SLT
SECURITIESLENDINGTIMES
ISSUE123
07.04.2015 TUESDAY
securitieslendingtimes.com

EquiLend and BondLend launch Trade Match for transaction comparison

EquiLend and BondLend have launched Trade Match, an automated means of comparing pre-settlement, cross-product securities finance transactions.

Trade Match reconciles all the trade components of either the start or close leg of each trade type.

The system's exception management reporting prioritises the core pending settlement risk items for the users, helping them to reduce fails and rectify trade economic discrepancies on a real-time basis.

According to the service providers, Trade Match recognises nuances between equity and fixed income clients.

BondLend clients will be able to use reconciliation terms specific to the fixed income business, offering the flexibility to handle different trade types.

Trade Match is also compatible with One File connectivity, EquiLend's new workflow for streamlined build-out to its post-trade services.

Brian Lamb, CEO of EquiLend, said: "We have heard clients' concerns around the changing regulatory environment and reduction of settlement cycles."

"Coupled with the industry focus on developing best practices, we are excited to offer a tool to help clients reduce risk on their pending trades."

readmore p2

Operations affecting collateral markets, says CGFS

The effect of central bank operations on collateral markets is becoming increasingly more important, as the regulatory landscape evolves and market practices change, according to a study conducted by the Committee on the Global Financial System and the Markets Committee.

The Central Bank Operating Frameworks and Collateral Markets report suggested that many banks have left a footprint in markets for assets that also serve as collateral, following large-scale asset purchases, and other unconventional policy tools over recent years. This has coincided with increasing demand for collateral assets.

readmore p2

ESMA in a pickle over buy-ins

The mandatory buy-in regime present in the Central Securities Depository Regulation (CSDR) is "an interesting conundrum" for the European Securities and Markets Authority (ESMA), according to chair Steven Maijoor.

Speaking to members of a European parliamentary committee on economic and monetary affairs on 24 March, Maijoor described the buy-in regime as one of the most difficult aspects of implementing the CSDR.

Buy-ins, which are currently discretionary, would become mandatory under the CSDR, meaning that an appointed agent would have to step in and buy securities at market value for guaranteed delivery if they are not delivered within a specified time frame.

The authority proposed applying the buy-in framework to central securities depositories (CSDs) and participants, but many want to see it executed at the trading level, "by the clients, or the clients of the clients, of the participant", explained Maijoor.

readmore p2

EquiLend and BondLend launch Trade Match

Continued from page 1

“By leveraging Trade Match, an automated solution, we allow firms to be scalable with their business,” added Lamb,

Trade Match is available immediately to existing post-trade clients of EquiLend and will be available on 27 April for BondLend clients.

Operations affecting collateral markets, says CGFS

Continued from page 1

The report argued that operations could have a significant effect on the assets market. Whether the effects are material or not depends on the size of the operations in relation to the market for collateral assets, and on whether financial market participants are constrained by the collateral available.

Effects can also depend on the various design choices at a central bank’s disposal, such as the supply or pledgeability of assets, as well as haircuts and counterparty access policies.

These options can be used to support collateral markets, and the report pointed out that they have been used in this way during the euro sovereign debt crisis and by the US Federal Reserve throughout the financial crisis.

A number of tools and metrics are available for assessing how markets for collateral assets are affected by operational choices, said the report.

There are two main channels of impact, scarcity effects and structural effects, and there should be a broad and conceptual framework in place for analysing the differences.

The report also distinguished between effects during ‘normal’ times and times of stress. In normal times, the report found that the effects of operations choices to be minimal.

Times of crisis, are generally associated with greater scarcity of collateral in the financial system, when declined confidence in the market leads to a shift from unsecured to secured financing. In these cases, central banks could operate on a larger scale, which will, in turn, have negative, unintended side effects on collateral markets.

In times of crisis, banks will also be more likely to try to directly influence functioning of collateral markets, for example, by introducing facilities that allow banks to post illiquid collateral assets in place of liquid securities.

Finally, the report suggested that some aspects of operational frameworks should be examined to assess their preparedness for a crisis response. Any effects on collateral markets should be carefully monitored, especially in connection with unconventional monetary policies and exit from policies.

The study draws on case studies, surveys and interviews with market participants, and aims to facilitate discussion among central banks about their operational frameworks and potential effects of them.

ESMA in a pickle over buy-ins

Continued from page 1

Banks and CSDs claim “that if they face the risk of the cost of the buy-in, they will demand guarantees and collateral to their clients to cover that risk, rendering the system more expensive”.

But EMSA worries that if buy-ins are left to the discretion of ultimate clients, which may sit outside of the EU and the authority’s control, “obvious enforceability problems” will render the regime “inapplicable”.

“ESMA is, therefore, facing here an interesting conundrum, which is our current priority,” Maijoor said.

An International Capital Market Association (ICMA) report recently claimed that the mandatory buy-in regime could cause

SLTINBRIEF

liquidity across secondary European bond and financing markets to reduce, as bid offer spreads widen dramatically.

The report argued that more stable, fixed-term markets may see a dramatic widening of spreads for more liquid securities including some sovereign and public bonds, and most corporate bonds.

It estimated that the cost of mandatory buy-in regime for bond markets would amount to about €1.4 billion per €1 trillion of annual volume.

For the repo market, the estimated annual cost to the market is about €3.14 billion.

Japan updates securities lending facility

The Bank of Japan is to implement a number of operational changes to its securities lending facilities in order to ease stress in the Japanese government securities market.

The changes have also been adopted with a view to further facilitating the Bank of Japan's money market operations and contributing to the smooth settlement of government securities market.

As of 23 March, the upper limit to the amount of sales per issue will be raised to the outstanding amount of the Bank of Japan's holdings, or JPY 400 billion ($36.7 million), whichever is smaller.

Offers made in the afternoon will follow the same rules but exclude any amount sold in the morning.

The number of business days permitted for consecutive sales transactions per issue with the same counterparty will also be extended.

Counterparties will now be permitted to consecutively purchase the same issue from the Bank of Japan for a maximum of 15 business days, up from five in the previous incarnation.

As before, this period may be extended for consecutive sales transactions per issue when deemed necessary in light of the conditions of financial markets.

Collateral business faces boom

Collateral management could be a $1 billion business within the next five years, according to a joint Oliver Wyman and Morgan Stanley report.

Their annual report into wholesale and investment banking, The Liquidity Conundrum: Shifting Risks, predicted that collateral management has the potential to be worth between $500 million and $1 billion in revenue within three to five years based on current data spending and a desire to invest more in effective data, asset, and risk management solutions.

This potential revenue pool will be split across a broad range of market infrastructures and banking intermediaries, as well as banks, cautioned the report.

As it stands, clearing and collateral management remain a small part of the total revenue pool, accounting for just 7 percent of market infrastructures' income.

Market infrastructures, particularly custodians, could grow their triparty repo business as banks deal with the supplementary leverage ratio, and collateral optimisation will become more critical as end-user collateral demands increase.

The report added that market infrastructures and central counterparties are taking on increasing levels of risk, including in credit, operations and liquidity. As banks have removed 20 percent of their balance sheet since 2010, CCPs have increased capital by more than 50 percent, noted the report.

Christian Edelmann, partner and head of corporate and institutional banking practice at Oliver Wyman, said: “Liquidity has decreased sharply creating new risks for investors and issuers, but there are no easy answers. Policymakers face a difficult set of trade-offs and how they and the industry responds will have profound implications on traded markets and investors.”

US retailers are most shorted

Markit has compiled a review of how short sellers are positioning themselves in companies due to announce results in the near future.

North American retailers represent a fifth of the most shorted companies about to release earnings. Leading the pack is furniture retailer Conn’s with 14 percent of its shares outstanding on loan, although this is down from the highs of 22 percent seen in 2014.

Second hand car retailer Carmax has also sent short sellers covering in 2015, according to Markit.

Sales for the year ending February 2015 are forecast by analysts to be higher while operating profit is expected to almost double.

Two US biotechnology stocks also make the list after having seen a significant increase in short interest in the February ahead of earnings.

Short sellers increased positions in Kite Pharma and Celladon Corp by 55 percent and 183 percent to 11 percent and 4.8 percent of shares outstanding, respectively.

Across the Atlantic, retailers are also high on the list of short targets, with UK-based internet retailer ASOS the most shorted stock ahead of earnings.

Shares outstanding on loan climbed from 1.2 percent to 11.2 percent in the last 12 months as short sellers continued to build out positions.

Markit analyst Relte Schutte commented: “ASOS reported sales growth and margins that were below expectations during 2014 after a robust 2013 period in which shares rallied strongly.”

“After experiencing lagging international sales and industry headwinds in 2014, investor sentiment has turned sour. The shares have bounced back 48 percent this year to date and short sellers have covered positions by 17 percent,” he added.

The second most shorted stock in Europe on Markit’s list, Rib Software, provides solutions to the construction industry.

Shares outstanding on loan increased 22 percent in February reaching 7.7 percent. Consensus forecasts expect 2015 earnings to fall, despite higher sales forecast.

The most shorted stock in Asia was newly-listed China Vanke, the largest real estate developer in China by market value. Short interest in the company stands at 20 percent of shares out on loan.

Schutte said: “Property sales, selling prices and accordingly volumes have been weaker in China since early 2014 and developers have been heavily discounting to offload stock, adding to concerns of a continued slowdown in the Chinese housing market.”

The second most shorted stock in the region is also the second largest real estate developer in China, Evergrande Real Estate Group. The amount of shares out on loan has decreased 15 percent since October 2014, while the share price has climbed by 22 percent.

Euroclear’s Collateral Highway hits €1 trillion

Euroclear has seen daily collateral outstanding peak at €1 trillion on its Collateral Highway.

The post-trade services provider said the peak is due to regulations and monetary policies creating demands for liquidity “as never before”.

“Thank you for choosing Euroclear and the Collateral Highway to help manage your collateral,” said the provider .

“We greatly value the trust you have shown in us and will continue to work hard to develop our performance, security, ease of use and our partnerships, including with the liquidity ecosystem around Target2-Securities, so that you can continue to maximise your collateral value and meet your liquidity needs whenever and wherever they arise.”

Euroclear reported a 12.1 percent rise in collateral outstanding on Collateral Highway in 2014, when it reached €883.1 billion.

The provider expanded the range and involvement of market participants connected to Collateral Highway in 2014, easing collateral sourcing and mobilisation while increasing transparency and asset protection.

It also joined with the Depository Trust and Clearing Corporation (DTCC) and launched joint venture DTCC-Euroclear Global Collateral Limited in September 2014.

Euroclear CEO Tim Howell said in January: “Euroclear remains a leading market infrastructure that is relevant, reliable, resilient and profit moderated. Our performance over 2014 strengthens Euroclear’s pre-eminent role within the global post-trade ecosystem, and we remain well-positioned for future growth opportunities both in Europe and around the world.”

Illinois court allows Teamsters case to continue

The US District Court for the Northern District of Illinois has allowed a case to proceed that accuses BNY Mellon of violations of the Employee Retirement Income Security Act

(ERISA) in connection with investments and decisions made by the bank in the administration of a securities lending programme.

The International Brotherhood of Teamsters Union pension plan accused BNY Mellon in March 2013 of losing $25 million of cash collateral received from securities lending following the collapse of Lehman Brothers in 2008.

BNY Mellon failed to invest collateral in safe and prudent investments and monitor them appropriately, and did not act as a prudent securities lending fiduciary despite first-hand knowledge of Lehman Brothers's financial distress, all adding up to a breach of ERISA's duty of prudence, according to the Teamsters pension plan.

The bank moved to have the case dropped, arguing that the pension plan's 'red flag' allegations are insufficient to state a claim for violation of ERISA.

Ruling against BNY Mellon's motion to have the case dismissed on 16 March, Judge John Blakey said: "The court does not read the plaintiffs' complaint as alleging that the defendants [BNY Mellon] lacked prescience or that they should have recognised from the information available in the market that the Lehman bonds were over-valued."

"Rather, the plaintiffs allege that, under the circumstances as they existed in the market at the time, no reasonably prudent securities lending fiduciary would have concluded that Lehman debt was a sufficiently safe investment for a securities lending client and no reasonably prudent securities lending fiduciary would have maintained the collateral investments in the Lehman notes through Lehman's bankruptcy filing."

"Thus the claim is not that the defendants were imprudent in failing to recognise that Lehman would file for bankruptcy and not pay out on the notes, but that it was imprudent to hold the Lehman debt, given the circumstances existing in the market and given the plaintiffs' investment profile."

A BNY Mellon spokesperson said: "We believe the lawsuit to be without merit and we intend to continue to defend ourselves vigorously."

Carlyle Group acquires Conifer Financial Services

The Carlyle Group has agreed to acquire a majority stake in Conifer Financial Services, an independent asset services firm.

Senior management of Conifer will continue to lead the business and own a significant minority interest in the company. The transaction, terms of which were not disclosed, is expected to close in Q2 2015 subject to customary closing requirements and regulatory approvals.

In May 2014, The Conifer Group and Vastardis Capital Services Holdings merged their respective businesses to create Conifer Financial Services, now one of the world's largest independent asset services providers and outsourced trading platforms.

Conifer has experience in offering front-to-back capabilities across all asset classes for hedge funds, pensions, endowments, foundations, funds of funds and family offices, as well as private equity and venture capital.

Jack McDonald, CEO of Conifer, will continue to lead the company. McDonald said: "Our clients and employees will benefit significantly from this partnership, which will enable us to fulfill our vision of becoming the leading independent asset servicing business."

William Vastardis, chairman of Conifer, added: "Our clients have already benefited from the enhanced services created through our merger in 2014."

"With Carlyle's support and expertise, our continued investment in the platform will further enhance our ability to deliver powerful solutions and support to our clients, many of whom are adapting to the challenges imposed by a rapidly evolving operating environment."

Christopher Dodds, Keith Taylor and William Allen will join McDonald and Vastardis on Conifer's board of directors.

Capital for Carlyle's investment will come from Carlyle Global Financial Services Partners II, which invests in management buyouts, growth capital opportunities and strategic minority investments in financial services firms globally.

SunGard's hottest stocks

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

African-focused mining company Afren (AFR.L) was Astec's top pick for Europe, the Middle East and Africa (EMEA) region after news it notified the UK Serious Fraud Office following its lawyers raising concerns surrounding the hiring of an individual in 2012, and certain expense and travel payments connected to the company's activities.

Data from Astec suggested short sellers have been making strong bets against the company, positions they are seemingly holding onto despite the price drop, with borrowing volumes currently 35 percent higher than at the same time in February—the all-time highest levels seen for this stock.

Hot stocks regular Transocean (RIG) was also selected for the EMEA region after it said it expects to record a non-cash charge of between $300 and $325 million in Q1 2015, with Standard & Poor's separately downgrading its corporate credit and debt rating to "BB+".

Despite these negatives, the company's stock actually managed to make some headway in the cash market, though on the borrowing front Astec's data hints at some increased short selling activity. The number of RIG shares being borrowed now 7 percent higher in March.

New York-listed cable company Liberty Global (LBTY-A) was Astec's top pick for the Americas after it emerged the company wants to distribute the most popular shows from UK television channel ITV, which it holds a 6.45 percent stake in, throughout Europe, though its CFO suggested the company is "too pricey" to buy outright.

While its shares managed to squeeze out some gains during the week, Astec's data suggested short sellers also started to take an interest, with borrowing volumes climbing 23 percent.

Weight Watchers International (WTW) has seen its share hit a 52-week low in the 20 March session, having seen Credit Suisse downgrade its stock from "neutral" to "underperform", targeting a price of $5 per share.

As the stock slipped lower in the cash market, Astec's data suggested short sellers were taking the opportunity to cover their positions, with borrowing volumes falling 26 percent.

Again, Sony (6758) made its way to the top of the Asia Pacific's hottest stocks after it released its latest earnings numbers, which were generally taken well in the cash market and helped its share price gain about 10 percent in the week.

The company also announced it will be launching an online TV service for PlayStation users in the US, aiming to capture so-called "cord cutting" customers who are moving away from cable and satellite subscription.

While its stock made gains, Astec's data suggested short sellers eased off their positions a little, with borrowing volumes falling 16 percent.

Japanese gaming giant Nintendo (7974) also entered the list after news it will be teaming up with smartphone game designer DeNa to bring its iconic characters to this new medium.

The news helped Nintendo shares rocket almost 50 percent higher at one point, though profit taking soon pared some of this rally, with its shares ending the week around 30 percent higher.

On the borrowing front, Astec's data suggested this rally has done little to change the mind of short sellers, with borrowing volumes having now more than doubled in March, albeit from a fairly low initial volume.

LCH.Clearnet outlines CCP stress-testing framework

LCH.Clearnet has outlined its suggestions for a stress-testing framework for central counterparties (CCPs), identifying transparency, simplicity and comparability as key principles.

In a whitepaper, LCH.Clearnet recommended a standardised stress testing methodology in order to improve transparency in risk management and allow clearing members and regulators to easily compare CCPs.

A standardised method could also help to create a more level playing field, making evaluation easier across different regulatory requirements and jurisdictions. A simple and consistent measure will help to create a single, understandable network, where the only variable in the results will be the robustness of the resources at the clearinghouse.

According to the paper, clients should be as aware as possible of the risk drivers, while complex risks should be communicated as clearly as possible. It is also important that the methodology not only allows but also encourages comparison across CCPs, regardless of the value of pre-funded resources.

LCH.Clearnet advised using historical and hypothetical stress scenarios, as well as de-correlation stress scenarios, particularly those that break with historic correlations, with the effect of potentially revealing unexpected risks. It also suggested combining scenarios for the most comprehensive test environment.

The paper comes as the use of CCPs is set to become mandatory in G20 nations for over-the-counter derivatives trading, and after an announcement from the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) that they will be reviewing stress testing in CCPs.

LCH.Clearnet encouraged debate as the CPMI-IOSCO stress testing review gets underway, suggesting that this will be a major step towards crafting a transparent clearing landscape around the world.

Short sellers target Macau casinos

Short sellers have been taking advantage of the downturn in fortune of Macau's casinos and overall slowdown of China's economy, according to research from Markit.

In particular, the anti-graft campaign being carried out by Chinese president Xi Jinping, intended to eliminate corruption and ostentatious spending, is dramatically affecting the fortunes of Macau-based casinos.

According to Markit, operators and their share prices are feeling the pinch as analysts have cut forecasts and recommendations on the majority of major players.

Short sellers' current negative sentiment towards Macau casinos is best represented by the average proportion of free float out on loan. The current figure stands at 5.3 percent, substantially higher compared to the average of 2.4 percent for other Hong Kong listed gaming and leisure firms.

Dividend cuts are now forecast for the industry as a record 49 percent decline in monthly gross revenue was recorded in February 2015. Macau casinos have posted nine consecutive months of accelerating decreases in monthly gross gaming revenues.

Wynn Macau continues to be the most shorted casino with 9.9 percent of free float out on loan. The company's share price has fallen by a third in a month as short sellers covered by 20 percent.

Markit Dividend Forecasting is expecting the company's final dividend for the 2014 financial year to be revised down by a substantial 39 percent, although it did announce a special dividend in early March.

Markit analyst Relte Schutte said: "This could explain the substantial movement in the company's stock in the last month."

SJM and MGM China, meanwhile, are expected to cut their interim dividends for 2015 by 27 percent and 32 percent, respectively, when they are announced in the summer.

Schutte continued: "This follows a second consecutive cut from MGM, having already reduced its 2014 final payment. Both names have seen a significant increase in short positions in the last few weeks."

Is collateral optimisation a big data problem?

4sight Financial Software has published a new whitepaper on collateral optimisation.

The paper, entitled Is Collateral Optimisation a Big Data Problem?, looks at whether big data scenario analysis can be applied to optimisation.

It also evaluates the techniques that firms can employ to perform portfolio-wide optimisation runs.

"Collateral optimisation continues to be one of the key buzzwords among financial market participants in 2015", commented Martin Seagroatt, 4sight's marketing director and author of the paper.

"With further rules coming in from 2015, efficient use of collateral should remain a key focus for financial firms over the next few years."

Follow us

@SLTimes_Tweets

A world away (but not for long)

EquiLend's Andrew McCardle reveals how the trading and post-trade provider has fared in Australia since obtaining regulatory approval for its platform

MARK DUGDALE REPORTS

Why did EquiLend move into Australia?

EquiLend has been offering its post-trade services in Australia since inception. The move we made last year by working with the regulators was to permit the use of our trading services by domestic entities within the market. Offshore trading flow in Australia has been there since the inception of EquiLend.

Having said that, why did we move to allow for domestic trading to flow over the system? The simple answer is that our clients asked for it. Since opening our office in the Asia Pacific region in 2011, our client base in Australia has been requesting this move. It took some time to apply and receive regulatory clearance from the Australian Securities and Investments Commission to allow domestic trading in the market, but we are happy to report trading has been active domestically in the market since we launched it last year.

Was it important to current clients, or is about attracting new ones in that part of the world?

It was both. Our global clients that have domestic entities wanted to have the efficiencies onshore that EquiLend provides for their offshore businesses. For those clients, it was also about being able to use the system with local clients that previously could only use the system from a post-trade perspective. Those new clients are very keen on the system, as they are seeing the efficiencies that our current clients have enjoyed for a number of years.

How has your platform been used since you went live in Australia? What would you attribute these trends to?

Since day one of being granted permission to allow trading in Australia, we have seen the system used by the local community. As you may expect, it has seen a few teething issues, as often Australian domestic books can be separate to the rest of the world, but as we have seen those issues resolved by clients, usage has ramped up.

Having said that, we feel that 2015 will be the year where we see a significant increase in trading volumes in this market as domestic firms sign up to the system and current users work on making sure their systems give them the efficiencies that EquiLend provides.

Why do securities lenders and borrowers use the EquiLend platform in the US and Europe? Is this similar or different to what you have seen in Australia, and why?

EquiLend has been offering trading and post-trade services globally since inception, and in 2013 we entered the market data business as well with DataLend.

From a trading perspective, historically, EquiLend primarily was used for general collateral trading, but in recent years this has shifted to cover trading of the harder to borrow names. Now we see around 20 percent of our trades in the warm and hard to borrow names, and as our new NGT platform is rolled out, we anticipate this growing even more significantly across the globe.

In Australia specifically, we are still seeing our trading platform used at present for general collateral trades primarily, but this is mainly due to clients wanting to get comfortable with the product before expanding outside of this area of trading.

On the post-trade side, EquiLend is still growing in the Australian market compared to the level of usage in Europe and the US. This is indicative of the fact that domestic Australian books historically have been quite separate to those in the rest of the world. However, we are seeing a worldwide shift, from more manual processes to more automated solutions such as those offered by EquiLend.

What are the opportunities are within the Australian domestic market?

The opportunities are great for our clients, our prospective clients and EquiLend as well in the market. A few standout opportunities include increased potential for BondLend, our fixed income trading and post-trade system, as there is a healthy level of domestic fixed income flow in the Australian market.

Also, the advent of NGT this year will bring great opportunity to the clients of EquiLend, bringing the efficiencies that we have been providing to general collateral trading to the whole gamut of trading for domestic clients. SLT

Andrew McCardle
Head of Asia
EquiLend

Securities lending oversupply

The debate at Markit's 15th Securities Finance Forum centred on excess supply in the face of muted demand. Markit analyst Simon Colvin

The recurring theme at the recent Markit Securities Finance Forum was whether or not the industry continues to suffer from oversupply. A cursory look at the aggregate lendable and on-loan figures tracked by our database would point to this being the case, given the fact that inventories have swelled to more than $15 trillion in recent years, while loan balances have failed to breach the $2 trillion mark.

Panellists largely agreed that the growing disconnect between aggregate supply and demand were indicative of oversupply. However, there was an acknowledgement that little can be done given that securities lending is often bundled into larger custody contracts, which makes it hard to turn down new supply.

This glut of supply has a dilutive effect on revenues if expressed as a proportion of lendable balances, and one panellist thought the industry should instead focus on returns achieved rather than on-loan balances to benchmark performance.

Supply still useful

However, flat loan balances hide shifts in the demand mix. Specials were singled out as an industry bright spot during 2014 and their unpredictability means that some of the new supply finds its way into the hands of borrowers.

From the perspective of beneficial owners, securities lending has the potential to be a valuable revenue stream, especially as many funds hold a beta-plus mandate where a few basis points can make a large difference to relative performance. While revenues from securities lending are useful, it remains low down the list of priorities for fund managers who ultimately look for the activity to be operationally pain free. Demands from borrowers to embrace changes in lending mandates have been viewed as too problematic or potentially damaging to the risk/reward threshold.

General collateral a dying breed

While demand for specials surprised last year, loan balances for general collateral stocks failed to live up to expectations.

The panels heard that general collateral balances have been increasingly covered by internalised flows within brokers. More than 40 percent of audience members thought that the practice covered more than a fifth of the aggregate securities lending demand. Panellists added that regulation was driving this trend as banks seek to cut third-party exposure.

Financing opportunities

A third of the audience highlighted that financing trades, which include collateral transformation, performed better than expected last year.

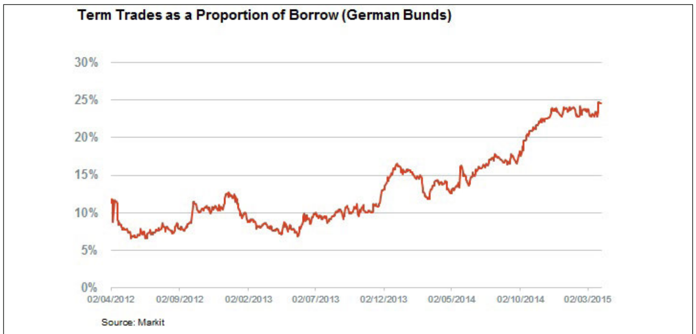
The panellists largely agreed, with the caveat that not all beneficial owners were positioned to benefit from this trend, with UCITS funds in particular singled out for their lack of flexibility to term-out loans. Those that do not adapt are likely to see their assets clog up the dwindling general collateral trade.

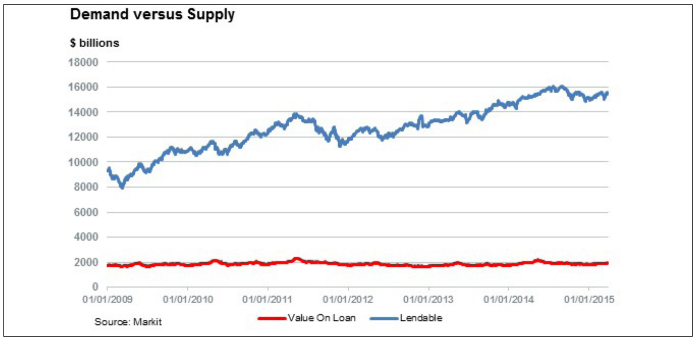
The beneficial owners best poised to capture value from the increased appetite for financing are those prepared to lend out their assets on long-dated term loans and those willing to show flexibility in terms of the collateral they receive against these loans.

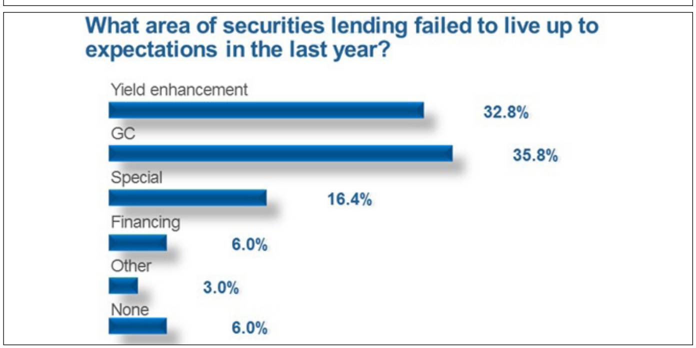
This was seen last year in the German bond market, which saw the value of term trades double to account for a quarter of the aggregate borrow.

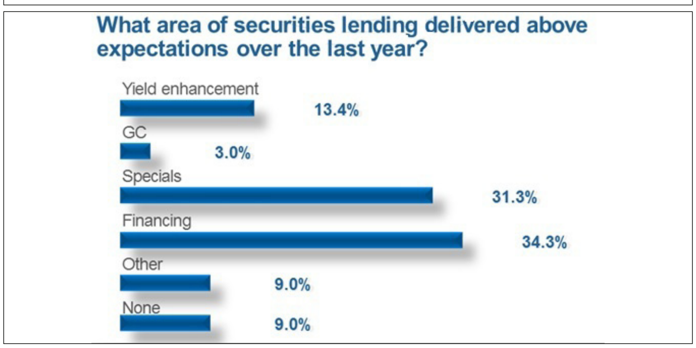
Despite excess supply eroding, the securities financing industry remains relevant due to its ability to match the specific assets of those that want to lend into the hands of borrowers.

Collateral has evolved into a new kind of liquidity. Securities financing participants that take a pragmatic view on the collateral they receive and term stand to benefit the most from the regulatory-driven demand for high quality collateral. The forum heard that lenders that do not adapt risk seeing their assets chase dwindling returns from general collateral flows and unpredictable specials revenue. **SLT**









Industry Events

5th Annual CASLA Conference on Securities Lending

Date 3 June
Location: Toronto

CASLA, the Canadian Securities Lending Association, was created with a mission of ensuring the long-term viability of the Canadian securities lending industry by establishing a unified voice.

24th Annual Securities Finance and Collateral Management Conference

Date: 23-25 June 2015
Location Lisbon

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

Finnish securities borrowing and lending broker Lago Kapital has recruited **Juhani Kataila**.

The new recruit has a strong background in derivatives settlement, having previously worked at Finland's Ilmarinen Mutual Pension Insurance Company.

At Lago Kapital, he will be responsible for derivatives settlement.

Jani Koskell, COO at Lago Kapital, said: "We are happy to announce that Kataila has joined our team of back-office experts."

"The recruitment of Kataila proves that our company is on the right track, investing strategically in expert knowledge in areas where needed. Kataila, a professional with a great track record, will allow Lago Kapital's growth in new business areas"

Last year, Lago Kapital recruited Olga Nyström to lead equity finance sales for Eastern Europe.

Fredrik Sundberg, who also joined Lago Kapital last year, is the firm's settlement expert. He previously worked at Handelsbanken in its global custody services business.

The Finnish firm is led by Jarkko Järvitalo and board chair Katri Sundström.

The Lancashire County Pension Fund (LCPF) and London Pensions Fund Authority (LPFA) have appointed **William Bourne** as joint independent local pension board chair.

Both funds are establishing separate local pension boards, which will be separately chaired by Bourne.

Bourne's appointment is the next step in the collaboration between the two funds. Last year, they announced the creation of a £10 billion asset and liability management partnership.

He has experience across pensions and finance. He has advised pension funds in the UK and Europe, including a Scandinavian local government pension scheme.

Susan Martin, CEO of LPFA, commented: "This appointment emphasises our commitment to strong governance and working directly with our members and employers."

Frank Soussan will take over as global head of CDSClear on 1 July.

Based in Paris, Soussan will lead the continued expansion of the service, which is the only European Market Infrastructure Regulation-authorised central counterparty for the clearing of credit default swaps.

He is currently head of in-business risk for CDSClear and will take on his new role from Gavin Wells, who will now focus exclusively on ForexClear.

Prior to Soussan's roles at LCH.Clearnet, he served as senior portfolio manager for the credit special opportunities fund at Renshaw Bay.

He also had spells at Société Générale and J.P. Morgan.

Michael Davie, group COO at LCH.Clearnet, commented: "We are delighted to announce Soussan's appointment as the new global head of CDSClear, which further strengthens the group's senior management team."

Northern Trust has appointed **David Burnett** as head of it's hedge fund services business in Europe, the Middle East and Africa (EMEA).

Burnett will be based in the bank's London office and will report to Peter Sanchez, global head of hedge fund services at Northern Trust.

He joined Northern Trust in 2011 as head of relationship management for the EMEA, following Northern Trust's acquisition of Omnium from Citadel.

He has more than 15 years of financial services experience, gained from roles at Omnium and Citadel Investment Group. Sanchez said: "Burnett has been instrumental in integrating hedge fund services in EMEA and his invaluable experience will ensure we are best placed to continue providing outstanding client service using innovative technology."

GMEX Group has appointed Sandy Broderick as non-executive director to the boards of GMEX Technologies.

Broderick, most recently CEO of DTCC Deriv/SERV, brings derivatives experience in trading and post-trade infrastructure to the team. He joins Lamon Rutten as an independent non-executive director on all three boards and will serve as chairman of GMEX, with Rutten becoming chairman of GMEX TECH. **SLT**

SLT SECURITIESLENDINGTIMES

Editor: Mark Dugdale
editor@securitieslendingtimes.com
Tel: +44 (0)20 8663 9620

Reporter: Stephen Durham
stephendurham@securitieslendingtimes.com
Tel: +44 (0)20 8663 9622

Reporter: Stephanie Palmer
stephaniepalmer@blackknightmedialtd.com
Tel: +44 (0)20 8663 9629

Editorial assistant: Becky Butcher
beckybutcher@blackknightmedialtd.com
Tel: +44 (0)20 8663 9649

Publisher: Justin Lawson
justinlawson@securitieslendingtimes.com
Tel: +44 (0)20 8663 9628

Published by Black Knight Media Ltd
Provident House, 6-20 Burrell Row,
Beckenham, BR3 1AT, UK

Company reg: 07191464