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Final NSFR: trick or treat?

Securities finance professionals were given a Halloween treat in the form of the finalised net stable funding ratio (NSFR).

The Basel Committee on Banking Supervision (BCBS) issued the final standard on 31 October, marking the end of its regulatory reform agenda.

The NSFR, a significant component of the Basel III reforms, requires banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities. The BCBS wants it to become the minimum standard by 1 January 2018.

The final NSFR, originally put forward in 2009, largly retains the structure of the January 2014 consultative proposal.

Key changes introduced in the final standard on 31 october cover the required stable funding for short-term exposures to banks and other financial institutions, derivatives exposures, and assets posted as initial margin for derivative contracts.

It also recognises that, under strict conditions, certain asset and liability items are interdependent and can therefore be viewed as neutral in terms of the NSFR.

Giving his initial impressions of the final NFSR, Debevoise & Plimpton LLP counsel Lee Schneider said that Section 45, which covers the treatment of interdependent assets and liabilities, contains "potentially helpful language."

He said: "This provision seems to give national supervisors some discretion to provide symmetrical treatment that could help when market participants do matchbook or conduit securities lending or repo."

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More routes to market needed, says Citi

Changes in market structure and new capital requirements have driven securities lending away from a maximum utilisation approach to a more intrinsic one, with beneficial owners now looking for more options to optimise their use of supply, according to Citi.

The bank's latest report, which focuses on how beneficial owners are looking for more routes to market to maximise their portfolios, suggests that their move to intrinsic lending since the financial crisis has dampened interest in low-value or general collateral deals.

Regulations implemented since the crisis have also limited beneficial owners' interest, according to Citi, with US Dodd-Frank Act Rule 165(e) and Basel III in particular further narrowing the pool of those willing to put their supply out on loan.

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There is still work to do for European insurers

Research has identified growing pressure on insurance firms as they face more intense demands on collateral, with fewer firms convinced they hold enough assets of suitable quality compared with previous years.

The BNY Mellon-backed Insurance Risk survey claims European insurers still have work to do in respect of understanding the full implications of the move to central clearing before it becomes effective in the summer of 2016.

Only 29 percent of European respondents said they understood the impact of the move to central clearing and are moving towards operational readiness.

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Final NSFR: trick or treat?

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"The BCBS left it up to national supervisors in each case, so while they have provided some flexibility, it's up to the national supervisors to utilise that flexibility. Depending on what each regulator does, that really will determine whether or not this is something that will be beneficial to securities finance transactions under NSFR."

"While I would say this provides some hope of a fix to the problem that the draft NSFR created with the a-symmetrical treatment, it doesn't provide the silver bullet that many of us were hoping for."

Stefan Ingves, chairman of the Basel Committee, commented: "A key lesson from the crisis has been the need to prevent overreliance on short-term, volatile sources of funding. The NSFR does this by limiting the use of volatile short-term borrowings to fund illiquid assets."

"In finalising the standard, the committee has essentially completed its regulatory reform agenda, undertaken to promote a more resilient banking sector following the financial crisis."

More routes to market needed, says Citi

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Beneficial owners are now looking for more options to optimise their use of supply, reported Citi.

Using their highest value supply in agency lending programmes remains a key part of the emerging 'solutions' approach, but beneficial owners are looking to identify additional uses for the unused portion of their lendable supply pool.

This includes directing a portion of supplies into principal or synthetic lending programmes, or using their assets in programmes where demand for high quality liquid assets is rising due to new OTC clearing rules.

Service providers are in turn enhancing their coverage models to allow beneficial owners to work more fluidly across different areas of their organisations, reported Citi.

Beneficial owners with their own investment management capabilities are also beginning to internalise many lending and collateral functions through the creation of enhanced liquidity management units, it added.

"Changes in market structure and new capital requirements have driven securities lending activity away from a maximum utilisation approach to a more intrinsic one," commented Sandy Kaul, global head of business advisory services at Citi.

"In order to process these changes, the sell-side must adapt to being a more holistic solutions provider, working to understand, service and optimise the entire breadth of a client's potential supply pool."

There is still work to do for European insurers

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In contrast, 75 percent of US respondents consider themselves fully prepared, with the remainder saying they are still carrying out their impact assessment.

Close to a quarter (23 percent) of European respondents are yet to launch an impact assessment, with 18 percent saying they do not believe they will be affected.

The pressures facing insurers is demonstrated by the fact that only 15 percent of all firms surveyed said they are comfortably holding enough assets of the requisite quality to meet collateral posting obligations, compared to 25 percent in 2013 and 41 percent in 2012.

While the survey indicates that the impact of central clearing in the US has been "relatively benign" so far (with 40 percent of US respondents saying they either hold enough assets or comfortably hold enough assets to meet their posting obligations), the figure today for European insurers is 25 percent.

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Critically, only 8 percent of European firms said they expect to hold enough assets or comfortably hold enough assets once the reforms come into play.

Kurt Woetzel, CEO of BNY Mellon markets group, said: "With the US regulatory environment being at an advanced stage and more clearly understood, many North American firms have already moved from contemplating collateral optimisation techniques to actually putting them into practice."

"In addition, 20 percent of North American respondents have invested in technology to allow the use of 'cost of opportunity revenue lost' as a proxy for 'most efficient collateral', while one in five North American firms have integrated their collateral management and margining processes across instruments within and across legal entities."

"We would expect a similar picture to emerge in Europe over time, once insurers in the region become European Markets Infrastructure Regulation compliant."

The survey encompassed responses from 111 insurers, of which 59 percent are active in the life sector, 64 percent in the non-life sector and 17 percent in reinsurance.

Forty-four percent of those taking part write business in the Americas and more than 75 percent do so in Europe, while only 40 percent write business in the Asia Pacific region.

The survey represents a broad cross-section of insurers by size, with 13 percent holding more than $500 billion in assets, 36 percent holding between $25 billion and $500 billion and the remainder of the sample holding $25 billion or less.

Standard Chartered bank makes collateral moves in Asia

Standard Chartered Bank has gone live with two collateral management initiatives in Asia.

Clearstream and the bank have implemented a collateral management service for Singapore, while Euroclear Bank and Standard Chartered commemorated the launch of their joint collateral optimisation initiative at the Euroclear Asia Collateral Conference held in the jurisdiction.

From 17 November onwards, mutual Standard Chartered and Clearstream customers will be able to consolidate their assets held across both institutions into one single pool to perform collateral management transactions with any Clearstream collateral receiver.

The service is part of Clearstream's integrated collateral management offering, the Global Liquidity Hub.

Assets held by a customer in an account with Standard Chartered in Singapore are now automatically moved to a Clearstream account at Standard Chartered when they are needed as collateral, thereby relieving customers of manual collateral transfers and allocations.

These automated procedures can be used to allocate collateral held in Singapore to cover global exposures with any counterparty with an account at Clearstream.

The automated collateral allocation is performed in real-time and only up to the required amount.

The system will also identify and allocate the cheapest collateral option to match the underlying exposure requirements.

When the assets are required for local settlement in Singapore or are no longer needed for triparty purposes, they are returned automatically to the customer's settlement account at Standard Chartered.

George Nast, global product head of transaction banking at Standard Chartered, said: "I am pleased that mutual customers of Standard Chartered and Clearstream are now able to optimise their inventory held in custody with us in Singapore, by seamlessly and efficiently allocating it to cover their global exposures from a single collateral pool."

"This greatly streamlines collateral management for Singaporean assets and enables our customers to maximise the use of these assets, thereby overcoming one of the most pressing challenges faced by the industry today—collateral fragmentation."

The collateral management service will initially be rolled out for Singapore with other Asian markets such as Hong Kong to follow.

First announced in 2013, Standard Chartered's clients can now also use Euroclear's Open Inventory Sourcing capabilities on the global collateral conduit known as the Collateral Highway.

Under the agreement, mutual clients are able to utilise assets held at Standard Chartered to meet collateral requirements arising in triparty repos, central counterparty margining and other financing deals managed by Euroclear Bank via the Collateral Highway.

These assets do not leave the Standard Chartered network, but are used in a virtual single cross-border pool.

The solution enables clients to use their assets held in domestic Asian capital markets to tap international financing sources from a wide spectrum of non-Asian counterparties.

Nast stated: "We are delighted to strengthen our services to clients by partnering with Euroclear Bank."

"By joining Euroclear's Collateral Highway and using its technology, we are ensuring that customers can now take a holistic approach to collateral management and liquidity provision."

This anniversary follows the recent joint venture announced by Euroclear and the DTCC, forming DTCC – Euroclear Global Collateral Ltd, which optimises collateral movements for clients of these depositories on a transatlantic basis.

Euroclear has also partnered with Citi and BNP Paribas Securities Services to offer similar cross-border collateral pooling initiatives.

In addition to the collaboration with Standard Chartered, Clearstream is also partnering with the Singapore Exchange (SGX) under the Liquidity Hub Global Outsourcing service, which will bring a collateral management solution to the Singaporean market as a whole.

Under this partnership, SGX will white-label Clearstream's collateral management services to cover domestic exposures in Singapore.

InteDelta and Finadium form partnership

InteDelta and Finadium will provide a joint service offering to their clients.

InteDelta's services in risk and collateral management cover areas such as market intelligence, organisational change, business reengineering, risk modelling, technology architecture and systems implementation.

Finadium's cover collateral management, liquidity, securities lending, repo, prime brokerage, custody and related products. Its research reports include primary surveys, regulatory analyses and product reviews.

Through their partnership, the firms will combine InteDelta's global risk consulting expertise with Finadium's market research offering.

It will also enable InteDelta to bundle Finadium's research into its advisor assignments, complementing its existing retainer services.

The partnership will allow Finadium to support its existing client base with longer term on-site consulting while it will provide InteDelta with an increased capability to support on-site consulting in the US market.

Finally, Finadium's research will be able to reach the Asian market.

SunGard's hottest stocks

The hottest stocks from around the globe for the week beginning 3 November 2014 have been compiled by SunGard's Astec Analytics.

Portugal Telecom SA (PTC.LIS) is Astec's top stock in the Europe, Middle East and Africa re-

gion following news that cable company Altice has made a binding €7 billion offer to acquire the company's Portuguese assets from Brazil's Oi.

PTC's share price has been climbing strongly after a "mostly negative" few months while, on the borrowing front, data from Astec suggests that short sellers have also been turning more positive, with the number of shares borrowed falling 14 percent in October.

Hot stocks regular, Logitech International SA (LOGN.S), is back in the list after it agreed an extension with the SIX Swiss exchange for the submission of its annual report.

Price gains following its Q2 numbers released in October have driven action for the most part, with Astec's data suggesting that short sellers have started to cover their positions, with borrowing volumes recently falling 11 percent.

Energy giant Chevron Corp (CVX) is Astec's top pick for North America after it bucked the trend of falling earnings seen in the industry, posting increased Q3 profits thanks in large to a strong performance from its refinery business.

Its share price has climbed almost 20 percent over the past two weeks alone, while Astec's data suggests short sellers have been "slowly but surely" closing out their positions over this same period of time, with the number of shares borrowed down around 26 percent in the past four weeks.

Hot stocks mainstay GoPro (GPRO) has seen yet another week in Astec's list, with fresh attention following the release of its Q3 results.

On the securities lending front, Astec's data suggests short sellers were somewhat sceptical of these gains, with the number of GoPro shares being borrowed climbing 28 percent in the week.

Chinese company Tencent Holdings (0700.HK) is Astec's top pick in Asia as it draws fresh attention following the strong results of rival firm Alibaba.

Tencent's shares only lost a little ground following these results, although on the borrowing front Astec's data suggests short sellers have been building positions since the start of October—in which time borrowing volumes have climbed almost 30 percent.

Finally, Japanese industrial gas business Taiyo Nippon Sanso Corp (4091) has also drawn attention in Asia after it announced its latest earnings numbers; showing a better than expected performance and bolstering its share price.

On the borrowing front, this seemingly did little to dissuade short sellers of their convictions, with the number of Nippon shares edging very slightly higher, now having almost doubled since the start of October.

Eurex Group reveals losses in outstanding

Eurex Group has released its monthly figures for October 2014, revealing losses in the Eurex Repo average outstanding.

Across the Eurex Repo markets, the average outstanding reduced from €210.3 billion in October 2013 to €202.7 billion in October 2014. This incorporates the Swiss Franc Repo, the Euro Repo and the GC Pooling markets.

Secured money in GC Pooling reached an average outstanding of €161.5 billion, a 12 percent increase on last year's figure of €144 billion.

The repo market increased by 3 percent to €39 billion, and the Swiss Franc Repo market reached 2.2 billion.

EU to recognise third country CCPs

The European Commission has adopted its first equivalence decisions for the regulatory regimes of central counterparties (CCPs) in Australia, Hong Kong, Japan and Singapore.

The CCPs in these third-country jurisdictions will be able to obtain recognition in the EU, and can therefore be used by market participants to clear standardised over-the-counter derivatives as required by EU legislation, while remaining subject solely to the regulation and supervision of their home jurisdiction.

Although rules may differ in the detail, international regulators are pursuing the same objectives to promote financial stability by promoting the use of CCPs that are subject to robust prudential requirements.

Vice president Michel Barnier, who is responsible for internal market and services for the European Commission, said: "Globally agreed reforms of derivatives markets, like all financial services reforms, will only work in international markets if regulators and supervisors rely on each other."

"[The] decisions show that the EU is willing to defer to the regulatory frameworks of third countries, if they meet the same objectives as EU rules. We have been working in parallel on assessing 12 additional jurisdictions and finalising those assessments is a top priority."

The European Commission begins its assessment for equivalence if a CCP from a third country seeks recognition from the European Securities and Markets Authorities (ESMA).

Equivalence assessments are undertaken using an outcome-based approach. This requires that the relevant rules operating in the third country satisfy the same objectives as in the EU.

It does not mean that identical rules are required to be in place in the third country.

If a determination of equivalence is made, it will be given effect through a legally binding implementing act in accordance with Article 25(6) of the European Market Infrastructure Regulation.

OneChicago continues strong performance

OneChicago's year-to-date trading volume for 2014 is up 13 percent compared to the first 10 months of 2013.

The exchange's October 2014 volume stood at 747,797, while the average block trade size for the month was 308 (30,800 share equivalent).

OCX.NoDivRisk products comprised 54 percent of October's month-end open interest.

"With the rollout of the new match engine, pricing structure and the innovative weekly futures with the next day settlement feature, October 2014 was a phenomenal month for OneChicago," said David Downey, CEO of OneChicago.

The exchange successfully rolled out OCXdelta1 during October—a proprietary match engine for the reporting and trading of block size transactions in single stock futures and the related exchange futures for physicals (EFP).

OneChicago also began to roll out weekly single stock futures that will list each day and expire the same day during the next week. The new weekly contracts will settle into the physical share the next business day as opposed to the current standard of T+3.

The exchange lowered its transaction fees by 75 percent in October from $20 per million to $5 per million, based on the notional value of the trade.

Open interest decreased 3 percent year-over-year to 598,703 contracts on the equity finance exchange at close-of-market on 31 October.

The month also saw 735,908 single stock futures traded on the block and EFP trading system. October's EFP and block activity represented $3.4 billion in notional value.

ESMA: the tip of the shorting iceberg

The European Securities and Markets Authority (ESMA) received 442 disclosed short positions under the rule (EU) 236/2012 that exceed the 0.5 percent threshold, as of 25 September.

As of 28 October, these publicly disclosed positions were spread across 250 companies and represent $14.1 billion of short exposure.

While a third of the companies that have a disclosed short position are the target of a single fund, several see many more than that—the 10 disclosed shorts in Swedish firm Elekta, for example.

The results follow the news that Markit has extended its securities finance offering with the integration of all publicly disclosed short-selling positions required by ESMA regulations.

According to Markit, ESMA's data seems to underrepresent shorting activity overall, as the current aggregate value of the demand to borrow across the companies with publicly disclosed short positions represents $43.6 billion.

This is more than three times the aggregate value of disclosed positions.

Markit stated: "We estimate that the undisclosed data (positions smaller than 0.5 percent) across Europe for the 453 companies represent another $28 billion—almost double than that currently disclosed."

Among the 10 stocks that fall under the ESMA disclosure requirement, which sees the largest demand to borrow, the average gap between the public disclosed short positions and demand to borrow sits at 12.7 percent of shares outstanding.

Average disclosed short interest stands at 1.7 percent. This is compared with the Markit average demand to borrow of 3.2 percent of shares outstanding.

Medical equipment maker Elekta is currently the most shorted out of the public sample in terms of percentage of publicly disclosed shorts.

The previously mentioned 10 disclosed shorts represent 12.4 percent of the company's shares outstanding.

Market has found that demand to borrow the company's shares stands at 19 percent of shares outstanding, indicating a significant amount of shorting activity that falls below the 0.5 percent threshold.

Other stocks with more than 5 percent of publicly disclosed short positions include FLSmidth & Co with 9.5 percent disclosed shares shorted, which compares to 17.8 percent of demand to borrow.

The company provides machinery to the mining and cement industry in Denmark.

Currently the firm is going through a restructuring coupled with a weak outlook for mining in the region. Goldman Sachs recently downgraded the company's stock from "neutral" to a "sell", according to Bloomberg reports.

Sainsbury's has disclosed short positions of 7.3 percent, while total short interest data from Markit indicates a significantly higher 18.4 percent as midmarket retailers in the UK continue to lose market share, with German discount retailers continuing to grow.

Markit Securities Finance customers can now obtain a complete view of short interest, which includes global securities finance trade data reported to Markit by lenders and borrowers, alongside public short selling disclosers.

This integrates all ESMA short disclosures into a single service that covers all European markets under ESMA's jurisdiction, including UK, Germany, France, Italy and Spain.

Pierre Khemdoudi, director of securities finance at Markit, said: "The addition of all European public short selling disclosures to our securities finance dataset will help position Markit as a one-stop shop for customers seeking a holistic view on all aspects of short selling and securities finance."

The ESMA public short selling disclosure data dates back to 2012 when ESMA regulation (EU) 236/2012 was implemented, which required public disclosure of any short position in a European listed company exceeding 0.5 percent of shares outstanding.

Markit recently included web access for its benchmarking services to enable easier access to accurate performance reporting, as well as

advanced analytics of general collateral and specials to identify top earning securities to support customer reporting.

Access to pending analytics, intraday rates and domestic trading levels is also available via the web portal.

ConvergEx launches liquid alternatives solution

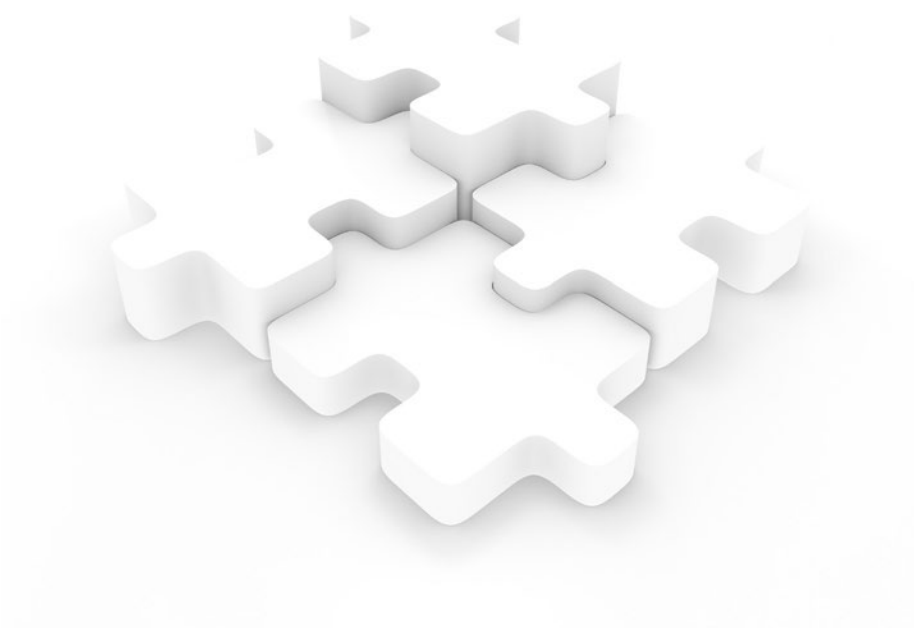
ConvergEx Prime Services has unveiled a new solution for managing liquid alternatives, designed to support hedge and mutual fund companies.

The solution was created in partnership with software development and data management firm Portfolioshop. It works by reconciling data from the trust bank, prime broker and fund administrator required to support liquid alternatives.

By accumulating data from all three sources, the software can provide greater accuracy, while daily reports can include value at risk analysis, stress tests, and performance attribution.

Douglas Nelson, ConvergEx Group executive managing director, said: "Reconciliation between multiple custodians and administrators can be a big expense for any firm, especially for '40 Act registered funds that are required to use certain types of custodians."

"Our new service significantly simplifies this process, saving our clients time and money, and reducing staffing needs."



Plentiful October for OCC

OCC's total cleared contract volume in October reached 499,598,951 contracts, a 23 percent increase from October 2013.

This represents the second highest monthly volume on record behind the August 2011 record volume of 554,842,463 contracts.

OCC's year-to-date total cleared contract volume is up 4 percent from 2013 with 3,673,768,194 contracts.

OCC's securities lending central counterparty activity was up 10 percent in new loans from October 2013 with 107,000 transactions in the month.

Year-to-date stock loan activity was down 7 percent from 2013 with 994,740 new loan transactions in 2014, while the average daily loan value cleared by OCC in October was $167,463,267,034.

Exchange-listed options volume reached 491,394,154 contracts in October, a 22 percent increase from October 2013.

On 15 October, total options volume reached 33,501,102 contracts representing the fifth highest volume day on record.

Average daily options trading volume for the month was 21,364,964 contracts, 22 percent higher than the average daily volume of October 2013.

Year-to-date total options volume increased 4 percent from 2013, with 3,615,990,452 cleared contracts.

Finally, OCC cleared 8,204,797 futures contracts in October, a 49 percent increase from October 2013.

OCC's average daily cleared futures volume was 356,730 contracts, up 49 percent from the average daily of October 2013.

OCC's year-to-date total cleared futures volume reached 57,777,742 contracts in October, a 15 percent increase from 2013.

Prime brokers and the regulation rollercoaster

Prime brokerage is changing in reaction to onerous regulatory requirements. Ben Cole of Lombard Capital Markets reports

The prime brokerage business experienced rapid growth in the 1980s and 1990s, and then declined after the economic downturn as banks were scaling back on their prime brokerage business, until markets started to pick up. Historically, we've all seen these cyclical events, now added to the mix, prime brokers have to adapt to harsh new banking rules.

Today, many hedge funds are finding it more challenging to sustain probability, which in turn impacts on their prime brokers' ability to make a profit. Basel III requirements are focusing on higher capital constraints on banks. The increased capital charges that regulators are imposing means than a financial institution has to carry more capital to support a business that's not as profitable. As a result, many prime brokers are reviewing their customers, with a view to identifying where the cost of capital is high, but the revenue outweighs the risk. Goldmans Sachs has been the most public in this space and exiting less profitable clients, while in other cases increasing fees.

In its discussions with prime brokers, Lombard Capital Markets is hearing that business models are also being challenged, with increasing pressure placed on risk weighted assets (RWA). As a result, there has been a real shift towards central counterparties (CCPs). In light of this shift, Traiana announced on 22 October the launch of Harmony CCP Connect, with Credit Suisse, J.P. Morgan and Instinet quickly adopting this model, enabling them to connect to three CCPs.

In addition, securities financing desks have also been shifting towards CCP solutions in order to reduce counterparty risk and improve operational efficiencies. Morgan Stanley was the most recent to announce it is to become a clearing member of the Eurex Clearing Securities Lending CCP.

Adding further regulations to the mix, the Alternative Investment Fund Managers Directive (AIFMD) is acting a driver for changes to the European alternative fund industry, causing a headache for prime brokers. The initial tranches of reporting for fund managers captured by the directive took place on 31 October 2014, and will so again on 31 January 2015. BNP Paribas Securities Services has been quick to exploit the reporting burden by offering an outsourcing service for AIFMD reporting, enabling alternative investment fund managers to fulfill their reporting obligations without the administrative and financial burden.

The backlog of AIFMD authorisation applications being processed by the UK Financial Conduct Authority has also highlighted that many managers have left their plans late, and illustrates just how slow funds have been to respond to the directive. These late applications have also meant that many managers have left it to the last minute to appoint depositories.

More concerning is the European Securities and Markets Authority (ESMA) is likely to force prime brokers to segregate alternative investment fund assets, which would have significant implications for the prime broker operating model. If and when these rules are announced, the news will not be well received. Dependent on the segregation requirements, prime brokers could have a long road ahead of them to make changes, with some prime brokers indicating the best part of two years to implement. Segregation will also cause a real headache in terms of re-hypothectaion, which is key to the prime brokerage model.

In every industry, the landscape constantly changes, and the rate of change is high at the moment, particularly to the already under-fire prime brokerage industry. With one challenge after another, it will be interesting to see how firms react in the coming years. **SLT**

Ben Cole
Director
Lombard Capital Markets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Expansion packed

Short selling disclosures and more have been added to Markit's securities finance offering, as Olly Smith and Pierre Khemdoudi explain

MARK DUGDALE REPORTS

Markit has integrated all publicly disclosed short selling positions into its securities finance offering—why have you taken this step?

Pierre Khemdoudi: We are developing our securities finance offering to make it a one-stop shop for our customers, who are seeking a holistic overview of the whole market. The inclusion of public short selling disclosures is in-line with our release strategy over the past year—it is about developing a workflow suite that addresses the whole of securities finance, rather than just securities lending.

Olly Smith: Short selling disclosures, as required by European Securities and Markets Authority (ESMA) regulations, are publically available, so our customers can access all of it themselves. But that will mean looking at dozens of EU member state websites, downloading the information, putting into a database, and then trying to make sense of it all.

We have made that a lot easier, because we want to help with the workflow and put it all into a single place, which can be viewed alongside the OTC securities lending data we receive from lenders and borrowers in the market. A number of other recent enhancements reflect this theme.

What other enhancements has Markit made to the platform?

Smith: At Markit Securities Finance, we're probably best known for our work around performance analytics and benchmarking, and with the latest release, we've combined that functionality into a single platform, consolidated to meet client workflow.

Our customers don't want to use 15 different systems to achieve a single goal. They want a single system that does everything they need it to, and hopefully more because securities finance doesn't work in a vacuum. It is affected by a number of different factors that we are working to capture.

Khemdoudi: We added new functionality in order to give customers a holistic view of securities finance. We have begun to integrate triparty repo data, which we announced at the beginning of the year. This is our first endeavour in the repo market, which is moving closer and closer to securities lending. Additionally, in the same spirit, in September we partnered with Pirum to offer customers greater data delivery options and access to more timely pending trade data.

In essence, our strategy is all about broadening the securities finance offering and allowing our customers to exploit this data in an easier and more intuitive way.

Why is the short selling data important to clients in particular?

Smith: There's always interest in the public disclosures to see which people are shorting. One of our clients, for example, is quite interested in aggregating its own disclosures. Also, some of our prime broker clients want to see what shorting is going on.

On top of this, one of our functions as a global securities lending information provider is that we're always seen as a good proxy. The inclusion of the public information shows that we're a very good proxy for short selling, although the correlation between the public information and our own isn't perfect.

ESMA's regulations deal with any short position in a European listed company above 0.5 percent of shares outstanding, so it doesn't deal with everything. It's not perfectly correlated because the public information is limited.

Khemdoudi: We can also offer enhanced analytics thanks to this data, because the European set is more granular than what has been available previously. We hope that our customers will be able to monitor the trends being applied in shorting.

Using our tools, customers can also go above just the securities analysis to see an aggregated country or sector view. They will be able to assess selling dynamics in action, because historic data will also be available. It is always interesting to see the present in the context of the past, particularly since the inception of public disclosures.

Is expanding your services a reaction to an expansion in securities finance?

Khemdoudi: Our product is a reflection of what the market is doing. We gather information from our customers, so if the market structure is changing, as we have seen in repo and securities lending, then the data for each is moving closer together and lines are becoming blurred.

Our customers are reorganising their activities in order to have a broader outlook across all of securities finance. It's natural on our side that we evolve the same way.

Smith: We want to ensure that we're relevant to all our customers, which is why we do a quarterly release cycle and in this current cycle we're hopefully meeting requirements across the spectrum of our clients.

We've not only done work around benchmarking and reporting, we've also enhanced the analytics and charting, pending and intra-day levels, as well as the short selling disclosures. We're trying to touch all the bases. **SLT**

Pierre Khemdoudi
Director, securities finance
Markit

Olly Smith
Director, securities finance
Markit

Social media and the real world

Facebook, Twitter and LinkedIn have to deliver and continue to grow in the real world, says David Lewis of SunGard's Astec Analytics

Much has been written about both initial public offerings (IPOs) and social media companies in the last few years, and especially where these two subjects converge. Many social media companies have both been cursed by and benefitted from the asset bubbles in which they have launched themselves onto the markets.

Inflated valuations have made their founders and early investors hugely rich in some cases, but they have also exposed them to new masters, in some cases for the first time ever. These new companies are now not so new; their edgy new services have become the norm and their catchphrases have even made it into mainstream culture and language. The downside is that they have to learn to play the corporate games that their bricks and mortar cousins have long endured, where forecasts, plans and growth patterns, as well as earnings reports, can bring greater riches or ruin.

LinkedIn, Facebook and Twitter are among the most well-known, but there are many more, such as Yelp Inc and Pandora, to name just two more in the 'internet services and software' sector. They all offer something slightly different and have their own characteristics, yet they all now have to prove their worth to compete in the real world of finance and economics.

LinkedIn has bucked the group trend a little recently with a boost to its fortunes based on positive expectations of future growth and profitability. In February, LinkedIn was in a different spot, when shares fell 11 percent after posting a weaker than expected outlook. By October, its strategy of looking for new areas of revenue growth had turned the outlook around, and the forecasts are now beating the consensus of analysts—earnings per share of 52 cents versus an expectation of 47 cents. Over the last three months, LinkedIn shares have appreciated more than 25 percent, hitting a level around five times their issue price.

Twitter and Facebook have fared less well recently. Despite reporting strong earnings growth for this quarter, both companies suffered losses in share value as they announced significant investment plans to counter disappointing growth numbers and expectations. Twitter reported revenues up 114 percent over the same quarter last year, but net losses extended to more than $175 million for the same three months. Facebook reported strong growth in user numbers, particularly of its mobile services (a strategic gap that was recently filled), yet its shares fell around 7 percent on the day, with Twitter falling almost 10 percent following its earnings announcement.

The revenue models of these firms differ of course. Facebook and Twitter are all about advertising and add-on services, while LinkedIn relies very heavily on recruitment companies paying to access the LinkedIn membership for candidates. Recruitment agency clients are estimated to account for some 60 percent of LinkedIn's overall revenues.

With what might be considered relatively volatile prices and, in some cases, continuing net losses quarter to quarter, it would not be unreasonable to think that prices may be overinflated. Share prices are, in traditional wisdom, supposed to reflect the expectation of future earnings. On that basis, current losses can be absorbed when there is a believable business model with growth potential. LinkedIn certainly has one such ace card when compared with the peers in this sample. It is the only social media provider that is not banned in the world's most populous country: China. Where business models depend on numbers of users and the potential growth possibilities, this has to be a key advantage for LinkedIn, which is perhaps the most sober and business-like of the services these firms offer. Do the short sellers agree?

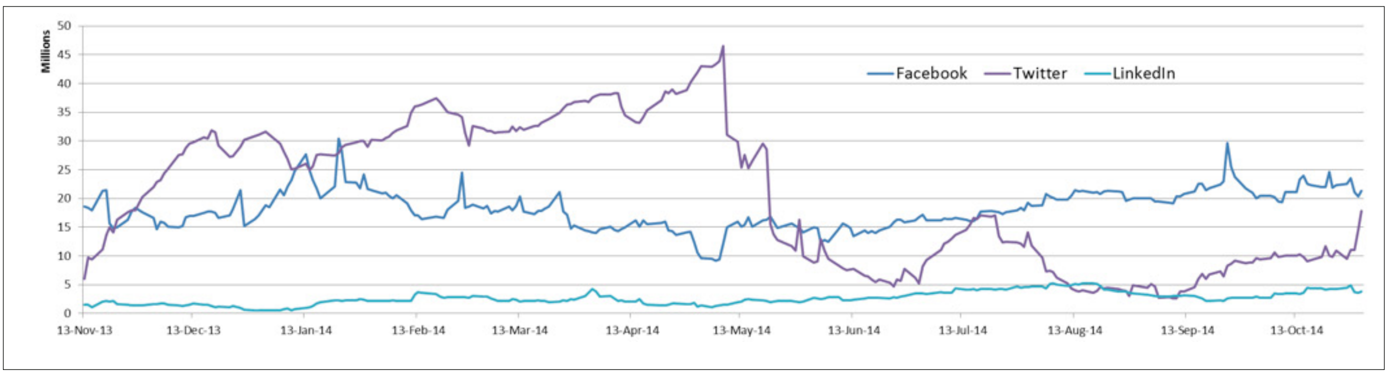
Figure 1 shows the balance of shares on loan for these three firms since November 2013. Twitter is the youngest public company and shows volatility in loan volumes characteristic of post-IPO levels, but trails off significantly after May 2014. This makes a straight 12-month comparison uninformative. However, immediately after the third quarter earnings results issued at the end of October, the volume on loan very nearly doubles, indicating—when taken as a proxy for short interest—a jump in negative sentiment around the sustainability of the share price.

By comparison, Facebook loan volumes have reacted little since its earnings report, despite the associated 7 percent drop in share price.

LinkedIn shares, while having doubled in loan volume since November 2013, remain at a relatively low level and, like Facebook, reacted little to the Q3 earnings reported to the market, suggesting a lack of negative sentiment towards the online networking service. **SLT**

David Lewis
Senior vice president
SunGard's Astec Analytics

Figure 1: Volume of shares on loan, November 2013 to October 2014



Source: SunGard's Astec Analytics solution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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.

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Date: 28-29 January 2015
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Location: San Francisco, CA
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

BNY Mellon has appointed **James Wiener** as its new chief risk officer and executive vice president, effective from 24 November 2014.

As the successor to **Brian Rogan**, who is retiring at the end of the year, Wiener will be in charge of the bank's global risk and compliance group, overseeing functions for operations, market risk, and compliance and credit.

He will also be responsible for building the company's risk management capabilities, including the integration of enterprise risk data.

In his new role, he will report to BNY Mellon chairman and CEO, Gerald Hassell, as well as the risk committee of the board of directors.

Wiener joins from the Oliver Wyman Group where he was a senior partner and leader of North American public policy practice, and a member of the management committee.

Here, he led the consulting focus on capital planning requirement under the Federal Reserve's comprehensive capital analysis review (CCAR).

Previously, he was a senior partner and leader of the North American finance and risk management practice, where he led the firm's largest practice area.

Hassell said: "Wiener's wide-ranging experience provides him with a unique understanding of the risk management requirements and expectations of the public and private sectors."

"He will provide our company with strong leadership, counsel and vision in the on-going management of our compliance and credit, operational and market risk areas."

Wiener will also serve on the executive committee, helping to oversee day-to-day operations of the firm.

Laurie Flom has joined OCC as first vice president and head of enterprise risk management.

Flom previously worked for Associated Banc-Corp where she served as senior vice president and director of enterprise risk management.

She was responsible for developing and implementing the bank's regional enterprise risk management framework.

Craig Donohue, executive chairman at OCC, commented: "Her extensive experience in developing, implementing and managing successful enterprise risk management (ERM) programmes will accelerate OCC's efforts to further enhance and mature our own ERM programme."

HornbyChapman has recruited **Emma Berwick** as managing director.

She will lead the recruitment firm's contract and interim recruitment division with immediate effect.

Paul Chapman, managing director of Hornby Chapman, commented: "I'm delighted that Berwick is joining the team and am confident that she will put her significant global recruitment experience to good use."

"Our aim, from a non-permanent staffing perspective, is to have HornbyChapman Interim complement and add to the success of HornbyChapman in acting as a trusted senior talent acquisition advisor to major firms in the asset servicing sector on a global basis, working out of our offices in London, Edinburgh, Hong Kong, Singapore and New York."

Jim Coppola, the former head of securities finance and delta one derivatives at Daiwa Capital Markets America, has joined the CFA Institute.

The institute, which offers multiple professional business qualifications, including the chartered financial analyst designation, has hired Coppola as director of institutional partnerships for the Americas.

He leads the team that is responsible for the institute's activities in establishing and maintaining partnerships throughout the US, Canada, Latin America and the Caribbean.

At Daiwa, Coppola was responsible for all trading, profit and loss, budgeting, collateral management, new business, and product development.

His desk financed customer long investment portfolios and covered short sales with borrowed securities.

He also previously worked as an executive director at FNEX, an internet-based private securities marketplace. **SLT**

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