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SECURITIESLENDINGTIMES

ISSUE113
28.10.2014 TUESDAY
securitieslendingtimes.com

Fixed Income Clearing Corporation stakes claim for central clearing of triparty repo

The Fixed Income Clearing Corporation (FICC), a subsidiary of the Depository Trust and Clearing Corporation (DTCC), wants to provide central clearing for the more than $1.6 trillion institutional triparty repo market.

It will submit a rule filing with the Securities Exchange Commission (SEC), and an advance notice filing to both the SEC and the Federal Reserve, to outline its plans.

The rule filing will outline FICC's proposal to use its existing risk management and trade guarantee services for the institutional triparty repo market in the US.

By implementing FICC's central counterparty (CCP) services for these transactions, it argues there would be an increase in operational efficiencies, the completion of eligible trades would be guaranteed, and the risk of a liquidity drain in the event of a dealer failure would be lowered by extending netting services.

Murray Pozmanter, DTCC managing director and head of clearing agency services, said centralising the clearing and settlement of triparty repo transactions through FICC could potentially "help to prevent another squeeze in triparty funding such as the one observed in 2008 when funds sharply reduced their lending during the run up to the Lehman failure."

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EquiLend heads down under

EquiLend has received regulatory clearance from the Australian Securities and Investments Commission (ASIC) to operate its securities finance trading platform domestically in the market.

The platform went live for trading among domestic firms on 8 October and trades between Australian entities were executed on the platform from the first day of trading.

Australian securities have historically been traded on the EquiLend and BondLend platform via offshore entities.

Post-trade services provided by EquiLend and BondLend were already being used by domestic Australian market participants.

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Europe adapting well to T+2

The transition to settlement at T+2 for the European fixed income markets has been largely successful with few issues, according to the International Capital Market Association (ICMA) and the ICMA European Repo Council (ERC).

Commenting on the migration to T+2 Godfried De Vidts, chair of ICMA's ERC, said: "Feedback ... suggests that there were very few issues or incidents on the migration settlement date of 8 October. Netting and pair-offs across trades transacted on 3 and 6 October meant that settlement volumes on 8 October only increased by around 50 percent."

"Market-wide efforts to ensure timely affirmation and allocations resulted in only around 1 percent of total traded volumes mismatching and subsequently requiring post-trade repair."

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FICC stakes claim for central clearing of triparty repo

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He added: "It would also provide regulators with a broader and more comprehensive view of the repo market for the monitoring and management of systemic risk as well as mitigate risks associated with a fire-sale in the triparty marketplace."

FICC provides the only central clearing function for triparty repo trades in the US.

EquiLend heads down under

Continued from page 1

Brian Lamb, CEO of EquiLend, said: "We are pleased to be able to offer our trading services to domestic firms in Australia, who now have access to the efficiencies and automation EquiLend brings to securities finance market participants around the globe."

Due to the market's size and maturity, EquiLend anticipates Australia being one of the most active markets on its platform in the Asia-Pacific region.

EquiLend also launched domestic trading services in the South African market earlier in 2014, adding to its existing operations in the US, Canada and Europe.

Europe adapting well to T+2

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According to De Vidts, settlement efficiency levels have also remained high during the migration, with only a "negligible" uptick in settlement fails on 8 October and no observable issues with agent and clearing funding, bottlenecks, and settlement cycle events.

From the perspective of the repo markets, the shorter-settlement cycle for underlying securities, and the migration of liquidity for most financing trades from T+2 to T+1, has not posed any immediately observable issues.

De Vidts added: "The ERC will continue to monitor the situation closely, particularly the impact of increased volumes in same-day collateral and liquidity management."

The success has been attributed to the significant efforts made by the relevant market trade bodies, regulated markets, multilateral trading facilities and data vendors, both on trading venues and in the over-the-counter markets, as well as raising awareness and preparedness amongst market participants.

Morgan Stanley to join Eurex Clearing CCP

Morgan Stanley is to become a clearing member of Eurex Clearing's Lending Central Counterparty (CCP). They aim to finalise the process by the end of October.

"Morgan Stanley is supportive of CCP solutions for securities lending such as the Eurex Clearing model as it allows us to preserve our client relationships and deliver best execution with risk, re-source and operational efficiencies," said Susan O'Flynn, managing director and global head of CCP strategy and optimisation for Morgan Stanley.

"Tiered membership plays a critical part in facilitating buy-side participation through different forms such as the specific lender licence."

Eurex Clearing's Lending CCP was launched in November 2012. The current product scope includes equities from Belgium, France, Germany, the Netherlands and Switzerland, as well as a range of international fixed-income instruments and exchange-traded funds.

The clearing service reduces counterparty risk and provides significant cost benefits to market participants with increasing capital requirements for bilateral exposures.

Four clearing members have already been admitted to the service and have cleared their first transactions. Further market participants are expected to join soon.

SLT IN BRIEF

SunGard's hottest stocks

The hottest stocks from around the globe for the week beginning 20 October 2014 have been compiled by SunGard's Astec Analytics, including three first-time appearances.

Rolls Royce Holdings (RR.L) has made its debut in Astec's hot stocks, topping the list for the Europe, Middle East and Africa region after it issued a profit warning suggesting a rapid deterioration in economic conditions.

The news caused its shares to lose around 12 percent overall for the week, while data from Astec suggests short selling has been on the climb throughout October—with the number of Rolls Royce shares being borrowed climbing 28 percent.

Holding its place in Astec's list, CNH Industrial NV (CNHI) has seen renewed focus after its shares were downgraded from 'hold' to 'reduce' at Kepler Cheuvreux, although the stock still managed to close 5 percent higher.

Another hot stocks debutant, media giant Time Warner (TWX), has seen interest in North America after HBO (owned by Time Warner) announced plans to sell its services via the internet, separate of cable and television, in one of the first such moves by a traditional TV company to compete in the growing streaming media market.

Investors saw the news as very positive for the company, with its shares closing the week at around 10 percent, while on the borrowing front Astec's data suggests short selling did increase because of the gains—borrowing was up 27 percent in the week—although this was from a comparatively low base.

Action camera maker GoPro (GPRO) is also attracting interest after Pacific Crest started its coverage of the stock at 'sector perform', the company is also seeing some mildly bad publicity after it emerged that the injuries sus-

tained in former Formula 1 racing driver Michael Schumacher's skiing accident may have been exacerbated by a GoPro camera mounted on his head.

Though its shares made a little ground during the week, Astec's data suggests short sellers began to close out their positions, with borrowing volumes falling 19 percent.

Japanese cloud-technology developer Net One Systems Company (7518) is Astec's top pick for the Asia Pacific and the third to see its first entry in the hot stocks list.

Net One's shares lost 13 percent following the announcement of a partnership with CliQr Technologies, although it managed a small bounce back. Astec's figures suggest short selling has been growing despite the price drop, borrowing having climbed 18 percent since the news.

Finally, hot stocks regular Anhui Conch Cement Company (0914.HK) has reported record levels of production and sales at its major subsidiaries in September, helping spur its share price to see five consecutive sessions in the green.

Likewise on the securities lending front, Astec's data hints that short sellers may also be taking a more optimistic view of the stock's outlook than has been the case, with the number of Anhui shares being borrowed falling 15 percent—about 56 million shares.

DataLend targeting the big 50

DataLend's tracking index, DataLend Target 50, has been launched for the securities finance industry.

DataLend Target 50, which is composed of the 50 most expensive equities to borrow in each region, is available on the Data Dashboard screen of the DataLend user interface.

Included in the index is the minimum utilisation and volume-weighted average fee that is used as a benchmark to determine how securities in the finance market are trending over time.

Ben Glicher, product owner of DataLend, said: "The DataLend Target 50 provides a novel, at-a-glance look into the hottest securities in the securities finance market. With this index, traders have an all-new view of the very top of the securities finance market."

DataLend Target 50 displays an index figure as well as the change in the figure from the previous business day and week. The index will also display each security's current DataLend rate to users.

Brazil sees more deals, for less

Brazilian CCP BM&FBovespa saw securities lending transactions reach 118,105 last month, beating August's total of 110, 266.

The trading value of transactions in September was BRL 56.69 billion ($23 billion).

August's trading value peaked at BRL 59.27 billion ($25.1 billion), despite the CCP processing fewer securities lending transactions than in September.

Northern Trust securities lending revenue sees slight dip

Northern Trust's securities lending revenue decreased 3 percent in Q3 2014, from $22.7 million in Q3 2013 to $22 million, primarily reflecting lower spreads offset by higher volumes in the current quarter.

Its custody and fund administration fees increased 15 percent in Q3 2014 to $275 million.

The bank attributed the corporate and institutional services business boost to new business and the favourable impacts of equity markets and movements in foreign exchange rates.

Clearstream's September was sizzling

Clearstream's global securities financing (GSF) services saw a monthly average outstanding in September of €632.2 billion.

The combined services, which include triparty repo, securities lending and collateral management, collectively experienced an increase of 10 percent over September 2013, when it reached €575.2 billion. The GSF monthly average outstanding has grown 5 percent over the last year, from €571.3 billion to €601.7 billion.

Colline gets an update

Lombard Risk Management has released an updated version of Colline, the company's collateral management, clearing, inventory management and optimisation solution.

Colline enables firms to move away from managing collateral in business silos by supporting multiple business lines on a single platform, therefore enabling firms to better manage their collateral inventory, addressing the issues of limited liquidity and lower capital charges.

The new solution includes regulatory enhancements intended to support clients in meeting their International Organization of Securities Commissions (IOSCO) and Basel III commitments.

In addition, the user-definable optimisation rule builder will be able to create and combine optimisation rules for flexible scenario analysis and optimum allocation of collateral.

The solution's configurable inventory manager was added to provide real-time scenario analysis across financial products and business lines in order to best manage collateral inventory on a firm-wide basis.

Finally, Colline's enhanced collateral substitution workflow will automate some of the more complex and time-consuming manual processes related to substitutions, enabling managers to deal with high volumes more efficiently.

"There are many regulatory issues that firms need to adhere to and Colline is constantly being enhanced to meet both market and regulatory requirements," commented John Wisbey, CEO of Lombard Risk.

"Thanks to the experience of our dedicated collateral team and the detailed insight provided markit®

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by our clients we aim to ensure that Colline remains the system-of-choice for firms to manage all aspects of their collateral efficiently."

Helen Nicol, product director of Colline at Lombard Risk, said: "It is Lombard Risk's strategy to provide clients with one solution that combines multiple aspects of optimisation—trade, inventory and collateral—on a single platform."

"Colline's strengths in collateral optimisation focuses on its flexible and configurable rule builder offering several algorithms, which drives the allocation process according to the rules selected. The 'what if' functionality provides pre-trade and impact analysis for front office decision making."

FSB sets out haircut plans

The Financial Stability Board (FSB) has delivered its shadow banking framework for haircuts on non-centrally cleared securities financing transactions, with numerical haircut floors set higher than previously proposed.

Under the framework, which was published on 13 October following public consultations and qualitative impact studies, corporate bonds with a maturity of between one and five years will require a 1.5 percent haircut, up from 1 percent.

Equities will need a 6 percent haircut, up from 4 percent. Other assets within the scope of the framework will require haircuts of 10 percent. The FSB will apply these rules to securities-against-cash transactions.

Where shares in mutual funds are used as collateral for securities financing transactions, they will be subject to the 10 percent "other asset" haircut.

The FSB said the haircut floors have been set higher than previously proposed due to qualitative impact study results, existing market and central bank haircuts, and data on historical price volatility of different asset classes.

The board, which represents the G20 member countries, also introduced an additional maturity bucket for debt securities with a residual maturity of more than 10 years, and in a significant step, will apply the haircut floors to non-bank-to-non-bank transactions.

"[This will] ensure shadow banking activities are fully covered … reduce the risk of regulatory arbitrage, and … maintain a level-playing field," explained the FSB.

M&A and convertible bonds popular in September

The securities lending team at Deutsche Bank has noted the highest quarterly mergers and acquisitions deal volume of 2014 thus far and the return of the convertible bond market, with nine new issues for the month of September.

The team also found that sectors gaining short interest over the month of September included offshore drilling in the US and real estate in Asia.

Hedge funds proved their ability to protect capital in September as the median global fund gained 0.10 percent despite the MSCI World Index losing 2.78 percent.

According to the research, commodity trading advisor (CTA) and managed futures continued to lead performance globally, with the median fund posting gains of 2.49 percent for the month and 4.83 percent for the year.

CTA and managed futures and macro strategies posted median gains in the US of 2.42 percent and 1.88 percent, respectively, and also led in Europe, up 2.28 percent and 1.10 percent, respectively.

These two strategies also posted the highest dispersion of returns. In Japan long and short, multi-strategy and macro funds gained despite the MSCI Asia Pacific Index declining 5.14 percent.

The MSCI World 30-day volatility decreased 23.41 percent over the month, ending at 6.61 on 29 September 2014. Both gross and net fundamental equity exposure also decreased, ending at 2.83 and 0.69, respectively.

BNY Mellon securities lending revenue has its ups and downs

BNY Mellon's securities lending revenue decreased to $37 million in Q3 2014.

Q3 2014 securities lending revenue was lower than the previous quarter's $46 million, but slightly higher than last year's Q3 figure of $35 million.

The bank includes securities lending revenue in its asset servicing fees, which enjoyed an overall increase to $998 million in Q3 2014.

The 6 percent increase over the same quarter in 2013 primarily reflects organic growth, better market values, net new business and higher collateral management fees in its global collateral services business.

Last year, BNY Mellon earned $939 million in asset servicing fees.

Q3 2014 asset servicing fees were also higher than the previous quarter, when the bank earned $993 million, thanks to organic growth, although they were partially offset by seasonally lower securities lending revenue.

The bank also earned $337 million in clearing services fees in Q3 2014, beating 2013 by 7 percent and the previous quarter by 3 percent.

Both increases were driven by growth in clearing accounts and mutual fund positions, and higher asset levels, reported BNY Mellon. The sequential increase also reflects higher DARTS volume.

Forward redemption down 3.25 percent for October

SS&C GlobeOp Forward Redemption Indicator for October has shown notifications of 3.12 percent, down from 3.25 percent in September.

Forward redemptions as a percentage of SS&C GlobeOp's assets under administration on the SS&C GlobeOp platform have trended signifi-

cantly lower since reaching a high of 19.27 percent in November 2008.

The indicator's all time low came during January 2012 when it fell to 1.85 percent, while the 12-month low was 2.67 percent in January 2014.

"October's forward redemptions decreased slightly from September, but remain in line with historical averages," said Bill Stone, chairman and CEO of SS&C Technologies.

On SS&C GlobeOp's Hedge Fund Performance Index, the flash estimate for October currently stands at 0.24 percent above gross, down from 5.34 percent year-to-date.

The lay of the land

US budget carrier Jetblue Airways is the most shorted company worldwide ahead of impending Q3 earnings announcements, according to data from Markit.

In Europe, energy services firms are the target of heavy short interest while Hong Kong firms dominate the most heavily shorted firms due to announce earnings in Asia.

According to Markit, demand to borrow shares in Jetblue, which had just over 30 percent of its shares out on loan, has been partly driven by its large stock of convertible debt.

Simon Colvin, research analyst at Markit, said: "This looks to be reinforced by the fact that the recent market stumble appears to have benefited US airlines as the cost of oil now hovers at five year lows; this has seen airlines' shares outperform the market."

The oil price collapse is driving European short sellers as well, with two firms that provide geological consulting to oil drillers coming in among the most shorted firms.

This includes TGS Nopec, which has 22.4 percent of shares out on loan making it the most shorted company announcing results in Europe for Q3.

TGS's competitor, Petroleum Geo Services also makes Markit's most shorted list after seeing its short interest double in October to 14.1 percent of shares outstanding.

The one UK firm to make the most shorted list is web fashion retailer Asos, which has seen shorts redouble in the wake of poor earnings and a warehouse fire which has hurt operations, according to Markit.

These events have driven the firm's sales to the lowest level in over two years while short interest surged to a new all-time high.

In Asia, Hong Kong-based company Anhui Conch Cement has 23.5 percent of shares out on loan ahead of results.

Colvin commented: "The firm has proved a tough short since the start of the year, but China's weakening growth rate looks to have proven short sellers right in the end as its shares have recently fallen to new yearly lows."

Other Hong Kong perennial shorts round out the three most shorted Asian firms ahead of results as China Coal Energy and Yanzhou Coal have 15.5 and 11.9 percent of shares out on loan.

Outside of Hong Kong, Taiwanese firm Tpk Holding has just under 8 percent of its shares out on loan, a number that has grown by 17 percent in the wake of Samsung's "disappointing" smartphone sales.

New solution revealed from NTT Data and Lombard Risk

NTT Data and Lombard Risk Management have joined forces to offer a globally-scalable collateral management solution.

Executives from both companies jointly presented at the recent Sibos convention in Boston to showcase the solution, currently being delivered to multi-national clients with operations in global locations.

NTT Data offers the solution as part of its risk and compliance solution portfolio.

"Financial service firms continue to balance growing customer expectations with increased regulatory demands," said Krishna Prabhu, senior vice president of financial services at NTT Data North America.

"The joint solution brings together Lombard Risk's Colline with NTT Data's deep data management expertise and global reach to solve our client's critical business challenges."

Cliff van Tonder, global alliances director at Lombard Risk, commented: "Collateral management represents a rapidly evolving opportunity to deliver value to the business and address a frequent source of operational pain."

"Our partnership with NTT Data delivers one of the most powerful relationships in the collateral risk and regulatory software arena today."

Florida pension fund manager considers partners

The State Board of Administration of Florida has chosen Citi to provide it with prime services.

Citi and State Board of Administration of Florida, which manages the state's public employees' retirement savings, will now begin negotiations over a contract.

The bank had been up against Deutsche Bank, Newedge, Bank of America Merrill Lynch and Pershing, which all responded to the State Board of Administration of Florida's request for proposals.

State Street, BNY Mellon and Citi had submitted pitches to provide collateral management services following the State Board of Administration of Florida's request for proposals, but a collateral management provider is yet to be selected.

Traiana to help CCPs connect

Traiana has launched Harmony CCP Connect for equities and successfully completed its first trade.


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Some of the largest equity broker dealers, including Credit Suisse, J.P. Morgan and Instinet, will automate the central clearing of their over-the-counter equity trades via Harmony CCP Connect and match and clear equity contract for difference (CFD) related hedging trades at their preferred clearinghouse.

Additional banks are also due to join the network over the coming months, which is currently connected to three central counterparties (CCPs)—LCH.Clearnet, EuroCCP and SIX x-clear. The first trade was completed on 21 October between two banks.

Traiana has estimated that participants could reduce settlement costs for over-the-counter equity trades in Europe, the Middle East and Africa by up to $30 million on an annual basis.

“We are very pleased to be a founding member of this initiative; it is an exciting development for the industry that enables electronic matching and CCP netting for bilateral executed transactions,” said Lee Ellmore, global head of securities, foreign exchange and over-the-counter strategic change for Credit Suisse.

“With global markets targeting shorter settlement cycles, this initiative supports our clearing strategy, increases [straight-through processing] on non-exchange flows and reduces settlement cost.”

Roy Saadon, head of Europe, the Middle East and Africa and co-founder of Traiana, commented: “In a period of regulatory change and cost reduction, moving [over-the-counter] equity trades to a centrally cleared model that also provides netting benefits, represents a fundamental improvement to the structure of equities markets.”

The CCP model is intended to reduce counterparty risk, increase transparency and assist in achieving T+2 settlement through trade compression.

Regulation a concern for boutique asset managers

Regulation is the greatest threat to success for boutique asset management firms, according to research by TABB Group at SunGard’s request.

Growing complexity in the regulatory space led to 42 percent of participants citing regulation as the major focus for firms, up from 17 percent in the 2013 research.

Many boutiques remain concerned about the US Dodd-Frank Act with 65 percent saying it had a high to moderate effect overall.

New regulations such as anti-money laundering regulations and the financial transaction tax were highlighted across the globe as growing areas of concern for boutique firms.

Rebecca Healey, senior analyst for TABB group, said: “For boutiques to succeed it is no longer just a case of growing assets and returns; increased transparency, operational efficiency and the ability to deliver stable, risk-adjusted returns, within a resilient infrastructure, will be critical for the new boutique asset managers to help ensure operational stability.”

“Whether efficiency comes from internal technology, managed services or outsourcing, our research finds these solutions will enable and empower boutiques to focus on their core strengths.”

Ed Lopez, executive vice president of SunGard’s asset management business, added: “Previously, traditional asset managers had the advantage of scale and breadth; however regulatory constraints may yet play into the hands of the boutiques as niche funds continue to attract capital from investors seeking outsized returns.”

“Fully automated processes that deliver the necessary transparency, accountability and efficiency will help boutiques to survive in today’s competitive environment.”

“The new era of boutique asset managers will not only be a more selective one, but with the right partnerships it will help empower investment decisions and improve controls to better tackle growing regulatory requirements.”

The research surveyed over 100 boutique asset managers from across the globe.

It’s that time of year again, says SS&C

Hedge fund flows as measured by the SS&C GlobeOp Capital Movement Index have declined 1.01 percent in October.

“Net flows were negative for the month, representing typical quarter-end rebalancing,” said Bill Stone, chairman and CEO of SS&C Technologies.

The SS&C GlobeOp Hedge Fund Performance Index is an asset-weighted, independent monthly window on hedge fund performance.

Cumulatively, the SS&C GlobeOp Capital Movement Index for October 2014 stands at 148.58 points, a decrease of 1.01 points over September 2014.

The index has declined 1.22 points over the past 12 months.

The gross return of the SS&C GlobeOp Hedge Fund Performance index for September 2014 measured 0.24 percent.

Front and centrally cleared

Central counterparties dominated discussions at the Risk Management Association 31st Conference on Securities Lending in Naples, Florida

MARK DUGDALE REPORTS

Central counterparties (CCPs) are not a threat to the bilateral market but a potential solution to multiple regulatory requirements, found the opening panel at this year's Risk Management Association Conference on Securities Lending in Naples, Florida.

Wells Fargo's Christopher Kunkle dismissed the age-old worry that CCPs will be the death of the bilateral market, saying that centrally cleared transactions are a regulatory ideal that will live alongside OTC business.

What portion of business market participants will be put through CCPs remains to be seen, but State Street's Glenn Horner warned that regulatory requirements such as leverage ratios and counterparty concentration limits could act as a tax on securities finance business, potentially pushing it towards central clearing in a bid to reduce costs.

He gave US Dodd-Frank Act Rule 165(e) as an example, explaining that CCPs could help to overcome single counterparty concentration limits.

The Federal Reserve is yet to exempt CCPs from Rule 165(e), he added, but he is "cautiously optimistic" that an exemption will be mandated in the future.

Panellists summarised the benefits of conducting securities finance business through CCPs, with broker-dealers and agent lenders able to enjoy bilateral counterparty risk management.

The panel was keen to point out that broker-dealers could benefit from potential cross-product netting opportunities, while agent lenders might see reduced, or even removed, indemnification costs.

Eurex Clearing's Matthias Graulich put forward the case for using the Lending CCP, of which Morgan Stanley will soon become a member, it has been confirmed.

Morgan Stanley's Susan O'Flynn commented that overall portfolio efficiencies might be enjoyed if a participant centrally clears multiple products. These, she said, could outweigh margin requirements.

Eurex Clearing's Lending CCP was launched in November 2012. The current product scope includes equities from Belgium, France, Germany, the Netherlands and Switzerland, as well as a range of international fixed-income instruments and exchange-traded funds.

The clearing service reduces counterparty risk and provides significant cost benefits to market participants with increasing capital requirements for bilateral exposures.

Four clearing members have already been admitted to the service and have cleared their first transactions.

Graulich said that Eurex's ultimate aim is to allow collateral management across products, so that the collateral from one transaction may be used to fund another. He added that from next year, pending regulatory approval, Eurex hopes to allow European counterparties to trade US securities through the Lending CCP.

Equity long/short strategies will generate good returns for hedge funds in the future, according to another panel.

Panellists Sandy Kaul of Citi, Jon Kinderlerer of Credit Suisse and Michael Litt of Arrowhawk Capital Partners agreed that equity long/short strategies could earn returns of between 5 and 8 percent.

Kaul said that hedge funds are seeing record flows, with equity long/short strategies enjoying a sizable portion. Citi's prime finance business reported that equity long/short was among the top performing strategies in August, at +1.45 percent.

Kinderlerer echoed the panel's comments, saying: "Equity long/short is probably a good place to invest."

An earlier panel reacted negatively to continuing Federal Reserve inaction over interest rates, with Royal Bank of Scotland chief US economist Michelle Girard unable to predict exactly when they may rise.

She said that there is no need for interest rates to remain at "emergency levels" given that the US economy is growing. "The fundamentals don't justify zero rates," she explained.

The panel also reviewed political sentiment in the US ahead of mid-term and presidential elections. The current administration and Congress have been at odds over the debt ceiling, which is due to be discussed in the near future.

Brown Brothers Harriman senior vice president Marc Chandler was critical of the US government's attitude to the economy, saying that in 2015, it will "impede rather than support economic growth".

Attendees later head that securities finance is in a period of re-pricing thanks to the new regulatory landscape.

BNY Mellon's James Slater made the comment as part of an industry roundtable on the regulatory environment.

He said that the cost of compliance with the likes of the Dodd-Frank Act and Basel III is even being passed on to beneficial owners, as borrower default indemnification is becoming more expensive.

Credit Suisse's Indrajit Bardhan agreed, telling attendees: "We've segmented who we work with, which is another kind of re-pricing."

Slater went on to describe new regulations as a "chemistry experiment", but their mission is righteous, he added, explaining that regulators want to make markets safe and spread risk among old and new participants.

State Street's Louis Maiuri added that securities finance is in a state flux due to market exits and that he hopes regulators are considering the effect on liquidity when writing new rules. **SLT**


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ISLA says relax

The Central Bank of Ireland wants to restrict collateral diversification relaxation, but the International Securities Lending Association disagrees

MARK DUGDALE REPORTS

The Central Bank of Ireland claimed in July that there are strong grounds for limiting the collateral diversification relaxation set out in the revised version of the European Securities and Markets Authority (ESMA) guidelines on exchange-traded funds and other UCITS issues.

The central bank invited all stakeholders to provide comments on its consultation paper, with the responses to be assessed following the 17 October deadline. The International Securities Lending Association (ISLA) obliged, with chief executive Kevin McNulty writing a letter to the central bank on deadline day.

The collateral diversification relaxation, which was initially intended to apply to UCITS money market funds (MMFs), was extended to all UCITS funds in ESMA's final report in March, following market support for the move. But the Central Bank of Ireland is worried that the extension could result in funds holding on to sovereign collateral of deteriorating credit quality in stressed market conditions.

ESMA's guidelines require all collateral to be of "high quality" and no UCITS fund can have exposure of more than 20 percent of its collateral basket to any single issuer. UCITS MFFs are exempt from this, as long as they receive securities from at least six different issuers, and no single issuer accounts for more than 30 percent of the collateral received.

The Central Bank of Ireland, in its 28 July consultation paper, said high quality is not adequately defined to warrant the relaxation being extended to all UCITS funds.

"UCITS MMFs are subject to quite specific requirements with regard to credit quality, which means that even where collateral is not diversified, a UCITS MMF will still be required to hold collateral, which, if rated, will have been awarded one of the two highest available short-term credit ratings by the credit rating agency that has rated the instrument, or, if the instrument is not rated, it is of an equivalent quality as determined by the management company's internal rating process."

"The effect of the disapplication to all UCITS is that the only protection in place with regard to the kind of sovereign debt collateral a non-UCITS MMF can take is an undefined requirement that it be of 'high quality'."

"The vagueness of that requirement was acceptable under the original guidelines because it was counter-balanced by the precision of the 20 percent diversification requirement."

The Central Bank of Ireland wants a rule introduced requiring a UCITS fund to only be able to accept high quality collateral. A determination of whether the collateral is sufficiently 'high quality' would be made before accepting it.

Any acceptance that would mean that more than 20 percent of the UCITS fund's total collateral comes from the specific issuer would require a more detailed assessment of credit quality. In the event of deteriorating credit quality, the UCITS fund would have to put into place and execute an action plan to deal with its exposure to the collateral, and cease holding and receiving collateral that does not have one of the two highest available ratings.

The Central Bank of Ireland stated: "We recognise that this would mean that Irish rules on UCITS collateral would be substantially different from other member states. If we can achieve a satisfactory risk mitigation effect without creating that difference we prefer to do so."

In response, ISLA's McNulty wrote that the ESMA derogation allows a UCITS to be fully collateralised in transferable securities issued by a member state as long as diversification levels are maintained at an issue level.

"These requirements are amongst the strictest in the world for funds and institutions participating in EPM (efficient portfolio management) techniques. There are a number of additional safeguards, alongside diversification in the guidelines that apply to all collateral (including government bonds) and therefore we do not believe that further safeguards are not required."

Existing market practices dictate that where accepted collateral deteriorates in credit quality to less than is acceptable to the UCITS, "this will be identified immediately and the collateral issue replaced with acceptable collateral", according to ISLA.

"It is well established practice that collateral in securities lending and repo markets is reviewed by the parties on a daily basis."

"We therefore believe that the concerns are better addressed through the requirement that the UCITS must ensure that collateral meets the criteria in the guidelines on an ongoing basis and that arbitrarily further restricting the collateral that can be accepted is not necessary."

The suggested collateral management framework, which the central bank acknowledged would implement a different approach for Irish UCITS than other European UCITS, will be disadvantageous to nationally domiciled funds, according to ISLA.

"With investors focusing on the cost profile of funds, securities lending can provide a low risk revenue stream. In a competitive market, having different and potentially more restrictive collateral requirements that will need additional resources to manage means that Irish UCITS may become less attractive to borrow from and therefore generate less return."

McNulty warned in the letter: "Whilst this would not be a deciding factor, this may be a consideration when a new UCITS is deciding on jurisdiction."

A further concern for ISLA's members is the Central Bank of Ireland's reliance on credit rating agencies, which goes against the grain of Financial Stability Board (FSB) proposals.

McNulty quotes the FSB publication 'Principles for Reducing Reliance on Credit Rating Agencies', which states: "Standard setters and authorities should assess references to credit rating agency (CRA) ratings in standards, laws and regulations and, wherever possible, remove them or replace them by suitable alternative standards of creditworthiness."

McNulty wrote on behalf of ISLA: "We believe there are already a number of safeguards in the guidelines that apply to all collateral including government bonds and therefore further safeguards are not required."

"For example, the requirement to stress test collateral portfolios if more than 30 percent of the fund NAV (net asset value) is exceeded in collateral value ensures that collateral portfolios are appropriately analysed and risk levels remain appropriate. This process would capture the deterioration of credit quality."

The Central Bank of Ireland is expected to publish other comments soon, but if any of the other commentators adopted ISLA's position, it could well have a fight on its hands. **SLT**

What ESMA's guidelines say

The European Securities and Markets Authority updated its guidelines on exchange-traded funds and other UCITS issues in August. The section on collateral diversification is repeated below:

Collateral should be sufficiently diversified in terms of country, markets and issuers. The criterion of sufficient diversification with respect to issuer concentration is considered to be respected if the UCITS receives from a counterparty of efficient portfolio management and over-the-counter financial derivative transactions a basket of collateral with a maximum exposure to a given issuer of 20 percent of the UCITS's net asset value.

When a UCITS is exposed to different counterparties, the different baskets of collateral should be aggregated to calculate the 20 percent limit of exposure to a single issuer. By way of derogation from this sub-paragraph, a UCITS may be fully collateralised in different transferable securities and money market instruments issued or guaranteed by a member state, one or more of its local authorities, a third country, or a public international body to which one or more member states belong.

Such a UCITS should receive securities from at least six different issues, but securities from any single issue should not account for more than 30 percent of the UCITS fund's net asset value. UCITS funds that intend to be fully collateralised in securities issued or guaranteed by a member state should disclose this fact in the prospectus of the UCITS.

UCITS should also identify the member states, local authorities, or public international bodies issuing or guaranteeing securities which they are able to accept as collateral for more than 20 percent of their net asset value.

Risks linked to the management of collateral, such as operational and legal risks, should be identified, managed and mitigated by the risk management process.

Mixed bag in Italian luxury

A heavy exposure to a newly restrained China and a weak home market have seen short sellers circle Italian luxury firms. Relte Stephen Schutte of Markit Securities Finance quantifies this growing trend

The short interest on the nine largest Italian domiciled luxury goods companies is the highest level since 2010. Over the past year, shorts seem to have been on the right side of the market, which has seen an average price decline of 30 percent for the same basket of securities.

One of only two firms to post an annual share price rise from the entire group is Geox, a middle-market fashion retailer, with an increase of 8 percent over the past year. Interestingly, Geox currently has the second highest percentage of shares out on loan at 18 percent, second only to high-end retailer Tod's, which has 18.4 percent of its free float on loan. While demand to borrow shares in Tod's has stayed relatively flat, those of Geox have declined from 52 week highs reached in March when 24 percent of its free float was out loan.

Luxury in the crosshairs

While Tod's leads the way in the space, its peers in the luxury shoes, garment and accessories indutry are attracting short sellers as they have significant sales exposure to the high-end Asian and the European tourism markets, which have been weak of late. Several firms in that space have reported that they are expecting a similarly difficult winter trading period in the northern hemisphere for the remainder of the year and have set investor expectations relatively low.

Standouts include Prada with 12.9 percent of free float out on loan. The group's share price has declined 40 percent over the past year. The group released disappointing half-year results in September and the group stated that foreign exchange movements and weakening overall consumption in Europe and China affected results. The group did report strong growth in Japan and the Middle East, but this was not enough to offset and prevent the worst growth levels reported since the its listing on the Hong Kong Stock Exchange in June 2011.

Salvatore Ferragamo's recent results echo that of its Milanese peer and share price is currently down some 31 percent over the past 12 months, while the firm now sees 8.9 pecent of its free float on loan.

Eyes on shorts

Eyewear firms have historically not seen as much short selling activity, but Luxotica's Ceo's student departure has seen shorts redouble their attention with 2.4 percent of the firm's free float out on loan.

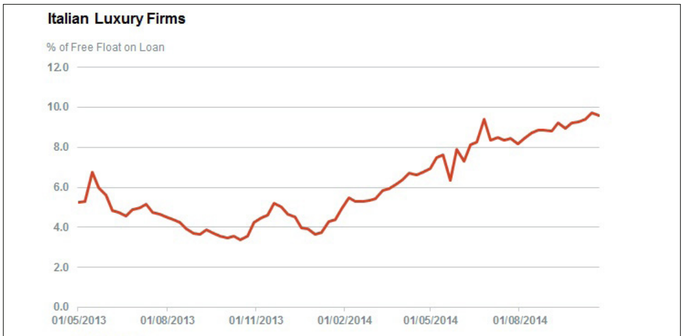
Safilo has also seen a surge in short interest in the last month and now has 5.1 percent of free float out on loan.

Companies in the clear

On the relatively less shorted end of scale, Moncler only has 0.3 percent of free float out on loan. This is interesting as the maker of luxury ski outfits has seen its shares slump by about a third to new lows since listing last year.

The other company to avoid the scrutiny of short sellers is Moschino owner Aeffe, which has about 4 percent of free float out on loan after a stellar year that has seen its shares advance 148 percent. **SLT**

Relte Stephen Schutte
Analyst
Markit Securities Finance



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Securities Lending: 2015 Outlook and Impact on the Market

Date: 18 November 2014
Location: London
www.securitieslendingtimes.com/events/events.php

Rapid asset growth is occurring across a set of investment strategies that exist within a "convergence zone" where traditional asset managers, hedge funds and even private equity firms are creating competing funds that use shorting, derivatives and leverage to help realise their investment goals. Demand for supplies to cover short exposures or collateralise synthetic, derivative or margin loan obligations is rising. The importance of financing and securities lending has never been more relevant.

19th annual Global Securities Financing Summit

Date: 28-29 January 2014
Location: Luxembourg
clearstream-events.com

The 19th annual Global Securities Financing Summit will take place on 28 and 29 January 2015 in Luxembourg. Our aim is to ensure that the Summit continues to be a top-class event, attracting collateral management and securities lending experts from around the world.

Beneficial Owners' International Securities Lending & Collateral Management Conference

Date: January 26-28, 2015
Location: San Francisco, CA
http://www.imn.org/conference/Beneficial-Owners-International-Securities-Lending-2015/Home.html

In light of significant regulatory and market developments, we are proud to announce a new title—and expanded focus for our Beneficial Owners' Securities Lending event series.

Industry appointments

Broadridge has recruited **Michael Airey** and **Mark Faber** to boost its collateral management capabilities.

Airey has joined Broadridge as vice president of strategic solutions in the capital markets team.

He will be responsible for Broadridge's global securities financing, securities lending and collateral management solutions, and will act as the subject matter expert for the FinancePro and CollateralPro products.

Airey has been consulting with Broadridge since January, positioning collateral management with the product and marketing teams, and assisting in the launch of CollateralPro.

He most recently worked at Royal Bank of Scotland, where he was managing director for short term markets and financing and head of US enterprise collateral optimisation. Airey also previously served at Dresdner Bank and Merrill Lynch.

Faber has joined Broadridge as senior director and collateral management product manager.

Prior to joining Broadridge, he was responsible for cross-product collateral management at financial institutions including Societe Generale, Goldman Sachs and Jefferies.

Faber was most recently managing director at Linium, where he was responsible for consulting services designed to improve operational efficiency, reduce costs and risk, and ensure compliance with the changing regulatory landscape.

Tim Bevan has become CEO of BCS Prime Brokerage, part of the BCS Financial Group.

He will be responsible for all international operations including future growth strategy, new products and diversifying the business.

This is a new role for BCS Prime Brokerage, created due to the rapid expansion of the business outside of Russia. Bevan is one of three recent appointments.

Bevan has been with BCS Financial Group since 2012. Previously he was director of global electronic trading at Otkritie Capital.

In the last 18 months, BCS UK operations have continued to grow, with UK activity becoming a core entity with the BCS group for investment banking.

Roman Lokhov, CEO and head of GMIB BCS Financial Group, said: "Since opening our UK office, BSC Prime Brokerage has grown significantly, we believe that now is the time to recognise this growth by creating a new CEO position for which Bevan was the natural candidate."

"This position will give Bevan and the senior team a more formalised structure to continue working towards new business lines outside Russia."

Bevan added: "Since joining BCS we have worked hard to build the business outside of Russia and grow our range of products and services on offer to clients. This has work has been regarded and we are now the go-to broker for Russia and Russian products."

Maxim Group LLC has hired **Gregory Simons** as a managing director and head of electronic trading.

Simons has over two decades of institutional sales and trading experience in both high-touch execution and the sales and implementation of electronic order management systems.

He spent 10 years at the Instinet Corporation, ultimately becoming a senior vice president responsible for trading US equities as well as servicing US-based hedge funds, mutual funds, registered investment advisors, government agencies and insurance companies on the various electronic offerings.

Simons later joined Direct Access Partners LLC as president, head of US equity sales trading and electronic order management implementation.

He was instrumental in building and managing the trading desk by expanding into other asset classes, commission management, third-party research and outsource trading for prime brokerage clients.

After Direct Access Partners LLC, Simons joined Lazard Capital Markets Prime Brokerage service group as head of trading for prime services.

At Maxim Group, Simons will be responsible for broadening the firm's overall reach with the implementation of electronic order management systems, while also supporting the firm's prime brokerage services division. **SLT**

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