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Business Exit

Cowen Equity Finance to close

The Three Rs

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Collateral Management

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Panel Discussion

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Acclimatise and thrive

Cowen to exit equity finance

Cowen Group is closing its equity finance desk.

Cowen Equity Finance Group, which was bought from Kellner Capital in 2012 when it was known as KDC Securities, is being wound down, according to multiple sources.

The decision to exit equity finance makes Cowen's foray into the business a short-lived one, with the firm only buying KDC Securities from Kellner Capital in late 2012.

The Rory Zirpolo-led equity finance group that moved to Cowen included Jill Mandarino, Stephen Grazioli, Richard DePaulis, Dan Gee and CJ Romano.

Zirpolo, who worked as managing director of prime services at Credit Suisse before joining what was then Kellner DiLeo & Company in late 2010, most recently added Maria Damiano, as vice president of marketing for Europe, the Middle East and Africa, to his team at Cowen.

He also recruited Christopher Masse in the summer of 2014, and Marylou Carluccio and Stefanie Mangino in 2013.

Cowen declined a request for comment.

Lower oil prices do not help airlines to take off

European airlines are not able to take advantage of the windfall provided by dramatically lower oil prices, according to research from Markit.

The low oil price, almost 50 percent cheaper than it was at the beginning of 2014, should be positive news for airlines going forward as the commodity makes up almost 30 percent of their operating costs.

Euro weakness has offset some of the gains in the oil price declines but European airlines are also counting the cost of labour disruptions. Labour is the second largest operating cost after oil and has negatively affected European carriers.

Air France and Lufthansa are both implementing cost cutting exercises and strategies aimed to fight competition stemming from low the cost airlines, such as Ryanair and easyJet.

The percentage of Air France-KLM shares out on loan currently stand at 7.9 percent, down from the highs of more than 10.5 percent reached during 2014.

The share price recovered in H2 2014 as the oil price declined, but the stock was down 18.9 percent in total for the year.

Lufthansa's share price is down 22 percent year-to-date. But the stock is up 7.3 percent since short sellers started covering from 11 November 2014.

Since then, shares outstanding on loan decreased to 2.3 percent. This is as oil prices fell 32 percent.

Shares outstanding on loan for easyJet have decreased to 1.3 percent through 2014 with the share price increasing more than 25 percent since the middle of the year.

Ryanair is the standout airline performer in Europe in 2014 as the company's share price increased by 43 percent.

According to Markit, there were "negligible" levels of shares outstanding on loan during the year, peaking at just 0.3 percent.

US airline operators feature in the top 30 percent of companies that have outperformed global stocks since September 2014.

The highlights among this trend are US airlines Delta, United and American Airlines, which have outperformed their airline peers so far this year, returning 58, 51 and 65 percent, respectively.

Oil price declines, which are not diluted by a weaker currency in Europe, have positively affected these stocks and over the last month,

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United and Amercan Airlines have advanced a further 14 and 18 percent, respectively.

Analyst at Markit, Relte Schutte, commented: “Interestingly, Ryanair does not see a convincing factor rank with a strong relationship to oil movements as the firm operated successfully at higher oil prices and operates a vastly younger fleet compared to airlines such as Delta, according to company statements.”

Broadridge teams up with AcadiaSoft

Broadridge Financial Solutions has enhanced its CollateralPro solution through a new partnership with AcadiaSoft, a company that enables automatic communication and processing of margin calls for collateral management.

Under the agreement, AcadiaSoft’s MarginSphere service has been seamlessly integrated with CollateralPro, which is offered to financial institutions as an in-house or Broadridge-hosted solution.

MarginSphere is a margin confirmation network that streamlines communications between counterparties collateral management.

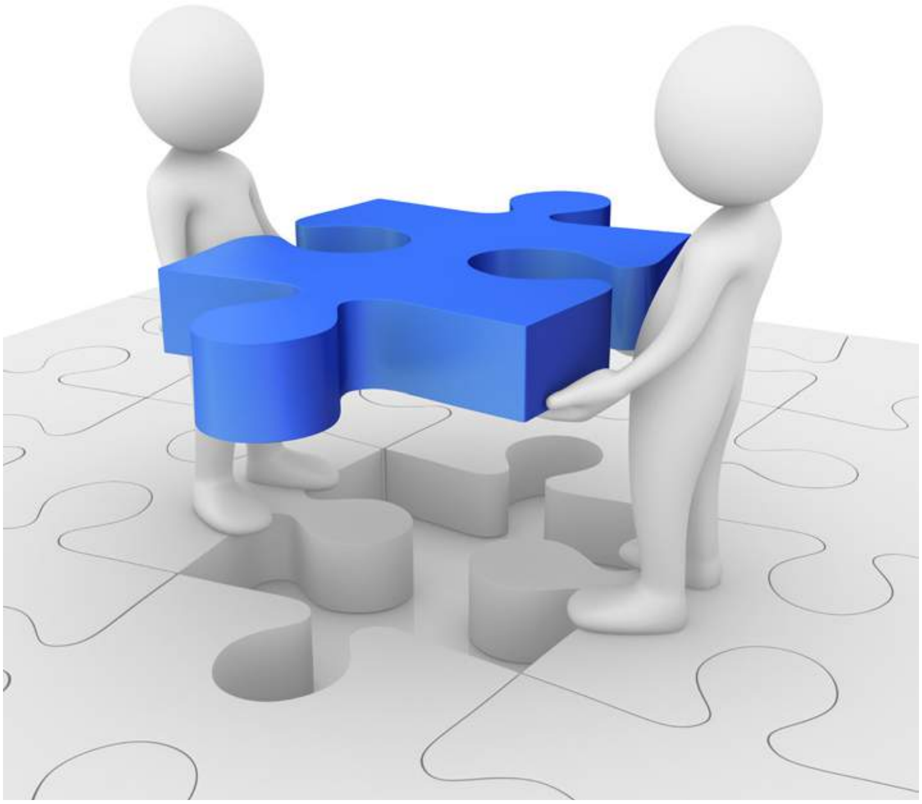
“Broadridge continues to expand its enterprise collateral management capabilities by partnering with best-of-breed solution providers,” commented Jerry Friedhoff, managing director of securities financing and collateral management at Broadridge.

“This alliance with AcadiaSoft enhances [the Broadridge] collateral management platform by providing full two-way integration between the respective platforms.”

“By linking CollateralPro with AcadiaSoft’s innovative margin-call messaging and automation utility we can help institutions of all sizes improve productivity and reduce operational risks.”

FTT set to miss 2016 deadline

Ministers from the EU 11 have failed to meet their end-of-year deadline for outlining the Financial Transaction Tax (FTT) on equities, which is



likely to scupper January 2016 implementation plans, according to reports.

The EU 11 had originally intended to come to a conclusion over the FTT before the end of 2014.

But almost two years of talks have not produced a result in time, suggesting that the 2016 implementation deadline might be missed. French finance minister Michel Sapin has reportedly claimed that an agreement on the final FTT is still possible.

He said at a news conference that ministers are “not giving up”, and that the January 2016 deadline is “not a fantasy or a funeral”, adding: “That is [still] our objective.”

Participating member states will be able to decide themselves when they introduce a tax on other instruments, such as fixed income or derivatives, before coming together again to consolidate their efforts.

Speaking at the European Beneficial Owners’ Securities Lending Conference in London last year, John Billige of State Street claimed this will create an imperfect tax and would not be good for securities finance, which is yet to be exempted.

Although there is still no talk of exempting temporary transfers from the FTT, repo transactions may be protected eventually.

This will see a 10 basis point charge levied on each lend and return, explained Billige, which will inevitably be passed on to beneficial owners because "banks wouldn't wear it".

Pirum achieves RQV automation milestone

Pirum Systems Tri-party RQV Automation service, live with both J.P. Morgan and BNY Mellon, has reached a significant milestone with processed RQVs (required values) reaching over $130 billion daily.

"With such a focus on exposure management today organisations are looking for any and every efficiency in this space. Pirum's real-time Tri-party RQV Automation service continues to deliver significant benefits to our clients and is being embraced by the industry resulting in us reaching this milestone," said Raj Sheth, managing director at Pirum Systems.

"The calculation, agreement and submission of RQV figures bring their own complexities which this service addresses. We are excited to see that the market agrees."

Paul Lynch, COO at eSecLending, commented: "Pirum's RQV service gives us timely visibility to the triparty collateralisation process and delivers levels of automation and efficiencies that have surpassed our expectations."

"The service has also provided a standardised process for all of our counterparties and triparty agents further streamlining our collateral management function."

According to Pirum, additional releases are planned for 2015 that will further extend automation of RQV processing including direct interfaces with additional triparty agents.

OFR: more securities finance data required

The US securities lending and repo markets are becoming more transparent, but data continues to be collected in an inconsistent manner and much is not publicly available, according to the US Treasury's Office of Financial Research.

In its 2014 report issued to Congress, the office noted that a substantial amount of data that is available about securities lending markets belongs to private vendors.

The two largest data vendors own databases covering more than $13 trillion of global securities and millions of single-day transactions conducted by more than 45,000 lenders.

But, the office added in its report, "data collections are voluntary and do not include essential data elements about counterparties or collateral management".

"No systematic, targeted data collection is conducted for the benefit of regulators or the investing public. For that reason, these data are not necessarily complete or comparable for the purpose of analysis."

Similarly, there is limited market data available about repo trades settled bilaterally outside of triparty clearing banks, which is business that suffered distress during the financial crisis, according to the report.

Primary dealers that act as official counterparties to the Federal Reserve Bank of New York report their activities confidentially on Form FR 2004, which covers information on positions, transactions, financing, and fails data in government securities and other selected fixed-income securities.

But broker-dealers that are not US primary dealers do not report through the form, and it does not differentiate triparty from bilateral trades.

The form does not require information such as haircuts, rates and the identity of the counterparty, and data is highly aggregated. "We can only produce rough estimates of the size of the bilateral repo market," said the report.

The Office of Financial Research would like to see transaction-level data on bilateral repo business and the introduction of identifiers to consolidate data with other sources.

For securities lending data, the office is awaiting a Dodd-Frank Act-mandated proposal from the US Securities and Exchange Commission to increase the transparency of information available to brokers, dealers, and investors about securities lending.

L/S equity shows resilience in volatile market

The Lyxor Hedge Fund Index continued to slide in the week beginning 15 December as global risk aversion was elevated.

All hedge fund strategies were down in the same week, with fixed income managers underperforming on the back of liquidity issues on some names.

Lyxor's Fixed Income Broad Index, which aggregates long and short credit, fixed income arbitrage and convertibles arbitrage is down 6.1 percent in Q4, at least up to 16 December.

Global macro and special situations hedge fund managers also underperformed, with the latter being particularly affected by exposures to energy and financials in both the equity and credit space.

Systematic long and short equity managers have done particularly well. Multi-strategy funds also continue to bring what Lyxor termed as "satisfactory and decorrelated returns".

Out of the 25 managers tracked in the long and short equity and multi-strategy space, almost half of them are positive month-to-date.

The median performance is -0.3 percent at a time when the S&P 500 was down 4.6 percent and the Eurostoxx 50 down 6.2 percent.

Head of research for Lxyor, Philippe Ferreira, commented: "The bottom has now been reached in this latest hedge fund drawdown. At the [Federal Open Market Committee] meeting

on 16 and 17 December the [Federal Reserve] signalled it will be patient with rates hikes."

"Despite this rebound, 2014 remains a disappointing year for hedge funds. [H1] was satisfactory for fixed income and event driven managers but the second half was negative."

TABB Group finds equity prime brokerage in transition

TABB Group has claimed that prime brokerage is in the midst of a large-scale change, according to its latest report, Equity Prime Brokerage: Exploring Uncharted Territory.

The report is the result of several months of conversations with prime services providers and independent financial analytics firms, including data from S3 Partners.

It has found that Basel III is changing the way the buy side looks at the treatment of financing and collateral.

According to the report, collateral and financing must be analysed and structured to the same level as trading costs.

In the conclusion of the report, author Radi Khasawneh said financial institutions should view their trading and financing costs holistically, including financing rates, the use of collateral, clearing choices, and analytics, in order to be the most effective capital, balance sheet and regulatory partner possible.

"Complacency would be a mistake. The onus of managing your own financing and risks is more important than ever given the extreme restrictions on bank resources and overhaul of existing business models," commented Khasawneh.

S3 founder and managing partner Robert Sloan wrote that regulatory capital hurdles will only increase and will put increasing information pressure on asset managers.

"The Tabb Group's independent analysis highlights our mutual belief that the right technology can solve the issues related to regulatory costs and create time for its users," said Sloan.

Record-breaking 2014 for Russia's NSD

National Settlement Depository (NSD), Russia's central securities depository, has reported that the value of liabilities used in over-the-counter triparty repo transactions with the Bank of Russia reached its highest level and exceeded RUB 2 trillion ($34.3 billion) in Q4 2014.

Maria Ivanova, vice president of NSD, commented: "Development of triparty services is a global trend in the post trading sector. In recent years, a share of triparty services in the structure of settlement infrastructures' income has risen sharply; now it is a growth driver."

"We see the similar trend in the Russian market. In addition to the Bank of Russia's repos with securities basket, we are ready to launch the similar service for transactions with the Federal Treasury. We also plan to launch on-exchange repos with the NSD's triparty services."

As well as the value of liabilities reaching its highest level in 2014, the value of over-the-counter repo transactions serviced by NSD also peaked, exceeding RUB 54 trillion ($926.7 billion).

The value of transactions for Q4 2014 also increased by 50 percent year-over-year from RUB 12 trillion ($205.9 billion) to RUB 18.5 trillion ($317.4 billion).

The total value of NSD's direct repo transactions with the Bank of Russia since the beginning of 2014 stood at RUB 95.5 trillion ($1.6 trillion).

NSD has also stated that it plans to provide its clients an access to Euroclear's and Clearstream's securities lending programmes in order to enable wider "foreign asset management opportunities for Russian market participants".

Deutsche Bank's securities lending round-up

Research teams at Deutsche Bank have revealed the securities lending trends from the final quarter of 2014, including a positive spin on an automotive crisis.

Short interest in Takata Corporation, a Japanese automotive safety systems supplier, reached a record high in December 2014, according to the research.

This high was on account of a recent air-bag crisis, which has caused shares to decrease more than 50 percent during the year.

Short interest increased 152 percent over the month with 3.03 million shares sold short.

The US National Highway Traffic Safety Administration warned the company that it may levy fines unless the company expands the recall to the rest of the US, an additional eight million US vehicles (current recall is for high humidity states only).

Recently, Takata executives refused the regulator's request to expand the recall, a move that could have further negative effects on the share price.

Elsewhere, GoPro announced on 10 November that it would issue up to 10 million shares in a shelf offering.

Deutsche Bank stated: "For a name that had been one of the most sought after for prospective shorts and the most expensive on our book (trading over 100 percent fee prior to the offering), this was welcome news."

"The new stock settled into the market on 10 November and, thus far, we haven't seen close to 10 million shares of liquidity. While stock has circled around, enabling rates to fall to around 70 percent, liquidity remains a concern as short demand still greatly outpaces borrow supply."

In a month with positive returns for the S&P500, the solar industry struggled in November.

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Of the highly shorted solar names, SolarCity Corporation was the most located of November.

Down over 14 percent since the beginning of October, Deutsche Bank stated that short interest rose from 14 million shares to more than 18 million, as of 3 December.

During that time, the vast majority of inexpensive borrow was taken down, leaving one expensive institutional lender and broker boxes with stock.

Consequently, rates went from around 2 percent on average to nearly 4 percent, with spot rates as high as 6 percent.

SolarCity had been primarily a convert hedge on the short side, but the price action brought about significant demand from both the directional and quantitative trading communities.

Other names that the trend in solar affected in the borrow market are ReneSola, Jinkosolar Holding Company, SunPower Corporation, and Yingli Green Energy Holding Company.

BCBS issues NSFR consultation

The Basel Committee on Banking Supervision has issued for consultation the net stable funding ratio (NSFR) disclosure standards, following the publication of the NSFR standard in October 2014.

Similar to the liquidity coverage ratio disclosure framework, the NSFR is intended to improve the transparency of regulatory funding requirements, reinforce the Principles for Sound Liquidity Risk Management and Supervision, and strengthen market discipline, while reducing uncertainty in the markets as the NSFR is implemented.

The Bank for International Settlements has stated: “It is important that banks adopt a common public disclosure framework to help market participants consistently assess banks’ funding risk.”

“To promote the consistency and usability of disclosures related to the NSFR, the committee has agreed that internationally active banks across Basel Committee member jurisdictions will be required to publish their NSFRs according to a common template.”

Consistent with the implementation of the NSFR standard, supervisors will give effect to these disclosure requirements, and banks will be required to comply with them from the date of the first reporting period after 1 January 2018.

The committee has stated that it is welcoming comments on all aspects of the consultative document, which must be provided by 6 March.

Meanwhile, a Tabb Group report has suggested that prime brokers could suffer if their securities financing operations are incrementally included as risk exposure, therefore requiring a capital buffer.

According to the Equity Prime Brokerage: Exploring Unchartered Territory report, the variable cost of financing and a reduction in prime broker relationships has led to the need for buy-side benchmarking and surveillance.

It suggested that capital and leverage ratio rules, combined with both changing treatment of collateral, and divergent costs of financing and long-only funds, are forcing a reassessment of benchmarking. At the same time, hedge and long-only funds are using fewer prime brokers in the wake of the financial crisis, a trend that is continuing downwards.

Radi Khasawneh, Tabb research analyst and author of the report, said: “In fact, the spread differential in the cost of long-and short equity financing with the six most frequently used prime brokers is as big as 95 basis points in the telecommunications sector alone.”

He added: “Complacency would be a mistake.”

Eurepo index comes to an end

The Eurepo index was published for the last time on 31 December due to concerns over its usefulness.

The index, which is run by the European Money Markets Institute (EMMI) and the International Capital Market Association's European Repo Council (ERC), was created in March 2002 as the benchmark for secured money market transactions in the eurozone.

But the repeated departure of panel banks over the last two years has left the current number of contributors to the index at nine, meaning that its representativeness, robustness and reliability can no longer guaranteed.

"We have consulted major stakeholders who confirmed that the use of the Eurepo index in financial instruments and contracts was very limited. We therefore do not foresee a major impact on the market," commented Guido Ravoet, secretary general of the EMMI.

The EMMI and ERC are working on developing a new transactions-based repo index and hope to present the project to stakeholders in 2015.

Markit names 2014's best-timed shorts

The best-timed short sales of 2014 within 2000 of the largest European companies at the start of the year have been revealed on a new list by Markit.

On the most successful end of the scale, 104 companies saw their shares fall by more than 20 percent since a fresh new annual high in demand to borrow.

Throughout 2014 just under a quarter of European companies have been targeted by short sellers, with 457 companies making at least one appearance.

According to Markit, short sellers were largely successful at targeting underperforming shares as the companies that made the list saw their shares fall by 3 percent on average.

Energy firms made up one third of the top 20 most successful short sales in 2014.

The most successful energy short sales went to Polarcus, closely followed by Akastor.

Both firms provide auxiliary services to the oil and natural gas industries and have come under significant pressure in the wake of a 50 percent decline the price of crude.

Polarcus saw shares decline by 85 percent and Akastor was down 81 percent.

Online video advertising platform Blinkx came under short selling scrutiny in late 2013 and was a top three short in European markets in 2014, according to the report.

The stock was down 88 percent with shares outstanding and stock price peaking in January and February 2014 at 12.6 percent and 209p.

New World Resources, a central European coal and coke producer, was the second best performing short sale for 2014.

The company filed for chapter 15 bankruptcy in July in an effort to reorganise and restructure its debt. The share price was down 97 percent.

Narrowly beating New World Resources on Markit's list, by 0.2 percent, was embattled pub operator Punch.

The group's share price is down over 97 percent as what Markit has called a "hefty dilution" had to be incurred in order to fend off total collapse.

It managed to forge ahead with a restructuring plan in October 2014 and the company's debt burden, built up in the early 2000s, was partially converted into equity.

Markit's analysis is based on a weekly screen of the companies seeing a fresh new 52 week highs in short interest, among those that see more than 3 percent of shares out on loan.

Year closed out as expected, says SS&C

The gross return of the SS&C GlobeOp Hedge Fund Performance Index for November 2014 measured 1.13 percent.

In December, hedge fund flows as measured by the SS&C GlobeOp Capital Movement Index advanced 0.43 percent over November.

Cumulatively, the SS&C GlobeOp Capital Movement Index for December 2014 stands at 149.57 points, an increase of 0.43 points over November 2014.

The index has declined 1.05 points over the past 12 months.

"In line with historical patterns, 2014 closes with positive net flows and slightly higher activity for both subscriptions and redemptions," said Bill Stone, chairman and CEO of SS&C Technologies.

Since its inception, the correlation of the SS&C GlobeOp Performance Index to many popular equity market indices has been approximately 25 percent to 30 percent.

This is substantially lower than the equivalent correlation of other widely followed hedge fund performance indices.

638.8 billion average outstanding for Clearstream

Clearstream has reported a boost in its global securities financing (GSF) services, with monthly average outstanding reaching 638.6 billion in November 2014.

In its November figures, Clearstream announced a 6 percent increase in its combined services, including triparty repo, securities lending and collateral management. This rose from 602.6 billion in November 2013.

The GSF monthly average outstanding, year-to-date, also grew by 6 percent to 608.2 percent in 2014, from 574.8 percent in the same period in 2013.

OCC enjoys second highest year for cleared contracts

OCC cleared 4,333,019,384 contracts in 2014, a 4 percent increase from the 2013 volume of 4,170,855,768 contracts.

This total made 2014 the second highest year for OCC cleared contract volume to date, behind 2011's record volume of 4.6 billion contracts.

OCC ended the year with 360,688,154 cleared contracts in December, an 11 percent increase from December 2013. OCC also reported a record year for cleared futures volume.

The organisation's securities lending central counterparty activities saw a 25 percent increase in new loans from December 2013 with 116,240 transactions during the month.

Stock loan activity in 2014 was down 3 percent from 2013 with 1,204,976 new loan transactions in the year. The average daily loan value at OCC in December was $166.2 billion.

Exchange-listed options volume was up 4 percent in 2014 with 4,265,368,807 contracts, passing four billion contracts for the fourth consecutive year and marking the second highest options volume year on record.

Total options volume in December 2014 was 354,607,999 contracts, up 11 percent from December 2013. Average daily options volume in 2014 was up 4 percent with 16,926,066 contracts.

OCC cleared 67,650,577 futures contracts in 2014, a 14 percent increase from 2013 and the highest volume year for OCC cleared futures contracts to date.

It ended the year with 6,080,155 cleared futures contracts in December, up 7 percent from December 2013. OCC's average daily cleared futures volume was up 14 percent in 2014 with 268,455 contracts.

Eurex Group's 2014 figures dip

Eurex Group has released its figures for 2014, showing a slight decrease in the average monthly outstanding volume compared to 2013.

In the Eurex Repo market, the average monthly outstanding volume reached €214.6 billion across the Swiss Franc, Euro Repo and GC Pooling markets combined. This is slightly lower than the 2013 average monthly outstanding, which reached €222.6 billion.

Both the GC Pooling and Euro Repo markets increased compared to 2013. Secured money market GC Pooling reached an average monthly outstanding volume of €158.5, an increase of 3.1 percent on 2013.

Euro Repo reached €41 billion, an increase from 2013's monthly average of €36.5 billion.

The Swiss Franc Market, however, recorded an average monthly outstanding of less than half of the previous years' average, reaching €15.1 billion, in comparison to €32.3 billion in 2013.

In December 2014, the combined repo market volume reached €194.5 billion, down slightly from €228.6 billion in the same period in 2013, and a little lower than the year's average figures.

The GC Pooling market reached €155.2 billion, compared to €154.7 billion in December 2013, and the Euro Repo marker recorded an average outstanding volume of €38.9 billion, compared to €42.4 billion in December 2013.

OneChicago completes 'record year'

OneChicago's December 2014 volume stood at 1,087,256, a decrease of 7 percent year-over-year.

Continuing its growth momentum from the previous year, 2014 marked the first year volume exceeded 10 million contracts.

A focus on regulation

Regulation, regulation, regulation: the new normal?

Firms could be forgiven for admitting a sense of 'regulatory fatigue' as we begin 2015. This is understandable as it is clear that regulation is here to stay for the foreseeable future.

A new year always provides us with an opportunity to set new goals, challenges and resolutions. Perhaps the start of 2015 is the perfect time for firms to recharge their batteries, re-evaluate the regulatory landscape and begin to embrace and accept regulation as the 'new normal'.

Looking back at 2014, we saw the introduction of the European Market Infrastructure Regulation (EMIR). The requirements it contained for collateral reporting, delegated reporting, clearing and product standardisation have, and will, continue to be a challenge for firms. Greater consensus is required on reporting standards and firms will be looking towards the European Securities and Markets Authority (ESMA) for greater guidance and support in 2015.

As a consequence of EMIR, we are likely to see some realignment within the over-the-counter (OTC) derivatives market. Compliance comes at a high financial cost for firms. Many have found it difficult to justify the required investment for new systems and processes and have struggled to find ways to keep business lines profitable.

The future will mean more firms making the difficult decision to potentially withdraw from those markets that have become unprofitable for them, or where they cannot justify the future level of investment required.

The demands of reporting and the effective management of data will continue to be important as firms look to embrace the 14 principles mandated by BCBS239. Critics argue that BCBS239 is not prescriptive enough, however, there are pros and cons to the directive not having specific requirements.

Some firms may view it as yet another 'box ticking' exercise, but it also offers a real opportunity to make significant and long lasting improvements to the governance and structure of many financial institutions. The question is: will those who are affected embrace this opportunity?

Following hard on the heels of BCBS239, 2015 will see the growing importance of BCBS261. This directive, which relates to non-centrally cleared derivatives, will see many firms having to divert investment and resources to build new front-to-back processes and settlement mechanisms for initial margin on uncleared derivatives.

The European Parliament's adoption of the Markets in Financial Instruments Directive (MiFid II) and MiFIR (the regulation) in April 2014 was a significant landmark. The scale of the legislation and the challenge of EU member states protecting their own interests mean some view the directive as being very difficult to implement.

In May 2014, ESMA published its discussion and consultation papers on proposals for regulatory technical standards and implementing technical standards that should be adopted. In 2015, we can expect further updates and refinements from ESMA on the technical standards.

The priority for firms should be to remain up-to-date and engage with the policy-making process, as well as continue developing strategies and plans ahead of MiFID II's 2017 deadline.

In the UK, it is now more than four years since the Independent Commission on Banking (ICB) report, led by Sir John Vickers, was completed in September 2011. The report recommended that banks 'ringfence' their retail and investment banking activities, creating a clear divide, to ensure that retail banks are unaffected by the potential risks of investment banking.

UK banks still have until 2019 to implement reforms, although more detail is still required. The scale and costs involved of such a separation means that banks must start to plan now for the 'worst-case' scenario of 'full separation', while creating a flexible model that can adapt to the final format of the reform.

If 2014 taught us anything, it is that regulation is now the 'new normal' for firms operating in capital markets, and this is unlikely to change anytime soon. To be successful in this environment, firms need to be open minded, flexible and agile about the future. Not every firm will have the means or the will, but for those that do, the year ahead presents a number of opportunities.

So a Happy New Year to everyone; 2015 will prove to be both a challenging but exciting year as the focus on regulation continues.

Jeremy Taylor, Specialist in operational processing and derivatives

Year-to-date volume through 31 December 2014 was 10,907,977, which was an increase of 15 percent compared to 2013.

Open interest increased 32 percent year-over-year to 646,059 contracts on the equity finance exchange at close-of-market, at the end of December.

OneChicago traded 1,077,599 blocks and Exchange Futures for Physicals (EFP) on its OCXdelta1 platform during the month, while EFP and block activity represented $5.9 billion in notional value for the firm.

Fifty-eight percent of December 2014 month-end open interest was in OCX.NoDivRisk.

During 2014, OneChicago passed a number of milestones that contributed to what it has deemed a "record year".

These include the introduction of OCX.Weekly Futures with next-day settlement, the reduction in execution fees by 75 percent for the OCX.NoDivRisk product suite, and the launch of its newest trading platform, OCXdelta1.

State Street expands Swiss & Global services

Swiss & Global Asset Management has chosen State Street to provide investment servicing solutions, including securities lending, for $70 billion in assets, expanding existing relations between the institutions.

State Street will service Swiss & Global's investment funds domiciled in Switzerland and Luxembourg, including its Julius Baer public mutual fund family.

It will also provide custody, fund accounting and administration, securities lending, foreign exchange and share class hedging services.

Peter O'Neill, head of State Street in Europe, the Middle East and Africa, said: "Asset managers today face an increasingly complex environment. Our goal is to provide them with the integrated solutions they need to navigate these complexities and focus on their core business."

"The ability to understand what's driving investment performance, and report on it more comprehensively than ever before, is also critical at a time when investors and regulators are highlighting risk and transparency."

"Partnering with companies like State Street to manage functions like custody, accounting, asset pooling and analytics helps asset managers to focus more of their resources on growing their business."

Martin Jufer, COO for Swiss & Global added: "Over the past two years Swiss & Global has built a partnership with State Street as they provided servicing solutions for a component of our investment funds."

"The appointment of State Street to service the majority of our investment funds is a testament to their capabilities and high service quality for complex investment funds domiciled in several jurisdictions."

Rates, regulation and returns

Robert Crossen, cash management officer at the Illinois State Treasurer's Office, outlines what will preoccupy beneficial owners in 2015 and what the future holds for indemnification, ahead of IMN's international securities lending and collateral management conference in San Francisco

MARK DUGDALE REPORTS

What is on the agenda for US beneficial owners in 2015?

The short-term interest rate environment is high on the agenda right now. It will likely change as the Federal Reserve raises the federal funds target rate. This will flow through to securities lending because the loan and reinvestment rates correlate closely to the federal funds target rate, which is in the 0 to 0.25 percent range—and has been for some time.

The Federal Reserve has been communicating that this rate will be the focal point of its policy. With US economic growth improving, the Federal Reserve has indicated its desire to move to more 'normal' rates. Minutes from Federal Open Market Committee (FOMC) meetings over the past 12 months show a strong preference to raise the target rate as well. Short-term rates have been near zero for years and the transition will be challenging for the Federal Reserve and the market.

The challenge is being prepared for the time when the Federal Reserve takes action and moves the federal funds target rate higher, and for how long. Expectations are that the change will be in April to June this year , and that's what federal funds futures are indicating.

Once there is more certainty and the Federal Reserve takes action, it will affect securities lending, depending on what you're lending, of course. For instance, we lend US treasuries—our lendable inventory stands

at approximately 4.3 billion treasury bills and 2.2 billion in US government agency securities—and we typically have between 70 and 80 percent out on loan, so rates will have big impact on earnings.

> "Those that don't offer indemnification will be looking to see how they can differentiate their offering to demonstrate that they have a quality product at a better price"

A close second on the agenda—and closely related to rates—is regulation. Our lending agent has indicated that our lendable portfolio is very attractive at the moment. If regulations are requiring borrowers to hold more high quality liquid assets, then portfolios such as ours are going to be in high demand. We have seen that over quarter- and year-ends, when we have enjoyed some excellent returns. It won't be this way forever, but as long as the opportunity is there, it fits our needs.

That's how I see most agendas right now. It's really a guessing game, although our agent is diligently watching the Federal Reserve and following events that will have an impact on the Federal Reserve's course of action. Whether it's 0.25 percent or lower at 0.10 percent, nobody really knows.

My conviction is that the Federal Reserve will be slow and deliberate with changes much different than it has been in the past. All of this filters through and securities lending appears to be determined to move away from the zero interest rate policy as the Federal Reserve slowly changes course.

Another unknowable is the future of indemnification—what is your perspective on this?

We do receive an indemnification from our agent, which is a non-US bank. That in itself has contributed to the discussion around indemnification, as I have read and heard that US domiciled banks seem to perceive a disadvantage due to the difference in capital requirements between these two types of institutions. US regulations appear to constrain US domiciled banks in this area. It appears that regulatory requirements place US domiciled banks in a position to back securities lending with the capital necessary to meet requirements—to provide a backstop to indemnification. The indemnification is viewed as a liability and will be treated that way.

Our agent has allocated appropriate capital to securities lending. US domiciled banks seem to be constrained in offering indemnification. I have heard that US regulators are taking the position that if indemnification should be offered in providing securities lending services, they should have to back it up with capital. This may not be exactly the way to say it, but it appears to be pretty relevant, otherwise indemnification would not be as widely discussed in securities lending. There may be other factors at work here as well. I can only speak from my experience.

As far as I'm concerned, indemnification will continue to remain a mainstay of the business. When we first began securities lending, we put out a request for proposals (RFP), to which we had several respondents. Personally, the idea of indemnification was a surprise. I did not expect it.

However, it soon became clear that indemnification stood out as something that would carry some weight in our decision, and it has worked out very well. It was very hard to ignore the benefits of indemnification when compared to other options.

How high on your list of priorities will indemnification figure when you next consider which agent lender to work with?

Indemnification will more than likely remain a very important part of the process and product being offered. I don't know whether any US domiciled banks are offering indemnification at this point in time, so it will be very interesting to see what the responses will be when we issue our next RFP, which should be within the next 18 months.

I'm looking forward to seeing how that will pan out, because both non-US and US banks will no doubt respond and it will be interesting to see whether there are any differences between what both sides offer in terms of indemnification or if there are some new developments in this area. In the future, beneficial owners may need to decide whether indemnification is an important part of the product, or they may not have a strong conviction about its role.

The Dodd-Frank Act and other new regulations have hit US banks pretty hard. That's not to say that regulators aren't looking at non-US banks, because they are, but the indications are that they are prepared to back their agent lender businesses with sufficient capital. It has become more widespread to offer indemnification and US banks may feel disadvantaged, but it comes down to product and what an agent can offer. If they cannot offer indemnification, then it will have to be something else, be it in fees or agreeing to meet certain income targets. There is a host of ways to differentiate, as long as it comes down to the fact that nothing has changed for the beneficial owner.

It sounds like the business is going to get more competitive—would you agree?

It is going to be very competitive. Those that don't offer indemnification will be looking to see how they can differentiate their offering to demonstrate that they have a quality product at a better price. Beneficial owners want to know that they are getting a good product. We are very happy with how our programme has performed—it has exceeded our expectations by millions of dollars and has provided us with a great source of income.

> "If regulations are requiring borrowers to hold more high quality liquid assets, then portfolios such as ours are going to be in high demand"

Why is the income so important?

Illinois has suffered financial difficulties so access to cash is key for us. The state treasury needs to maintain sufficient liquidity to meet obligations, whatever they may be. Treasury bills have secured a very good securities lending return, so much so that we have an asset/liability programme going on that has been very helpful. Securities lending has provided us with a unique opportunity to be able to get a pretty big return for the state given the interest rate environment. **SLT**

Indemnity will survive

Indemnification comes under the spotlight as securities lending awaits the next challenge. Experts discuss the issues

James Slater
Executive vice president and global head of securities finance
BNY Mellon

Lance Wargo
Head of securities lending, North America
BNP Paribas Securities Services

George Trapp
Head of North American securities lending client service
Northern Trust

Doug Brown
Senior managing director, securities finance
State Street

Chris Benedict
Director
DataLend

Paul Wilson
Global head of agent lending product and portfolio advisory, investor services
J.P. Morgan

What are the main challenges facing beneficial owners in the US?

James Slater: I would say that the main challenges for beneficial owners today are in fact downstream effects from new and emerging regulatory and market pressures on broker-dealers and agent lenders. New requirements around liquidity coverage ratios, a limited supply of strong collateral even as regulatory change drives up requirements, as well as emerging structural changes around central counterparties (CCPs), are all leading to change the character of opportunities and offerings that agent lenders and borrowers are able to undertake.

These changes to the market are putting beneficial owners' revenue at risk in some areas, but they are also opening up new areas of opportunities. Beneficial owners that are willing to make key changes or adjustments to their programmes—for example, by broadening collateral acceptability or reassessing their needs around indemnification—are poised to tap into new or expanded revenue opportunities.

Evergreen trades are a prime example, as regulatory requirements have moved to create new opportunities for beneficial owners that are ready, willing and able to participate. For dealers, the liquidity coverage ratio changes behaviour. This ratio requires large dealers to maintain a sufficient supply of high quality liquid assets to meet potential net outflows of liquidity over a 30-day stress scenario. As a result, there's a corresponding increased demand for term financing structures on the cash collateral reinvestment side of our business. It is also creating borrower demand for high quality liquid assets such as treasuries for term against other types of security collateral.

We expect to see this continue, which may contribute to wider spreads and increased lending and reinvestment opportunities for our clients that can engage in these transactions.

Many beneficial owners have or are re-visiting their programme guidelines, expanding their programmes and expanding collateral guidelines, as market pressures continue to drive focus around the optimal use of collateral. Beneficial owners are becoming much more focused on their own liquidity and collateral needs, as rules for central clearing of derivatives leads them to post initial and variable margin to support that activity.

Securities lending plays an important role in helping beneficial owners manage their collateral and liquidity needs. These moves come with corresponding expanded requirements around monitoring and reporting on this activity to beneficial owners' own stakeholders.

Capital requirements and the leverage ratio are driving interest around the utilisation of CCPs. This isn't a new topic of conversation in the securities finance space, but it continues to attract more serious attention from market participants. We see most CCPs with committees or groups working on potential solutions for the securities finance market—in particular, to address participants' concerns around added costs, how to maintain confidence when participants don't get to choose counterparties, and the measures put in place to mitigate various processing risks.

Doug Brown: Most beneficial owners continue to see low yields on cash, given the low interest rate environment, tight spreads and decreased availability of traditional repo. Borrowers increasingly want to deliver equities and other non-traditional collateral against loans, but some beneficial owners face regulatory or statute limitations against taking that collateral. We're working with these clients to help change these requirements and allow for more flexibility.

Beneficial owners' primary challenge over the next couple of years is likely to be understanding, complying with and adapting to regulatory reform, which will affect lending participants in different ways. Money market reform may have a larger impact on asset managers, given the floating rate requirement from prime funds. Increased capital requirements for indemnification offering would likely have a larger impact on those beneficial owners that operate programmes with higher levels of general collateral.

Those clients that have the most collateral and counterparty flexibility will see the best returns in the future. We anticipate securities lending will continue to help our clients achieve their desired returns.

George Trapp: It is important to note that beneficial owners that participate in securities lending are able to earn incremental revenue within established risk parameters and a transparent programme. Although there are uncontrollable challenges in the market environment, beneficial owners do have control over their individual programme, such as acceptable collateral, cash investment guidelines and performance of their securities lending agent.

Northern Trust works directly with beneficial owners to establish a specific programme that provides the best risk adjusted return given the client's risk tolerance.

The biggest challenges to beneficial owners are ongoing regulatory changes and the impact of regulation on borrower demand. Northern Trust is actively monitoring the potential impact of global regulatory developments. We continue to engage with federal agencies on regulations, both directly and through industry groups. The breadth of regulatory proposals has created uncertainty that has weighed upon the market.

As more of these regulations are finalised, we will have greater clarity and be able to assess the direct and indirect effects of the new rules.

Paul Wilson: At the beginning of 2015, US beneficial owners continue to face myriad issues and challenges. The potential for rising interest rates, pension funding challenges, and the velocity of economic recovery in the US against concern for slowing global economic activity, will demand management and staff resources.

Positioning and overseeing securities lending programmes within this environment, so as to maintain them as a source of valuable incremental investment return, will continue to require resource commitment. Beneficial owners also face the challenge of understanding the impact of new capital rules and the way in which they will affect their agent's ability and capacity to provide indemnification.

Chris Benedict: Regulatory changes could limit the ability for counterparties to execute certain types of trades. This would be a real challenge for the European markets, where specials are fewer and less pronounced than in North America or Asia.

Lance Wargo: The extensive work being done by regulators globally is affecting our industry with new rules, guidelines, and requirements. Some of these directives have been lacking in clarity or are incomplete, causing speculation and concern among beneficial owners. At BNP Paribas, we have allocated internal and external experts to research each regulatory proposal that will affect our industry and have subsequently built an offering that will thrive within this new framework and leave us equipped to be at the forefront of developments and opportunities.

A lack of full transparency is also a challenge facing beneficial owners. We have seen transparency come on leaps and bounds in the past years, with education increasing for beneficial owners both by providers and the industry. But we believe that it can be further improved by fostering continual communication between clients and their providers.

Clients should have the opportunity to call their providers' desk and ask for market colour, such as what names are trading special or to gain an update on any regulatory requirements that may affect their programmes going forward. Fostering direct communication as well as working on direct client reporting is key to increase education and transparency in the industry.

What about opportunities?

Trapp: Generally speaking, there has been a shift towards higher intrinsic value trading and less appetite for general collateral. Where that manifests itself to the client is that a handful of securities are driving securities lending earnings and have a significant impact during the year. Since it is difficult to predict which stocks will drive revenue, we talk to our clients about the importance of being in a position to benefit from that demand when it occurs.

The key here is ongoing dialogue with clients to understand how they want to customise their programme to take advantage of those opportunities. For some clients, it is to have very few restrictions and try to maximise revenue across their portfolio. For others, it is being very specific about only taking advantage of certain opportunities. So there is no one-size-fits-all approach across our programme.

From a demand perspective, Asian remains buoyant for new opportunities, particularly in India, Indonesia and China. While viable offshore infrastructures are still being developed in these markets, hedge fund demand remains robust and likely to spur

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significant new revenue streams. Brazil remains a very attractive market, but its lending infrastructure remains challenging. Recent increases in demand due to mergers and acquisitions and initial public offerings are positive. Many market participants expect increasing levels of M&A activity to be a driver of increasing borrower demand.

Brown: We've seen increased equity demand as the markets have continued to move higher. It appears investors are being more company-specific about long and short investments, so we're seeing growing demand to borrow individual stocks. There are opportunities to lend to new counterparties who are either entering the lending space or opening new branches in new locations. There are also opportunities for clients in newer markets, such as Brazil and Malaysia, and hopefully in China as the Hong Kong-Shanghai Connect may help open up that market.

With the anticipated rise in interest rates later in 2015, we expect to see a pick-up in cash collateral investment yields and better demand spreads from US treasuries. The regulations also offer some opportunities, particularly around the liquidity coverage ratio and the need for term funding. For instance, certain client segments, such as pension funds and sovereign investors, may benefit from a migration in borrower demand to term lending.

And we anticipate that the use of non-cash collateral—and particularly non-traditional collateral types—will grow due to more stringent capital and leverage rules and a laser focus on balance sheet management.

Wargo: The macroeconomic environment may lend itself to increased opportunities for beneficial owners in 2015 with increasing interest rates assisting on the reinvestment side of the trade.

There are also opportunities that come from being part of a mature, competitive industry. Beneficial owners are more equipped than ever with a range of options and an arsenal of assets available to them. Beneficial owners can craft a fully customised programme based on their objectives and receive a competitive bid for doing so. The industry has transitioned from being provider-led to being truly focused on beneficial owners in all facets of securities lending.

Wilson: In all stages of the market cycle, opportunities exist for participants willing to explore them. Increased market volatility produces opportunities for beneficial owners as market position takers ramp up strategies that require borrowed securities.

The increasing need for collateralisation in derivatives trading provides opportunities for increased demand for borrowed collateral as well as collateral optimisation to reduce costs and increase portfolio management efficiencies.

Benedict: Beneficial owners will benefit from more competition in the market data space within securities lending. They no longer will have to rely on their own reporting. They will be able to use third-party vendors, such as DataLend, to benchmark their performance on a yearly, quarterly, monthly or ad hoc basis.

Reporting requirements will probably increase as a result of regulation. Beneficial owners will be able to leverage third-party vendors to create reports for regulatory agencies rather than having to invest in infrastructure and resources to do it themselves. Third-party providers offer outsourcing opportunities here too.

Beneficial owners that suspended their programmes after 2008 continue to return to the business despite looming regulations.

Slater: I am optimistic that this will be a good year for securities lending. In 2015, the borrower side will continue to see change. The providers or banks that can optimise from a capital and balance sheet perspective while accommodating borrower demand for collateral will be best positioned for success in the new market environment.

At BNY Mellon, marketplace challenges are identified as opportunities to work consultatively with our clients to deliver the holistic solutions and services that will support their overall investment strategies. We are working hard to bring the right information and the right opportunities to our clients on both the borrower and lender sides.

Knowing our clients and keeping them well informed about upcoming opportunities will be key. This is a remarkable period for the markets. Our clients and counterparties are equally challenged and we are working hard to partner and support their dynamic and evolving needs.

How is indemnification being affected on a day-to-day basis due to new rules? What does the future hold for the practice?

Wargo: Indemnification is under the spotlight in 2015 with updates to the regulatory

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environment including the Dodd-Frank Act's Collins Amendment and Basel III's capital ratio potentially constraining the practice. We believe that indemnification will prove to become a privilege versus an automatic offering in the industry going forward for large US providers. This is due to capital constraints putting pressure on some lending agents. This may lead to some lending agents either not offering indemnification, or if so, increasing costs that may ultimately be funnelled down to beneficial owners.

This is unfortunate, since we believe that indemnification is an important tool to mitigate risk and should not be given up easily. It would be wise for beneficial owners to explore other options and providers before losing indemnification or having their fee splits negatively affected. The largest asset owners and managers will likely be able to retain both their current fee splits and indemnification.

Wilson: The indemnification that securities lending agents offer to beneficial owners have been somewhat undervalued in economic terms as well as in terms of their varying depth and breadth. Regulatory driven changes are demanding that agents interpret and understand the impact of these evolving regulations on their ability to offer, and the cost of providing, these indemnifications. The outcome of these analyses will very likely result in changes to indemnification offerings and price that may differ across agents, and they may also vary by beneficial owner.

We have been adapting to these new rules over the last several years and we feel comfortable with our indemnification offering as evidenced throughout 2014, when we expanded the range of collateral and structures included within our indemnification offering.

Slater: In the past, agent lenders have been able to provide beneficial owners with borrower default indemnification at a relatively low cost. Basel III now requires agent lenders to provide significantly more capital to provide these indemnifications, which ultimately increases the costs for the agent lenders that offer that service to their clients.

Agent lenders have several options in terms of closing this gap. They could try to charge borrowers more for the securities, which would increase revenue. Securities lending margins are often very small relative to the opportunities, so increasing fees even slightly may make trades unworkable.

Lenders could ask for more margin—additional collateral that would help the cost of capital for this service, which may work for some transactions, but it ultimately only increases the cost of capital for the borrower, and again might mean these opportunities are no longer financially viable.

Ultimately, since beneficial owners are the ones reaping the benefits from indemnification, it's most likely that they will need to bear the costs, either in terms of lower revenue as borrowers and

agent lenders expand business with beneficial owners whose requirements do not impose the same indemnification costs, or simply with a lower fee split to cover the difference.

Indemnified securities lending will continue to play a vital role in the market as far as beneficial owners are concerned, and, by extension, agent lenders. But the rulemaking and implementation of regulatory changes will ultimately affect the costs of that indemnification, and the market must change to match.

Brown: I think investor governance and responsibility are reflected in the structuring and monitoring of customised programme guidelines, including eligible counterparties, collateral and the associated margining. The indemnification is a tertiary line of defence. With evolving regulatory influences on the cost of capital, there will be further focus on the equilibrium between client and shareholder value. All products will be considered through that lens, and I think there will be greater diversity in the manner that borrower default indemnification is extended within programmes.

Trapp: Indemnification continues to be an important aspect of the securities lending transaction for beneficial owners. Some industry regulations affect lending agents because of the borrower default indemnification they provide to clients in their securities lending programmes, making it more expensive or limiting. Although there has been progress in the finalisation of various regulations broadly, the treatment of indemnified securities lending transactions is still pending in some cases.

Lending agents continue to evaluate their specific cost and capacity to provide borrower default indemnification. At this time, we do not foresee any wholesale changes to our lending business.

How are fee splits being structured between agents and beneficial owners? Are more incentives required to encourage beneficial owners to the table?

Wargo: Fee splits are also under the spotlight this year as beneficial owners become highly aware of the range of the opportunities afforded to them by the growing number of providers in the industry. The old days of industry-wide standardised fee splits are over. Beneficial owners are looking for competitive, customised offerings that lend fee splits to be considered on a case-by-case basis per the programme proposal at hand.

Brown: Typically, fee splits continue to be a percentage basis, with the client receiving the majority share. The business continues to be very competitive, and this is reflected in the fee splits clients are receiving.

We don't see a need to offer more financial incentives for beneficial owners to participate in securities lending. Many beneficial owners have altered their programmes since 2008, and we've worked with them to create structures so they're comfortable with the associated risk/return framework.

Trapp: We have seen several beneficial owners entering the securities lending market for the first time, as well as some that have returned to the market after a prolonged absence, encouraged by compelling revenues, competitive fees, and the ability to customise their programmes and establish their risk parameters.

Over the past several years, we have seen new fee arrangements, including a return to bundling services, like custody and securities lending, to provide the optimal fee arrangement.

Slater: While the markets are changing in character and requirements, for beneficial owners holding valuable assets, the markets will find a way for them to continue on in a way that is consistent with their objectives and risk appetite. The fee splits of the past reflected the costs of doing business under the market and regulatory regime of the past.

The current regulatory climate ultimately increases costs on the business, which will affect all participants, but at the same time creating new opportunities for beneficial owners willing to make appropriate adjustments to help bring their requirements into alignment with the market's demand profile.

Even as regulatory capital costs drive down beneficial owners' fee share on some trades, new opportunities and growing demand for high quality collateral will no doubt position beneficial owners to find new opportunities that fit their needs.

Wilson: There is a wide range of factors that influence pricing and splits between agents and beneficial owners, including size of assets, type of assets being lent, collateral, cash collateral investment guidelines, reporting requirements, as well as the overall firm-to-firm relationship beyond just securities lending.

We have a sophisticated model that allows us to accurately evaluate the revenue opportunity and costs (including indemnification), and allows us to appropriately price business.

What are beneficial owners considering to encourage more demand from borrowers?

Brown: Some of the options beneficial owners are considering to increase demand are:

- New non-cash and repo collateral types, such as equities, corporate bonds and asset-backed securities;
- Allowing term loans for either a specific security or for a basket of securities;
- Exclusive lending arrangements for certain asset classes, markets or market capitalisation;
- Lending in new markets, such as Brazil or Malaysia; and
- Expanding their counterparty lists.

Slater: While it's not really the role of beneficial owners to encourage demand, there are various changes they can make to their programmes to encourage activity and best position themselves to take advantage of borrower demand. For example, there is a lot of growth in terms of broadening collateral acceptability. Borrowers and lenders are both evaluating new opportunities in terms of cash, bonds and other instruments. Collateral choices have a direct impact on both fees and the indemnifications that are asked for or given.

I think that we'll continue to see change in this area as securities lending participants continue to work through supply and demand issues around collateral. Each organisation has unique requirements, and there is a role for agent lenders to play in terms of presenting clients with information and options to help them make lending programme choices that are right for their own business needs.

Wilson: Beneficial owners looking for opportunities to grow their participation and securities lending returns need to consider broadening the types of collateral that they are willing to accept from borrowers facing changing financing needs and costs. Beneficial owners willing, and able, to accept broad market index equities and other non-traditional, non-cash collateral will increase their value to borrowers and thereby increase their potential for increased returns.

When taking cash collateral, beneficial owners willing to expand on the types, maturities, and term structures of collateral investments will see increased lending opportunities and the potential for increased returns. The impact of money market reforms and the transition

to floating NAV (net asset value) institutional money market funds will create additional challenges, and opportunities, for beneficial owners that have traditionally utilised these vehicles for cash collateral investments.

The ability to utilise alternatives to these long-time market standards will offer opportunities to those beneficial owners who expand their cash collateral investment regimes.

Benedict: Broker-dealers have more impetus to engage in 'balance-sheet friendly' transactions with leverage ratio and the liquidity coverage ratios coming down the pike. Beneficial owners willing to engage in structured cash collateral term trades with broker-dealers may see increased demand from broker-dealers. This also acts as a potential opportunity for beneficial owners (and agent lenders) on the cash reinvestment side.

Collateral flexibility will also help drive utilisation. High-quality collateral is in demand, and the willingness to accept different grades of collateral from broker-dealers will help spur demand.

Trapp: Over the last several years we have seen beneficial owners returning to the market and increasing participation. Without wanting to increase risk, beneficial owners are considering alternative forms of collateral and term funding opportunities to participate in a wider variety of trade opportunities. These topics are high on borrowers' lists as they seek to reduce their use of balance sheet.

Wargo: We are seeing an increased interest in beneficial owners exploring how to maximise their portfolios in this low rate environment, whether that be by considering new markets, reviewing a subset of a portfolio that they are not lending, or by extracting revenue through an intrinsic value-based approach.

At BNP Paribas, we explore all of these opportunities with clients directly through providing client access to our specialists on our trading desk as well as our risk and compliance departments in order to maximise revenue within client-directed parameters.

What sorts of collateral are beneficial owners accepting, and how has demand for high quality liquid assets affected what they accept?

Wilson: There has been some increased demand for high quality liquid assets but this in itself has not driven beneficial owners to systematically change their collateral eligibility. Beneficial owners are becoming more open minded and considerate of broadening eligible collateral and considering term structures. Collateral they are accepting includes a broad range of Organisation for Economic Co-operation and Development government bonds and a range of international equity indices.

Benedict: Beneficial owners are still pretty conservative after 2008, with most readily accepting cash and treasuries or sovereigns. However, we are seeing an increase in those accepting high-grade equities and corporate bonds as collateral.

Brown: The volume of non-cash collateralised loans and types pledged—including equities, corporate bonds, sovereign debt and other forms—have grown substantially in the last six years or so. Within our own lending programme, for instance, we've seen an increase from 13 percent at the end of 2009 to 40 percent at the end of 2014, and equity non-cash collateral as a percentage of all non-cash collateral received has more than quadrupled in that same time frame.

A focus on liquidity coverage has certainly played a substantial role, with borrowers optimising their balance sheets in part by maximising their use of pledged securities. Improved information systems within prime brokerage houses and improvements within triparty custodians have also allowed brokers to better access and optimise their collateral usage.

Trapp: Collateral acceptance is specific to each client. Historically, the US has been dominated by cash collateral, but beneficial owners are seeing more opportunities for non-cash trades. With our global business platform, Northern Trust is able to provide flexibility to our clients across regions and collateral types.

Each client has its own view on acceptable collateral based its own risk and return tolerance. When it comes to cash collateral, clients need to decide if they are interested in a separately managed account with customised guidelines, or a pooled fund for diversification. Other considerations include how to invest cash collateral, such as whether to follow guidelines similar to Securities and Exchange Commission Rule 2a-7 or to expand beyond that scope.

Over the past several years, we have also seen a wider use and acceptance of non-cash collateral, such as equities, in an effort to take advantage of broader trade opportunities with borrowers.

Wargo: Every beneficial owner is different in their needs and requirements for their programmes. This belief extends itself to the types of collateral that they are willing to accept. Safety of assets and customisation is central to the US BNP Paribas agency lending offering and we therefore tailor programmes in partnership with beneficial owners in order to achieve their objectives within their directed risk tolerance, whether that be straightforward overnight government repo collateral reinvestment or taking on alternative forms of collateral for longer durations.

No beneficial owner has ever suffered losses in a BNP Paribas-directed agency lending programme, which is the result of working closely in partnership with clients to craft strict collateral guidelines.

Slater: While Europe has always been more open to non-cash collateral in general, now US beneficial owners are moving toward accepting a wider variety of non-cash, including equities.

Regulations are changing the markets and, in some cases, creating new opportunities. The rewards are growing in particular for beneficial owners and agent lenders that take a more flexible approach to collateral. BNY Mellon is working closely with its beneficial owner clients, broadening collateral acceptability across different asset classes, moving away from a focus on sovereign debt and cash.

Many beneficial owners are also becoming much more focused on their own liquidity and collateral needs as the new rules for central clearing of derivatives are creating the need to post initial and variable margin to support this activity with high quality liquid assets.

We are also working closely with our clients to structure and assess various trades with close consideration to the potential returns on specific, underlying trades—not just around diversified collateral types. Beneficial owners are becoming more sophisticated and interested in understanding the return drivers behind the choices they make around accepting alternative forms of collateral.

This is a key growth area for the industry, as some beneficial owners may make their first forays into participation in securities lending based on a handful of trading opportunities that fit very closely with their specific needs. Starting small can help beneficial owners build comfort and understanding around the types of lending programmes that make sense for them. **SLT**

Focus on what's important

Solutions exist that can help hedge funds to acclimatise to the new regulatory environment without distracting from their core functions, says Stephen Casner of HazelTree

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HazelTree ended 2014 with more than 40 clients, a large proportion of which are hedge funds. What are they saying about their business at the moment, and where does HazelTree fit in?

Running a hedge fund is more complex than ever, and there are several important drivers underscoring this problem: ongoing regulatory change, the use of multiple counterparties, and new asset types to be managed. And, exacerbating these factors are increased demands from investors for sustainable performance, transparency, and accurate reporting, among others. This is the reality our clients face and is exactly what HazelTree strives to solve.

The HazelTree platform was designed specifically to facilitate operational processes, integrate financing and manage the cash, securities, and collateral flow internally and across counterparties for asset management firms. By developing a comprehensive treasury management platform to manage these critical business processes, HazelTree enables investment managers to seamlessly fund their strategies, manage their counterparty relationships and associated financing costs, and importantly, to gain a broad perspective not just of the markets they trade but in many instances, where and how best to transact. We help turn potential distractions into market intelligence and increase overall investment process efficiency.

How are your clients pushing you to develop your treasury management product?

Our clients have pushed us hard to continually improve our treasury management system, and with a strong increase in client acquisitions over the last year, that shared effort has given HazelTree significant momentum as a company and served to ensure that solutions being built are truly industry standard.

Also, as we have continually developed our system, we have been very mindful of the needs of the broader investment management arena. Our products are well-suited to private equity managers and fund administrators (among others) and we are beginning to see growth beyond our core hedge fund market.

Some of our larger hedge fund clients have launched regulated funds such as UCITS and '40 Act vehicles. We are working closely with these clients to ensure our team continues to gain expertise in the traditional asset management space, as we adapt our tools and technology to their distinct needs.

How is HazelTree different from competitors when it comes to securities finance and collateral management?

In a word it is 'integration'. While other applications solve for particular aspects of a firm's operational and financing needs, HazelTree provides a scalable business solution and technology platform that links critical operations internally, between a manager's book and records, or externally, among a range of counterparties. HazelTree runs in real-time, near-time, and end-of-day processes to ensure a clear perspective and fluid management of cash, margin, collateral, and the like.

HazelTree has made it possible for a manager to continuously accrue securities financing costs and import the information into their portfolio/accounting systems in order to know true profit and loss, net of costs, at a position level. Our clients can automatically compare their positions against actual accruals reported by their brokers. Further, they can find inventory and the best rates to continually minimise costs and enhance their returns.

Another important distinction is that HazelTree can function as the system of record for managing pay-to-hold or pre-borrow inventory and related financing activities. While accounting systems manage most financing components quite well, there are challenges that arise from holding valuable financing without the associated position. If not accounted for, and utilised properly, these disconnects can have a profound impact on a fund's performance. For example, a large family office came to HazelTree a few years ago and asked us to build that custom functionality for them. We built that into our core application and it has proven to be extremely beneficial to many of our clients, and in fact helped increase our market share.

We also do a very good job helping our clients analyse their long and short financing components. We can show them re-hypothecation details and their potential to optimise their book to find the best short financing rate.

How are new regulations pushing HazelTree to develop its product?

We make a conscious effort to stay ahead of the curve on regulatory requirements, especially when it comes to over-the-counter (OTC) collateral components. Clients need to be able to look at OTC and prime broker relationships and document information in great detail. They need to be able to look at the real cost of having collateral out and understand what they are paying their counterparties. That is a big part of what HazelTree has been working on.

There are a lot of analytic products out there that benchmark, but what really matters is the individual relationship between counterparties. A prime broker does not have the same relationship with a $200 million fund as it does with a $10 billion fund. A treasury management system needs to understand the specifics of those relationships so that it can know how both collateral and financing costs are allocated.

Counterparty relationships can't differ that much, can they?

All funds are different in terms of how they allocate and attribute positions to various strategies and trading activities, and that needs to be correlated back to how the counterparty wants to work with the fund itself. We see ourselves as the facilitator of those conversations. We arm the fund manager with the details that the counterparties are really looking for to create a better relationship between the two.

This level of detail is going to be paramount going forward because there are increasing costs against moving collateral and financing business in general. Being able to judge each relationship on its merits, in that level of detail, is going to be a major advantage. SLT

Stephen Casner
CEO
HazelTree

Time is of the essence

The brains behind the Lombard-Genpact collateral management deal explain the many benefits of speedy processing

STEPHANIE PALMER REPORTS

A constantly changing regulatory landscape is forcing firms on both the buy and sell sides of the collateral chain to seek out new ways of digitalising, synchronising and reporting data.

Lombard Risk and Genpact have teamed up to provide just such a solution.

Integrating Lombard Risk's Colline system and Genpact's CARDS software, the solution allows firms to digitise their legal collateral agreements and capture the terms and conditions across asset classes, counterparties and business silos.

While Colline is a dedicated management and optimisation system for collateral, clearing and inventories, Genpact's Collateral Agreement and Reference Data Services software (CARDS) converts contractual collateral agreements into digital data, removing the need for manual inputting, and creating a more streamlined data processing system.

Clients' agreements will be scanned and digitally extracted into business parameters required for efficient collateral management and optimisation before they are automatically entered into Colline, which will then use the data to process margin calls and collateral optimisation on the behalf of the client company.

Lombard Risk product director Helen Nicol says: "Having a system that converts the agreements into data that is then captured in Colline will save clients time, and will be more accurate than entering the information manually."

"From a new client's point of view, when a large number of collateral agreements will need to be entered, having CARDS to automate this process will be a great head start."

Tony Freeburn, assistant vice president of financial market solutions at Genpact Headstrong Capital Markets, adds: "A digital approach to loading the agreements means that they can be approved within a very short space of time."

Although rapid processing is the aim, as yet, it is unclear what the start-to-finish timescale will actually be.

According to Freeburn, realistically it could take as little as an hour, compared to manual input, which can take much longer.

"It depends on the complexity of the agreement," he says. "CARDS has a comprehensive vocabulary built in, so it can analyse the agreement and if it doesn't recognise a term or is unable to extract it, we will be notified and we will manually input it. Then, the next time that term comes up, it can just go straight through."

"That way, we will constantly be improving, and eventually we will be notified less and less. At the moment we're hoping to start with something like 80 percent of terms being recognised at first pass, but that obviously depends on the particular agreements."

While common words and phrases will appear in many of the contracts, it is the differences that will initially require manual intervention. The bespoke language in collateral agreements means there are bound to be terms that the system does not recognise immediately.

"We expect CARDS to highlight what makes this agreement different to the others, while still scanning the whole document in detail and digitising the relevant parameters. This is much faster than going through it all manually," says Freeburn.

"Many of these agreements use the same terminology since, as legal documents, there's very little room for ambiguity by design. Even then, no two are ever the same."

Nicol adds that, when inputting data manually, not only is the process more time-consuming, but it is also subject to human error. Automation significantly decreases this risk.

"You can't be too stringent when it comes to regulatory content, and that legal agreement could be incredibly complicated," she says.

"The service we offer is designed to get the relevant data to the platform. These can be 10,000-word agreements. If we can speed up the process through automation and digitisation, that will be a benefit for everyone."

That said, the system doesn't mean a complete removal of human input in the process. Sachin Pai, assistant vice president of financial market solutions at Genepact Headstrong Capital Markets, adds: "No tool in the market is capable of wholly accurate extraction of attributes from legal collateral documentation, essentially due to the degree of customisation."

"Therefore, while our platform can extract attributes to a high degree, the operational service supplements it to ensure the attributes are accurate, complete and go through a configurable approval process before channelling through to Colline."

At the height of the technological revolution, it has taken a particular push to get this development off the ground, and it is regulation that has acted as the catalyst.

"Slow manual agreement processing has always been a problem because of the complexity of the agreements, and a brake on deal generation, because no trading can be authorised until the agreements have been loaded into the collateral management system"

Freeburn says: "Slow manual agreement processing has always been a problem because of the complexity of the agreements, and a brake on deal generation, because no trading can be authorised until the agreements have been loaded into the collateral management system."

"The problem is being exacerbated by the changing regulations, which will shortly mean the renegotiation or replacement of virtually all open collateral agreements relating to OTC derivatives."

"With regard to those instruments that become eligible for mandatory CCP clearing, the existing margin and collateral eligibility rules within the current agreements will have to be replaced by those relating to the relevant CCPs," says Freeburn.

"Meanwhile, for those instruments that remain uncleared, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) proposals require that, instead of simple agreed collateralisation, both parties will have to exchange both initial and variation margin on a daily basis."

"Various regulatory bodies could interpret these proposals differently, which means there could be different versions depending on the counterparty jurisdiction."

As an external service, CARDS can, in theory, process any kind of contract or agreement that's fed in to it, while Colline simply manages and consolidates data to be used as each respective company requires.

This means that as well as being applicable in various European jurisdictions, the technology could prove to be in demand globally

Nicol says: "At Lombard Risk, we have clients all over the world who have been using Colline for two-and-a-half years. We're satisfied that we're prepared to provide those in Australia or Dubai with the same services we provide in the UK and Europe."

"Although there are regional regulatory and operational nuances, the core front-to-back margin processing and general strategic objectives remain the same; compliance with regulatory obligations and greater straight-through-processing."

Regulatory changes are coming in to play all over the world, and with its international reach, adaptable base product and, now, collaboration with the CARDS technology, Lombard Risk is well placed to anticipate regulatory demands in other markets before they arise.

The system is tailored to transparency, speed and automation, ultimately making processes cheaper and easier for the end client. Meanwhile, the speed aspect brings trading closer to achieving T+2 settlements.

With the agreements automatically processed by CARDS, and consolidated by Colline, Genpact can then connect with the client to fill in any gaps in the information, and continue adding data to expand its workable vocabulary.

The regulatory environment is becoming more and more focused on fairness towards clients, and the Lombard Risk-Genpact collaboration reflects this, with a few added benefits thrown in.

Nicol affirms this ethos, stating that the two firms are working together to make the end-to-end settlement process as clear as possible, from the initial agreement, brokering the deal, right through to implementation and reporting.

"The clients can be as involved as they wish throughout the whole process," she says. "They can help to sort out any problems that come up, and that increases transparency too." **SLT**

The new world beyond the call

Proper collateral management processes and systems are critical to the success of all stakeholders, says Armando Hernandez of Lombard Risk

We are now six years on from the 2008 financial crisis and the financial services industry has learnt many difficult lessons. Market practitioners are now making a stronger effort to manage credit risk, liquidity risk and to strengthen operational efficiencies. The fear of another financial crisis, alongside the pressures and uncertainties of regulatory reforms, has thrust us towards a collateral management landscape that is changing for both the buy and sell sides.

Understanding counterparties

Since the first margin calls were made back in the 1980s, the desire to understand and mitigate counterparty risk has been core to effective collateral management: the creditworthiness of trading partners has been the main focus in these efforts. It is critical to take a comprehensive consideration of counterparty risk when selecting trading partners and integrating them into the collateral management process. Counterparty risk management should be looked at more holistically than it has been in the past.

Identifying changes in the level of risk that a counterparty poses to a trading relationship is imperative. Many current processes use the assumption that only derivatives-related factors can negatively affect the trading relationship with a counterparty. This has proven to be too narrow an approach time and time again. Only enterprise-wide methods have proven to be safer and more practical.

Understanding my available collateral

Current pressures to provide more and, more importantly, more high-quality collateral is changing the markets and increasing volume and complexity along the way. New regulations will most certainly further increase the amount of collateral required to satisfy new calls from central counterparties.

Additionally, the use of highly liquid collateral will be mandated, requiring collateral management practitioners to secure access to quality collateral. The availability of collateral in general is not a major concern, however, the availability of high-quality collateral is.

This ‘collateral squeeze’ has brought about the necessity for a new process, known as ‘collateral transformation’. Some firms will find themselves in a position of needing to convert some of their less desirable assets into securities or cash that can be used to satisfy collateral calls with higher grade asset requirements. Buy-side firms may potentially look for a service offering to help with these efforts while sell-side firms will employ the use of their securities lending or repo departments to provide this service.

Understanding the new world reforms

New regulatory reforms are moving traditionally OTC trades onto exchanges. The mandate to have a central counterparty stand between trading parties to clear swaps is a significant change to the world as we know it. Cleared swaps will now require the posting of initial margin for the first time for the vast majority of these trades. Trades such as TBAs (to be announced) must also be collateralised under very rigorous Financial Industry Regulatory Authority (FINRA) rules.

> “Due diligence will be required to discover the vendor that will provide a combination of usability, flexibility and scalability”

As such, fund managers that historically did not see the need for a full collateral management system are now requiring IT investment to put one in place. Given the fact that derivatives are not going away, volumes are not declining, and the fact that regulations are here to stay, the obligation is put on all market participants to do their part in mitigating risk across the board.

Employing the right collateral tools

Something that is sometimes overlooked or underestimated is the selection of appropriate tools to ensure that day-to-day collateral management operations run smoothly in an unpredictable environment. New collateral requirements brought about by reform mandates and regularly occurring market events make for very tumultuous surroundings for collateral management practitioners.

There is a greater need now, more than ever before, to ensure that trades are mitigated properly, that collateral is closely monitored, and that users from business to IT are given the tools to handle this without adding more challenges to their day.

A proper and thorough procurement process is critical to ensure that an organisation selects the right company and solution to support these efforts. Although all collateral management software products may seem to be the same, or of equivalent functionality, there are significant differences once the companies offering services are thoroughly vetted.

The industry changes noted above are forcing the need for scalable collateral management systems that can be integrated with up and down-stream source systems. A fair amount of due diligence will be required to discover the vendor that will provide a combination of usability, flexibility and scalability. It is also imperative to find a vendor that has a capable team to address current, new and upcoming functional requirements. This is critical to operational efficiency and successful risk mitigation to ensure that the team selected to run an implementation project is both experienced and skilled.

One must be prudent in selecting a vendor to partner with for a collateral management system implementation. A vendor should prove that it can put in to effect an implementation team that has an in-depth understanding of business requirements. Just as important is to ensure that the vendor of choice also has a solid and allied technical team to round out the implementation team.

It is clear that proper collateral management processes and systems are critical to the success of all stakeholders—front office, middle office, back office, operations, credit and legal. The lack of a suitable collateral management process or absence of a comprehensive collateral management system can result in extremely adverse financial consequences. **SLT**

Armando Hernandez
Vice president, collateral professional services
Lombard Risk

Car makers drive innovation at CES

This year's hottest technology trends were revealed at the recent Consumer Electronics Show in Las Vegas—piquing investor interest, as firms with the newest technology tend to see strong yields, according to Markit

Despite Apple continually shunning the event, the Consumer Electronics Show (CES) is an annual event for companies to showcase novel variations of electronic products. Entirely new product launches are now rare. Not since Nintendo released the NES in 1985 have there been notable milestones, with trends surfacing instead. This year's main themes are automotive integration with technology and the 'internet of things' (IoT).

Even though major car makers such as BMW, Daimler AG and Ford were present, relative newcomer Tesla was not. Panasonic's chairman did announce at the show that he expects Tesla to produce 500,000 vehicles by 2020—15 times higher than current levels. These hopes are underpinned by Panasonic and Tesla, which are building the lithium-ion 'Gigagactory' in a joint venture in Nevada.

Short sellers have increased their positions in the electronic car maker since the middle of 2014 and Tesla is currently the most shorted out of the major manufacturers, with 15.6 percent of shares outstanding on loan.

Fiat Chrysler, the second most shorted car maker, currently has 4.3 percent of its shares outstanding on loan after short sellers covered positions by 58 percent since early December 2014. This came as shares slumped following an October listing on the New York Stock Exchange as the firm continues to restructure operations globally.

The balance of the industry has exhibited generally low levels of shorting activity, with an average of just 0.5 percent of shares outstanding on loan among the large exhibitors. Performance wise, besides Toyota whose share price has increased by 16 percent over the last 12 months, Fiat and Tesla are the stand-out top performers with stock price increases of 44 and 41 percent respectively over the last 12 months, perhaps explaining the continued interest and larger positions taken by short sellers.

Questionable returns from tech

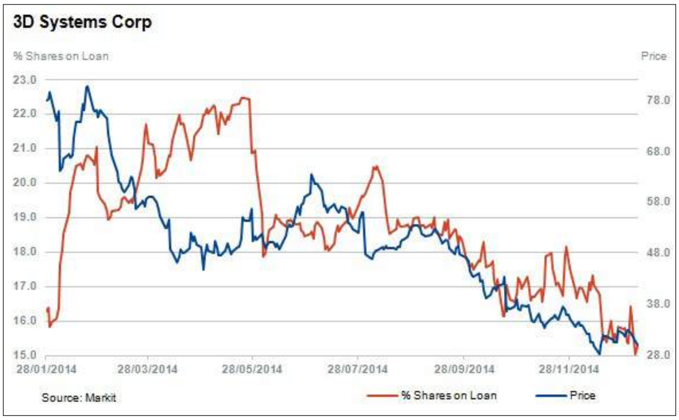
A few new technologies have yet to deliver returns to investors, and a few have had a disastrous year in terms of share price performance. 3D Systems and Stratysys, the owner of Makerbot, are down 68 and 42 percent respectively.

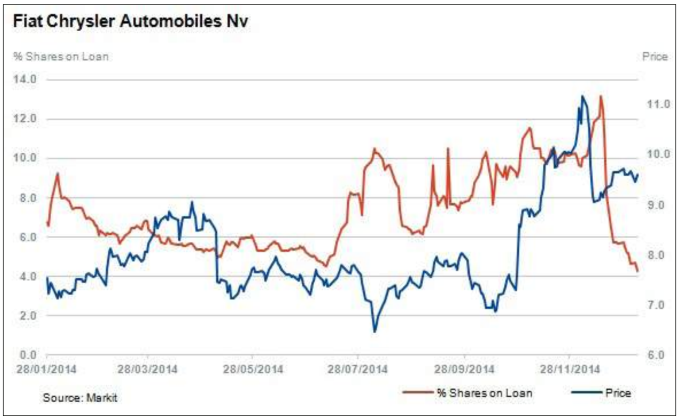
Both companies currently have 15.3 percent of shares outstanding on loan, although short sellers have been covering positions in recent months alongside declines in prices.

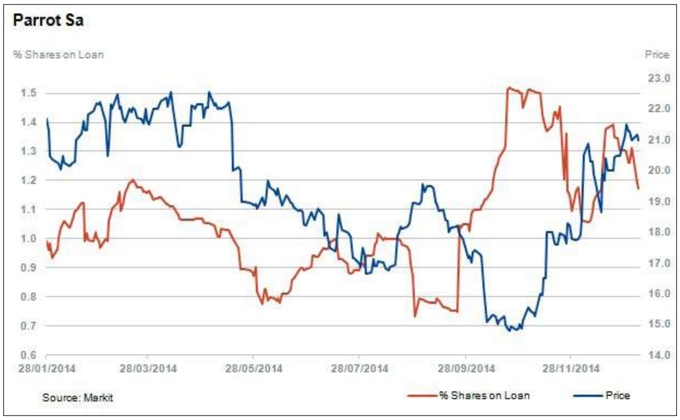
In terms of identifying winners, Markit's Research Signals Intellectual Property Model, using technology age (defined as the industry relative median age of prior patent references) as a factor, is able to identify and rank a universe of tech stocks by their respective age of technologies.

The output reveals positive results over the last 12 months across the top ranked 'newer technology' companies.

The first quartile of the sample universe (relatively newer tech companies) would have yielded a 15.3 percent annual return or 1.27 percent per month on average from January 2014 to January 2015. **SLT**





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IMN's 21st Annual Beneficial Owners' Conference

Date: 26-28 January 2015
Location: San Francisco

We remain committed to bringing Beneficial Owners the latest information on the practice of Securities Lending as it relates to their programs and strategies. As such, we will also be addressing the critical elements of collateral and its management as it pertains to Securities Lending

4th Annual Collateral Management Forum

Date: 19-20 February 2015
Location: New York

The finance industry is in the midst of massive change in terms of the regulatory environment and subsequently, the dynamics of the market. As a result, financial institutions have been looking to adequately address pressing, existing, and emerging market issues.

3rd Annual Nordic Asset Allocation under Solvency II

Date: 5-6 February 2015
Location: Sweden

With the January 2016 deadline now firmly set in the diaries of financial institutions across the world, Solvency II continues to be one of the very highest priority issues for European firms

Annual PASLA/RMA Conference on securities lending

Date: 2-5 March 20114
Location: China

The Conference Co-chairs Adam York, HSBC and Glenn Horner, State Street, and the conference planning committee are currently putting together a business program reflective of the current issues affecting the industry in the region along with legal and regulatory rules currently in implementation and discussion.

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Industry appointments

The International Securities Lending Association (ISLA) has appointed **James Treseler** and **Duncan Wilson** to its board of directors.

Treseler is managing director and global head of cross-asset secured funding in Societe Generale's corporate and investment banking division.

He has worked with Societe Generale for 16 years in various roles surrounding the secured finance industry. He now manages teams comprised of traders, flow traders and sales in Hong Kong, Tokyo, Paris, London, New York and Montreal.

Wilson has been executive director at J.P. Morgan since 2008 after serving as associate director at Barclays Capital for more than eight years.

ISLA has also lost a board member in former executive director of EMEA supply at J.P. Morgan, **Laura Allen**. She had been on the board at ISLA since 2012.

Allen has left J.P. Morgan after just over three years' service. Prior to this, she was employed for 14 years as global head of sales and marketing at UBS Investment Bank.

Eurex Clearing has recruited **Jonathan Lombardo** from Pirum Systems.

The firm has confirmed that Lombardo will join its clearing sales and relations team in February.

His new team is a part of the clients and markets division, which is run by Matthias Graulich, chief client officer and member of the executive board of Eurex Clearing.

Lombardo joins from Pirum, where he was global head of sales. Pirum works with Eurex on its Lending Central Counterparty (CCP).

''We are welcoming Lombardo in our London team as he has a vast expertise of the securities lending industry. Based on his previous role, he closely knows Eurex Clearing's Lending CCP and its partnership with Pirum and will be thus invaluable for our clients," said Gerard Denham, senior vice president for clearing sales and relations at Eurex Clearing.

"His depth of knowledge across the industry is a perfect match for Eurex Clearing's innovative services that deliver a cost-efficient, fully integrated, STP clearing solution across derivatives, repo, general collateral pooling, securities lending and collateral management."

Goldman Sachs has promoted **Rob Drake-Brockman** to co-head of Europe, the Middle East and Africa (EMEA) prime brokerage, to work alongside Puneet Malhi.

In a memo, Goldman Sachs confirmed that Drake-Brockman will move on from his current position in European equity capital markets on the public side.

He joined Goldman Sachs as an executive director in equities in 2006. He was named managing director in 2008, and made a partner in 2012. His experience includes equity sales with a focus on hedge funds, and working with institutional clients.

Malhi will continue his leadership responsibilities across the global synthetic products group, keeping his focus on unified client offerings across physical and synthetic prime brokerage.

Malhi joined Goldman Sachs in 2000 as an executive director, before becoming a managing director in 2002, and a partner in 2006.

The changes are part of a growth plan for the bank's global securities division franchise.

BlackRock has appointed **Matthew Fowles** to its iShares team to focus exclusively on the securities lending ecosystem and to help propel exchange-trade funds (ETFs) in to the mainstream assets market.

In a newly created position, Fowles will work to improve the visibility of the ETF project, addressing the challenges of making them a viable form of collateral and improving market processes.

He joins from J.P. Morgan, where he spent 15 years leading the collateral financing group within equity finance.

Fowles will now report to Andrew Jamieson, head of broker-dealer and client executive sales teams for iShares in the EMEA.

The pair previously worked together at J.P. Morgan.

Brad Hunt is leaving Markit to pursue other interests.

He will relocate from Singapore to join his family in London. Hunt will continue to assist Markit's information division leadership team during early 2015.

Hunt join Markit in 2011, when he joined as global head of equities from Goldman Sachs.

He led the integration of Data Explorers into Markit, following its acquisition of the securities finance data business in April 2012.

Hunt later moved to Singapore as managing director and head of information for the Asia Pacific.

Global Prime Partners has appointed **Andrew Bole** as COO.

Bole joins from IG Group Holdings, where he was chief risk officer and a member of the senior management team.

Julian Parker, CEO at Global Prime Partners, commented: "Bole will be instrumental in managing business processes and improvements across the firm, with clients benefitting from increased operational efficiencies and the continuing development of our market leading technology."

Societe Generale Securities Services (SGSS) has recruited **Christophe Baurand** as global head of commercial, marketing and liquidity management.

Baurand's new role will be based in Paris and he will report to Bruno Prigent, head of SGSS.

He replaces Massimo Cotella and his appointment took effect on 1 January.

Baurand is responsible for the commercial development and marketing strategy of SGSS, as well as for implementing the different commercial initiatives in the SGSS development and competitiveness plan that was launched in 2014.

Prigent commented: "Baurand will play an important role in steering our efforts to develop our activity and our European and African expansion, thanks to a broad and innovative product offer in line with our clients' needs."

Terry O'Brien has joined J.P. Morgan's securities lending operations in London, a source has confirmed.

O'Brien, the former head of trading for equity agency lending in the EMEA region at Citi, took up his new role at J.P. Morgan in December 2014. He left Citi in February 2013.

O'Brien joins J.P. Morgan as senior trader on the UK securities lending desk.

O'Brien previously worked at F&C Investments and Bank of New York.

Eurex Clearing has appointed two new members to its supervisory board.

Roselyne Renal and **Clifford Lewis** have replaced three board members who stepped down earlier in 2014, due to regulatory requirements or at their own request.

Lewis will also sit on the compensation review and nomination committee of the board.

UK-based Renal has 20 years of experience in the financial services industry and has been group credit officer for Standard Chartered Bank since November 2013.

She previously spent 16 years at Deutsche Bank and two-and-a-half years at Standard Bank of South Africa.

Lewis is also lead independent director of Eris Exchange and a member of the Commodity Futures Trading Commission technology advisory committee.

He was CEO of Currenex from 2011 to 2013, and previously worked for the World Bank and Chicago Board of Trade.

Hugo Baenziger, chairman of the supervisory board, said: "We are delighted that the appointments of Renal and Lewis offer us the opportunity to extend our board's diversity and internationality. With their deep and extensive knowledge of the industry, Roselyne and Clifford will further broaden the supervisory board's expertise."

Northern Trust has elected **Dean Harrison** to its board of directors, effective 1 January.

Harrison is president and CEO of Northwestern Memorial HealthCare, the primary teaching affiliate of Northwestern University Feinberg School of Medicine and parent corporation of Northwestern Memorial Hospital.

The board also appointed **Charles Powell** to serve as an advisory director to the board, also effective 1 January.

Powell is a non-party member of the UK's House of Lords and a member of its select committee on the constitution.

Frederick Waddell, Northern Trust chairman and CEO, commented: "Both bring a wealth of business experience, strategic expertise and leadership ability that will greatly benefit our continued success."

He added: "We look forward to their contributions as Northern Trust continues to grow and deliver innovative financial services to clients worldwide." **SLT**

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