmist".

The study said: "The willingness of long-term investors to make their assets available for yield-enhancing techniques such as securities lending depends on their assessment of risk and reward. In a continuing low-rate environment but with growing confidence in economic recovery, there may be a renewed tendency for real money investors to reach for yield."

"Similarly, the velocity of collateral as calculated [by Singh] is a direct reflection of the willingness of global banks to over leverage to their clients. Again this tends to be cyclical so that velocity could rise quickly once economic recovery is perceived."

The study went on to say 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 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. How will this situation affect hedge funds, the widely heralded suppliers that they are?

The collateral shortage position was also challenged in the second part of Citi's Opportunities and Challenges for Hedge Funds in the Coming Era of Optimization, the resulting report of a survey of hedge fund managers, asset managers, beneficial owners, agent lenders, consultants, fund of hedge funds, pension funds, sovereign wealth funds, endowments and foundations.

The report said: "The pool of collateral that hedge funds control is likely to continue to expand at a time when demand for high quality liquid assets (HQLA) hits all-time record highs. This could position hedge funds to begin treating collateral as an asset class with which they can supplement their trading book profits by effective use and pricing of their collateral pool."

"Hedge funds are likely to develop new roles with these competitors and leverage an increas-

ingly interoperable collateral landscape to swap, transform and either upgrade or downgrade collateral to help meet demand from their counterparts or the clients they introduce as agents."

This comes at a time when hedge funds in particular are experiencing positive quarters. J.P. Morgan's Prime Brokerage Insight, released in early 2014, stated that so far this year, "with more volatile markets and downward pressure on equities", all of the major hedge fund strategies have outperformed their long-only counterparts, "showing that hedge funds are able to mitigate drawdowns in down markets".

"Should equity correlations continue to break down, 2014 may be a year—unlike 2013—when hedge funds are able to clearly demonstrate their absolute return value proposition."

Citi's analysis of hedge fund assets under management, highlighted in part one of its Opportunities and Challenges for Hedge Funds in the Coming Era of Optimization report, revealed a figure of $1.72 trillion or a post-global financial crisis high of 10.2 percent of the record $16.92 trillion in institutional assets invested across mutual funds and hedge funds.

"This is up from 9.4 percent, the previous record high level of assets noted in 2012. This increase in hedge funds' share of total institutional investments occurred in 2013 despite hedge funds themselves having significantly underperformed the major equity indices. This illustrates the growing use of these instruments as a risk tool in investor portfolios."

Citi found that the number of pools of collateral that hedge funds must now consider in administering their daily operations "is expanding exponentially", due in part to new third-party custodial accounts coming into play, forcing hedge funds "to step in to manage many of the interactions between their prime brokers, swap dealers and these new counterparts".

But regulations have also been thrown into the mix, according to Citi. "Now there are likely to be a minimum of five types of collateral pools that hedge funds need to consider across prime brokers, swap dealers, cash custodians, third-party custodians and FCMs. Moreover, there are likely to be several types of counterparties in each of these categories and multiple funds that need to be administered. This could result in literally hundreds or even thousands of collateral pools to oversee."

As a result, costs are likely to increase. "The costs of financing are likely to rise as Basel III liquidity coverage ratios and net stable funding ratios negatively impact prime broker balance sheets and force broker-dealers to re-price their offerings."

"Hedge funds that move from a service-based to a relationship-based model with their counterparts are likely to have better access to financing and realise less extreme price increases. Leading firms are likely to concentrate their efforts to achieve financing efficiency with their top prime brokers as a tool in their relationship arsenal. Such efficiency will focus on the placement of debits and shorts. If done with an eye toward the prime broker's funding and coverage needs, this will decrease the clients' balance sheet utilisation and increase their return on assets."

The importance of hedge funds to the collateral system is not to be underestimated. As these studies show, their importance is likely to increase, but the shape and style in which they operate will have ramifications throughout the financial sector.

As the London School of Economics and Political Sciences concluded: "Historically, banks have benefitted from a variety of advantages in assessing and managing credit risks, and their active role in the taking and managing of collateral is a manifestation of this."

"However, regulatory reform and financial innovation may change this going forward. The search for new methods of achieving economical collateral transformation is giving opportunities to market infrastructures and others to provide much needed support for credit creation." **SLT**

Gotham stalks corporate dishonesty

Who sets the dogs on those guilty of false accounting and corporate mismanagement? David Lewis of SunGard's Astec Analytics takes a look

Over the years, the Caped Crusader, otherwise known as Batman, has come in many guises. Righting wrongs and seeking out crime and corruption wherever he goes is certainly an admirable pursuit, especially as a part-time role for a billionaire businessman such as Bruce Wayne.

New York-based Gotham City Research seeks to do just that—under the lead of its elusive founder, Daniel Yu, the secretive outfit is indeed spreading fear across what it seems to consider a hotbed of financial misdeeds and wrong doing. In parallel with Bruce Wayne, Yu is said to be a bright and able businessman, driven by a desire to expose criminality, but in the financial markets rather than the streets of the fictional city whose name he has taken. Unlike most short position takers and more like its crime fighting partner, Muddy Waters Research, Gotham is very vocal about its views of certain companies and the positions taken against them.

Gotham's most recent vigilante-like effort has been the Spanish internet provider Let's Gowex (GOW.MC), until very recently a booming business with a share price rising from a little more than €5 a year ago to peak at more than €26 in April—a fivefold increase. Figure 1 shows three plot lines, the orange line representing the steep upward curve of the company's share price. The blue line shows the availability of the shares—the number of shares available for borrowers to borrow. As the blue plot line shows, this value also rose steadily during the last 12 months. The lenders of shares tend to be larger, institutional funds and this suggests that institutions were buying into the Gowex story.

The green plot line shows the short positions building—or more specifically, shares being borrowed, which in the case of Gowex we can reasonably assume to be a good proxy for short interest. While we cannot identify individual position takers, Gotham has stated that its interest in Gowex began about eight months ago. Short interest commenced its climb between five and six months ago, just as the share price was approaching its peak (March and April) before levelling off near the €20 mark.

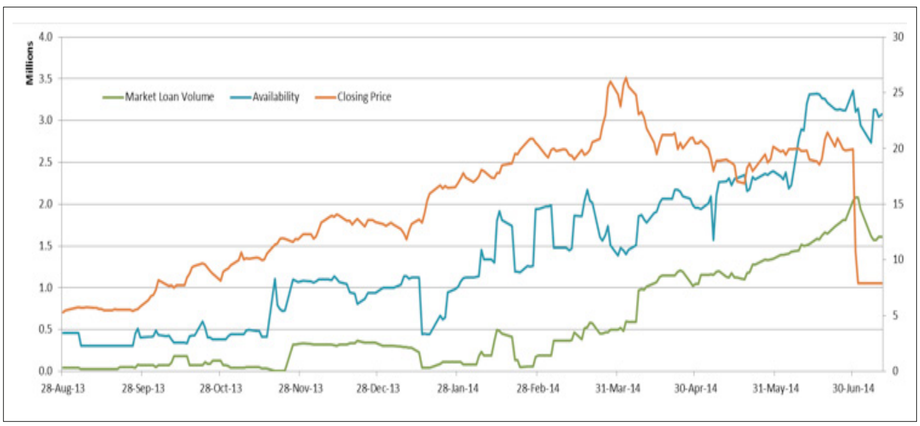
Gotham then lit the Bat Signal at the start of July, alleging that the accounts of Gowex were largely fictional and that the company was massively overvalued. Gowex initially hit back, but within days had capitulated under the mounting pressure and admitted that the last four years of trading accounts were effectively worthless. Instantly, the share price plummeted 60 percent to just under €8, creating unrealised gains of some €25 million for the short side and equivalent losses for the long side. It is at this point that the clashes really begin.

Insurance outsourcing group Quindell was the previous high-profile target of Gotham's attention. While Quindell launched a spirited defence against the accusations that it was little more than "a country club built on sand", it could not stop the blunt accusations from Gotham wiping £1 billion from its share value, giving the market a frightening demonstration of the power such damning research can wield—power the real Batman would no doubt envy. Some observers object to it and decry the short sellers' aim of making money as share prices fall, citing that long investors are the losers here.

The opposing argument is that if these accusations are correct, as they proved to be with Gowex, then those shareholders would have lost their investments anyway. Those inevitable losses would not have been caused by the likes of Gotham or Muddy Waters, but by the power of fundamental values and time. It would thus appear that the vigilante-like research and short-selling firms are on the side of the investor, seeking out false accounting and corporate mismanagement wherever it may exist. But they are arguably not your friend either as their positions are already in place well before they go public, by which point it's too late for most to heed the warning.

Securities lending data as a proxy for short interest is a defensive mechanism that should be on every investor's utility belt, and as Figure One shows, it can deliver an early warning signal of trouble ahead, something that would have helped even Batman out of a few sticky situations in the past. **SLT**

Figure 1: GOW.MC volume of shares available and on loan, with closing share price. Source: SunGard's Astec Analytics



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Industry appointments

Barclays Capital's **Alex Lawton** has left his role as head of equity finance for Europe, the Middle East and Africa, a source has confirmed.

He left the firm at the end of June, after serving for five years in its equity finance business. He is reportedly aiming to move into a role on the buy side before the end of the year.

Lawton has almost 20 years of financial services experiences, having worked at Bank of America Merrill Lynch, Dresdner Kleinwort and Lehman Brothers.

Barclays Capital declined to comment on Lawton's departure.

Deutsche Bank has appointed **Luc Frieden** as vice chairman, effective 15 September.

As vice chairman, he will advise the management board and will work in the bank's government and regulatory affairs department.

Frieden will be based in London where he will report to Stephan Leithner, member of Deutsche Bank's management board.

He previously served as the minister of justice for the Luxembourg government and as the minister of treasury and minister of finance.

Former Citi executive **Rajen Shah**, who left the bank approximately three months ago, has resurfaced at State Street, a source has exclusively revealed.

Shah has joined State Street as its head of global markets in Europe, the Middle East and Africa (EMEA), which includes agency lending, according to the source. State Street has confirmed his appointment.

He was previously global head of collateral management and EMEA head of securities finance at Citi.

Shah joined Citi from J.P. Morgan Chase, where he was a product executive for global custody, in 2010.

During his 14 years at J.P. Morgan Chase, he held a number of executive positions in areas such as clearance and collateral management, and derivatives.

Lou Maiuri was brought in to State Street late last year to lead securities finance at the bank.

Universities Superannuation Scheme has welcomed back **Jeremy Hill** as general counsel.

Hill previously served as general counsel for investments at the scheme between 2009 and 2011. He will take up the newly created role in August 2014.

As general counsel, Hill will be responsible for all legal services for the scheme and its wholly owned subsidiary, USS Investment Management.

Oscar Huettner has joined LGM Financial Consulting as a managing principle.

The former BondLend global product manager, who left that role in July 2013, has joined the consultancy in New York.

It provides consulting services in securities finance, collateral management, triparty repo and securities lending.

The LGM managing principal became a senior business consultant at Finadium after leaving BondLend.

He previously spent 17 years at Barclays Capital in London and New York.

During that time, he established the firm's European repo desk, RMBS financing operation and structured repo book.

Huettner was also a founding member of the European Repo Council, and has worked at the Industrial Bank of Japan, Donaldson, Lufkin, & Jenrette, and Salomon Brothers.

BNY Mellon has appointed **Werner Taiber** as country executive in Germany, effective 1 July.

Taiber will also continue in his role as CEO of the Meriten Investment Management, an investment boutique of BNY Mellon.

He replaces Fred Bromberg, who is leaving Germany to serve in his role as senior client executive in New York, where he will report to Karen Peetz, president of BNY Mellon.

Taiber will be based in Dusseldorf where he will report to Michael Cole Fontayn, chairman of BNY Mellon Europe, Middle East and Africa, and Mitchell Harris, president of the bank's investment management business. **SLT**

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