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SECURITIES**LENDING**TIMES

ISSUE120
24.02.2015 TUESDAY
securitieslendingtimes.com

2015 to be year of the SFT

The Financial Stability Board (FSB) will complete its regulatory overhaul of securities finance transactions this year, according to chair Mark Carney.

The Bank of England governor wrote a letter to G20 country finance ministers and central bank leaders on 4 February, outlining the FSB's plans in 2015.

Carney promised a complete overhaul of 'shadow banking', including two reforms of securities financing.

The FSB will "finalise the remaining elements" of its regulatory framework for haircuts on securities financing transactions and plans to set out details for monitoring implementation.

Under its October 2014-released framework, corporate bonds with a maturity of between one and five years will require a 1.5 percent haircut.

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

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

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Societe Generale invests in GMEX

Societe Generale Prime Services has become the second minority investor in the Global Markets Exchange Group (GMEX).

Formerly Newedge, Societe Generale Prime Services acquired a minority stake of GMEX, and plans to provide execution and clearing services for clients trading on the exchange. It follows a similar investment from Deutsche Börse Group.

GMEX is an exchange focused on business and the launch of new products including interest rate swap futures contracts and derivatives indices. It is also involved in emerging markets exchange business partnerships, enabled by multi-asset trading technology.

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Monte Titoli expands X-COM service

Italian exchange Monte Titoli is extending its triparty collateral management service, X-COM, to allow participants to use it for all processes for the selection, integration and restitution of collateral.

Launched in 2012, X-COM is designed for managing funding contracts that are traded bilaterally as general collateral repo and pledge.

The new service is scheduled to launch on 9 March, and will offer a continuous top-up of collateral, giving liquidity providers a constant coverage of exposure.

Clients accessing the liquidity pool will maintain full control over the assets posted as collateral, with the possibility of recalling and disposing of them at any time.

Testing began on 2 February, and tests are open to any client interested in participating. An additional release is scheduled for early May, subject to testing.

2015 to be year of the SFT

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Still to complete is the FSB's work on the application of numerical haircut floors to non-bank-to-non-bank transactions. It previously said it would outline its plans by Q2 2015.

Also on the FSB's agenda is the development of standards and processes for global securities financing data collection and aggregation. It sought comments on the proposed standards and processes by 12 February.

The FSB will also outline a timeline for implementation by the end of 2015.

Societe Generale invests in GMEX

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David Escoffier, deputy head of global markets for Societe Generale Corporate and Investment Banking and Newedge CEO, said: "The GMEX Group offers genuinely new ways to trade interest rates via their unique and versatile constant maturity futures product."

He added: "That's exciting for our clients as they adapt to the new environment, for our industry, and for us as part of this venture. Acquiring a minority share reflects our commitment to driving innovation in the derivative markets, and we will continue to look positively at other similar initiatives based on innovation, quality and focused on delivery value to our clients."

Hirander Misra, CEO and co-founder of GMEX Group, said: "We welcome this investment from Societe Generale, which in conjunction with their earlier announcement to become an execution and clearing member of the GMEX exchange, emphasises the value of our proposition."

"We look forward to working with all our partners as we continue to position ourselves to meet the needs of the market across the investment management, banking and futures trading community."

€1.4b outflows for European mutual funds

The European mutual funds industry saw net outflows of €1.4 billion from long-term mutual funds in December 2014, according to data from Lipper.

The only asset classes that experienced net inflows were mixed-asset funds, with €11.6 billion, and property funds with €300 million.

Bond funds had the greatest outflows of €5.7 billion, while equity funds saw of €5.4 billion leave. On a lesser scale, commodity funds had outflows of €500 million and alternative and hedge products saw outflows of €300 million.

These figures brought 2014's total net inflows down to €348 billion.

For money markets products, money markets funds reported outflows of €17.6 billion, but enhanced money markets funds had inflows of €30 billion. Net inflows for the year were reduced to €19.6 billion.

In terms of overall net flows, asset allocation was the best-selling sector for long-term funds, with inflows of €7.4 billion. This is followed by EUR corporate investment grade funds and EUR funds, which each had inflows of €3.3 billion.

USD corporate high yield funds had the largest outflows of €4.5 billion. This was bettered by global high yield funds and equities Germany funds, which had outflows of €3.2 billion and €2.1 billion, respectively. Emerging markets in local currency funds also saw outflows of €2 billion.

Of the markets covered by Lipper, only 12 of 33 showed net inflows for long-term funds. The market with the highest net inflows was Italy with €2.5 billion, followed by Sweden with €2.2 billion and the UK with €2 billion.

Conversely, the international funds hubs saw the largest outflows of €8.3 billion. Norway had net outflows of €2.6 billion, and Portugal of €2 billion.

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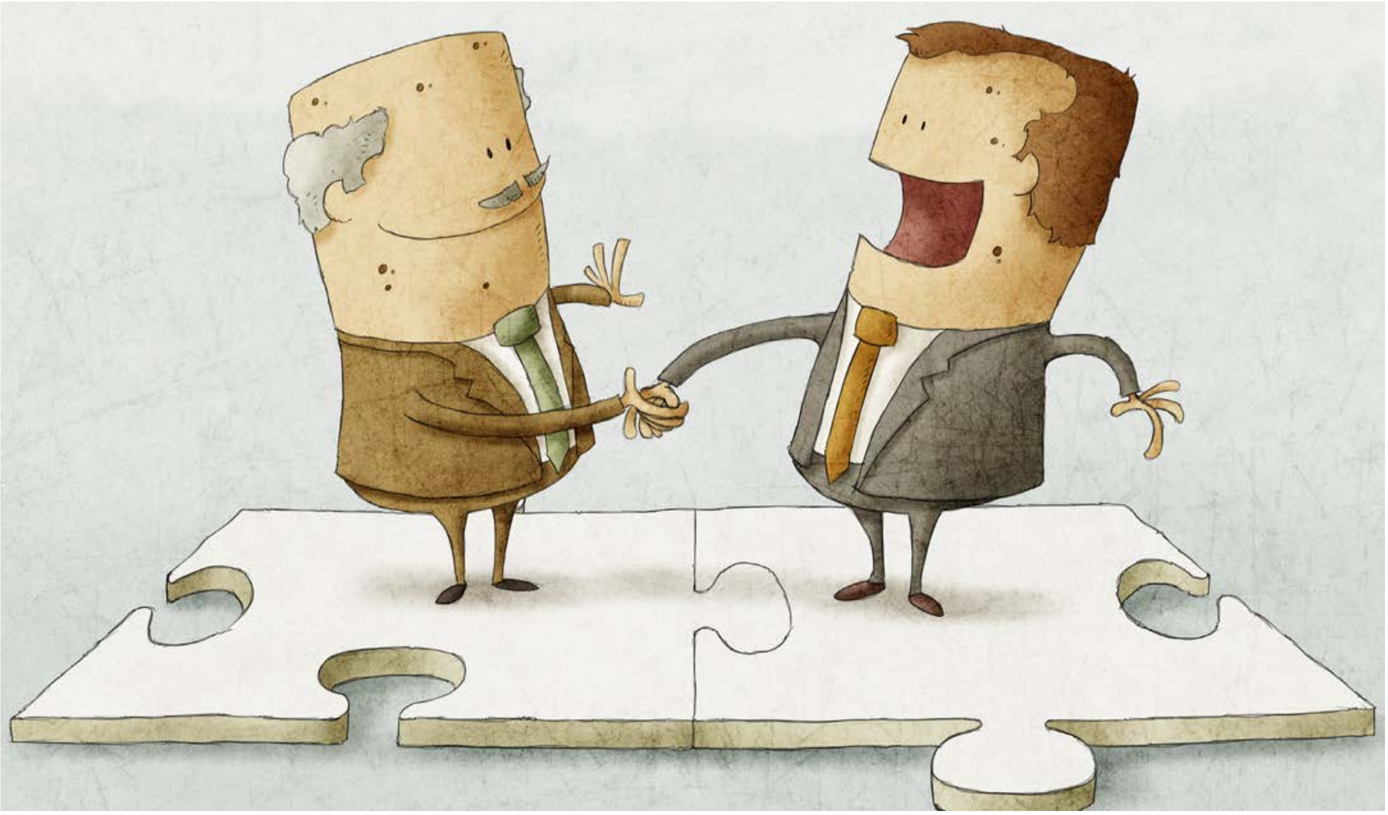

The Lipper report also made early projections for the January results, based on Luxembourg- and Ireland-domiciled long-term mutual funds.

Bond funds are likely to be the best-selling asset class with projected net inflows of about €11 billion. This is followed by mixed-asset funds with projected net inflows of €7.6 billion, and equity products with projected inflows of €5.5 billion.

According to the report, this suggests that European investors are back in a risk-on mode and buying back in to equity funds.

Murex and ArcadiaSoft pair up for processing

Murex and ArcadiaSoft have teamed up to extend the reach of electronic messaging capabilities.

Murex's MX.3 solution for enterprise collateral management now offers direct connectivity to ArcadiaSoft's MarginSphere, providing straight-through processing (STP) for clients from margin calculation to settlement and accounting.

The solution will support a range of margin calculations optimising the calculation chain across bilateral and cleared, over-the-counter, repo and securities lending products, as well as exchange-traded derivatives.

It also includes the margining requirements issued by the Basel Committee Banking Supervision and the International Organization of Securities Commissions, while improving the availability of OTC clearing houses standard methods.

David Radley, global head of sales at Acadiasoft, said: "We are excited to be integrated with Murex's MX.3 platform to help their clients achieve STP in the collateral management process—a capability we refer to as 'straight through margining'."

"The welcome addition of Murex to the AcadiaSoft community is a key advancement towards our goal of a completely automated, industry–wide margin process."

Etienne Ravex, collateral management product manager of Murex, added: "Our partnership with AcadiaSoft as a recognised leader for margin confirmation automation significantly reinforces our support to our clients in their collateral optimisation journey."

Clearstream sees increase in securities financing

Clearstream has released its global securities financing figures for January 2015, revealing a 5 percent increase in the monthly average outstanding.

The combined services of triparty repo, securities lending and collateral management reached an average outstanding of €602.5 billion, an increase of 5 percent on the figure for January 2014, which totalled €571.9 billion.

Clearstream also reported a record high in its figures for assets under custody, reaching 12.8 trillion, a 7 percent increase on January 2014’s figure of €12 trillion.

Leap in broker fees imminent, says Catalyst

Banks may be forced to increase their capital broker fees from the typical 1-2 percent to 14-15 percent under increasing regulations around leverage ratios.

According to a whitepaper by Catalyst, Basel III and its leverage ratio rules in particular have placed additional pressure on banks to optimise capital.

The paper suggests that many unprofitable clearing brokers have already exited the market, leaving fewer available to provide services.

The paper pointed out that, in the past, banks that operate as clearing brokers may not have fully passed the costs on to their clients, focusing more on security aspects and remaining underpriced. This means that execution and clearing are becoming “increasingly divorced”.

With changes in the market in the last five years, the emphasis has moved from the buyers to the sellers, according to the paper.

The cost of capital is now more than 12 percent, meaning that brokers are targeting a return of 14 to 15 percent, or 8 to 10 times more than they have charged, historically.

The paper’s authors explained how clients that use less of the bank’s collateral will benefit from lower cost, while advising that hedge funds employ intra-fund netting and compression tools.

Asset managers confident about growth

Asset management company CEOs expect revenue growth in the near future, with 88 percent feeling confident about growth in 2015, and 95 percent saying they are confident about the next three years.

The results, reported in PricewaterhouseCoopers’s annual global CEO survey, echo those of PwC’s Asset Management 2020 whitepaper, which predicted assets under management would exceed $100 trillion by 2020, up from $63.9 trillion in 2012.

CEOs are, however, still concerned over cost-cutting, with 46 percent saying they plan to cut costs in 2015, and 28 percent planning to outsource operations. Meanwhile, 88 percent said that they mainly use technology in order to increase operational efficiency, thereby reducing costs.

Other concerns include the availability of key skills, with 68 percent citing this as an issue, and growing cyber threats such as data security,

which 63 percent highlighted as a worry. In the wake of the financial crisis, 61 percent of respondents said that a lack of trust in business was a concern.

The survey also found that asset managers are diversifying, with 28 percent saying they had entered a new sector in the last three years, and a further 18 saying they had considered doing so.

According to the survey, some asset managers are acquiring portfolios of, for example, real estate loans and lending to corporates, while alternative managers have broadened their product ranges to include private lending arrangements, primary security and off-balance sheet financing.

China and the US are viewed as the most important countries for growth prospects, with additional growth from emerging markets in Asia and Latin America.

One fifth of asset managers said they plan to grow through cross-border mergers in 2015, and more than 25 percent plan to grow through domestic mergers, a statistic much higher than in other financial sectors.

Tax systems were also a hot topic, with 67 percent saying that an internationally competitive and efficient system should be a government priority, but about half saying that their government had failed to achieve this.

More than half, however, conceded that improved regulatory coordination is increasing cross-border capital flows, with 53 percent agreeing with this.

Mark Pugh, UK asset management leader at PwC, said: "Asset managers face a volatile environment over the next three years. Future success in this sector will depend on attracting not only the most skilled investment professionals, but also talented people in areas such as technology and risk management, which 77 percent of asset management CEOs are planning to do."

"By 2020, technology will have become mission-critical to drive customer engagement, data-mining for information on existing and potential clients, operational efficiency and regulatory and tax reporting. At the same time, cyber risk will rank in significance alongside operational, market and performance risk within the industry."

PwC's 18th annual global CEO survey saw responses from 155 asset management CEOs from 46 countries around the world.

SS&C GlobeOp sees uptick in hedge fund index

SS&C GlobeOp has released its figures for January 2015, reporting a gross return of 1.18 percent on its Hedge Fund Performance Index, an increase from 0.11 percent in December 2014.

Hedge fund flows have increased by 111.1 percent in the last 10 years, from 100 on 31 December 2005 to 211.1 at the end of January 2015. In the last 12-month period, it has increased 5.99 percent from 102.17.

GlobeOp provides asset-weighted data offering a monthly insight in to hedge fund performance, with data representing approximately 10 percent of the hedge fund industry.

SNS Bank and SunGard develop relationship

SNS Bank has mandated SunGard to upgrade its treasury and risk infrastructure in an extension of the firms' ongoing relationship.

SunGard will create a centralised operational framework for credit and market risk management, including initial margin and potential future exposure, as part of a strategy to modernise the bank's risk capabilities.

The solution should help SNS to adopt market standards, while adapting to change and maintaining profitability.

It will integrate with SunGard's existing treasury platform, providing a framework across treasury, trading and risk activities and driving improved valuation and control processes.


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It is hoped that the upgraded platforms will provide one central platform, consolidating all valuations for an integrated intra-day view of risk across the trading and banking book. This could lead to more accurate and holistic insight in to real risks, and therefore more efficient risk management.

SunGard's hosted and managed services could also help SNS's financial markets division to retain a focus on core competencies.

Bart Toering, managing director of SNS Bank, said: "As part of our strategy to transform SNS's risk operations and improve regulatory compliance, upgrading our technology is vital. We are taking a proactive approach to modernising our infrastructure across treasury and trading, so we can not only fully meet regulatory requirements, but drive business advantage from the benefits of new technology."

"Having a complete view of risk will help ensure better management, mitigation and overall business performance. Our long and successful relationship with SunGard played an important role in our choice"

Craig Costigan, president of risk and compliance at SunGard, added: "Market standards are increasing in complexity for treasury, trading and risk management, leading banks to steer more accurately and profitably."

"Our market and credit risk functionality will help SNS Bank meet requirements in this area, as well as laying the foundations to support other regulations that come into effect this year and beyond. As a company that delivers risk solutions to customers worldwide, SunGard is well placed to help SNS navigate the complex regulatory landscape and build a risk platform that aids competitive performance."

Russia's NSD reports bumper Q4 2014

The Russian central securities depository (CSD), the National Settlement Depository (NSD), has released its results for Q4 2014, reporting an increase in repo transactions and a record high of securities used as collateral.

Repo transactions with the Bank of Russia securities basket reached 3,124 operations in Q4 2013, an increase of 58 percent compared to Q4 2013.

These transactions represent RUB 21.6 trillion, a 79 percent increase on the same period in 2013.

In December 2014, the value of securities used as collateral in over-the-counter (OTC) repo transactions with the Bank of Russia with securities basket reached a record high of RUB 2 trillion.

The annual number of participants that signed up for the NSD collateral management service increased from 154 banks in 2013 to 205 in 2014.

Reports on repo transactions saw an increase of 72 percent compared to the same period in the previous year, exceeding 13,400.

The significant increases are partly attributed to changes that came in to force on 5 November 2013, meaning that it is mandatory for participants to submit reports on repo transactions and currency swaps to a repository. Before this, reports were submitted on a voluntary basis.

There has also been an increasing trend of submitting data on other types of transactions with derivatives, even though, as of yet, this is not mandatory.

November 2014 also saw the launch of a new information service as part of the corporate action reform.

The service offers information on shareholder meetings and bond repayment in respect of Russian and foreign securities in accordance with notification, result dissemination and cancellation standards, as well as corporate action notifications and cancellation advice.

Boost benefits from dip in oil prices

Boost's range of short and leveraged oil and natural gas exchange traded products (ETPs) are now the most liquid in Europe,

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The WisdomTree company's oil ETPs traded almost $500 million in notional volume in January, about 20 percent more than any other issuer's short and leveraged ETPs, while its natural gas ETPs had a notional volume more than double that of any other issuer, reaching $375 million.

Boost's exchange traded contracts (ETCs) are listed on the London Stock Exchange, Borsa Italia and Germany's Xetra, with a total of 95 listings.

Its trading volumes have seen a clear growth trend, more than tripling in the last six months. At the end of January, Boost reached a record high of $201 million in assets under management, or $572 million in notional terms.

Boost's top ETP was the WTI Oil 3x Leverage Daily ETP, with a notional volume of $264.5 million.

Viktor Nossek, director of research at WisdomTree Europe, added: "The sharp downward trajectory in oil since the summer of last year stood out as the main macro event underpinning commodities. Investors would have benefited from using geared short ETPs tracking oil as a means to efficiently position bearishly around crude oil's price slump."

Brazilian central counterparty reports January success

Brazilian central counterparty BM&FBovespa has reported 132,115 securities lending transactions for January 2015.

This is an increase on December 2014's figure of 113,232 transactions.

Trading value reached BRL 52.49 billion, a significant increase from BRL 48.61 billion in the previous month.

IIFM promotes Islamic alternative to repo

The International Islamic Financial Market's Master Collateralised Murabahah (MCM) Agreement is a viable Islamic alternative to repo, according to speakers at a London event to raise awareness of the agreement.

The workshop was hosted by Bahrain-based International Islamic Financial Market (IIFM) and the International Capital Markets Association (ICMA), and was attended by bankers, lawyers, and other participants.

Presentations and panel discussions outlined how the MCM Agreement can help to facilitate liquidity management through shariah-compliant transactions.

The agreement is a collateral arrangement based on shariah principles.

Under the agreement, the seller acts as financier, and collateral taken for each deferred payment.

The buyer, meanwhile, acts as obligor and will grant security. In addition, different collateral must be used for each separate agreement.

Workshop participants also discussed how the agreement allows Islamic financial institutions, and other corporates and institutions, to better utilise their sukuk portfolios and approved Islamic instruments, such as equities.

David Hiscock, senior director and deputy head of market practice and regulatory policy at ICMA introduced the session, saying: "ICMA has a long history of successfully introducing standardisation into repo markets, notably through the Global Master Repurchase Agreement, and promoting a

wider understanding of repo and collateral; in line with this we commend IIFM on their production of this new master agreement."

CEO of IIFM Ijlal Ahmed Alvi said: "This standard documentation is the culmination of efforts by a number of stakeholders to develop a unified template which, at the moment, is the best possible Islamic alternative to repo. We are thankful to ICMA for hosting this timely workshop to create awareness among our respective members and the wider Islamic finance community."

Decline in US pension plans, says BNY Mellon

The funded status of typical US corporate pension plans declined by 4.9 percentage points to 82.4 percent in January, according to BNY Mellon's Investment Strategy and Solutions Group (ISSG).

The drop has been attributed to a dip in the Aa corporate discount interest rate, which determined the liabilities. It finished January at an all-time low of 3.58 percent, sending liabilities 7 percent higher.

Assets for the typical corporate plan increased by only 1 percent in January, as they were also affected by the increased liabilities. The rise in assets was also negatively affected by the weak performance of US equities, which detracted from improvements in other asset classes.

Plan liabilities are calculated using yields of long-term investment-grade bonds, meaning that lower yields result in higher liabilities.

According to the ISSG results, public defined benefit plans, endowments and foundations each missed their return targets because of weak US equities markets. The funded status for the typical corporate plan dropped by 12.8 percent since the record high of 95.2 percent in December 2013.

The results attributed an improvement in corporate plan assets in January to gains in fixed income and emerging markets equities. Public plans benefitted from the performance of real estate investment trusts and high-yield public income, but were held back by the falling values of US equities.

Public defined benefit plans missed their January targets by 0.7 percent as assets declined by 0.1 percent. Year-on-year, public plans underperformed, missing their target by 1.4 percent.

Endowments and foundations reportedly benefitted from allocations to emerging markets and hedge funds, but couldn't keep up with targets because of the weak equity markets in the US. Real return for January was negative 0.5 percent, with assets returning negative 0.3 percent.

Year-on-year endowments and foundations are behind on their inflation plus spending target by 1.2 percent.

Andrew Wozniak, head of fiduciary solutions and BNY Mellon ISSG, said: "The huge fall in funded status in January combined with the changes in the mortality assumptions that many plans implemented in December 2014 means that many corporate plans saw their funded status drop by more than 10 percentage points in two months."

He added: "This could be a signal to plans to take on more risk by making such moves as increasing their exposures to equities and alternatives or going to shorter duration fixed income. Shorter duration fixed income may better position them to improve their funding if rates rise."

SunGard's hottest stocks

SunGard's Astec Analytics has compiled the hottest stocks from around the globe for the week beginning 16 February 2015.

Norwegian oil and gas company Statoil ASA (STL.OL) is SunGard's top pick in Europe, the Middle East and Africa after confirmation it has given the go-ahead for its North Sea Johan Sverdrup field.

Astec commented: "Statoil's share price made fairly steady gains during the week as it approached its ex-div date on 16 February, with dividend related trading also dominating the securities lending market."

Though most of the latest gains in borrowing volumes were dividend driven (tripling since the start of February), data from Astec suggests short sellers have been increasing their bets against the company even before this, with the number of Statoil shares being borrowed having already climbed 50 percent in January alone.

Transocean (RIG) has also seen renewed headlines after its CEO Steven Newman said he would be stepping down, a move which by the majority of analysts is being seen in a negative light.

Utilisation levels have held above the 90 percent mark over a two-week period, even as borrowing in the shares declined 14 percent, and in turn drove the cost of borrowing RIG from about 10 percent over annum, to more than 30 percent.

Mexican telecoms giant América Móvil (AMXL.MX) is Astec's top pick for the Americas after it posted its latest earnings numbers, which showed profits falling 78 percent due to foreign exchange losses and tighter regulation in the country.

With this, its stock saw an immediate sell off in the cash market, though bargain hunting soon retraced much of these losses the following day. Meanwhile data form Astec suggests short sellers were building positions before the results, and have continued since—borrowing volumes climbing 46 percent since 10 February.

GoPro (GPRO) has also been highlighted as the latest expiry of its shares lock up approached on 16 February, allowing an additional 76 million shares to hit the market.

Though its shares saw some caution, they lost little ground in the run up to the expiry, something Astec claim was "well founded" as its share price jumped during the day with little selling pressure coming through.

On the borrowing front, Astec's data shows actual volumes held steady during the week, the numbers also hint at falling demand to short sell the stock as the cost of borrowing declined from almost 75 percent to under 57 percent.

Fortescue Metal Group (FMG.AX) is coming as Astec's top pick for the Asia Pacific region as it continued to act as somewhat of a flag bearer for Australian miners following the central bank's surprise rate cut, coming to the fore ahead of its latest earnings.

These numbers we now know showed profits falling 81 percent, though the company did issue a 3 cent interim dividend. Since the start of February, the number of FMG shares being borrowed has now climbed 14 percent, or around 30 million shares.

Finally, Mixi (2121) saw fresh attention last week after it posted its latest earnings numbers, which despite showing fairly solid results, did little to stop its shares falling in the cash market.

A focus on regulation

T2S: overcoming the hurdles

Europe's post-trading landscape is about to experience a dramatic change this year with the introduction of Target2-Securities (T2S), the result of greater regulatory pressures on collateral management. The initiative aims to reform post-trading by providing a single pan-European platform for securities settlements in European Central Bank (ECB) money.

The first phase of T2S will go live in June 2015 and will be the first step towards establishing a fully integrated capital market without international borders. In this reformed market, it is envisaged that T2S will bring a reduction in settlement times, costs and credit risk. T2S should also improve collateralisation practices, allowing banks to centralise collateral assets into a single pool, which will reduce the need for multiple funding accounts. This should help collateral managers have a more holistic view of where collateral is held and improve liquidity levels.

The approach to the settlement of transactions remains disparate across clearers. T2S will seek to increase netting efficiency, but the netting of trades is often conducted at a legal level and we will have to wait to see whether T2S will help counterparties refine their netting agreements with custodians and clearers. For example, we are already seeing LCH.Clearnet working with the Italian central securities depository (CSD) and T2S to eliminate bond shaping.

The challenge for T2S is whether these benefits can be maximised while attempting to overcome the barriers that have traditionally prevented efficient cross border trading.

The ECB identified 15 specific barriers that exist between the different EU countries. They relate to tax, legal and technical jurisdictions and are known as the 'Giovannini barriers'. T2S has been introduced to help these barriers.

Although not directly related to the Giovannini barriers, repo tracking is another area that could present challenges. T2S does not recognise the 'near' and 'far' leg of a repo trade, and repo tracking will not be available on the platform. The onus will lie with the CSDs/international CSDs/participants to recognise when the transaction is part of a repo trade and perform the full manufacturing process involved in settling the transaction.

It remains to be seen whether CSDs/ICSDs and T2S will develop a single harmonised approach that ensures a consistent treatment of repo transactions across all markets.

The objectives of T2S have been well received and are widely supported across the industry. However, the practicalities of achieving greater harmonisation will remain challenging. It is one thing to get participants to comply with settlement requirements within T2S, but it is more difficult to overcome the tax and registration challenges for different countries as this requires new laws being passed.

I expect the first phase of this year's introduction to be a cautious affair and the integration of the Italian market with T2S will inform the industry of any potential teething issues. The impact of T2S will be more significant in 2016 with the introduction of larger markets to the platform. We will then be better placed to evaluate the initial success of T2S in its aim of harmonising post-trading activities.

T2S will not immediately eliminate the barriers that currently exist. What we can say with confidence is that T2S will start to enable the difficult and challenging process of reducing and eventually eliminating these barriers.

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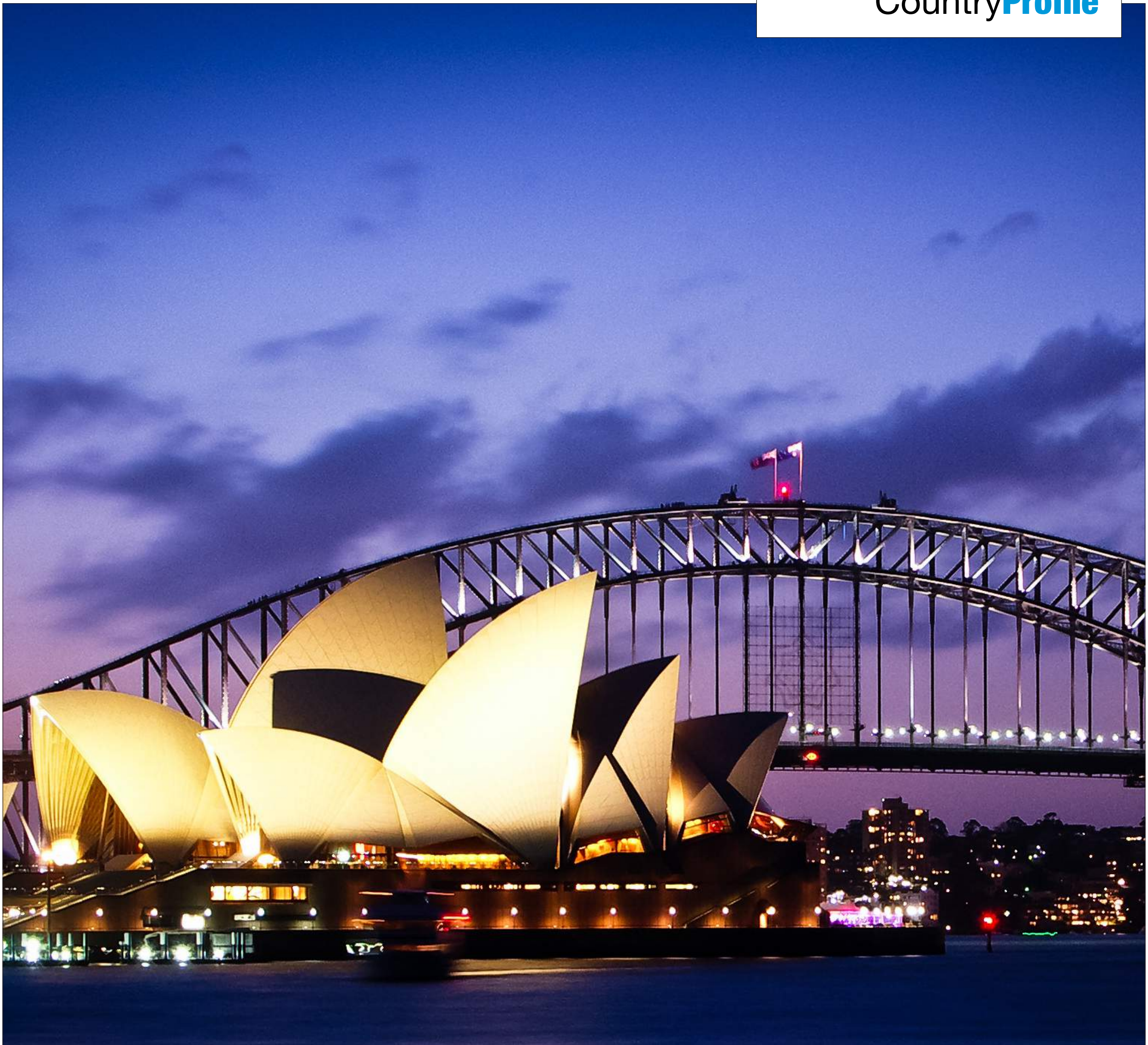


A market down under

With market changes causing fluctuations in Australia's equities industry, this massive region may be down under but it's certainly not downbeat

STEPHANIE PALMER REPORTS

Alongside the wallabies, boomerangs and shrimps on the barbie, Australia is famed for its superannuation funds and with it, a lending market that's as robust and longstanding as the red rocks of the Northern Territory—and just as independent.

But, with a turbulent global market and the risks and regulations that have come with it, the Australian equities industry may be starting to wobble. While there has been plenty of securities available, demand to borrow hasn't always matched it, leading, ultimately, to a suffering of balance sheets.

Peter Martin, chairman of the Australian Securities Lending Association (ASLA), believes that it may not be the case that demand has dropped, rather that it is not increasing in synchronicity with its Asian peers. Martin believes that, realistically, this can be considered a temporary blip rather than a game-changer, and one that could lead to future success.

He says: "While we have not seen the increase in borrower demand for Australian dollars compared to some peer markets in Asia such as Japan and Hong Kong, the reduction in balance sheet size has led to a reduced long inventory at borrowers that can be utilised to cover their borrowing needs."

"As leverage is reduced across the board that is something we would expect as a continued trend in 2015, so we should see an increase in demand for borrow from the traditional agent lenders."

On top of regulation and a general evolution of trends, the market has been affected by fluctuations in global currencies, particularly the US dollar.

Simon Colvin, an analyst at Markit, says: “The value of Australian equities in US dollar terms has been falling over the last few years. Inventory now stands at $200 billion, which is down from $230 billion two years ago.”

“This looks to be partly driven by the recent dollar strength, but comparing to the overall Asian lendable universe, which has managed to grow over this period, one can infer that the growth in inventory levels in Australia have trailed the rest of the region.”

In terms of this wider Asian market, the last few years have seen Australian equities differ somewhat. As seen in Figure 1, between February 2013 and February 2015, the inventory of equities in Asia remained relatively steady, while the long/short ratio of utilisation has seen drastic peaks and troughs at relatively regular intervals. Short sale values saw similar peaks, although with numbers, predictably, on a much smaller scale.

In Australia, as seen in Figure 2, the inventory of equities was much more volatile, especially towards the end of 2014, where a dramatic drop in inventory suggests a fairly severe shake-up.

“Demand has also seen a fall in dollar terms over the last six months,” says Colvin.

“Utilisation is up over this timeframe so the fall in demand to borrow has not been as stark as that seen in lendable. This contrasts with the overall Asian universe, which has seen flat utilisation over this time.”

While, in average terms, demand may not have seen such a steep drop, in general, over this time period it has been considerably less predictable than in the rest of the region. Again, there is some correlation between short sale values and utilisation, most notably around November 2014, when an increase in short selling led to a spike in utilisation of 8.08 percent.

The same trends are also apparent in the Australian market, to an extent. Similar peaks appear in each March and September, yet these are surrounded by other increases and unexplained dips, many almost as large, or even larger than those pan-Asian fluctuations.

In the continent as a whole, the incremental increases can be explained by some biannual event; results or reports are a likely possibility. The Australian market, however, is more likely to be affected by local events such as IPOs, company re-launches and even specific economical changes.

Colvin cites fees as one of these particulars, saying: “Fees have fallen over the last year so this has had some impact on the region. Whatever loans people are making, it is a lower average rate than a year ago.”

But, according to Martin, this is just one of many domestic changes coming in to play before the year is out.

He says: “The other theme developing in 2015 is balance sheet financing. There is a greater demand to borrow the high quality Australian dollar government bonds to satisfy the local Australian Prudential Regulation Authority capital requirements as well as those of offshore jurisdictions.”

“We are seeing greater demand for the collateral upgrade trade, especially across asset classes with borrowing bonds versus equity collateral increasing.”

Increasing obligation to hold on to collateral could explain Australia’s generally looser ties between utilisation and short selling, as buyers opt for longer-term investments that put more capital in their accounts with a little less risk.

“Term financing is also becoming a more common request for the capital benefits that it provides,” says Martin. “The lines between the securities lending desk and the financing function within counterparts are overlapping more than ever.”

That’s not to say though, that short-term investments are consigned to the past, or that they’re any less desirable.

Speaking just after these results, Colvin explains that, instead, we may be looking at a change in players on the short selling market, with specials beginning to dominate.

“Natural resources firms have always been a key focus of short sellers in the region and the recent rout in the likes of copper and iron ore looks to have proven them right.”

“In the wake of the recent underperformance in these shares we have seen some signs of covering in the last few weeks. Materials names now make up 40 percent of the Australian shares trading special. Energy shares make up the second largest group of shares on short sellers minds.”

While it may not dance to the same tune as the other Asian giants, and its markets may take dramatic twists and turns, the Australian market is one simply in transit, by no means in turmoil.

Changes, particularly regulatory changes, can be taken as opportunities, and they are certainly something that Martin and ASLA are embracing. The association is, in fact taking regulatory change and piggybacking technological advances off of it.

“As well as promoting best practice through transparency to beneficial owners and product innovation amongst lenders and borrowers, encouraging market efficiencies through automation is another ASLA objective for 2015.”

“There is a much greater understanding of where the risk lies for lenders and how they can run their lending programme to mitigate that. We see a much greater ‘hands on’ approach now from lenders who are also benefitting from the greater transparency and reporting they are now demanding from the agent lenders.”

In true Aussie style, the market down under will take the peaks and troughs as they come, remain unperturbed by the wider workings of Asia, and celebrate the changes that are just around the bend, maybe even with a tinnie or two. **SLT**

Figure 1: Asian Equities

Source: Markit

Figure 2: Australia Equity

Source: Markit

Swings and roundabouts

Could oil prices be the spark for a turnaround in Aussie mining, asks Madalin Prout, senior relationship manager at SunGard's Astec Analytics

It's no secret that the Australian metals and mining sector has been struggling in recent years. A combination of factors, including the global downturn, weak commodity prices and inefficient cost structures in the industry, created downward pressure on share prices and a multitude of opportunities for the short side. But could 2015 be a turning point for this industry?

The outlook appears mixed to say the least. Mining giant BHP Billiton seems set for another testing year. Having already announced up to $600 million in write-downs, planned cutbacks in its shale drilling activities, and restructuring around the spin-off of the new South32 company—an effort to refocus on BHP Billiton's "four pillars" strategy of iron ore, copper, coal and oil—at the exact time these commodity prices are reaching record lows, many analysts do not envisage a rosy year ahead for this company.

But every cloud has a silver lining and the recent slump in oil prices certainly helps some more than others. As with many industries, fuel and energy is a significant cost to the mining sector, often accounting for as much as 25 percent of the total operating costs. With oil prices having held below $65 per barrel, at some of the lowest levels since 2009, and with little hint of this trend reversing in the short term, many miners could see a welcome boost to their bottom line. To take an example, for Rio Tinto, which unlike BHP Billiton does not rely on oil as a revenue source, this is a significant reduction in operating costs without the corresponding hit on income.

Indeed, securities lending data from SunGard's Astec Analytics solution, which can be used as a proxy for short interest, shows that in the second half of 2014, short sellers appeared more optimistic about miners that are not reliant on revenue from oil extraction (Figure 1).

Furthermore, sustained lower oil prices could, in the longer term, trigger increased global demand for raw materials as cost pressures are eased in other industries. China and other markets that have had lower levels of demand for natural resources over the last few years may eventually see a return to higher levels of growth that would benefit the metals and mining sector as a whole. For Australian miners, a weakening Aussie dollar and shock interest rate cuts from the Bank of Australia will also help strengthen their position.

However, things may not be so straightforward for the traditional mining goliaths. Analysts are split on the forecast for iron ore prices in 2015. Citi, like many, has taken a bearish view, predicting a fall in prices to as low as $60 per ton, while Goldman Sachs and BNP Paribas are more optimistic, predicting a slight recovery in prices by the end of the year. Whoever proves to be right in the long run, one thing is certain, revenues from iron ore look set to remain low and bordering on unprofitable for many Australian mining companies.

Compounding the market's problems is the added challenge of increasing competition from newer quarters—Brazil and China to name two—creating an abundance of iron ore supply. Although widely acknowledged that the quality of output from these miners is generally lower, their economical prices and increasing trade with the biggest consumer of natural resources, China, are only adding to the Aussie woes.

The lack of profitability and increased competitive challenges are taking their toll on future revenues. Approval for and investment in new projects are reportedly at a 10-year low in the metals and mining sector. Years of investment in projects that have produced little return means firms have had to become smarter in their investments. Indeed, there is much focus on reducing capital costs and ensuring that new projects are economically viable, even in the face of volatile commodity prices, resulting in a significant slowdown in new investment.

So what does this mean for the mining stocks? Astec Analytics data shows that overall, volumes on loan in the market declined in the last quarter of 2014 and continued this trend into 2015, an indication that short sellers may be closing out their positions (Figure 2). Some firms will inevitably fare better than others, but with giants such as BHP Billiton and Rio Tinto continuing to lead stock markets downward, there may be a testing year ahead for Australian mining stocks. **SLT**

Figure 1

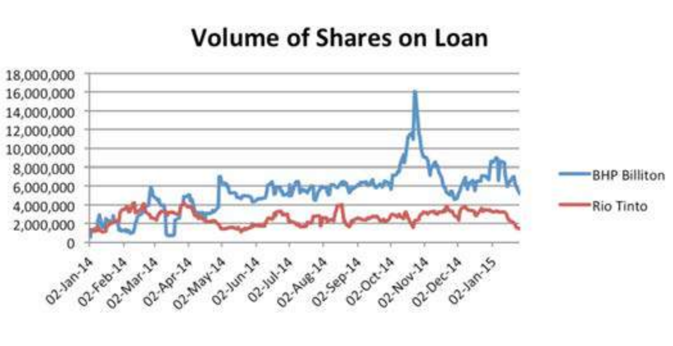
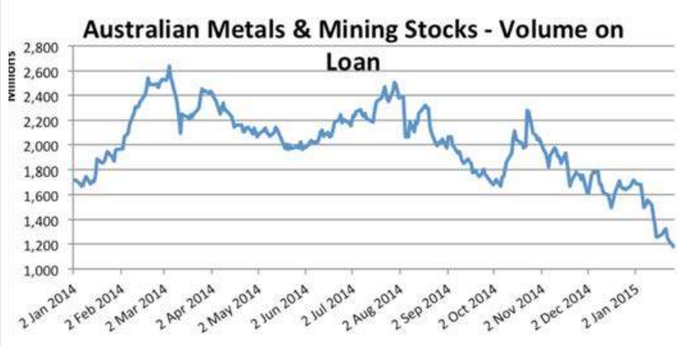


Figure 2



The world's local collateral manager

Clearstream is constantly enhancing its services under the Global Liquidity Hub with innovative solutions to allow for more efficient use of scarce collateral

MARK DUGDALE REPORTS

Clearstream's Global Liquidity Hub was launched in 2009. It was developed based on Clearstream's longstanding experience in providing collateral management and securities lending services. In fact, Clearstream has been providing automatic securities lending since 1979, while the triparty repo service was launched in 1992.

Over time, this business segment has grown and now manages more than €600 billion of collateral outstanding and services more than 550 clients, including major central banks and central counterparts around the globe.

Clearstream has a longstanding presence in Asia, so it is only natural to also provide extensive services under the Global Liquidity Hub for this fast-growing market. Clearstream is very well established as a leading post-trade service provider with links to 54 domestic markets worldwide.

Lotfi Bettahar, global securities finance head of the Asia Pacific, Middle East and Africa at Clearstream, explains: "We see faster growth in Asia than anywhere else and this is why we are focusing on this region. Clearstream has been present in Asia since 1989 and we established our regional hub in Singapore in 2009. Clearstream is part of the Deutsche Börse Group and they are now leveraging Clearstream's longstanding presence and experience in the region to add some clearing capabilities to their service suite in Asia. The Deutsche Börse Group already deals with more than 350 financial institutions and over 28 central banks in Asia."

Following the financial crisis, new regulation was put into place and more is expected going forward. One of the major consequences of these changes is the increased need for collateral to satisfy the coverage of financial exposures. These regulatory changes have also increased the need for collateral in Asia. Many opinions have been voiced on whether or not there is enough collateral to meet the high demand. While it may be difficult to draw a definite conclusion, there is now a general consensus in the market that the main issue to be tackled is collateral fragmentation.

Such fragmentation is caused by a variety of legal, regulatory and business factors. The challenge is to find solutions to overcome this fragmentation, which Clearstream is confident to have found in the creation of smart partnerships around the globe that are built on existing local relationships and account structures.

"The challenge facing the global financial services industry is to optimise collateral or liquidity management on a global scale without creating a new systemic risk," says Bettahar. "To achieve those twin objectives, banks and broker-dealers and their buy-side clients have to be able to use collateral everywhere to collateralise their exposures anywhere."

Liquidity Hub Connect: partnering with local custodian banks

Clearstream offers tailor-made solutions for different client groups under the Global Liquidity Hub, which is an automated triparty collateral management solution for assets held in custodian banks. The service enables mutual customers to cover exposures in a fully automated way. Thanks to these partnerships, mutual customers benefit from the full suite of collateral management services under Clearstream's Global Liquidity Hub, while at the same time continuing to benefit from their own choice of local custody services provider.

This service is, for example, offered jointly with Standard Chartered for the Singaporean market. Whereas these assets previously needed to be transferred to Clearstream's network agent bank for triparty purposes, they can now remain with Standard Chartered and still be automatically included as part of a client's collateral pool at the Global Liquidity Hub.

Unlike other models, Liquidity Hub Connect allocates collateral in real time and on a just in time basis. This allows Standard Chartered's customers to optimise their use of collateral without putting their domestic trading and financing activities at risk.

Bettahar says: "Assets are automatically returned to the customer's settlement account

at their local custodian as soon as they are no longer needed by Clearstream for triparty purposes or if they are required to satisfy local settlement obligations. This setup avoids collateral fragmentation and ensures that customers always have a clear overview of all available collateral in each location."

"More importantly, it also avoids the need to maintain expensive collateral buffers at different providers. As a result, customers are able to make optimal use of their assets held at all Liquidity Hub Connect venues for triparty transactions managed within the Global Liquidity Hub."

Next to Standard Charted Bank, Clearstream also offers this partnership solution with BNP Paribas Securities Services and Citibank, and a letter of intent has been signed with Deutsche Bank.

"Clearstream's main Asian hub is in Singapore but we also have an office in Hong Kong and of course we also offer services for other Asian markets," says Bettahar. "For example, Clearstream has recently announced a partnership with Sumitomo Mitsui Banking Corporation (SMBC), which will pave the way for the seamless mobilisation of Japanese government bonds (JGB) held under local custody in the Global Liquidity Hub."

"Mutual customers will be able to consolidate their JGBs to cover global exposures from a single collateral pool. They will then be automatically allocated to cover triparty exposures in Clearstream in real-time and only up to the required amount."

Liquidity Hub GO: partnering with market infrastructures

Clearstream offers numerous partnership models. While it caters to local custodians under Liquidity Hub Connect, another collateral management solution is targeted at market infrastructures. Due to the increased importance of collateral management since the global financial crisis, more and more infrastructure providers have been approached by their customers to provide collateral agent services.

In 2009, the Brazilian CSD Cetip launched a process for the implementation of a domestic triparty collateral management system. The aim was collateralised OTC derivative transactions with domestic Brazilian securities. Cetip selected Clearstream's unique Liquidity Hub GO solution, which was flexible enough to be customised to Cetip's specific needs as a white-labelled solution, including a customer front-end in Brazilian Portuguese. The service has been offered by Cetip to the Brazilian market as Cetip|Colateral since 2011.

The advanced scope of Liquidity Hub GO, the short time-to-market (12 to 18 months after signing the project agreement) and low cost compared to an in-house solution built from scratch, convinced more partners in the following years: Iberclear/Spain, ASX/Australia and Strate/South Africa have already launched the solution for their markets. In the meantime, further markets have announced their intention of following the same path.

Bettahar comments: "Following a successful implementation with ASX, Liquidity Hub GO will be leveraged for the second time in the Asian Pacific region. SGX and Clearstream are partnering to introduce an innovative collateral management solution for Singapore. SGX will use Clearstream's technology on a white-labelled basis to manage its domestic clients' collateral in the home market. The collateral assets of SGX clients will be serviced locally, without any transfer of assets to an account of Luxembourg-based Clearstream—a model that prevents the creation of systemic risk."

Such risk is inherent to other alternative collateral management setups. Today, in the Asia Pacific region, institutional asset owners would typically have to transfer the securities that are intended for use as collateral out of their local accounts. But with this transfer, the asset (collateral) holders would also lose control over them. In the case of a default of a foreign provider, the collateral assets would then be difficult if not impossible to access.

"It is a pre-condition for other service providers in the collateral management space that the collateral sits in their accounts throughout the day so that it can be screened and allocated when needed," says Bettahar.

"This has been a showstopper for national central banks, regulators and infrastructure providers around the globe when they have looked to enter into cooperation agreements with these providers: they clearly want to avoid a loss of control over their domestic securities infrastructure and the collateral of the underlying customers or, even worse, over their clients, which are the asset owners."

In the initial phase, SGX will use the Clearstream capabilities for mobilising Singaporean assets as collateral against local counterparty exposures. This will all take place on accounts held with SGX following Singaporean law and regulation. In a future step, Clearstream and SGX want to add international assets held outside of Singapore into the coverage of Singaporean exposures.

Eventually, SGX and Clearstream also want to allow Singaporean clients that have international counterparty exposures outside of Singapore to use their assets held in the jurisdiction to cover these.

Bettahar concludes: "Clearstream has been building a global network of strategic partners that make use of a common technology platform. This partnership approach has been particularly successful in Asia to date and we hope to get many more partners on board in the near future to overcome collateral fragmentation in this growing market." SLT

Connect more

The opening of the Shanghai-Hong Kong Stock Connect programme has securities borrowing and lending brimming with optimism

There are indications that the margin financing and securities lending markets in China are growing—is this what you're seeing? What would you attribute this growth to?

Dane Fannin: Since the inception of the onshore pilot scheme for margin trading and securities borrowing and lending in 2012, the centralised programme has subsequently been made easier and available to a wider set of domestic participants. The recent increase in margin financing activity, thought to have been spurred by a lowering of interest rates and tighter controls on the property market (thus making stocks more appealing), has helped increase the retail margin pool of lendable assets, which has helped to boost securities borrowing and lending as a result.

However, we understand that onshore participants continue to lobby regulators to liberalise the programme further, since a bilateral arrangement is considered more conducive rather than the current model, which is centralised.

Paul Solway: While access is growing, we are still seeing foreign investors waiting to see how the market develops. The Shanghai-Hong Kong Stock Connect programme is open and has a dynamic approach to its expansion; global, equal and transparent participation are key aspects to its success.

A potential route into China could be the creation of a rule-driven model similar to other ID markets such as South Korea, whereby offshore participants could replicate and leverage from existing infrastructure and investment. This could creating the fastest route to market.

David Raccat: The emergence of China as the world's second largest economy and the gradual opening of the country's capital account have seen capital controls evolve for the securities lending market.

Regulation still prevents long-only fund managers from fully committing and participating in securities lending of their portfolios within the offshore and mainland markets, and the timing of regulatory change is unknown.

The market has generally been pleasantly surprised by the pace of developments, with the speed at which Stock Connect was implemented a good example. However, as we clearly found with the delayed go-live and operational challenges at the time, this uncertainty has meant that different types of participants will enter the market at different stages of development. For example, the split cash/stock settlement process that was implemented for the initial model kept many US pension funds away simply because of the non-delivery versus payment (DVP) settlement rule.

This will be addressed in the second phase with the launch of an enhanced pre-checking model, which may attract new investors. We expect the ensuing increase in activity and the diversified investment strategies coming into the mainland market to drive securities lending opportunities.

Paul Wilson: There has been an eightfold increase in the domestic securities lending market over the last two years, but this has been predominantly for domestic brokers using the China Securities Finance Corporation securities borrowing and lending facilities.

Of more interest for international asset managers and banks is the opening up of the domestic equity market via the Stock Connect mechanism that started in November 2014. The current rules are still evolving, but associations have been working with local regulators and exchanges to help with that process.

Business is conducted through the Shanghai Stock Exchange and Shenzhen Stock Exchange—how permissive are rules around trading?

Wilson: Only the Shanghai Stock Exchange is live for equities trading on Stock Connect, but the Shenzhen Stock Exchange is expected in 2015. As already noted, associations have made recommendations to the interested local entities that include the participation of non-exchange participants and rights around collateral, but it is still in the consultative stage.

Raccat: The trading rules need to be made accessible to everyone—similar to the US and European models, with straightforward regulation, and the removal of 'unique' lending structures. This will take time, of course. It is clear the regulators are looking for a progressive, step-by-step opening up of their markets to open international investment (and vice versa). Not forgetting, the Shanghai and Shenzhen stock exchanges were founded in the 1990s, which is not that long ago in context of other markets.

In my view, the market is expecting the rules to relax over time. This includes expanding the limited access to listings and asset types, which is currently limited, and an easing of trading in line with international peers in two to three years. What we do not want to see is overly complex collateral requirements or unique settlement or operational complexities.

We are all trying to balance trade profitability with IT and operational efficiencies. If operational structures are developed and may only be required for three or four months until a next phase of model is introduced, this poses costs and risk burdens on market participants. The Stock Connect settlement and funding model was a good example, with many choosing to wait until the initial model was revised. In this example, the rules around settlement and liquidity concerns dictated trading appetite rather than the trading rules themselves.

> "Onshore participants continue to lobby regulators to liberalise the programme further, since a bilateral arrangement is considered more conducive rather than the current model, which is centralised"

Dane Fannin, Head of Asia Pacific trading, securities lending**, Northern Trust**

BNY MELLON J.P.Morgan Northern Trust STATE STREET. BNP PARIBAS

" We are seeing new lenders come to market with attractive in-demand portfolios and flexibility on collateral. There is strong interest and participation by index funds to add alpha "

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

With Stock Connect up and running, how will the programme contribute to interest in A shares?

Solway: Market liquidity is enhanced with access to an efficient and workable lending platform, either for short-term settlement purposes or supporting ongoing investment strategies. Usually, buy and hold strategies only work well in a rising market.

Francesco Squillacioti: The launch of Stock Connect and the ability to lend through that platform opens some interesting opportunities. It will allow offshore investors/beneficial owners to trade eligible China A shares directly through Hong Kong brokers, effectively giving greater flexibility and access to that market. The securities lending component of this is a further aspect of that and, likewise, will bring the benefits of securities lending to beneficial owners and to the market itself in terms of liquidity.

Of course, it is a new programme and, as with other markets in the region, how it works will likely evolve over time. We look to be front and centre in the process, as well as in further development of the market.

Raccat: Stock Connect will enable margin financing, securities lending and other features to develop. The major issue as explained to the Hong Stock Exchange by multiple associations is that the scheme currently only works with Hong Kong broker-dealer entities (as exchange participants and principal lenders).

The participation of international agent lenders is key to enhancing the process and providing liquidity to the market.

Fannin: End user demand to gain exposure to China continues to remain robust, and so unsurprisingly, Stock Connect has attracted a great deal of attention within securities borrowing and lending. In its current form, however, the programme is not conducive for offshore participants to transact securities borrowing and lending arrangements, although various industry bodies have sought to suggest practical changes to address this.

Ultimately, there will be two catalysts that will drive the monetisation of the scheme for securities borrowing and lending participants. The first relates to mechanism, to the extent that the securities borrowing and lending framework should align with those models considered robust and feasible for securities borrowing and lending elsewhere, such as Hong Kong.

The second relates to supply, which realistically speaking, will only be bolstered as and when the prominent indices include A shares purchased through the scheme as part of a tracking index. This in itself will require liberalisation of the programme, particularly around quotas.

Despite these short-term considerations, this initiative will clearly be a significant opportunity for the securities borrowing and lending market in the long term.

Outside of China, where in Asia are you seeing interest in securities lending business, and what are the prevailing strategies?

Raccat: We still see Hong Kong as the focus market, because of its accessibility and straightforward lending market regulations. Japan and Australia are second and third In terms of seamless securities lending frameworks that create supply and liquidity in the market.

Fannin: Securities lending demand continues to gravitate towards the deep and liquid markets in Asia, particularly Hong Kong and Japan, and away from Taiwan given the geopolitical and regulatory issues that persist in that market. Long-term directional strategies dominate activity in Hong Kong, particularly for those sectors perceived to be facing headwinds in mainland China, particularly commodity, property and retail.

" Market liquidity is enhanced with access to an efficient and workable lending platform, either for short-term settlement purposes or supporting ongoing investment strategies. Usually, buy and hold strategies only work well in a rising market "

Paul Solway, Regional head of securities finance, Asia Pacific collateral management
BNY Mellon

BNY MELLON J.P.Morgan Northern Trust STATE STREET BNP PARIBAS

“While the concept of greater collateral flexibility is certainly one that is becoming increasingly prevalent, so too are the demands for greater transparency and granularity of detail”

Francesco Squillacioti, Senior managing director and Asia Pacific regional business director, securities finance, **State Street**

Furthermore, appetite for A/H share arbitrage strategies has been robust, particularly ahead of the Stock Connect launch given a view that spreads would return to parity as a function of increased volumes. In Japan, aggressive monetary easing hasn't necessarily benefitted securities lending volumes, although there has been noticeable interest for fundamental-based stock picking strategies, particularly within the online gaming sector amid heightened competition, as well as consumer electronics despite a weaker yen.

On the peripheral, the industry is anticipating the imminent launch of Indonesia, which should be a valuable addition to the region's emerging market suite particularly as participants continue facing headwinds in markets such as Taiwan, where a short sale quota is perceived to be constraining demand.

Wilson: We are seeing new lenders come to market with attractive in-demand portfolios and flexibility on collateral. There is particularly strong interest and participation by index funds to add alpha, as a relatively risk-free overlay to their passive investment strategies.

From a markets perspective, consistent with other regions demand remains constrained across the region, with Hong Kong continuing to have the most vibrant market. There is a more supply coming to the market in Taiwan, where spreads continue to be high. We continue to monitor the evolution of markets with interest in India, Indonesia, the Philippines and Vietnam.

Solway: A theme that has carried forward from 2014 is the mature markets of Japan and Hong Kong. Large-cap liquidity themes are prevailing over the opportunistic smaller markets of South Korea, Taiwan and Malaysia.

Related to this theme could be the rule-driven models of the securities borrowing and lending platforms of each of these emerging markets: short-sell rules/quotas change the daily dynamics of trading, especially for investors who are outside of the time zone. Leaving orders that have additional execution constraints cause investors to look to other markets for alternative opportunities, where possible.

Synthetic structures also offer more timely solutions that have contributed to lower securities borrowing and lending volumes as a result. The dominant long/short strategies across Asia require timely executions, in order to position portfolios quickly and effectively, especially as quantitative/algorithmic trading continues to evolve across the region.

In the Asia Pacific, compared to a few years back, the fixed income market has certainly taken off in terms of securities lending. Many sell-side firms have brought together their equity and fixed income functions, for many reasons, but the emergence of collateral transformation following the US Dodd-Frank Act and the birth of the central clearinghouses have been a clear trend as well as a requirement. As the demand for high-quality assets continues for over-the-counter securities through central counterparties, fixed income upgrade trades are growing within the securities lending arena.

This is certainly an area to watch in the Asia Pacific as we continue to see demand from clients in Asia seeking to upgrade into higher quality assets in lieu of lower grade assets on hand. This trend has carried forward from 2014 as we saw increased demand for fixed income securities, given our 24/5 global trading and support capabilities in this area.

What are the general trends around collateral and how does this differ to Europe and the US?

Squillacioti: As I see it, collateral is really more of a global consideration than a regional one. While the concept of greater collateral flexibility is certainly one that is becoming increasingly prevalent, so too are the demands for greater transparency and granularity of detail. Again, these are really global trends, and there is probably no discernable difference regionally.

Wilson: In general terms, Asia-based lenders have always had a fairly balanced

“I would like to see a convergence of regulations for the onshore and offshore renminbi capital markets to enable foreign investors to participate in securities lending within China”

David Raccat, Global head of market services, **BNP Paribas**

approached to collateral eligibility. While the US is dominated by cash collateral and Europe, the Middle East and Africa has a bias towards non-cash collateral as a region, Asia-based lenders tend to be a hybrid between the two, perhaps with a slight skew towards cash. For non-cash collateral, there is a good mix of bonds and equities.

Asia-based lenders are very thoughtful and are very open to discussions around collateral expansion and really take time to understand the risk/reward dynamics. We have seen a gradual increase in them taking additional equity indices and some re-assessment of cash investment guidelines given the quality of issuers and rates available in the more term space.

Fannin: The manner in which the business is thinking about collateral is largely consistent across all regions given that balance sheets are managed from a global perspective rather than regionally. Undoubtedly, regulation remains the prominent driver for collateral trends as borrowers gear their businesses ahead of Basel III requirements, manifesting in two key areas of focus.

Borrowers continue to seek longer termed wrappers for financing transactions that allow for alignment with the liquidity coverage and net stable funding ratios. The boundaries of acceptable collateral types also continue to be stretched as borrowers seek to maximise returns on assets by pledging the cheapest forms of collateral on their balance sheets. Lenders will be challenged in balancing demand for such requirements against their respective risk profiles and capital capacity.

Raccat: Collateral flexibility and optimisation are key as market conditions and internal/external requirements can force you to adapt and change your collateral profile very quickly. The issue is not with the five or six major indices in Asia but with the second tier, which are usually not recognised to be eligible.

The reuse of collateral is another hot topic from a regulatory perspective. Some new constraints may limit reuse, which is seen as a systemic risk by regulators, which in turn may limit access to liquidity in the market.

What would you like to see happen in terms of infrastructure and regulatory developments this year?

Fannin: Ideally, the industry in Asia would primarily like to see the Stock Connect securities borrowing and lending framework liberalised in a way that allows for the feasible launch of an offshore product. The robust potential opportunity with this will continue to draw significant attention from the market so long as China remains closed to offshore providers.

Outside of this, there is anticipation for a potential relaxation (ideally complete removal) of the short sale quota rule in Taiwan, which many believe will be the catalyst for increased demand and greater securities borrowing and lending volumes.

Raccat: I would like to see a convergence of regulations for the onshore and offshore renminbi capital markets to enable foreign investors to participate in securities lending within China. Allowing transactions to take place with local institutions without an intermediary or complex local transfer process involving several entities would increase the success of securities lending and margin financing.

Solway: Collateral flexibility, commercial margins, dynamic quotas and short selling rules all have a direct correlation to securities lending volumes. Having securities borrowing and lending models take into account the ever-changing regulations will ultimately allow investors to successfully navigate the market landscape in terms of opportunity and due diligence. No two markets have exactly the same rules, which ultimately drives up costs and reduces participation in some cases.

Harmonising these differing rules over time will certainly help improve connectivity—this could eventually lead to a multi-country model within a region that is both efficient and transparent. If that happens, it will mean exciting investment opportunities for all types of investors, large or small in the long run. **SLT**

Post-trade points to ponder

Andrew McCardle, head of EquiLend Asia, reveals that some Asian markets still need to embrace automation

What are the major trading and post-trade developments in Asia that industry participants should be aware of?

The biggest news by far is the fact it is now possible to carry out securities borrowing and lending of A shares in China via the Shanghai-Hong Kong Stock Connect programe. This is in its infancy now, and it seems it will be some time before this really takes off. However, I would suggest that news does not get much bigger than that.

EquiLend has seen a strong growth in trading in Asia since opening its office in 2011, with 2014 being the biggest single year of growth with trading numbers increasing 61 percent compared to 2013. This increase has come largely from domestic firms in the region and continues to be the case as we move into 2015. From a post-trade perspective, it is still a case of needing to get domestic firms comfortable with some new processes as they have historically not used post-trade tools in the same way that they are used internationally.

What about data? How transparent is business in Asia?

With DataLend, we have seen that the desire for transparency is growing, and no longer is it just from the global firms. Now there is a growing interest and understanding from domestic firms within the region, too. We have seen a number of Japanese firms take the DataLend product, having previously not subscribed to any such information. There is still the need for more clarity in many markets within the region to get a better reflection of onshore versus offshore price differentials, as this is an area that is currently a requirement from market participants.

Where are you seeing as the primary trading and post-trade demands in Asia? How can these be met?

Japan is still the largest market with regard to the number of tickets printed, but we have seen a bigger growth in the last 12 months in markets such as Hong Kong and Australia. Within Japan, the demand continues to be for more of the domestic firms to embrace the automation that is seen internationally and by some of the largest domestic firms. In Australia, it is a similar story to Japan, with the interest in seeing how the domestic market will grow and embrace automation.

With the launch of EquiLend's Next Generation Trading system in 2015, there is a lot of interest as to how this will enable more automation for firms on the trading side with regard to some of the markets such as Hong Kong, South Korea and Taiwan. As we have seen at the start of the year, everyone is keen to understand how securities borrowing and lending will work in China and how this may develop as the year progresses.

The demand for post-trade services remains the same in needing to get the efficiencies seen internationally in the domestic markets such as Japan, South Korea and Taiwan.

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Tim Smith of SunGard ponders the regionalisation of securities finance

Securities finance has always been a regionalised business. However, is it not time to challenge this basic tenet? Why do we divide the world up into parts when interconnectivity is growing and the points of distinction are becoming more blurred? Is it purely about timing in the global day?

Let's start with the globalisation side of the debate. In terms of the approach to the business, on a global basis it is much more about the intrinsic value of lending. Outside of the US, this was really the mantra from the outset, but this last bastion had held out until recently. The virtually non-existent interest rates and tumultuous upheavals surrounding cash collateral reinvestment (why is it called 'reinvestment', by the way?) saw beneficial owners, virtually as one, push for a more 'lend what is right to lend for its own value'-type of approach. As a consequence, the rationale behind the lenders' approach on a global scale is now much more aligned than it ever was.

The regulatory environment is also driving the business towards a more homogeneous approach around the globe. The Financial Stability Board's global approach, as shown by its recent meeting in Tokyo, is laying down a common framework for obtaining transparency into a traditionally opaque business. Such efforts have been made in the past but they usually came to naught due to political inertia and economic necessity. This has changed. Not only have the regulators adopted a new global approach, but the industry itself has taken on board the regulations coming down the pipe and are gearing themselves up for it.

Yes, there are still some serious regional threats, such as the Financial Transaction Tax in Europe, but even this will have global impact depending on its interpretation and implementation. Basel III is another example of global applicability.

The differences in collateral type within the different regions is also changing. Even in Figure 1 (overleaf), you can see a slight move toward non-cash collateral.

There have really been two drivers towards a common approach. Firstly, there was a growing acceptance of taking cash such as the euro as collateral in Europe. Secondly, and perhaps more importantly, there has been a small yet significant shift towards non-cash collateral in the US. At a recent conference, there were several sessions devoted to this aspect, which in the past has been, at best, a couple of sentences at the end of a desultory panel chat after lunch.

In fact, the whole collateral business and its interaction with securities financing has taken off in interest across the board. There is a willingness now to challenge the old legal frameworks that have been so restrictive on many of the beneficial owners in the US for so long, the likes of which has not been seen before. This has led to growing interest in all singing, all dancing collateral management tools for use by global enterprises. Indeed, we are seeing the optimised use of collateral, particularly by the buy side, as a growing trend around the world.

The whole onshore/offshore aspect is fast disappearing, too. As new onshore markets appear, they achieve maturity at an increasingly accelerated rate due to the experience of other markets. This maturity is evidenced by the lowering of borrowing fee rates and the increasing availability of securities to lend. The difference in absolute rates between so-called mature markets and emerging markets is shrinking. In fact, the average rates in the older markets are going up as the switch to intrinsic value lending becomes more significant.

This trend towards homogeneity of regions is assisted by the globalisation of hitherto regional participants that are looking to put in place a global operation that is systematically robust and covers the whole gamut of necessary administrative, risk and compliance tools from an enterprise basis. This is not just a result of the impending regulatory and accounting mandates, but also stems from a drive for the efficient use of resources and revenue maximisation in an increasingly competitive space. Service providers have anticipated and responded to this demand with the mix of hosted and software options to cover every operational, reporting and measurement requirement.

And yet differences remain. Figure 2 shows the indexed regional history of market value on loan in the three main regions of activity.

There certainly seem to be some differences over time, with the European model being the most distinctive with the seasonal bumps that make it easily recognisable. The North American and Asian experience seem fairly similar over the period shown. However, being indexed, the relative values have been factored

out, with North America currently dwarfing the Asian markets in market value.

Although borrowing costs have remained relatively consistent by region over time, there are variations between regions with again the cyclical nature of the European business to the fore and the relative 'newness' of the Asian markets leading to higher spreads. One is tempted to ask, however, when are we going to stop talking about the new markets in Asia when most of them have been in the lending game for a considerable period of time now?

Another difference is in the area of types of asset lent. The simple split between fixed income and equity (Figure 4) once again appears to support the view of fundamental differences of approach between the regions. Furthermore, there are differences—mostly between the US and the rest of the world—in the area of collateral type, although there seems to be a trend changing this metric.

Historically, even attending conferences in the different regions has highlighted these differences. As a young attendee in the 1990s, having been brought up in the rarefied atmosphere of European securities lending, going to the Risk Management Association conference in October in Florida was a confusing experience. The talk revolved mostly around cash collateral and the investment thereof by beneficial owners and agent lenders and about special and general collateral allocations. It was all rebates and no fees—a very steep learning curve.

In Europe, discussions at the International Securities Lending Association event were usually around the changing regulations that were supposedly seeking to destroy all yield enhancement transactions and perhaps the difficulties in avoiding corporate actions or the obscure tax treatment of securities held as collateral, such as Italian bonds.

At the embryonic Pan Asia Securities Lending Association conferences, there was the standard annual speech giving an overview of securities lending in the region with the theme of, 'in this or that country, securities lending and short selling is not allowed'. This, of course, related to 'onshore' securities lending (not 'offshore' securities lending) that was taking place. Furthermore, the talk occasionally veered off into talking about synthetic shorting or entry products that replicated the economics of securities lending. If you were a new boy like me, you could leave the conference being more uncertain than when you arrived.

So, there you have it. It is still credible and valid to split the world into regions. Indeed, Latin America, South Africa, the Middle East and Africa are all creating their own distinct groupings, so we will become even more regionalised. Or maybe not?

In the final analysis, it is still possible to argue that regional differences persist and will do so for some time. Some can argue that the move towards more global acceptance of non-cash collateral will start switching back the other way when interest rates rise—as they inevitably will—and the issues of 2008 become a dim and distant memory. Others may insist that the traction that regulatory changes have gained over the last few years, and will gain in the years to come, will continue to drive support for a more ubiquitous approach, including a more common policy on collateral acceptance.

As many gather in Shanghai this March, much of the discussion will revolve around the impact of the connection with Hong Kong or the potential for India to enter the market in a substantive way. This in itself speaks to the fact that lending programmes in the other markets are now a generally accepted practice on the same basis as the UK, France, Germany, Holland, Canada and the US. There is no going back. **SLT**

Tim Smith
Executive vice president
SunGard's Astec Analytics

Figure 1

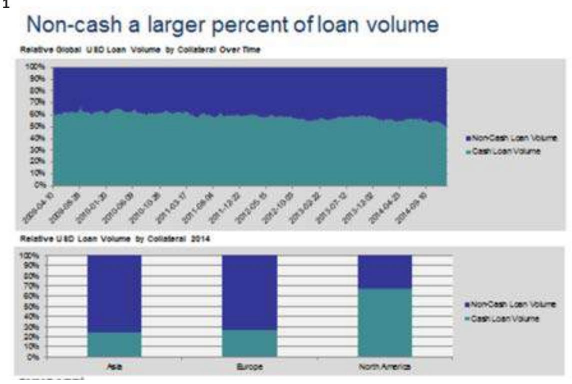


Figure 2

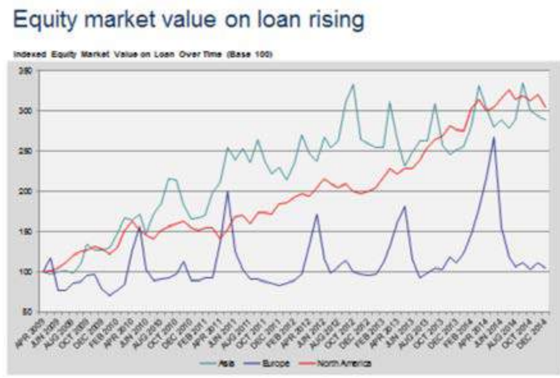


Figure 3

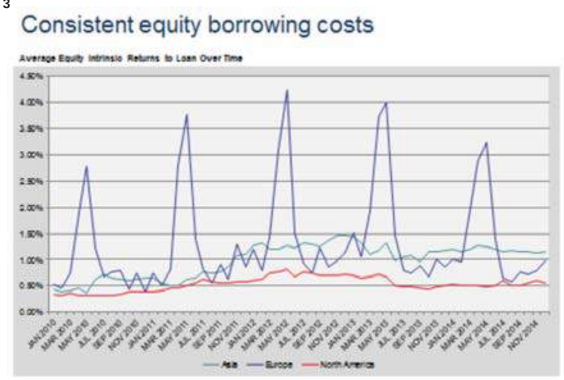
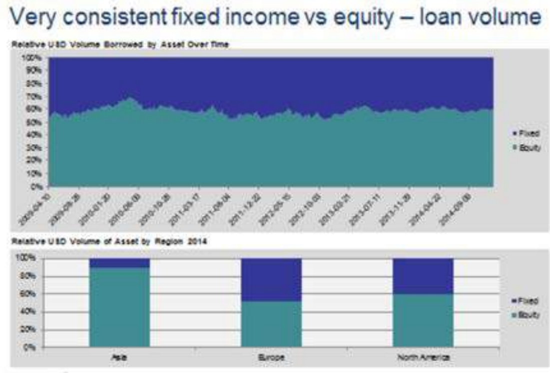


Figure 4



A welcome takeover

SmartStream's purchase of Algorithmics Collateral from IBM says much about the post-trade provider's ambitions to move into the utility space

MARK DUGDALE REPORTS

With its latest acquisition, SmartStream Technologies has demonstrated a desire to take over the office, from front to back, at a time when costs are increasing as more post-financial crisis reform takes hold.

The post-trade specialist recently bought IBM's Algorithmics Collateral solution, including all assets related to software, sales and support, for an undisclosed sum. Algorithmics Collateral has been rebranded as TLM Collateral Management at SmartStream.

The system offers collateral lifecycle automation for buy- and sell-side firms, including custodians and asset servicers of all sizes. Adding collateral management to its current mix of cash and intra-day liquidity management, corporate actions, reconciliations, data management and exception management products shows that SmartStream is, in the words of executive vice president of product management Darryl Twiggs, "moving into the utility space".

He says: "We have been increasingly moving towards the front office and collateral has been on our radar for some time because it fits very well with complete processing through the back office, particularly in derivatives, repo and securities lending."

"What we are finding now is an increasing demand in the front office to provide a utility, a single source to a wide network clients that want better services from banks, including managing their risks, helping them to understand the best collateral, and which is the cheapest collateral that they can assign to particular trades. They want to be able to control the movement of their collateral."

Regulations rising

SmartStream's move into collateral comes at a time when regulations are hitting players in securities finance particularly hard. Basel III's copious capital requirements are biting the buy side, but the Financial Stability Board's haircut framework and data collection and aggregation requirements for securities finance transactions, for example, while still in proposal form, could increase the complexity and cost of collateral management.

Twiggs says impending regulations are forcing firms to adjust the focus of their collateral management activities on to risk mitigation and transparency of trading—which could have unintended consequences.

"There are implications, because if you have to expose your trading activity on behalf of a client you have to show them that you are getting the best possible price."

"Also, there is simply the rising cost of collateral. AAA-rated securities will become increasingly scarce because we are in a very volatile market today and the ratings of stocks are falling, so there is a higher premium to be paid for AAA-rated securities that are needed as collateral. The old days of being able to easily acquire, accumulate and hold that collateral for potential trading is becoming very uneconomic."

It is important that firms can operate in real time at the most economic price possible, adds Twiggs. "They need to do that constantly throughout the day. They used to have a block of securities that they would use over a period of time, but now they have to be very agile in acquiring a security and watching their costs, and obviously the cost to their clients."

On the transparency front, SmartStream clients will benefit from the fact that they are using a single source for multiple functions. "We are all about normalising data and cleaning it in all of our solutions, so that gives us a unique position—going from the front to the back office means we can actually give a true picture of what happened through the life of a trade."

"We are able to build that picture up so we have a clear picture of how trading and what scenarios can be replayed, which all helps with investigations and having proof for regulators."

He elaborates: "All banks have to prove that they have performed a process correctly. You have to provide a complete audit trail of your activity: every action, every approval. When dealing with collateral that is particularly important. You actually have to prove that you calculated the value of that collateral correctly, the assignment has been approved correctly and it is clear as to who owns that collateral and where it is resident. Then it all has to be bundled together."

"Our clients are delighted about our acquisitions and the system that we can provide, because they get access to a wide set of solutions from a single source." **SLT**

BCBS-IOSCO: don't get caught out

Multiple but different implementations of margin requirements for non-centrally cleared derivatives transactions are challenging buy- and sell-side firms, according to Lombard Risk

You might be thinking that margining for derivatives trades in three jurisdictions is like playing bridge on three tables, simultaneously. And it is harder than that because each table has different rules. If new margin rules come into play as planned, derivatives users will need to learn how to play in Europe, Japan and the US from December 2015. Getting margin calls wrong is a very expensive business for buy- and sell-side firms and managing this multi-jurisdictional process will demand a highly disciplined approach.

The rules in each market share a lineage. The need for margin requirements for non-centrally cleared derivatives transactions was mandated in 2011 by the G20 as a common starting point. Then in September 2013, the Basel Committee on Banking Supervision (BCBS) and the International Organisation of Securities Commissions (IOSCO) firmed things up with their principles for margin requirements. These set out a framework to reduce systemic risk and promote central clearing by establishing:

- That margining practices must be put in place for non-cleared transactions;
- Which types of firm must exchange initial or variation margin;
- What the acceptable characteristics of assets to be posted as margin are and the acceptable way for transactions to occur; and
- The need for a consistency of rules between jurisdictions and appropriate timeliness.

The rules that are being proposed in Europe, Japan and the US use this framework as guidance. The BCBS-IOSCO's terminology—'appropriate', 'important' and 'confidence'—has given regulators that transpose the framework into local rules considerable flexibility.

Mind the gap

Differences between jurisdictions can be significant. For example, in Europe regulators are talking about imposing an additional 8 percent haircut if a firm does not pay the collateral in the currency of the trade, while US regulators are proposing that firms are able to pay in the currency of the trade or dollars, which would mitigate such costs.

Europe allows a slightly broader set of collateral than the BCBS-IOSCO or US rules. That will provide some relief in terms of liquidity, although with significantly greater haircuts required where that is exercised. The period of data required for calibration of margin requirements differs between jurisdictions. In Europe, the incumbent model of title transfer to move collateral has been disrupted by the requirement for posting of bankruptcy-remote initial margin.

Jurisdictions, such as Singapore are keen to meet international standards to support their own growing derivatives markets but are equally free to deliver their own nuances to the BCBS-IOSCO framework.

A clearer view of the Securities Finance market

Markit Securities Finance provides you with the global securities lending data you require to manage your securities lending programmes, optimise your trading performance and enhance your investment decision making. Flexible and timely data delivery is available via Excel, web and datafeed.

Contact us at **www.markit.com/msf** to learn more about how to best integrate Markit Securities Finance data into your workflow.

Investment managers and derivatives dealers must prepare for the existing proposed rules and the potential variations they can expect to appear in localities around the world. Furthermore, challenges to the proposed rules are ongoing—for example, the December 2015 deadline in the US and Europe may be pushed back by up to two years—which increases the potential for adjustment of the rules.

Internal struggle

Firms subject to these regulations need to make margin calculations, source the right collateral and apply appropriate haircuts to assets. Although each of the jurisdictions in which they operate will have separate demands, calibration of margin requirements has to take place at a group level, which requires a centralised consolidated view of exposure and risk.

From an operational standpoint, a platform is needed that can aggregate this data, then apply the appropriate model and calculations as needed in order to operate across the legal entities that form the group and legal borders. It must account for each instrument type and for the unique approach each regulator takes to the relevant margin requirements. To optimise the use of collateral, the firm should be able to consider the pros and cons of existing inventory and assess the cost of acquiring collateral.

That assessment should take in the use of a listed derivative as an alternative to an uncleared swap. For example, under existing capital adequacy rules: highly liquid listed derivatives have a margin based on a two-day value-at-risk (VAR); for an over-the-counter (OTC) product, a five-day VAR charge is applied; and for non-cleared swaps, that is extended to a 10-day VAR charge. Deciding which instrument is optimal given the potential costs can deliver enormous savings.

Moving with the times

Not only should a platform be powerful, it should be flexible. With reviews of existing rules ongoing by the Commodity Futures and Trading Commission (CFTC), the potential for change of the current parameters is considerable. That means that a hardwired, purpose-built system that deals with a current set of market rules could quickly find itself overstretched.

An institution with five legal entities needs to understand what its exposure and thresholds are across all of its agreements, stretching across all of those entities. Many counterparties are not in a position to access data at that consolidated level.

Developing a solution in-house is challenging because the resources needed to support the platform may need to be deployed as a rolling cost base to mirror the potential changes the rules may experience. No two firms are alike—a patchwork of systems will already exist to gather this data and run calculations in many firms, but its extent and rigor will vary. A solution is needed that can be integrated with that patchwork, or to replace manual processes where they exist, and predict margin pressures, analyse inventory and deliver real-time-margin calculations within the relevant regulatory framework.

Lombard Risk has developed its COLLINE system to provide this capability for buy- and sell-side participants. It uses a modular structure that can fill the breach wherever there is a gap in capability. Deployed either in-house or over the cloud, COLLINE can fit into the technology infrastructure of any market, with Lombard Risks's capacity to monitor rule changes applied to every users' processes. That keeps a firm compliant, while meeting its precise needs and at a cost that reflects use.

Most importantly, the platform can adapt to any new jurisdiction that a firm moves into and cope with any rule change that existing regulators impose. Deployed now, COLLINE gives the reassurance of efficient compliance whatever lies ahead. **SLT**

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Home or away: where are the wins coming from?

DataLend director Chris Benedict analyses securities lending in Asia and discovers an onshore versus offshore price dichotomy

Asia has been one of the hottest regions in the securities finance market for quite some time. Two thousands and fourteen saw a daily average on-loan balance of $109 billion for Asian equities, while fees to borrow those equities averaged a warm 107 basis points (bps) for the year.

Taiwan and South Korea represent two of the hottest countries in that region. Taiwan equities saw a daily average on-loan balance of around $7 billion with volume-weighted average fees (VWAFs) of approximately 192 bps in 2014. Meanwhile, Korean equities had a daily average on-loan balance of $7.78 billion, with VWAFs of around 171 bps.

Under the surface of this aggregate data lies an interesting dichotomy in fees to borrow individual securities in Taiwan, South Korea and other countries in the region.

This stems from local regulatory and fiscal matters that can create a difference in fees to borrow a security sourced from onshore lenders located within the country of primary exchange versus obtaining shares from larger international agent lenders.

Local lenders often require a greater degree of margin to collateralise a securities finance transaction, from 120 to 140 percent of the contract value.

Onshore stock in these markets also tends to be highly callable for corporate actions and dividends, thus limiting the ability for prime brokers to lock in longer-term trades for their clients.

Because of these factors, borrowers can often negotiate lower fees from onshore lenders versus their offshore counterparts, which generally have easier margin requirements and fewer mandatory callable events. This, combined with limited supply from offshore lenders, makes transacting with onshore lenders in these markets very attractive for borrowers.

As a result, we've seen fees in several South Korea and Taiwan securities show a large variance between being sourced from onshore (local) versus offshore (international) lenders.

Take for example Acer Inc, a hot Taiwanese technology hardware and equipment company with a VWAF of approximately 607 bps and 81 percent utilisation, as of early February 2015.

When we analyse each transaction and determine where the loan originated from, we can then recalculate the VWAF by location.

The pricing results between the two are extremely different. Borrowers paid a VWAF of only 460 bps from local to versus a VWAF of approximately 650 bps from offshore lenders.

Another example is Celltrion, a Korean stock that has been very hot and heavily traded in the securities finance market in recent years. Fees were around 1250 bps with a utilisation of 73 percent recently.

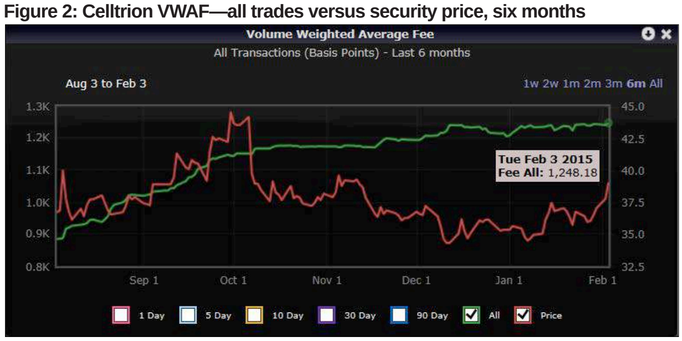
When we view Celltrion's onshore versus offshore transactions, we show that onshore transactions had a VWAF of just over 900 bps versus offshore trades with a VWAF of 1307 bps.

DataLend is building an onshore versus offshore price discovery mechanism for certain markets where this dynamic exists, which will help borrowers and lenders alike better price securities lending transactions in these challenging but very active and growing markets. **SLT**

Chris Benedict
Director
DataLend

Figure 1: Acer Inc VWAF—all trades versus security price, six months

Figure 2: Celltrion VWAF—all trades versus security price, six months

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No news is good news, but is good news no news?

David Lewis, senior vice president of SunGard's Astec Analytics, examines how hedge funds have reacted to negative economic news

There was a very interesting radio programme last week in which Professor Charlie Beckett explored the hypothesis that 'good news is no news'. It centred on the unrelenting negativity in the mainstream news agenda and its effect on the audience. Broadcasting 'good news' is certainly not a very British thing to do (we do not blow our own trumpets enough, in my view), but there does seem to be a fair bit of it about at the moment. Being British, of course, means that we can publicise these good results if we must, as long as we apologise for them in a slightly embarrassed manner at the same time.

In the UK, the economy is growing, unemployment is down and inflation is under control. The governor of the Bank of England has even suggested that deflation is a risk on the horizon, such is the extent of the downward pressure on inflation. Over the pond in the US, it is a mixed picture. They remain the world's largest economy and still growing rather than contracting, but the latest figures for 2014 and the outlook for 2015 are a little underwhelming.

Relatively speaking, American households have been on a spending spree recently as they enjoy lower gasoline prices and growing employment. However, as a result of a strengthening currency, they bought a lot of imports rather than American products, and with weakness showing through elsewhere in the global economy, their own exports were down, widening the trade gap. GDP growth for 2014 has been quoted at 2.4 percent, somewhat below the average for the last six years as the recovery has progressed.

Japan, which was in recession for the middle two quarters of 2014, showed a return to growth and better news in the last three months of 2014, albeit lower than expected. This has largely been as the result of the substantial monetary stimulus known as 'Abenomics', after Prime Minister Shinzo Abe, which some would suggest over inflates the real rate of growth in the economy. Easing off on the monetary printing presses will be a brave step for Japan's leaders.

Stock markets around the world have been making records and hitting high points. For example, the Nikkei 225 recently closed higher than at any point since July 2007 and Friday 13 (not lucky for everyone) saw the S&P 500 hit a record high close, too. The eurozone as a whole grew 0.3 percent Q4 of 2014, which does not sound much, but it includes a wide range of countries, from Germany (the biggest economy), which grew 0.7 percent, helping other less fortunate countries along, to France and Italy, which are the second and third largest economies, and which stagnated in the last quarter, while other countries continued to struggle.

The risk of the eurozone falling into deflation overall, as prices fall across a number of commodities, is not helped by the risk of 'Grexit'—or Greece leaving the euro. The new government of Greece was voted into power on the promise of halving the countries debt obligations. Senior Greek politicians are, at the time of writing, touring the eurozone and speaking to the representatives in each country looking to make that promise a reality.

While some believe that the eurozone could indeed survive a 'Grexit', it is probably not the best option for the eurozone itself. Markets seem cautiously optimistic that a deal of some sort will be struck, the failing finances of Greece will be shored up and they will not leave the euro club, based on the simple fact that Germany cannot afford to let them leave and that the Greeks will suggest a compromise some way short of their manifesto promises. As the old saying goes, you owe the bank £1, you have a problem; owe the bank £1 million, and the bank has a problem. Germany must be feeling this pressure acutely right now and much depends on an agreement of some nature being reached, compromise or otherwise.

What do the hedge funds think? Are they expecting a deal to be struck and asset prices remain high? It would certainly seem so. If we look at the indexed value of equities on loan for North America, Asia and Europe, we see that, despite improving asset valuations, the value of shares on loan in Europe stands some 20 percent down on 12 months ago. The same measure for Asia and North America shows them both almost exactly flat compared to the same point 12 months ago, again, despite rising asset prices in both regions. What does this imply for asset prices in each region?

Looking past the European dividend season bulge, the value of equities on loan in Europe dropped below the February 2014 par level of 100 and has remained there, down 21 points net over the 12 months. Taking this as a proxy for short interest would indicate a broadly positive message across the eurozone with regards to future asset price expectations. The fear that Greece will exit the eurozone and take its debt with it, with all the collateral (pun intended) damage that would cause, does not seem to be driving the short sellers to market—if anything they have withdrawn their bets.

In Asia and North America, the trend is broadly flat, suggesting neither an increase nor decrease in negative sentiment despite post-financial crisis highs being recorded. Can these market sentiment indicators be taken as proof that the naturally pessimistic hedge funds are betting less on a near term price correction than before, at least in Europe? There are, of course, many influences on what drives asset prices, but perhaps at least some of the good news is indeed true. While this does not help prove Professor Beckett's hypothesis that excessive bad news can cause a disproportionately negative outlook, it does suggest the opposite in that lots of good news can have a positive effect. **SLT**

David Lewis
Senior vice president
SunGard's Astec Analytics

12th Annual PASLA/RMA Conference on Securities Lending

Date 3-5 March 2015
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

Larry Albaugh has joined eSecLending as vice president and head of project management.

Albaugh will be responsible for heading up eSecLending's project management efforts that will focus on internal operational enhancements and new product and service deliveries to clients.

He brings industry experience, which includes work in project management, relationship management, business development, securities lending, middle-office support, mutual fund accounting and operations.

Prior to joining eSecLending, he worked as a consultant at Barrington Partners.

Peter Economou, eSecLending's chief risk officer and head of corporate strategy, commented: "He has proven success in developing and expanding mutually rewarding relationships with institutional investors and his expertise, both in securities lending and project management, will allow eSecLending to continue to improve."

Securities finance business analyst **Ron Kaim** has moved to State Street.

The business analyst and consultant, who worked at Lloyds Bank in the same capacity for more than three years, joined State Street in January.

Kaim has previously held roles at ABN AMRO, Fortis Bank and HSBC.

He also owns and runs CFX Consulting.

Cantor Fitzgerald has appointed **Brendan Donnelly** and **Mohil Gupta** as managing directors who both join from Bank of America Merrill Lynch.

The new appointments will focus on strengthening relationships with institutional clients across securitised products.

Donnelly and Gupta will be based in New York and report to John Baldo, global head of fixed income sales.

Shawn Matthews, CEO of Cantor Fitzgerald, commented: "These hires reinforce our continued effort in growing our fixed income business and distribution in all product areas."

Dave Tomlinson has joined BorrowersFirst, a lending platform, as its president and CEO and has also been appointed to the firm's board of directors.

Tomlinson joins the firm after serving five years as president and COO at Progress Financial. He has spent 20 years across a variety of senior positions at American Express, PNC, Providian, and J.P. Morgan Chase.

Neil Wolfson, BorrowersFirst's board chairman said: "Tomlinson is a proven leader with a great track record in growing innovative, technology-driven lending businesses."

Wolters Kluwer Financial Services has appointed **Richard Reeves** as vice president of strategy for OneSumX, a governance, finance, risk and compliance solution suite.

Reeves will work directly with product management, sales, marketing and business development teams to help customers across the globe use OneSumX to address risks and business issues.

Prior to his new role, he was senior director with Algorithmics/IBM, were he led the business intelligence group. The group designed, built and launched the Algorithmics strategic business planning tool, providing clients with integrated risk and return modelling.

Raffi Festekjian, president and CEO of Wolters Kluwer Financial Services's finance, risk and compliance business, commented: "By adding Reeves experience and expertise, we are building upon our ability to help organisations create their own, specific governance, finance, risk and compliance vision and make it a reality."

BNP Paribas Securities Services has confirmed that **Charles Cock** and **José Placido** have both started their new roles as vice chairman international and global head of client development, respectively.

The appointments were announced in April 2014 and became effective in January after a transition period during which Cock and Placido together ran the client development function at BNP Paribas Securities Services.

Cock is focusing on the bank's relationships with key customers globally. He joined the group in 1995, heading up client development for securities services.

Placido now leads the client development function. Head of global client segments, regional managers and the marketing and communications teams report to him.

Before joining BNP Paribas Securities Services, he was CEO of RBC Dexia Investor Services.

Patrick Colle, general manager of BNP Paribas Securities Services, said: "Their experience positions us well for the future as we continue to help our clients adapt to an ever more competitive and regulated environment, expand their global reach and increase operational efficiency."

Allen & Overy has further expanded its German capital markets practice with the hire of **Christoph Enderstein**, who joins as partner.

Enderstein previously worked at Ashurst where he had been partner since 2008.

He specialises in advising issuers and investment banks on international debt capital markets and structured finance transactions and related regulatory questions.

He has experience with issuance of bonds and structured securities and their listings on various national and international stock exchanges.

Neil Weiand, a senior partner at Allen & Ovary in Germany, said: "Enderstein will bring us a wealth of experience from a whole series of high-profile bond issues that will help us to significantly develop our practice in this field." **SLT**

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Company reg: 07191464