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Credit Suisse to close managed lending desk for institutional investors by June

Credit Suisse is planning to wind down its managed lending business in the US.

The bank will wind down the business by 30 June, after deciding that its niche focus does not fit in with Credit Suisse's wider investment banking strategy.

The third-party agency securities lending business, which operates out of the Credit Suisse AG New York branch, works on behalf of large institutional investors in the US, matching their securities with broker-dealers for a fee.

The bank's prime brokerage business is unaffected by the move, and will continue to support the securities borrowing needs of clients, which include hedge funds.

A Credit Suisse spokesperson said in a statement: "As a highly ranked global business, Credit Suisse is constantly assessing how to best create efficiencies for our franchise and our clients."

"We remain committed to continuing to provide our clients with a top tier offering."

Euroclear reports record-breaking 2014

Euroclear enjoyed a successful 2014, including a 12.1 percent rise in collateral outstanding on its Collateral Highway, which reached €883.1 billion.

The result comes alongside a range of record-breaking figures, including assets under custody for 2014, which reached €26 trillion, a 7.4 percent rise on 2013. It also saw an all-time high of €633.6 trillion in the value of securities processed, a 10.6 percent increase on 2013.

The number of netted transaction settles also grew 6.6 percent to reach a record number of €181.6 million.

readmore p2

SCOTUS may decide iShares dispute

The US Supreme Court has been asked to weigh into a dispute over the fees that BlackRock affiliates charged for securities lending services, with the two pension funds arguing that an appellate split needs to be resolved for the good of the mutual funds industry.

The Laborers' Local 265 Pension Fund and Plumbers and Pipefitters Local No 572 Pension Fund want the Supreme Court to overturn a Court of Appeals for the Sixth Circuit ruling that a 35 percent fee for all net securities lending revenue was not excessive.

The lawsuit was launched against iShares and other BlackRock businesses in January 2013, accusing them of violating amendments to the Investment Company Act (ICA) by charging unnecessarily high securities lending fees because of their affiliated relationship.

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New $1 billion repurchase facility for OCC

OCC has established a pre-funded, $1 billion committed repurchase facility with a leading pension fund.

The facility increases OCC's overall liquidity resources from $2 billion to $3 billion, while diversifying its committed lenders to include qualified pension funds in addition to OCC's existing base of banks and broker-dealers.

The US Securities and Exchange Commission (SEC) published a notice of OCC's plans in the Federal Register on 8 January.

OCC wants to access additional sources of liquidity to meet its settlement obligations without increasing the concentration of its counterparty exposure, according to the notice.

"The programme will be part of OCC's overall liquidity plan that is meant to provide OCC with access to diverse sources of liquidity, which includes committed credit facilities, securities lending and securities repurchase arrangements, and clearing member funding requirements that, under certain conditions, allow OCC to obtain funds from clearing members," to the notice.

John Fennell, executive vice president of risk management at OCC, said: "We are very pleased to lead our industry by expanding the scope of committed liquidity facilities for central counterparties given the significant changes that are occurring in the banking industry."

Committed liquidity facilities ensure that sufficient capacity is maintained to fund payment obligations to clearing members in a timely way, promoting the uninterrupted flow of financial markets.

Fennell added: "With the phasing in of new bank capital requirements affecting these types of arrangements, we anticipate that the supply of committed credit facilities from banks may contract."

Craig Donohue, executive chairman of OCC, added: "Increasing our total resources and implementing this innovative solution to expand the range of qualified lenders that we rely upon will facilitate the continued growth of the US options industry and the futures markets that we serve while further enhancing our resiliency."

Euroclear reports record-breaking 2014

Continued from page 1

The value of FundSettle-serviced funds increased percent compared to 2013, while the volume of fund transactions processed by the group rose 13 percent to reach 20 million.

Fund orders routed through Euroclear's UK and Ireland EMX Message System increased 33 percent, to reach another record high of 65 million messages in 2014.

Said CEO Tim Howell said: "Euroclear remains a leading market infrastructure that is relevant, reliable, resilient and profit moderated. Our performance over 2014 strengthens Euroclear's pre-eminent role within the global post-trade ecosystem, and we remain well-positioned for future growth opportunities both in Europe and around the world. We want to thank our clients for the business they entrust with us, and we look forward to working together again in the year ahead."

He added: "We remain focused on maintaining market stability, delivering the regulation-driven initiatives in our core European franchise and investing in capabilities and services that extend client value."

In June 2014, Euroclear acquired a stake in Euronext, an investment designed to offer closer proximity to its clients and to strengthen Euroclear settlement for its Euronext-zone Securities franchise.

It also joined with the Depository Trust and Clearing Corporation and launched the joint

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venture company DTCC-Euroclear Global Collateral Limited in September 2014. The collaboration aims to deliver greater operational efficiency, improving the stability of markets.

During the year, it expanded the range and involvement of market participants connected to its Collateral Highway, easing collateral sourcing and mobilisation while increasing transparency and asset protection for all participants.

SCOTUS may decide iShares dispute

Continued from page 1

The 1970 amendments to the ICA were aimed at increasing director liability for breach of fiduciary duty.

In September 2014, the Sixth Circuit upheld the district court's finding them in favour of BlackRock and its businesses.

BlackRock Institutional Trust Company, as the lending agent of the iShares exchange-traded funds in which the pension funds are shareholders, charged a 35 percent fee for its services, while BlackRock Fund Advisors, also a defendant, charged a separate fee as investment adviser to iShares.

The pension funds wanted the fees to be combined so that so that BlackRock Fund Advisors could be investigated over violating its fiduciary duty under the ICA by receiving excessive compensation.

But the district court, and later, the Sixth Circuit, disagreed, finding that a 2002 Securities and Exchange Commission exemption order permitted iShares to pay fees to an affiliated lending agent based on a share of the revenues generated.

The Sixth Circuit ruled: "BlackRock Institutional Trust Company receives a fee of 35 percent in exchange for its services as lending agent. The allegations in the complaint focus on this lending fee."

"Nowhere in the complaint do the plaintiffs protest the separate fee that BlackRock Fund Advisors receives pursuant to its investment-advisory agreement with iShares. The plaintiffs have therefore forfeited their aggregation argument."

"And even if the complaint had contained specific allegations protesting BlackRock Fund Advisors's investment advisory fee, that fee is altogether separate from the lending fee charged by BlackRock Institutional Trust Company and thus provides no logical basis for aggregating the two."

In their Supreme Court petition, filed on 29 December, the pension funds claimed that BlackRock's actions and the Sixth Circuit's interpretation of the ICA are "exactly the problem that Congress intended to remedy when it enacted the 1970 amendments".

They also argued that the Supreme Court should take up their appeal because "BlackRock manages one third of US pension funds, [and] the national impact of the Sixth Circuit's decision is enormous".

Strong 2014 for Eurex Repo

Eurex Repo continued to grow in 2014, with outstanding volumes, the number of transactions and active participants all on the rise.

Combined average outstanding volumes for GC Pooling and the Euro Repo markets reached a

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new record level of around €200 billion on an annual basis.

Of this sum, the secured money market GC Pooling totalled €158.5 billion average outstanding volumes, an increase of 3 percent compared with 2013.

This increase was accompanied by higher transaction and quote volumes. On a monthly average basis, the number of transactions grew 42 percent year-on-year, while the number of quotes increased 24 percent.

GC Pooling recorded for the first time more than 100 active participants on a daily basis since launch. The Euro Repo market totalled €41 billion in average outstanding volumes (a rise of 12 percent year-on-year).

The GC Pooling market also extended its currency coverage, adding the Swiss franc in late 2014 to its existing cash currencies euro and US dollar. The addition of further currencies at a future date in 2015 is planned, according to Eurex.

In a statement, Eurex stated: "The SecLend CCP market is gaining strong interest amongst client base. Two new participants joined the SecLend CCP market in 2014 thereby using the post-trading infrastructure of Eurex Clearing."

Eurex Repo also began the roll-out of its F7 trading system at the end of 2014, formulated to encourage further increases in the transaction volumes, market share and new customers segments.

"We are very pleased by the continuing growth of our markets despite the negative interest rate environment," said Marcel Naas, managing director of Eurex Repo.

"The significant increase in the average number of quotes and transactions also supported the further establishment of our GC Pooling index family as an alternative to unsecured money market benchmarks."

Banking association wants CCP reforms

An association of top US banks has written to the Financial Stability Oversight Council (FSOC) urging it to take a closer look at central counterparties (CCPs).

The Clearing House Association, which is oldest banking trade group in the US, sent the letter to FSOC chairman Jack Lew in a bid to have his agency use its position as an umbrella group of US regulators to coordinate efforts to address and mitigate systemic risk arising from increasing market reliance on CCPs.

Reliance on CCPs has been a key point of reforms, with lawmakers seeing them as an important failsafe in the event of a default.

But banks and regulators from around the world have voiced concerns about CCPs' ability to mitigate risk, arguing that an overreliance could have the opposite effect.

In its letter to the FSOC, the Clearing House Association made five recommendations that its members think would subject CCPs to more stringent standards and help to ensure that their risks are more carefully managed and mitigated.

Among the recommendations was a proposal for CCPs to have more "skin in the game",

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meaning that they should be encouraged to invest more of their own capital.

The Clearing House Association also wants clearing members to have limited mutualised liability in the event of a default, greater transparency and stress testing among CCPs, and back-up plans should a CCP fail.

Regulators should also establish stronger safeguards for collateral posted by clearing members to a CCP, including standards for eligible collateral and liquidity requirements.

In December 2014, LCH.Clearnet acknowledged that stress testing and transparency of results is the key to increasing confidence in CCPs.

Its whitepaper said that CCPs should have the appropriate recovery tools and margins available to deal with a clearing member default, and that a recovery plan should be developed in consultation with both clearing members and clients.

LCH.Clearnet also supports mandatory stress testing, and suggested that global coordination may be required to make this a possibility.

SunGard's hottest stocks

SunGard's Astec Analytics has compiled the hottest stocks from around the globe for the week beginning 12 January 2015.

The Paris-based operator of the cross-channel tunnel, Groupe Eurotunnel (GET.PA), is Astec's top pick for the Europe, Middle East and Africa (EMEA) region after a lorry caught fire in the tunnel, causing a full-scale evacuation and the cancellation of all trains for the day.

This came as the company's share price has been making gains since the start of 2015, in which time the stock price has climbed about 8 percent, though data form Astec also suggests short sellers have been building positions in line with these gains, with borrowing volumes now 29 percent higher than 1 January.

CNH Industrial (CNHI) is again suffering amid concerns over farming industrial sales.

"Despite some mixed trade in the cash market, [our] data suggests short sellers may be re-entering positions following a few weeks of closures, albeit only slightly, with borrowing volumes climbing 4 percent last week."

In the Americas, Google (GOOG) is Astec's top pick after its well-publicised Google Glass product was placed under new management within the company—management who suspended sales of the test model and put on hold the plans to bring out a revised model.

Though the company insists it is not abandoning the project, the move is being seen by most commentators as an admission of failure due to poor sales.

Astec's data has hinted at some growing interest form short sellers over the past few weeks, as borrowing volumes having climbed 21 percent in that time.

GoPro Inc (GPRO) has also seen fresh attention in the Americas with news that it may be subjected to increased competition after Apple was granted a patent for a wearable camera device.

The news hurt GoPro's shares in the cash market, thought these declines seemingly

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brought about falling demand to borrow its shares, with the cost of borrowing falling from 24 percent to just 15 percent during the week.

In the Asia Pacific region, Sharp (6753) has seen focus build ahead of its latest earnings numbers—the announcement of which was dominated by a full-year profit warning which caused the shares to gap-down more than 5 percent.

On the borrowing front, Astec's data has hinted at growing short selling activity for almost two months, with the number of shares being borrowed now 19 percent higher than 1 December 2014.

Finally, Japan's Gree (3632) has been experiencing an ongoing share price slump that has seemingly brought about additional loss of demand to borrowing its stocks in the wake of the dividend related activity seen in December 2014.

The week's final session saw the cost of borrowing Gree shares fall from almost 12 percent per annum to just 5 percent.

More reporting is the key to transparency

Finadium has published its response to the US Securities and Exchange Commission (SEC) plans to increase transparency in the derivatives and securities lending industry, suggesting mandatory reporting and modernisation.

On Securities Finance Monitor, Finadium responded to a speech made by SEC chair Mary Jo White in December 2014.

In the speech, White addressed the minimal insight that even the SEC has in to the inside workings of derivatives and securities lending, a point that Finadium suggests leads to suspicion of the industry as a whole.

Brown said: "While funds and advisers currently report significant information about their portfolios and operations to the commission, these reporting obligations have not, in my view, adequately kept pace with emerging products and strategies being used in the asset management industry."

"The reporting and disclosure of fund investments in derivatives, the liquidity and valuation of their holdings, and their securities lending practices should all be significantly enhanced."

Finadium agreed with this principle, and suggested quarterly disclosure in the style of Form N-Q, clarifying derivatives and securities lending holdings, collateral held, what collateral is invested in, and who the counterparty is.

It went further however, also advising fees for faster risk and return evaluation, and disclosure on holdings where cash is invested in a money fund, and where it is not published anywhere else.

In the same vein, Finadium encouraged the SEC to allow mutual funds to accept a broader range of non-cash collateral, thereby allowing them to stay current in modern markets.

Brown also suggested liquidity management and monitoring could be on the horizon, saying: "Liquidity management and the use of derivatives in mutual funds and ETFs are two key areas of focus by the staff."

"Inadequate controls in those areas can create significant risks for funds themselves and their investors, as well as raising questions about

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whether there could be a potential impact on the financial system as a whole."

While Finadium supported this move, it pointed out that some non-major fund managers may not be sophisticated enough to implement this, and expressed concerns over the SEC's ability to implement new regulations in a timely manner.

The beginning of the end for traditional cinema?

The growth of digital delivery platforms and the instant release of The Interview have forced traditional cinematic businesses to adapt in order to stay relevant to today's consumers, according to Markit.

The Interview's online release in late 2014 was due to malicious cyber attacks on the company, but the debacle provided the first large scale test case for instant online or video on demand release and revealed that audiences are ready and waiting.

The Interview earned $18 million in its first weekend and 84.4 percent of this was via online channels. This release effectively cut out cinema chains, although most in this case actually opted out of screening the movie.

This episode demonstrates that content creators are now capable of launching a movie globally, on their own or via partners, to millions of people instantly. It should come as no surprise that theatre owners have sounded the death of the cinema at the hands of Netflix and its peers. The UK's largest cinema operator, Cineworld, released trading numbers earlier this year that at first glance suggest the chain is thriving, defying the rapid growth in delivery of content via online networks.

Analyst at Markit, Relte Schutte, commented: "Upon closer inspection, Cineworld's numbers reveal admissions in the UK and Ireland were actually down 3.7 percent in 2014 and the good results were driven by M&A and business growth in Eastern Europe, where admissions grew by 4 percent."

Shares are up 17 percent over the last 12 months, with shares outstanding on loan at 1.7 percent.

In the US cinema market, Regal Entertainment and Cinemark Holdings are two names that have seen significant levels of shares outstanding on loan at 6.6 percent and 2.8 percent, respectively.

According to Markit, while Regal has seen short sellers retreat 41 percent since last year and a flat share price performance, Cinemark has seen short interest more than double and the share price increase by 14 percent.

Content creators have performed better relative to cinema chains and distribution platforms over the last year. Time Warner, Sony Corp and Walt Disney shares are all up over 25 percent in a year, said Schutte.

Imax's stock has consistently attracted short seller's attention over the last five years, according to Markit. Its share price is up 7.4 percent over the last year, with short interest increasing by 10.9 percent to 11.8 percent of shares outstanding on loan.

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Netflix, the subscription streaming service launched in 2002, has changed and grown dramatically over the last decade.

Short interest in Netflix peaked in September 2008 when 35.2 percent of shares outstanding were shorted.

Schutte commented: “Short sellers, sceptical of the business model, were subsequently sent covering as revenues and profits grew rapidly, seeing the stock price increase 970 percent (to date) since short interest peaked in 2008.”

The streaming service reported lower than expected subscriber growth numbers in October 2014, which sent the stock down over 25 percent in a day. While shares outstanding on loan currently are nowhere near 2008’s highs, they have increased by 209 percent over the last 12 months to 2.8 percent.

CloudMargin and AcadiaSoft join forces

CloudMargin and AcadiaSoft have partnered to provide real-time collateral management communication to their clients.

Using the new link to AcadiaSoft MarginSphere, CloudMargin’s clients are able to issue and respond to margin calls, manage disputes and then negotiate and process margin movements electronically with their brokers.

This happens in real-time without sending emails or faxes, prevents the re-keying of data and removes the need to monitor an email inbox.

CloudMargin clients pay a rolling monthly subscription based on actual usage levels and receive a full-featured collateral management platform that, CloudMargin claims, outperforms “the dated million-dollar offerings of the legacy technology vendors”.

MarginSphere is a margin confirmation community where counterparties engaged in collateral management can automate the complete margin cycle.

It is the result of collaboration between AcadiaSoft and the industry’s largest financial institutions that are focused on driving efficiencies and reducing risks.

CloudMargin’s link to AcadiaSoft is live and immediately available to new and existing clients.

“The move from email and fax communications to electronic messaging is the greatest single driver of efficiency and STP the collateral management world has seen in years,” said Andy Davies, founder and CEO of CloudMargin.

“AcadiaSoft’s innovative solution is a natural partner of CloudMargin and together our clients and their brokers will see immediate efficiency and accuracy gains. I’m thrilled to offer this new functionality to our rapidly growing client base.”

Chris Walsh, COO at AcadiaSoft, said: “We are excited to be integrated with CloudMargin to bring increased [straight-through processing] to the collateral management process.”

“The welcome addition of CloudMargin to the AcadiaSoft community is a key advancement for us towards our goal of a completely automated, industry-wide margin process.”

Regulations lead to buy-side risk, says Misys

The increase in regulations throughout the financial industry is leading to greater risks and more opportunities for buy-side firms, according to Misys.

The firm’s whitepaper found regulation to be a significant driver of industry change, leading to capital and liquidity burdens and, in turn, higher operational cost and generally reduced profitability.

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The paper pointed out the disproportionate effects of regulation for sell-side institutions that are prompting investors to move to a more institutional position, thereby changing the face of the whole investment industry.

Investors are now taking on more risk, a point highlighted by 75 percent of industry participants surveyed for the paper. More than 80 percent also said they felt overwhelmed by the mounting pressures of regulation and compliance, and many are re-assessing their core business platforms.

Firms appear to be leveraging their institutional relationships to act more like investors in their deals, changing the market dynamics and blurring the lines between investor and investment managers.

This opens up opportunities for buy-side institutions to benefit from the transition of risk, as well as non-bank institutions that are therefore non-regulated.

Buy-side institutions can capitalise on inconsistencies between regulated institutions and differing rules across jurisdictions, however this also brings concern over the costs of implementing systems and technology to integrate with other institutions.

The whitepaper also discussed the unintended consequences of regulations such as Basel III and the Dodd-Frank Act in the US.

Banks are facing liquidity issues and reduced profitability, and becoming less active in capital-intensive products and business units. In extreme cases, smaller participants are ceasing trading altogether, due to increased costs.

It also highlighted the issue of slow growth in the post-crisis global financial economy, in which slow economic growth plus market conditions of low interest rates and high volatility has lead to a slower recovery than anticipated, putting further pressure on financial institutions.

The whitepaper, by Will Dombrowski and Bradley Ziff, included views from more than 50 industry players, representing more than $9.5 trillion in global bank assets and more than $12.4 trillion in assets under management.

The firms questioned were mainly UK and North America-based, with a global presence. Their views were presented between May and June last year.

Markit's most shorted

Markit compiled a global list of the most shorted stocks due to release earnings in the week beginning 12 January.

US homebuilder KB Home was the most shorted stock ahead of announcing earnings, with 15.8 percent of shares outstanding, and was joined by fellow homebuilder Lennar Corp, which is sixth most shorted with 9 percent of shares outstanding on loan.

KB Home's shares have decreased 6 percent over the last 12 months in contrast with Lennar Corp's increasing by 22 percent.

Both KB Homes and Lennar construct and sell single-family styled housing, primarily aimed at first time buyers across the US.

Analyst at Markit, Relte Schutte, commented: "New house sales numbers in the US dropped

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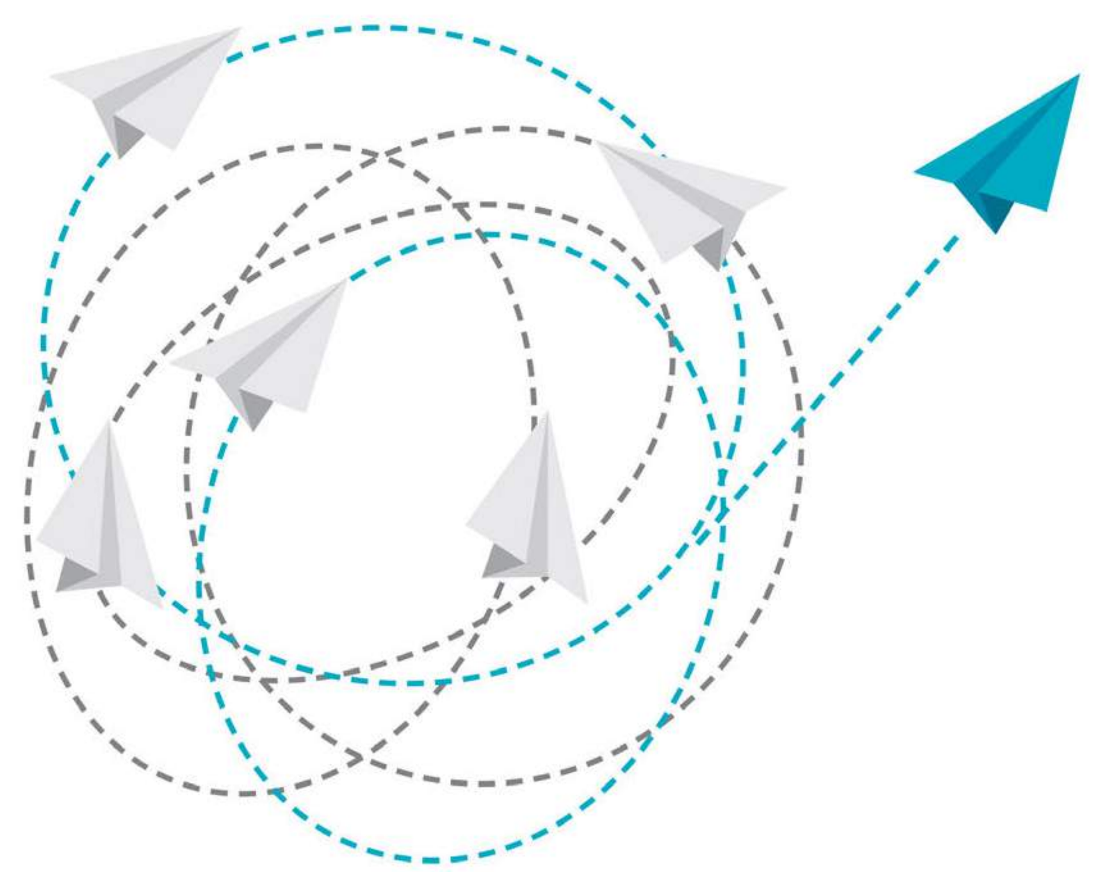

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unexpectedly in November to the lowest levels since July 2014."

"The outlook for housing in the US for 2015, however, is strong but the rapid decline in oil prices and possible future effects on homebuilder's remains uncertain."

Overall, the US housing market rallied over Q4 2014 after seeing what Markit called a "disappointing" first three quarters.

Another popular short sale in the US ahead of earnings was People's United Financial. The savings, loan and wealth services company had 14 percent of shares outstanding on loan.

Short sellers timed the previous large price decline of 10 percent, which occurred in July, according to Markit.

Since then, the share price recovered and is up 3.8 percent over the last year, attracting renewed interest from short sellers in recent weeks.

The company in Europe that saw the most significant short interest ahead of earnings was German sugar and food producer Suedzucker.

The company lowered its dividend payments in 2014 and was removed from the MSCI Germany Index earlier in the year.

Suedzucker's share price has declined 39 percent over the last 12 months and short sellers have continued to cover, with short interest decreasing month-on-month by 13 percent to 8 percent of shares outstanding on loan.

Japanese auto component manufacturer U-Shin was the most shorted stock in the Asia Pacific region, with 7.8 percent of shares outstanding on loan.

The next most shorted in the region was Singapore Press, with 7.6 percent of shares outstanding on loan.

The printer, publisher and multimedia company is the Singapore's largest newspaper publisher and was recently included in a joint venture announcement with Schibsted, Naspers and Telenor regarding classified websites.

Volume down for Brazilian CCP

Securities lending transactions at Brazilian central counterparty BM&FBovespa had a financial volume of BRL 735.01 billion ($281.5 billion) in 2014, with 1,518,369 trades.

Last year was down from the 2013 financial volume of BRL 1 trillion ($383 billion) and 1,693,151 trades.

In December 2014, the financial volume for securities lending transactions was BRL 48.61 billion ($18.6 billion), exceeding the mark of BRL 46.18 billion ($17.6 billion) set the month before.

The number of transactions in December reached 113,232, beating the previous month by 111,350.

SS&C hedge funds see January decline

So far in January 2015, hedge fund flows as measured by the SS&C GlobeOp Capital Movement Index have already declined 2.95 percent from December 2014.

"In line with year-end portfolio rebalancing, January net capital flows were negative, with higher capital activity overall," said Bill Stone, chairman and CEO of SS&C Technologies.

Cumulatively, the SS&C GlobeOp Capital Movement Index for January 2015 currently stands at 146.58 points, a decrease of 2.95 points over December 2014.

The index has declined 0.62 point over the past 12 months.

The gross return of the SS&C GlobeOp Hedge Fund Performance Index for December 2014 measured 0.11 percent.

The next publication date of SS&C's hedge fund flows is 12 February 2015.

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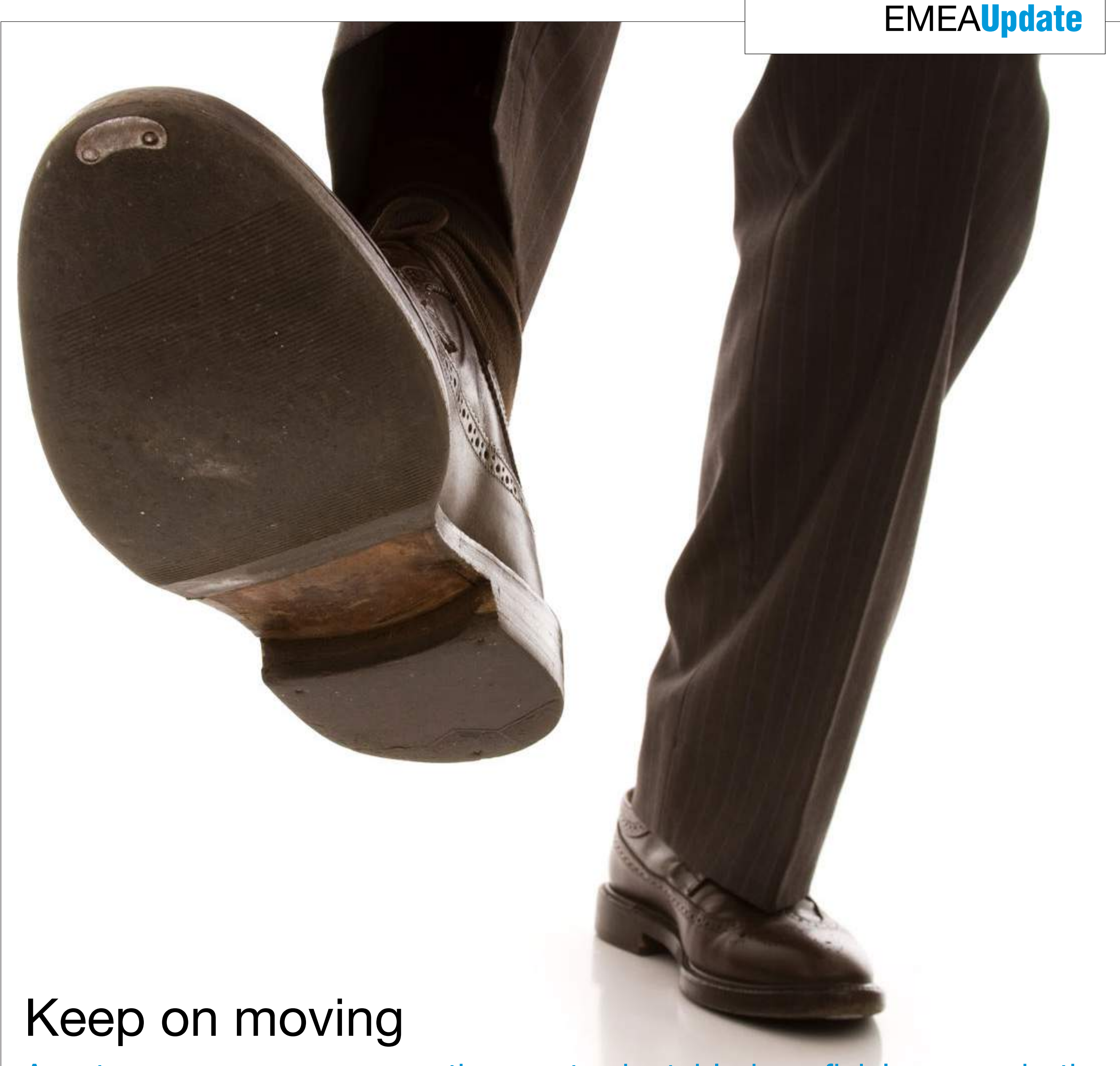

Keep on moving

Asset managers are among the most adaptable beneficial owners in the EMEA, but they must remain conscious of continuing regulatory upheaval, says State Street's Maurice Leo

MARK DUGDALE REPORTS

How would you describe 2014 for securities lending in the EMEA, for both State Street and the wider industry?

It was a year of continued adaptation for the industry in Europe, the Middle East and Africa (EMEA). Headline implementations included the adoption of the European Securities and Markets Authority (ESMA) guidelines on exchange-traded funds (ETFs) and UCITS in February, and the wider securities services industry transition to a T+2 settlement regime in Europe in early October, which is a pre-cursor to the future adoption of the Central Securities Depository Regulations defined by ESMA.

In a global context, we continued to refine our interpretation of the programme impacts of Basel III and the US Dodd-Frank Act within the context of our broader regulatory due diligence. The influence of certain regulations on the industry is already evident. This offers a practical context for engaging our clients today in discussions about how they might realign their programme guidelines to optimise their returns. I would emphasise that this will not be a static agenda or dialogue.

In line with the aggregate industry trends in recent years, we continued to witness strong supply fundamentals in 2014. Historical sources of inventory, including our official institution, asset owner and insurance client base, continued to grow organically, and we also saw

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continued, substantive growth among asset manager clients.

Borrower demand continued to be defined in large part by balance sheet capacity in 2014. Individual borrower idiosyncrasies are very evident, with different borrowers showing more pronounced interest in particular markets, or even stocks, and collateral types.

What are some of the emerging trading trends in the EMEA region, and what you would attribute their rise to?

Term and corporate action-based trade opportunities continued to increase in 2014. A number of clients have developed formalised governance structures to support prompt due diligence and decisions on specific trade ideas that we present for consideration.

Borrowers continue to gravitate towards formalised term-lending transactions. Those institutional investors with an appropriately stable liquidity profile can secure a premium versus open, or overnight, loans. We expect the scale of formalised term lending to increase as borrowers further adapt to emerging regulatory standards. These opportunities span all asset classes—fixed income and equities. Demand for Europe-domiciled ETF supply that is available for term has been particularly notable in the past year.

We also have witnessed a deepening in the volume of SCRIP-based trades, optimised by advance client elections, as the popularity of SCRIP distributions continues to widen, especially for European issuers.

What is the situation with beneficial owners' collateral profiles in the EMEA? Are they more or less conservative about what they will accept as collateral from borrowers, and why?

The ESMA guidelines on ETFs and UCITS created a significant divergence between the eligible regulatory collateral profiles for those funds in Europe relative to other asset owners or official institutions. In particular, the collateral diversification thresholds defined by ESMA have had an influence on borrower demand towards ETFs' and UCITS funds' supply with respect to general collateral trades, for which collateral flexibility is a determining feature in the appeal of any supply.

With increased lending activity versus non-cash collateral, we have continued to work with clients to extend permissible collateral within the confines of their proprietary risk policies. Our enterprise risk management and product risk specialists are very engaged in these discussions with their peers at the client institutions, reflecting the broader stakeholder governance structures that now characterise portfolio participation in lending programmes. One noteworthy emerging collateral grouping is equity-based ETFs, reflecting the global growth in issuance and liquidity in this product area.

Given the unprecedented regulatory and monetary authority intervention in the market at present, guideline flexibility with regards to counterparty distribution and eligible collateral remains key to optimising risk-adjusted returns from securities lending. That flexibility positions agents to align supply with increasingly individualistic borrower demand profiles to sustain client performance.

> "The ESMA guidelines on ETFs and UCITS are the most noteworthy, direct regulation in terms of managing exposure and promoting additional disclosures and transparency around risk and performance, and so on"

Where do you see asset managers as a source of lendable securities in the EMEA? Is their importance to the business increasing or decreasing, and why?

I think asset managers will remain an important strategic community within the securities lending arena given their adaptability and the favourable outlook for the sector in EMEA. Asset managers are among the strongest and most visible advocates of securities lending. The participation rate of European-domiciled ETFs in securities lending reflects that.

Regulatory standards such as the previously mentioned ESMA guidelines on ETFs and UCITS will influence the appeal to borrowers of certain lendables enrolled by asset managers. As a consequence, we anticipate a continued migration towards specials rather than to general collateral lending for progammes subject to such regulation. This contrasts with the asset owner, official institution and insurance sectors that participate in securities lending under different regulatory profiles.

What are the key regulations affecting asset managers when it comes to securities lending in the EMEA region?

There is a diverse range of direct and indirect regulatory influences to consider.

The ESMA guidelines on ETFs and UCITS are the most noteworthy, direct regulation in terms of managing exposure and promoting additional disclosures and transparency around risk and performance, and so on.

Basel III and the Dodd-Frank Act will also cause downstream impacts—for asset managers and others—enrolled in securities lending. Both affect borrower (or their end client) and intermediary (such as agent lenders) behaviour. Balance sheet deleveraging and the resultant contraction in loan volumes, or shortening in loan durations, are practical examples of such indirect regulatory impacts in recent years. The momentum towards term lending, for those that can engage, will be strengthened by the eventual adoption of the Basel framework's net stable fund ratio.

The Basel framework for measuring and controlling large exposures is likely to promote the expansion of the counterparty universe to include institutions with more regional or local demand profiles. The latter will supplement business historically transacted with larger global entities that are increasingly constrained due to their systemic importance.

Of course, the EU Financial Transaction Tax has an overarching command on the attention of all asset managers—as well as other institutional investors—given the expanse of its potential application. **SLT**

Maurice Leo
Senior managing director, head of relationship management in the EMEA, securities finance
State Street

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Systemic importance

DTCC wants to enhance the triparty repo market's ability to navigate stressed market conditions. Murray Pozmanter explains

MARK DUGDALE REPORTS

What is the situation with reform of the US triparty repo market?

In an effort to strengthen the resiliency of the triparty repo infrastructure, the Federal Reserve's payments risk committee (PRC) created the Tri-Party Repo Infrastructure Reform Task Force in 2009 and asked the industry to develop a solution that would reduce reliance on intra-day credit and increase risk management practices.

The task force's goal is to enhance the repo market's ability to navigate stressed market conditions by implementing changes that help better safeguard the market. DTCC has worked in close collaboration with the task force on these reform initiatives.

The task force's initial report identified key areas of focus to improve market safety: (i) achieve a substantial reduction in the usage of discretionary intra-day credit extended by the triparty clearing banks; and (ii) foster improvements in market participants' liquidity and credit risk management practices.

At that time, the Federal Reserve announced its intention to embrace this roadmap and to use its supervisory tools to encourage its implementation by market participants. Shortly thereafter, both clearing banks—Bank of New York Mellon and J.P. Morgan Chase—announced that they were committed to completing the infrastructure work needed to achieve a settlement regime that was much less dependent on their provision of intraday credit, and would deliver improvements by the end of 2014.

FICC wants to provide central clearing for the over $1.6 trillion institutional triparty repo market—if approved, how will this work, and what will the benefits be to the market and participants?

FICC (DTCC's Fixed Income Clearing Corporation) will enhance the triparty repo market's ability to navigate stressed market conditions by implementing solutions that help mitigate risk and better safeguard the US financial market. FICC provides the only central clearing function for triparty repo trades in the US and is the only platform ready to serve this market.

Centralising the clearing and settlement of repo transactions through FICC will provide regulators with a broader and more comprehensive view of the repo market for the monitoring and management of systemic risk, as well as mitigate risks associated with a fire sale in the triparty marketplace.

The central clearing platform for repo clearing already exists at FICC. In fact, it's the only infrastructure that clears repo in the US Since 1998, FICC's GCF Repo service has seamlessly processed these types of transactions.

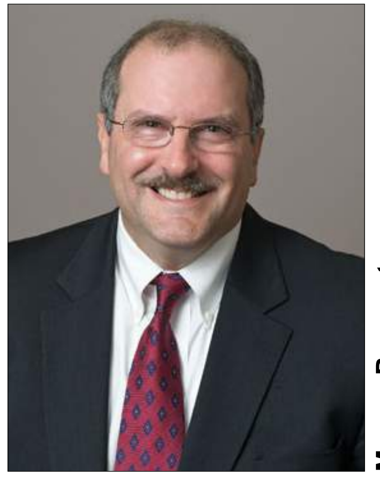
The plan is to leverage functionality and risk management capabilities that FICC already provides to its members and therefore, there is no need for technology or market structure changes, which would elongate the period that it would take to bring a service to market and need to go through a testing period. FICC intends to submit a rule filing with the US Securities and Exchange Commission (SEC) and an advance notice filing to both the SEC and the Federal Reserve Board in Q1 2015.

The Fed has expressed concerns over how clearing banks will handle intra-day credit extensions to the FICC to settle inter-bank GCF repo trades—how will FICC's application help to address these concerns?

As an ongoing part of the triparty reform efforts, the inter-bank credit extension is being addressed in a separate effort. FICC is currently working with both clearing banks to introduce real-time substitutions in 2015.

What about the Fed's concerns over FICC's ability to handle borrower defaults?

FICC handled both the Lehman Brothers and the MF Global insolvencies seamlessly. The proposed CCIT service would provide a new liquidity vehicle to further support FICC's ability to handle default scenarios. SLT



Murray Pozmanter
Managing director and general manager,
SIFMU businesses
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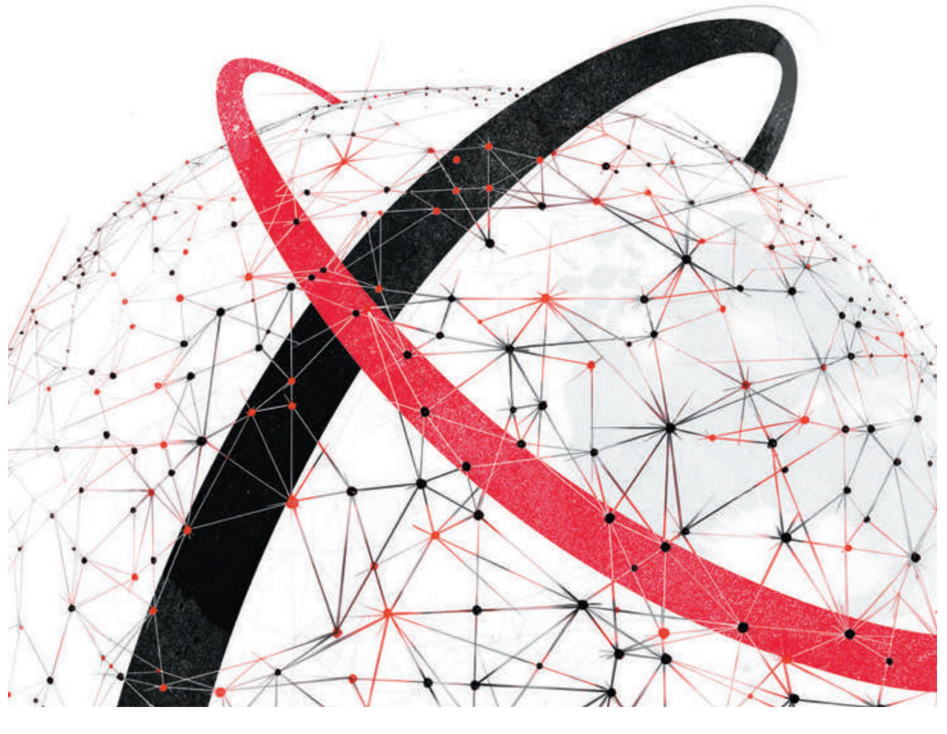

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Swiss surprise

No one suspected Switzerland would stop pegging its currency to the euro. David Lewis of SunGard's Astec Analytics reveals why it did just that

The words surprise, shock and Switzerland are rarely seen in the same sentence, much less one with the words "central bank" included. It's a country seen as the embodiment of structure, efficiency and order that rarely surprises anyone, but two weeks ago that changed in dramatic fashion.

Switzerland has made a handsome living being at the centre of Europe yet not being exactly part of it. Hemmed in on all sides by huge mountain ranges and an immigration policy that has recently been the source of a good deal of political ire and analysis, the Swiss have long been the somewhat remote but secure bankers of Europe, and indeed parts further afield.

Part of the country's general stability came from its monetary policy of pegging its currency to the euro, something it has done solidly for the last three years—until 15 January, that is. In a shock move, the Swiss National Bank (SNB) simply removed the cap, which had been set at CHF 1.2 to the euro, precipitating a 30 percent drop in the value of the euro, which hit CHF 0.85 before rebounding somewhat to around parity by the close. The Swiss franc also appreciated against the US dollar, driving the dollar down to a value of only CHF 0.736, which is its lowest level since 2011. Again, losses were pared a little, and the USD/CHF rate closed down 15 percent on the day.

Funds that were shorting the Swiss Franc against a range of currencies, including the US dollar and euro, have lost heavily. According to Bloomberg, short positions against the Swiss franc exceeded $3.5 billion: the sum of all those who had not dreamed that such a policy reversal could happen without notice or warning. In fact, according to the Commodity Futures Trading Association, the net short positions were at the largest levels since June 2013 when the news hit.

Markets hate surprises; in contrast to the SNB, the governor of the Bank of England, for example, has instigated the opposite approach with his policy of 'forward guidance', where the bank gives clear indications of its expectations regarding interest rates. The same cannot be said for the SNB, at least in this case, but were there any warning signs that could have alerted the wary hedge fund manager?

It seems not in the case of Swiss government bonds, at least. Short interest in CHF bonds began to rise a week before Christmas, coming within a whisker of their 12-month high in terms of value on loan by 9 January, almost a full week ahead of the SNB's announcement to abandon the currency cap. Borrow rates increased much more sharply, tripling over the week to 16 January. This would certainly suggest that hedge funds suspected something was afoot, but many were caught the wrong side of this particular trade and ended up in the same boat as their FX colleagues.

Figure 1 shows the value of both European and Swiss government bonds on loan as well as their average intrinsic borrow rates, indexed to 15 January 2015. Note the orange plot showing the relatively benign Swiss average borrow rate triple over the last week. The blue plot shows the increasing value of bonds on loan, boosted somewhat by the falling yields/rising prices in Swiss governments. Yields in the generic 10-year bond had fallen as low as 0.2 percent by 9 January 2015, down from a 12-month high of 1.13 percent. By a week later, they had dipped into negative territory.

Yields have been falling in other countries in the eurozone as well Italy and Greece, which may not be a surprise, but even German Government debt has not avoided buying pressure as traders act ahead of an expectation that the European Central Bank (ECB) will expand its own monetary policy and start to buy up European sovereign debt.

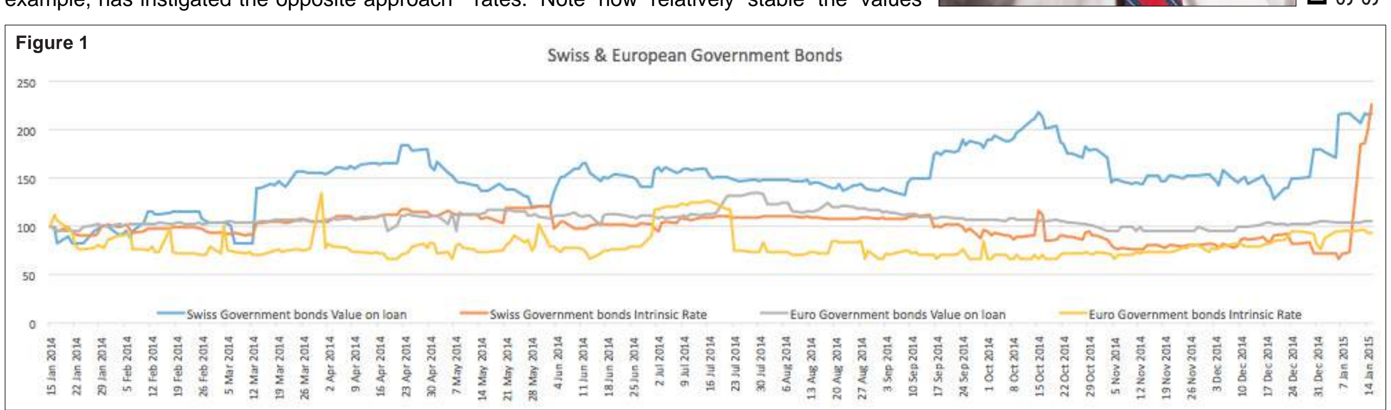
Figure 1 also shows the indexed trend lines of all European government debt and their borrow rates. Note how relatively stable the values and rates are, with the value on loan showing only up six points over the level a year ago and the borrow rate falling a similar proportion over the same period. Swiss government bonds, in this case, certainly appear to be the outliers, and given their surprise unilateral action, it is perhaps not difficult to understand why they have diverged so dramatically.

The president of the SNB explained that the cap policy was dropped as it was no longer sustainable, and this has forced them to act to protect their economy from what they believe is a looming eurozone debt crisis. This is the very same crisis that the ECB is seeking to avoid with its new round of quantitative easing, suggesting that the SNB's action is as much a market indicator in its own right as a symptom of market unrest.

Rarely has the fixed income market, and in particular government debt, been so interesting, but the next few weeks and months promise a great deal of activity and indeed risk for those in all parts of the eurozone and Swiss markets. **SLT**

David Lewis
Senior vice president
SunGard's Astec Analytics

Figure 1



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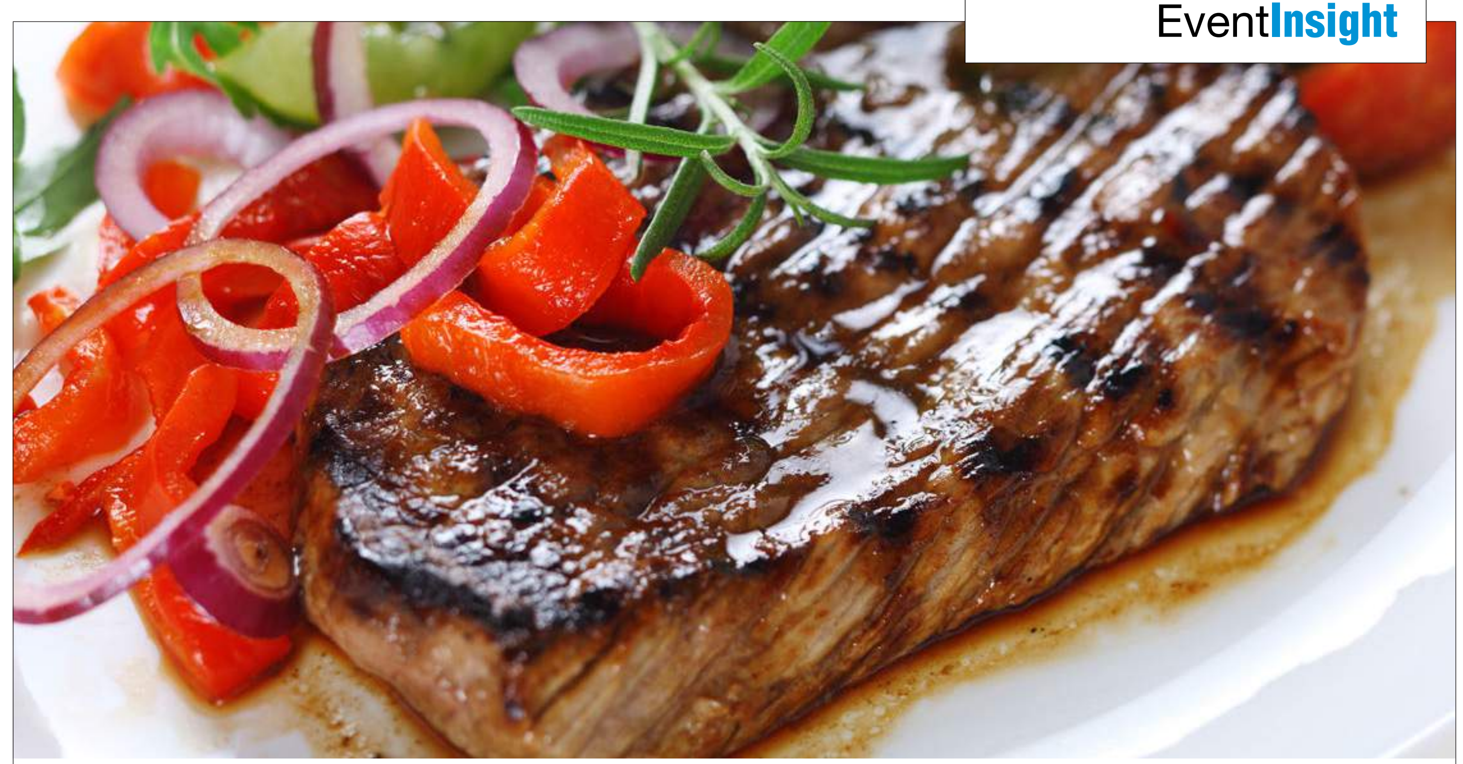

European delights

DealReporter analysts Adnan Siddique and Heba Abdelrahman comment on the latest pre-events in Europe

RWE could be considering a demerger of the business following in the footsteps of rival E.ON.

Reports have claimed that E.ON is looking to spin off its conventional power division, including nuclear power, from the renewable business. A critical question for an RWE spin-off would be how its liabilities are allocated.

Post-Fukushima, Germany has been on a drive to reduce its reliance on nuclear energy, leading to billions of euro in nuclear decommissioning costs for the major energy providers. At the end of 2013, RWE provisioned €28.6 billion, of which €10.2 billion was for reactor closures in 2017, 2019 and 2022. In the event of a split in the company, it will be crucial to see how these liabilities are apportioned. RWE had €18.5 billion total debt as of Q3 2014.

One source of potential good news is if the Court of Justice of the EU rules in favour of German utilities against the German government's nuclear tax. If the 3 February ruling is favourable, RWE could expect a repayment of €1.5 billion.

With threats from competition, unpredictable fuel costs and striking pilots, German carrier Lufthansa may see pressure on its credit rating this year.

It is facing increased competition from airlines in the Middle East, with Qatar Airways joining the queue behind Emirates and Etihad in seeking more landing rights in Germany. Ryanair, earlier this month, said it is targeting aggressive expansion in Germany. If the company is forced to sell its 29.8 percent stake in Aer Lingus, it will have a vast pool of reserves to drive this growth. On top of this, Lufthansa pilots look like they might start a fresh strike.

Lufthansa is undergoing a restructure, but by the time this takes to complete it could see its 51 percent share of the Germany-to-Europe market erode. Net debt is predicted to rise by Credit Suisse from just under €3 billion to over €4 billion in the next three years, which could push leverage from 1x to 2x. The company is rated BBB-, one notch above sub-investment grade, but a rise in leverage could easily see it fall into speculative grade. One potential tailwind facing Lufthansa is falling fuel costs, but this is the same for rivals and could still see Lufthansa lose market share.

The CEO of Italian hearing aid retailer Amplifon has reportedly said that the company sees growth in 2015 and is looking for potential M&A targets. The firm runs an acquisitive business model, so the news isn't a surprise, but Germany appears to be a weak spot where potential acquisitions could be useful.

The sector is fragmented, with Amplifon the leading global company with 9 percent of the private hearing aid market, according to National Industry Associations. According to Amplifon, in 2013 it had double digit or near double-digit market share in most of the countries it operated in Europe, but conspicuously it had only 3 percent of the German sector.

In October, the company purchased 11 German stores, but that is unlikely to move the dial much. To make an impact, Amplifon may have to look to buy one of the two main players in Germany: Kind, a private company, or Geers, owned by Dutch company HAL Trust.

Altran Technologies's share price plummeted on the news that CEO and chairman Philippe Salle would be leaving at the end of April after four years at the helm. The timing of a new leader sits nicely with the timing of the company's next five-year strategic plan.

Under Salle's five-year plan, acquisitions and buybacks featured prominently. Since 2011, there have been nine acquisitions and €643 million in buybacks. However, the new head will likely be mindful of the steady leverage ratio up to now—net debt to earnings before interest, taxes, depreciation, and amortisation has remained around 2.2x for around three years. However, the company did allow leverage to rise to 3.7x in 2010 and there is a restructuring of the German business.

Private equity group Apax Partners holds a 16 percent stake in Altran carrying 30 percent voting rights. Apax may be keen on Altran seeking acquisitions given that the private equity firm appears to be building exposure to European IT, such as in its approaches of UNIT4, Exact and EVRY ASA. **SLT**

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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: Stockholm

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 2015
Location: Shanghai

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

John Grace has joined OCC as executive vice president and chief risk officer.

Grace will be responsible for driving and implementing OCC's risk management strategy.

His remit will include advising senior management and the board of directors on risk issues, overseeing OCC's model validation and enterprise risk management departments, and working with regulators from the Securities and Exchange Commission, the Federal Reserve, and the Commodity Futures Trading Commission.

Grace was previously a senior managing director at AIG. In that role, he worked in enterprise risk management, strategic planning, and global treasury and capital markets.

Craig Donohue, executive chairman of OCC, commented: "His more than 25 years in banking and risk management related roles and his extensive experience interfacing with financial market regulators will help us further strengthen our risk management capabilities."

David Carruthers has joined Credit Benchmark as head of research.

Carruthers, who was co-head of Markit Securities Finance, left the company at the end of last year.

Credit Benchmark was co-founded by Mark Faulkner and Donal Smith.

Faulkner launched Data Explorers, which was sold to Markit in 2012. Smith was previously CEO at the securities lending data company.

Before joining Data Explorers, Carruthers held senior roles at risk consultants Barrie & Hibbert, where he was responsible for fixed income and equity portfolio risk analysis, and in portfolio management at Pimco and Murray Johnstone.

Stephen Rudland has moved to WestPoint Derivatives to work in securities finance trading.

He made the move the summer of 2014. He reports to Jim Hoogewerf, CEO at WestPoint Derivatives, which offers equity derivatives products.

Rudland was previously a stock loan trader at Solo Capital Partners. Before that, he was desk head for securities lending trading in Europe at RBC Dexia Investor Services.

He has also worked as an equity finance trader at UBS Investment Bank.

Coherence Capital Partners has appointed **John Lovisolo** as its chief operating and risk officer.

Previously, Lovisolo spent 10 years at Barclays where he was managing director.

Most recently, Lovisolo was co-head of prime brokerage origination at Barclays.

In that role, he was charged with bringing hedge fund clients onto the Barclays platform and servicing them across capital introductions, strategic consulting, equity finance, fixed income finance, futures and cleared derivatives.

Prior to Barclays, Lovisolo spent 10 years at Deutsche Bank where he traded and sold interest rate derivatives and ran marketing for the North American structuring group.

PricewaterhouseCoopers (PwC) has recruited **Lachlan Roos** as its new UK hedge fund leader, taking over from Rob Mellor, who is stepping down.

Lachlan is a partner in the firm's financial services tax division and has been at PwC since 2005.

During this time at the firm, he has gained experience working with hedge fund managers in London, New York and Asia on multiple issues, ranging from assisting start-ups through to mature corporate operational issues.

He has also been heavily involved in global deal activity across all hedge fund strategies.

Mark Pugh, UK asset management leader at PwC, commented: "We are delighted Lachlan has agreed to lead our hedge fund practice and look forward to the huge contribution, momentum and growth he will bring to the practice and to our clients after working so closely in the sector over his time in the industry."

Goldman Sachs has promoted **Rob Drake-Brockman** to co-head of European, 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. **SLT**

SLT
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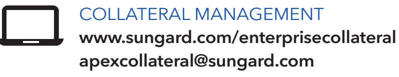
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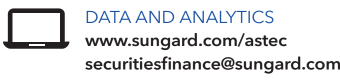
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