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Pirum gets new backers

Five Arrows Principal Investments and Camwell Management have agreed to acquire an interest in post-trade provider Pirum Systems for an undisclosed sum.

Rupert Perry and Jeff Armstrong, the co-founders of Pirum, will remain with the company and continue as shareholders. The proposed transaction remains subject to regulatory approval.

Rajen Sheth, previously managing director, will lead Pirum as CEO.

Donal Smith of Camwell will also join Pirum's board of directors as non-executive chairman.

Smith is a co-founder of Credit Benchmark and was previously CEO of Data Explorers, Thomson Financial (Europe and Asia) and FT.com.

Smith commented: "Pirum has an outstanding reputation in its marketplace. I believe the market opportunity for Pirum is compelling, creating exciting opportunities to develop services provided by its centralised processing hub."

Sheth added: "With the support of our new investors, Pirum will further cement its already unique position at the heart of the securities finance industry."

readmore p2

Three heads are better than one

Eurex Clearing is to collaborate with BNY Mellon and State Street to further enhance the Securities Lending Central Counterparty (CCP) service.

The collaboration has been facilitated to meet the specific needs of beneficial owners, while allowing BNY Mellon and State Street clients access to the Securities Lending CCP.

James Slater, executive vice president and global head of securities finance at BNY Mellon, said: "BNY Mellon's commitment to the securities financing business is long-running and widely recognised."

readmore p2

SmartStream buys IBM's Algo collateral

SmartStream Technologies has acquired IBM's Algorithmics Collateral Solution, including all of its assets related to software, sales and support.

The acquisition will add to SmartStream's existing suite of solutions, helping financial firms to automate their end-to-end post-trade lifecycle, reducing the costs and levels of risk involved.

The Algorithmics Collateral Solution, which will be rebranded as TLM Collateral Management, offers collateral lifecycle automation for buy- and sell-side institutions, custodians and asset servicers firms of all sizes.

SmartStream has predicted that its clients will see increased value for post-trade processing through the integration of collateral management with its operational risk control framework.

IMB purchased Algorithmics in 2011 for $387 million, acquiring its risk and analytics software and content advisory services, as well as the collateral solution.

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Pirum gets new backers

Continued from page 1

"I am personally very excited about the new possibilities to develop further innovative services to support our clients as they respond to ongoing regulatory changes and the need for improved capital efficiency, operational risk management and cost reduction."

Five Arrows co-managing partner Javed Khan added: "We greatly value businesses like Pirum which have products with mission-critical functionality and a proven track record of adding value to their customers in an increasingly complex regulatory environment."

"We have been highly impressed with the achievements of Sheth and his team, and look forward to working with them in the next phase of the company's growth."

Founded in 2000, Pirum delivers a portfolio of post-trade services enabling customers in the wholesale securities finance markets to electronically connect to both their counterparties and other market infrastructure providers.

Pirum's centralised hub is connected to the internal systems of more than 100 market participants. Pirum works with Eurex on its Lending Central Counterparty.

Three heads are better than one

Continued from page 1

"We are continually monitoring the regulatory and structural changes taking place in this market and view central clearing as a key additional distribution method that will help to support market demand for our clients' securities."

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

Half a dozen clearing members have already been admitted to the service and have cleared their first transactions. Further market participants are in the admission and on-boarding process.

"The unique model of Eurex Clearing, by allowing beneficial owners direct CCP access via its specific lender licence, provides significant benefits to market participants. State Street looks forward to this collaboration with BNY Mellon and Eurex Clearing and other industry participants, with the joint objective to further enhance this service," added Lou Maiuri, executive vice president and head of securities finance at State Street.

Securities lending transactions from Eurex Repo's SecLend Market or via Pirum's CCP Gateway can be cleared by Eurex Clearing. The service is integrated with two triparty collateral agents, Clearstream Banking Luxembourg and Euroclear Bank.

Matthias Graulich, chief client officer and member of the Eurex Clearing executive board, said: "We are very proud to collaborate with these two industry leaders in the further development and enhancement of our Lending CCP."

Natixis has been confirmed as the first French bank to become a clearing member of Eurex's Securities Lending CCP, and has also joined Eurex OTC Clear.

Nicolas Chauvet, head of derivatives, treasury and foreign exchange operations at Natixis, added: "Going live with EurexOTC Clear is a key milestone in our strategy of offering our clients a large choice of CCPs ahead of the EMIR mandatory clearing roll-out."

"We are delighted that capital efficiency, cross margining and collateral management mechanisms proposed by Eurex Clearing are now available to both Natixis and its clients."

SmartStream buys IBM's Algo collateral

Continued from page 1

SmartStream has brought only the Algo Collateral product from IBM. This

SLTINBRIEF

Latest news
Industry ready for the impact of T2S
page4

Latest news
ECB to remove €60 billion collateral from markets per month
page8

Conference report
The Volker Rule, CCPs and indemnification under the spotlight
page18

Data analytics
Tim Smith of SunGard reveals what regulators may be looking for from securities finance
page20

Poeple moves
Changes at Cowen, Trading Apps and the SEC
page25

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Philippe Chambadal, CEO of SmartStream, commented: “Funding and counterparty risk management have a critical focus for our customers, who will now be able to leverage the integration of TLM Collateral Management with our leading cash and liquidity management solutions to give a clear picture of a firm’s exposure.”

“This will give them the unique ability to mitigate counterparty risk and to respond to market changes in real-time. The solution gives a complete picture across the front-and back-office and a centralised view of a firm’s inventory and exposure, enabling greater transparency of funding and collateral needs—which ultimately underpins trading.”

Industry ready for the impact of T2S

A majority of financial industry participants believe that Target2-Securities (T2S) will have a significant impact on their organisations, but custodians and central banks don’t expect to be heavily affected, according to a survey by GFT and the International Capital Market Association (ICMA) European Repo Council.

Of the respondents, 75 percent agreed or strongly agreed that they are aware of the implications of T2S, and 80 percent agreed that it would have an impact on their business. Only 20 percent answered that doing nothing was a viable option.

Of those that don’t expect to be affected, most were central banks and custodians.

The majority, however, expect to benefit from the move to T2S, with 71 percent of operations staff and 62 percent of funding staff anticipating positive changes.

In the front office, 44 percent of cash traders and 55 percent of repo traders expect positive changes, while this figure is just 45 percent among network management staff.

Most respondents thought that the major changes will be within payments and cash management, with 62 percent agreeing with this.

However, 77 percent believed that T2S would lead to a greater pool of collateral and increased liquidity, and 66 percent anticipate greater triparty interoperability. Just over half, 51 percent, also thought it would lead to a decrease in the number of agent banks.

The survey also found that a majority of repo traders believed that the benefits included an increase in liquidity collateral, via more efficient settlement and harmonised settlement deadlines.

Most firms said they have plans and initiatives underway in response to T2S, with many reviewing their network management and custodian arrangements.

It was evident that a majority of respondents, including sell-side firms, are planning to connect to T2S indirectly. There is a feeling that this will have an impact on technology, and many believed that their costs will either increase, or remain the same.

Emily Cates, a specialist in operational processing at GFT commented: “The survey results should give industry participants comfort that the implementation of T2S is well understood. Areas seeing benefits include operations and cash management,

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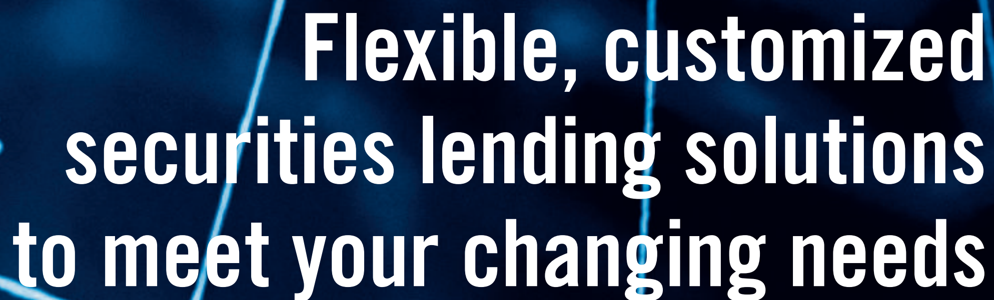

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likely a result of the opportunity to simplify settlement and funding mechanisms by reducing the custodian bank network."

"The front office is bullish too: the benefits of improvements to collateral liquidity are likely to be the driver. Over 80 percent of respondents feel there is significant impact of T2S. That needs careful planning. The time for action is now."

Godfried De Vidts, chairman of the ICMA's European Repo Council, added: "We will use the survey results to help guide and shape our approach in the provision of T2S information, and give guidance and training to our members."

"The market now sees that T2S will improve settlement efficiency and timeliness, and remove complexity. However, we do wonder if T2S represents a missed opportunity for repo, for it will not improve repo end-leg settlement nor lifecycle events."

Survey respondents included representatives from sell-side institutions, custodians, buy-side firms, central counterparties and central banks. The majority were from firms within Europe, while 12 percent were from the Americas and 3 percent were from the Asia Pacific region.

Euroclear reports record-breaking 2014

Euroclear has reported 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 transactions settled also grew 6.6 percent to reach a record number of €181.6 million.

The value of funds serviced by FundSettle increased 18 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.

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 community and to strengthen Euroclear settlement for its Euronext-zone securities franchise.

It also joined with DTCC and launched the joint venture company DTCC-Euroclear Global Collateral Limited in September 2014. The collaboration aims to deliver greater operational efficiency, improving the stability of financial 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.

Euroclear also saw progress with its ETF structure, launched with BlackRock in 2013. In 2014, the structure was adopted by Pimco and State Street, which now have listings on Euronext and the London Stock Exchange.

Northern Trust's Q4 figures stay steady

Northern Trust has released its results for Q4, reporting no change in its securities lending revenue from the same period in 2013.

In Q4 2014, securities lending revenue reached $21.8 million, exactly the same figure as in Q4 2013.

This has been attributed to higher loan volumes, offset by lower spreads in Q4.

Corporate and institutional services revenue reached $410 million, a 10 percent increase on Q4 2013, which reached $371 million.

Of this, custody and fund administration revenue increased by 12 percent, and investment management increased by 4 percent. 'Other' fees increased by 23 percent, which has been attributed primarily to income from investment risk and analytical services.

State Street sees $30m leap in securities revenue

State Street has reported an increase of almost 40 percent in its securities finance revenue.

In its figures for Q4 2014, securities finance revenue reached $106 million, a 39.5 percent increase on the figure for Q4 2013, which reached $76 million. The Q4 revenue was also a 7.1 percent increase on Q3 2014, which was $99 million.

The substantial jump has been attributed to higher spreads and an increase of new business in enhanced custody.

State Street also revealed a successful year for assets under management, with new assets managed totalling $7 billion in Q4 and $28 billion over the full year.

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In asset servicing, new commitments totalled $400 million in Q4 and $1.1 billion over the whole year.

There was also an increase in overall revenue, which reached $2.63 billion in Q4 2014, an increase from $2.58 billion in Q3 2014, and from $2.46 billion in Q4 2013.

Chairman and CEO Joseph Hooley said: “Our Q4 and full-year 2014 results reflect strength across our asset servicing and asset management businesses.”

ECB to remove €60bn collateral from markets per month

The European Central Bank (ECB) is to expand its asset purchase programme.

Aimed at fulfilling the ECB’s price stability mandate, this programme will see the ECB add the purchase of sovereign bonds to its existing private sector asset purchase programmes in order to address the risks of a prolonged period of low inflation.

The ECB made this decision in a situation in which “most indicators of actual and expected inflation in the euro area had drifted towards their historical lows”.

The programme will encompass the asset-backed securities purchase and the covered bond purchase programmes, which were both launched in 2014. Combined monthly purchases will amount to €60 billion.

They are intended to be carried out until at least September 2016 and until the ECB is satisfied that the path of inflation is consistent with its aim of achieving inflation rates below, but close to, 2 percent over the medium term.

The ECB will buy bonds issued by euro area central governments, agencies and European institutions in the secondary market against central bank money, which the institutions that sold the securities can use to buy other assets and extend credit to the real economy. In both cases, this contributes to an easing of financial conditions.

The ECB stated: “The programme signals [our] resolve to meet [the] objective of price stability in an unprecedented economic and financial environment. The instruments deployed are appropriate in the current circumstances and in full compliance with the EU treaties.”

The ECB will control all the design features of the programme and coordinate purchases.

Purchases of securities of European institutions will also be subject to loss sharing.

The ECB will hold 8 percent of the additional asset purchases. This implies that 20 percent of the additional asset purchases will be subject to a regime of risk sharing.

Smart products on the rise, says Markit

One of the standout product categories featured at this year’s Consumer Electronics Show (CES) in Las Vegas was smart/connected home products which promise consumers the ability to remotely monitor and control their home through web enabled tools, according to Markit.

The emergence of the product category has not gone unnoticed by the growth-hungry

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technology giants, which look to establish themselves in the space, much in the same fashion as they did in mobile space.

Google's Nest product lets users control and monitor their home's thermostat and smoke alarm, and Samsung, which launched its Smart Home platform at CES with initial functionality similar to Nest.

Markit Securities Finance analyst Simon Colvin commented: "This renewed attention on the connected home also looks set to stir up the competitive space for industry leader and newly listed ADT."

The company, which recently spun off from tech conglomerate Tyco, is arguably the leader in the connected home space with a 25 percent market share of the $11 billion market for security and home automation, according to a recent investor presentation.

Colvin continued: "The big debate raging around ADT is whether the firm will hold on to its over six million customer base as new web based automation and security services enter the market; a trend that looks set to accelerate given the recent architecture announcements."

ADT has already launched its Pulse system, which offers some third party integration, and was recently rumoured to be in talks with Nest about a potential partnership. Whether or not Nest users, who can monitor their homes' temperature through smartphones, will pay for ADT's service remains to be seen, according to Markit.

One trend that has mirrored the rise of Nest has been an increased appetite to sell ADT shares short. The percent of ADT shares now out on loan stands at 21 percent of shares outstanding. This makes ADT the fifth most shorted firm in the S&P 500.

Short sellers have a good track record in ADT and the previous surge in short interest was followed by a 25 percent drop in ADT's share price, owing to a "disappointing" earnings announcement according to Markit.

Clearstream offers JGB triparty trading solution

Clearstream has collaborated with Sumitomo Mitsui Banking Corporation (SMBC) to develop a collateral management service for their mutual customers.

The service is part of Clearstream's integrated collateral management platform, the Global Liquidity Hub, and will allow companies to consolidate Japanese government bonds (JGBs) held across both institutions in to a single pool.

Clients will then be able to perform triparty collateral management transactions, using domestically-held assets for triparty transactions through the liquidity hub.

SMBC will also have access to services including collateral allocation, optimisation and substitution without moving assets out of their custody locations.

Clearstream already provides triparty collateral management services for JGBs through its international central securities depository, but the services will now be extended to those under custody with a Japanese bank.

The service will allow clients with bonds in Japanese custody to access international markets quickly. It also automatically allocates 'ideal' collateral, selecting the cheapest option to match underlying exposure requirements.

When assets are no longer required for triparty purposes, or if they are needed for local settlements in the Japanese market, they will be automatically returned to the customers local settlement account at SMBC.

JGBs are an attractive option for high-quality collateral because of their investment grade rating, however cross-border mobilisation is typically complex and expensive.

Stefan Lepp, a member of the executive board and head of global securities financing at Clearstream, said: "The market has long been looking for ways to mobilise JGBs locally to meet the growing global demand for high quality collateral."

"This partnership with SMBC is part of Clearstream's extensive efforts to give our customers access to a top quality, global pool of collateral to meet upcoming regulations, which will mandate increased central clearing and collateralisation of derivative trades, amongst others."

"We are very pleased to have SMBC on board for this pioneering solution to mobilise locally held JGBs to cover globally fragmented exposures. This partnership enables our mutual customers to benefit from the best of both worlds; Clearstream's fully automated global collateral management as well as comprehensive local custodian services by SMBC."

Citi survey suggests hedge fund struggles

The hedge fund industry could see about a 30 percent dip in profits in 2014 compared to 2013, due to poor performance throughout the year, according to Citi's annual hedge fund industry operating metrics survey.

Hedge fund industry profits reached $31.2 billion in 2013, but these figures dropped by 30 percent to $21.9 billion in 2014.

The estimated figures factor in the institutionalisation of the hedge fund investor base, which shifts profit ratios in the industry. Now, profits from management fees are equal to those from performance fee revenues in 2013 and previous years, when managers had to meet institutional targets of 10 percent annual returns.

The report was based on proprietary analysis from 149 hedge fund firms that represent $581 billion in assets under management

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(AUM) in the industry, and 18.8 percent of total industry assets.

Sandy Kaul, global head of business advisory services at Citi, said: "Management fee revenues have become an increasingly important part of the industry's profit base in recent years."

"Lower institutional return targets and concerns about excessive volatility make it more difficult for managers to earn outsized performance fees. With AUM at record highs, profits from management fee revenues now account for a larger share of total profits, coming in at nearly two-and-a-half times performance fee profits in years when performance is down such as in 2014."

The survey highlighted the importance of hedge funds to the asset management industry, with Citi citing Boston Consulting Group's industry-wide estimates alongside their own findings.

According to the data, in 2013 the $31.2 billion that hedge funds saw in profits accounted for 34 percent of the total asset management industry profits, but only 4 percent of the estimate of total AUM in the asset management industry.

In 2013, the average hedge fund operating margins from management company fee revenues was 67 basis points, compared to 12 basis points for the asset management industry overall. For 2014, this increased by about 10 percent to 74 basis points.

Smaller hedge funds are thought to be hit harder with regards to profitability. Those with average AUM of under $100 million, and with individual asset funds of up to $350 million, saw an average improvement in operating margins of 17 basis points.

Firms in this band may struggle to cover their operating costs based on the management fee collections. In 2013, the deficit in operating margin was 86 basis points, which fell to 69 points in 2014. In practice, this meant that costs to be covered fell from $330 million in 2013 to $310 million in 2014.

Kaul said: "These organisations were able to use their performance fee profits in 2013 to cover their management fee operating shortfalls, but as a group, these funds simply did not generate enough performance fee revenues in 2014 to cover their gap."

"We see a $615 million industry-wide shortfall across this tier of firms and this is likely to result in more closures of small hedge funds."

Despite the 30 percent predicted drop in profits, the Citi survey found that theoretical equity value is down 7 percent.

This is explained by Citi's industry approach of counting profits from management fees at four times the profits from performance fees. Using this method, the total theoretical equity value of the hedge fund industry is $239 billion, down from $257 billion in 2013.

The number that a firm's fee profits is multiplied by is based on the diversity of its product mix and investor base. This leads to the greater product expansion across larger firms.

Of the survey respondents with assets of around $10 billion AUM, typically had about 83 percent of assets in a core hedge fund project. In contrast, those with around $31 billion in AUM had 35 percent of assets in that category, and 36 percent of assets in publicly traded long-only or liquid alternative assets.

Kaul concluded: "For large hedge fund firms, having a mix of privately traded and publicly traded funds helps support higher firm valuations in all our scenarios except when hedge fund performance is at 10 percent or better."

Albert Fried selects SS&C

Albert Fried & Company has chosen SS&C Technologies to provide client and reporting services through wealth management platform.

The New York-based boutique broker-dealer will use web-based performance reporting to enhance internal processes and client services.

It will use SS&C's capabilities as part of a hosted middle-to-back office platform, offering clients high quality analysis while reducing internal technology costs with hosted software.

Carl Lang, chief technology officer at Albert Fried & Company, said: "Over the past several years, we have seen impressive growth in our prime brokerage business."

"SS&C enables us to deliver sophisticated client service with state-of-the-art web-based wealth management data-driven technology, performance and client reporting."

Bill Stone, chairman and CEO of SS&C Technologies, said: "We are committed to serving the broker-dealer community and are proud to add Albert Fried to our list of broker-dealer customers."

"We're confident that our leading technologies will help them better serve their clients and streamline their operations."

January volume down for OneChicago

OneChicago's January 2015 volume stood at 546,942, a decrease of 11 percent year-over-year.

During January, the exchange successfully consolidated all products onto OCXdelta1, the matching and reporting platform, and onto the multicast market data ticker plant, OCTP.

OCXdelta1 supports the reporting of bilateral blocks and exchange futures from physicals (EFPs), as well as the trading of blocks and the newly listed OCX.Weekly products.

Open interest decreased 9 percent year-over-year to 531,730 contracts on the equity finance exchange at close-of-market on 30 January.

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In total during January 2015, 542,284 blocks and EFPs were traded on the OCXdelta1 platform, while block activity represented $2.5 billion in notional value.

Forty-nine percent of January 2015 month-end open interest was in OCX.NoDivRisk products.

SunGard's hottest stocks

SunGard's Astec Analytics has compiled the hottest stocks from around the globe for the week beginning 26 January.

British fashion label Burberry Group (BRBY.L) is Astec's top pick in Europe after Credit Suisse turned its rating negative for the stock, suggesting sales growth may have peaked and that "there is little room for gross margin expansion".

The company's shares lost ground on the move, while on the borrowing front data from Astec has suggested short sellers increased their bets on the downside—the number of Burberry shares being borrowed climbing 8 percent in the week.

Also making noise in Europe is Swiss-based offshore drilling contractor Transocean (RIG), which has seen focus coming from fluctuations and uncertainty in the commodity market, with an 8 percent jump in the price of West Texas Intermediate Crude bringing about a 4 percent increase in its share price.

Astec commented: "Our data does suggest this brought about some very mild short covering during the session, however for the most part borrowing volumes held fairly flat week-on-week. That said, the figures also hint at a potential for increased demand to short sell the shares, with the cost of borrowing them having climbed from just 6 percent to over 17 percent in the past two weeks."

The US listing of the Chinese ecommerce firm Alibaba (BABA) is Astec's top pick for the Americas after it posted negative earnings numbers.

Although borrowing volumes have held flat, there was an 8 percent increase from the previous week, hinting that short sellers betting on the downside then, are holding on for yet further losses.

Ultra Petroleum (UPL) has seen renewed focus this week after Goldman Sachs downgraded its shares from "neutral" to "sell", citing deflationary pressure in the oil and natural gas markets.

Despite this, its share price had a somewhat mixed reaction in the cash market, while Astec's figures suggest demand to short sell continued to climb—the cost of borrowing jumping from 27 percent to 56 percent in the last few sessions of the week.

Singapore-listed property developer Yoma Strategic Holdings (Z59.SI) is Astec's top pick for the Asia Pacific region in the run-up to its earnings release on 6 February.

On the securities lending front, borrowing volumes have been rising steadily for the past month, with the number of Yoma shares being borrowed climbing 67 percent since 1 January.

Finally, Japanese household name Sharp (6753) has continued to see attention following its profit warning last month, with some additional focus amid talk that it is nearing a deal to sell its Recurrent Energy solar unit in the US.

The news has led to some volatile trading action in the cash market, while on the borrowing front Astec's data has hinted at a drop in demand to short sell the stock—the cost of borrowing falling from almost 5 percent to less than 1 percent over just three sessions.

OCC reports dips across the board

OCC's average daily cleared contract volume saw a 5 percent decline in January 2015, compared to the same period last year.

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The average cleared contract volume reached 17.9 million contracts, although there was one less trading day than in January 2014.

The total cleared volume in January reached 358.4 million contracts, a 9 percent decrease on January 2014's record high of 395.6 million contracts. Despite this dip, the figure for January this year is still the fourth highest to date.

In securities lending, OCC's central counterparty activities saw a slight decline of 0.35 percent in new loans compared to January 2014, processing 105,766 transactions in January 2015. The average daily loan value in January 2015 exceeded $156.6 billion.

Exchange-listed options volume reached 353.3 million contracts in January 2015, a drop of 9 percent compared to the same month in 2014.

The year-to-date average daily equity volume was down by 9 percent compared to last year, with an average of just over 16 million contracts per day in 2015 so far.

In futures, the cleared volume reached 5.1 million in January 2015, an 11 percent decrease on January 2014. Equity futures volumes also saw an 11 percent drop, reaching 546,942 contracts in January 2015.

The year-to-date daily average for cleared futures volume was 256,030 contracts, a 7 percent drop on the same period last year.

Good start to 2015 for Eurex Repo

Eurex Repo reported a positive start to 2015, with its January figures showing an increase of 11 percent across all markets.

The average outstanding volume for January 2015 was €198 billion, compared to €177.8 billion in January 2014.

Secured money market GC Pooling grew by 14 percent, recording an average outstanding volume of €159.3 billion compared to €140.2 billion for the same period in 2014.

The Euro Repo Market also grew slightly from an average outstanding volume of €37.6 billion in January 2014 to €38.7 billion in 2015.

Eurex Group also reported a daily average volume of 8.9 million contracts processed in January 2015, a 15 percent increase on January 2014.

4sight improves triparty collateral functions

4sight Software has launched a new triparty functionality to support its securities finance and collateral management system.

The solution will support the triparty process with Clearstream, J.P. Morgan and BNY Mellon, and includes functions for all steps of the process, from agreeing an RQV, to messaging capabilities.

It can also match allocations, allowing users to view them against their respective trades. Users will be able to quickly reconcile mismatches in value of exposures against collateral received, and view the RQVs that need to be booked, changed or cancelled.

The service can also help users to identify triparty collateralised trades, streamlining the booking process.

4sight has added support for in the industry standard vendor-specific versions of SWIFT's MT527 and MT558 messages, and better workflow support for SWIFT MT535 messaging.

This includes improved clarity and reconciliation regarding what a user believes is in a long box, what is actually in it, and what has been allocated.

New features will combine data from three triparty providers in to one system, allowing for easier management of collateral for all three agents at once.

Johnnie Peacock, client services director at 4sight, said: "Due to client demand, we overhauled our existing triparty support and added a raft of new features."

"Our clients are now able to see their triparty collateral allocations and automatically match off against their respective trades. They now also have access to advanced analytics and reconciliation tools, and can benefit in improvements in operational efficiency and risk visibility."

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What will be, we'll see

No one knows how regulatory reforms will pan out, but the focus at the Beneficial Owners' International Securities Lending and Collateral Management Conference was on changes in business rather than changes to the rules

MARK DUGDALE REPORTS

Users of '40 Act private funds as cash collateral reinvestment vehicles have been given a regulatory reprieve with the delay in the effective date of the Volcker Rule, according to panellists at the Beneficial Owners' International Securities Lending and Collateral Management Conference in San Francisco.

The Volcker Rule, codified as Section 619 of the US Dodd-Frank Act, imposes limits on banks' investments in, and other relationships with, hedge and private equity funds.

The Dodd-Frank rule would capture private funds under the '40 Act, which agent lenders use as reinvestment vehicles, requiring them to cease providing extensions of credit to those funds.

It was finalised in December 2013 with a view to banks becoming compliant by July of this year, but regulators recently extended the compliance date to July 2017, giving agent lenders time to decide what they will do about covered funds.

The panel, which included Scott Olson of State Street Global Markets and Joseph Sarbinowski of Deutsche Asset Management, said that clients could be moved into separate accounts to side step the Volcker Rule, although that strategy would not work for smaller funds.

Another way around the Volcker Rule would be to outsource custody of affected accounts, said the panel.

The panel also warned against hoping for any major repeal of the Volcker Rule or Dodd-Frank now that US Congress is Republican-led, predicting that only minor tweaks or roll-backs are likely.

Central counterparties (CCPs) for securities lending returned to the agenda at the conference, with panellists saying that some of beneficial owners' biggest questions about them are yet to be answered, but there are proven benefits that they should take note of right now.

Panellists included Tim Gits of Eurex Clearing, as the CCP representative, and Jeffrey Petro of Federated Investors, who was the panel's beneficial owner.

While questions around how indemnification will be affected by putting securities lending through a CCP were not fully answered, the panel said, in theory, the risk for which it is employed in the first place would be largely mitigated.

Beneficial owners should, for now, concern themselves with the main benefits of using a CCP, which include increasing borrower networks at a time when broker-dealers' balance sheets are shrinking in reaction to new capital rules.

New demand does not necessarily need to be found, said the panel, but it must be protected in the face of regulatory changes.

Putting bilateral counterparty risks into the hands of a select number of CCPs is also a positive for beneficial owners, according to the panel.

Support for securities lending CCPs is increasing, with two of the world's biggest custodians, BNY Mellon and State Street, recently joining Morgan Stanley as members of Eurex's Securities Lending CCP.

French bank Natixis has also signed up to the CCP, which launched in 2012. Its current product scope includes equities from Belgium, France, Germany, the Netherlands and Switzerland, as well as a range of international fixed-income instruments and exchange-traded funds.

As support for securities lending CCPs increases, so to are repo participants' appetites for new types of collateral, according to a panel at the conference.

The panel, which included LJ Jhangiani of BMO Asset Management, Tim Smollen of Deutsche Bank and Craig Starble of eSecLending, tackled the evolution of securities finance, finding that repo clients require a new level of customisation in the service they receive.

They now have up to half a dozen collateral sets each, per dealer, when only a decade ago they had three sets per dealer, meaning that agents must constantly review collateral guidelines.

The duration of repo trades also comes up, according to the panel, with regulations forcing dealers to now ask for terms of 120 days or more. One panellist said: "Our clients are dabbling in this."

A later panel discussion on regulation repeated the concern that new capital rules are "creating a lot of havoc on the demand side", as many broker-dealers are subsidiaries of banks that are subject to the likes of the US Dodd-Frank Act and Basel III.

Panellists, including Gregory Lyons of the law firm Debevoise & Plimpton and Theresa Hajost of the US Securities and Exchange Commission, said that upheaval on the buy side is affecting demand for beneficial owners' securities.

Beneficial owners will also be hit on indemnification, which agent lenders now have to consider as a credit exposure, explained the panel.

The positive news to come out of regulatory reform is that 2014 heralded the implementation of many rules.

The panel noted that most banks and beneficial owners are aiming to comply with all rules as soon as possible, rather than the "somewhat illusory" 2019 phase in deadline that many new regulations carry. **SLT**

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If you know more, you understand more

Transparency is the word of the day—again. Tim Smith of SunGard's Astec Analytics reveals what regulators may be looking for from securities finance

MARK DUGDALE REPORTS

Transparency has returned to the forefront of many minds—is securities lending against it?

The securities lending industry as a whole has never been against transparency. It is a little unfair to call it 'shadow banking', like it is being kept out of the public eye because participants have something to hide—that is just not true. Transparency, or lack thereof, has been an issue because securities lending came from the back office to the front office and participants never quite caught up with the increased scrutiny that that would engender. There was no conscious decision to conceal anything. I think securities lending participants have since embraced transparency as much as possible because they understand that it is in their interests and will ultimately do them good.

Transparency is next on the agenda for regulators, including the Financial Stability Board—where will securities lending go next?

Services, such as SunGard's Astec Analytics, have always sought data from securities lending participants, so there are already a lot of market initiatives out there that are creating more transparency. The trick for regulators such as the Financial Stability Board (FSB) is to understand what they want to see and why, and to get to grips with the data once it is collected. While they have provided a blanket list of data points they require to collect, it is still not 100 percent clear as to why, at least for some of them.

Data providers know that the receipt of a million data points on a daily basis is a huge undertaking, so the FSB and others need to know what they are doing and how they are going to analyse all of that data even though they will only receive a summary every month or so. The FSB will bring out what it anticipates will be a practical solution to securities finance data collection in the next year or so. It has gone through the process of asking what data can be provided by participants, so the question as to what it expects to be done with all of that data still remains unanswered and any conclusions brought from the data will be dependent on building some form of trending analysis.

How would the data collection process work?

The preliminary plan appears to be that data will be submitted to regional collectors, probably from trade repositories such as firms like SunGard, which will then be fed to the global aggregator. Data will then be disseminated back to national regulators after having been analysed. So they know where they want to go, which is good, but as I stated before there seems a slight lack of clarity as to why they want every piece of this information. The FSB is looking at this because, understandably and correctly, it wants to prevent another financial crisis. However, it should not be forgotten that in 2008 it wasn't a securities lending problem, it was a cash reinvestment issue.

The trick will also be what they do with it, because, at least initially, regulators will not have historical data to compare against. How will they identify a trend from only a few months of data? It will have to be an evolutionary process with changes being made, but as an industry I am sure we will cope.

How are industry participants viewing the potential workload?

Transparency was a controversial word a decade ago because some securities lending participants were worried that it would lead to a competitive disadvantage. That has now changed and transparency is mostly welcomed because it can mean that clients can be persuaded to do more business, while regulators and the public can be shown that what they are doing is positive and above board. In other words, when you know more, you understand and appreciate more.

What about in the market itself? Are beneficial owners asking for more information from their agent lenders?

There is much more recognition these days that beneficial owners need to scrutinise their own data. Indeed, beneficial owners have a greater appetite for independent auditing, in terms of both risk and revenue.

It's also interesting for beneficial owners to look at the cross-fertilisation idea. The regulations that apply to mutual funds and insurance companies differ, but why do they? Should these types of beneficial owners be talking to each other to discuss why this is the case? What can they learn? If one beneficial owner looks at a different type, it might find out why it is performing better or worse, and so it can use that information to assess its business guidelines and behaviour, with a view to adjusting the ways in which it considers risk and seeks returns. At the very least, it would be able to lobby its regulator for change.

The business has moved away from reinvestment towards intrinsic value lending, so it would be interesting for a beneficial owner to find out why a certain type of lender is doing better or worse using certain strategies. Beneficial owners are embracing this idea—they want to see a wider comparison. **SLT**

Tim Smith
Executive vice president
SunGard's Astec Analytics

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Norway leads Nordic short covering

Short sellers have started to show the first signs of sustained short covering in Norwegian equities in the last few weeks. Markit Securities Finance analyst Simon Colvin reports

Short selling oil services firms was arguably among the best performing trades of 2014. Companies that had benefitted from energy sector expansion came under pressure as the price of oil headed to multi-year lows. This development saw Norwegian equities, which are disproportionately tied to both primary energy producers and services firms, come under increasing scrutiny from short sellers.

While 2015 so far has provided little in the way of bullish news for the energy sector, the price of oil looks to have settled slightly in the last couple of weeks, which has encouraged Norwegian shares to bounce back from the lows experienced in December. As a result, short sellers have moved to cover some of their positions in the country's headline OBX index.

Short sellers start to cover

Last year saw average demand to borrow constituents of the OBX index nearly doubleD from 2.8 percent of shares outstanding to more than 5.5 percent in the closing week of December. The majority of the increase was registered in in the second half of the year, when the energy sector's troubles started in earnest.

Short sellers appear to have lost some of their appetite for Norwegian shares in recent weeks, however, as demand to borrow shares in the OBX index now sits 10 percent lower than the levels seen at the start of the year, with 5 percent of shares out on loan.

This decreasing enthusiasm to bet against Norwegian shares has driven covering across constituents of the headline Nordic indices (OMV, KFX and HEX25), as average demand to borrow constituents of the previously mentioned OBX index, now stands 4 percent lower than at the end of last year.

Energy stocks regain favour

Unsurprisingly, most of the covering across the OBX index has come from energy shares, whose average demand to borrow has fallen to 7 percent.

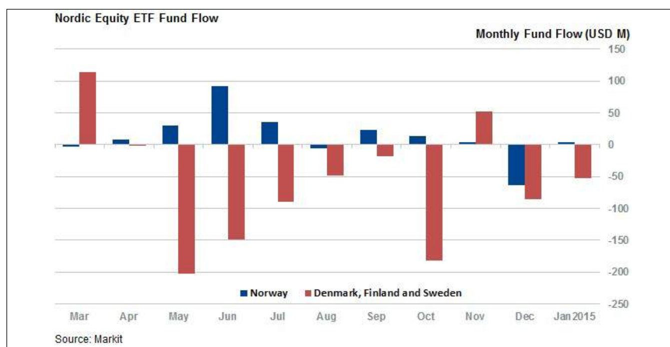
This covering has been led by some of last year's best performing short sales, with Seadrill and Subsea 7 both registering sustained short covering after experiencing bearish sentiment in the closing weeks of last year of shareholders outstanding.

These new developments seem to have been well timed, as the shares rebounded sharply in the opening days of February as oil regained some of its lost ground. But questions no doubt still linger over the sector, as energy shares still remain the most shorted sector by far, both in Norway and the overall Nordic region.

ETF investors also favour Norway

Investors' changing attitude towards Norway can also be gauged by the fact that it is the only Nordic country to have experienced net inflows in January. Some $2.8 million of assets flowed to the eight Norwegian equity products over the course of the month, contrasting with net outflows in products that track Finnish, Danish and Swedish assets. **SLT**

Simon Colvin
Analyst
Markit Securities Finance



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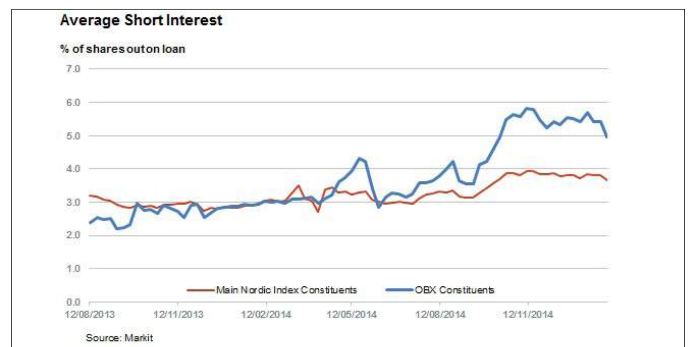

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4th Annual Collateral Management Forum

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.

12th Annual PASLA/RMA Conference on Securities Lending

Date 2-5 March 2014
Location: China

The Conference Co-chairs Adam York, Head of Equity Finance/Delta One Sales, Asia-Pacific from HSBC and Glenn Horner, Managing Director at 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.

24th Annual Securities Finance and Collateral Management Conference

Date: 23-25 June 2015
Location Portugal

Please join ISLA at their 24th Annual Securities Finance and Collateral Management Conference that will take place on 23-25 June 2015 at the Epic Sana Hotel in Central Lisbon, Portugal.

Industry appointments

Standard Bank has appointed **Ian Colquhoun** as global head of repo marketing. He will report to Stuart Cullen.

Prior to his new role, he served as international head of repo sales and marketing at Mitsubishi UFJ Securities.

Colquhoun will be responsible for FICE repo marketing and business development. His new role commenced 26 January 2015.

Rory Zirpolo, the former head of securities lending and managing director of Cowen Equity Finance Group, has joined Cantor Fitzgerald.

Zirpolo is understood to have started on 2 February at Cantor Fitzgerald, reporting to Noel Kimmel, global head of prime services and COO at the firm.

In his new role, Zirpolo will work as managing director and head of securities lending and will continue to be based in New York.

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

Cantor Fitzgerald has added a number of new faces to its prime services group in the past year, with Paul Mandile, David Sklar and Robert Marietta all joining the firm.

Speaking at the time, Shawn Matthews, COO of Cantor Clearing, said: "We are committed to exceeding our clients' expectations and building a multi-asset class prime services platform."

"Hiring seasoned professionals, with deep market knowledge underscores our dedication to providing top-notch client service and expanding our market franchise."

Laura Allen has joined Trading Apps as its new director of sales for the UK and European region, in order to further develop its client base.

Allen has spent the last three years at J.P. Morgan, where she ran the European supply trading arm. Prior to this, she was employed for 14 years at UBS where she was the global head of supply sales.

"I looked at several opportunities in the marketplace but in the end Trading Apps has the best technology solutions to solve the challenges of operating effectively in today's marketplace," said Allen.

"The calibre of the programmers and its rapid deployment equates to a quick return on investment for our clients so I am very excited to be joining this forward thinking IT firm."

Jean-Paul Musicco, managing director of Trading Apps in the US, added: "[Allen's] level of experience and industry knowledge plays to the strength of our company which unites staff with strong business knowledge together with world class technologists."

"We view her appointment as a sign to the growing demand in the UK and European markets for software solutions for clients in that region. I'm confident that [Allen] will play a key role in delivering high quality solutions for our clients."

Wells Fargo Securities has added **Wendy Beer** and **George Jamgochian** as directors in its prime services businesses. They will be based in New York.

In her new role, Beer will be leading the business consulting group, leveraging her experience in the hedge fund and investment banking sector as well as the regulatory and legal landscape to deliver solutions and market intelligence to alternative asset managers.

She will be reporting to Patrick Travers, head of sales and distribution. Prior to joining, she was the head of business development at Tiger Bay Advisors.

Beer has also worked at Credit Suisse, Citigroup, and the US Securities and Exchange Commission (SEC).

Jamgochian will take on the role of leading the development of public and private pension fund relationships.

He will report to Patrick McCurdy, head of capital introductions.

Prior to joining Wells Fargo, he served as director of marketing at Tipp Hill Capital Management, leading marketing and investor relations for its equity long/short funds, as well as cultivating investor leads.

The SEChas named **David Grim** as acting director of the investment management division.

Grim will replace Norm Champ, who left SEC at the end of January.

Grim has been the division's deputy director for the past two years. He has been responsible for overseeing all aspects of the division's disclosure review, rulemaking, guidance, and risk monitoring functions.

He joined the SEC in 1995 as a staff attorney in the division's office of investment company regulation and has held other roles including chief counsel and assistant chief counsel.

Mary White, chair of the SEC, commented: "The commission and investors will benefit tremendously from his extensive legal knowledge, deep roots in the work of the division, and his managerial expertise." **SLT**

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