SLT SECURITIES**LENDING**TIMES

ISSUE125
05.05.2015 TUESDAY
securitieslendingtimes.com

Star Tech: The Next Generation

EquiLend global product owner Dow Veeranarong on NGT

EquiLend's NGT platform goes live

EquiLend successfully rolled out its Next Generation Trading (NGT) securities finance trading platform on 27 April, with clients from around the world already having executed trades.

NGT is a consolidated, multi-asset class trading platform for the securities finance marketplace that allows traders to conduct their entire trading workflow on a single screen.

Using existing trading venues and messaging capabilities, NGT increases trade-level transparency, improves workflow automation and generates efficiencies for the market, according to EquiLend.

The firm began building NGT in 2013 following demand from clients for a consolidated trading system that would enable increased executions, real-time bid/offer negotiation, a more dynamic workflow, and streamlined setup.

More than 28,000 trades are currently executed on EquiLend's trading platform each business day. With the launch of NGT, EquiLend anticipates capturing a greater share of trades as institutions look for more efficiencies in their securities finance trading activities.

Brian Lamb, CEO of EquiLend, said: "NGT is the biggest initiative in the securities finance trading arena in years. We collaborated with clients on the ground across five continents to ensure the global securities finance industry would be prepared for a new trading dynamic focused on transparency and efficiency."

"With NGT, traders around the globe can, for the first time, conduct their entire trading workflow all on one screen, from indications of interest with counterparties through to trade execution."

Dow Veeranarong, product owner for EquiLend, added: "EquiLend's partnership with our clients to build NGT is driven by their desire for increased efficiencies and executions across a wider range of securities. NGT provides the technology for our clients to change the way they do business."

ISLA vents its concerns

The International Securities Lending Association (ISLA) has expressed its concerns about the EU Proposal for Regulation on Reporting and Transparency of Securities Financing Transactions.

The European Commission's proposal on securities finance transaction reporting was developed in response to the Financial Stability Board's investigation into 'shadow banking'.

The proposal will see market participants reporting to trade repositories to achieve more transparent markets. All counterparties doing business within the EU must report trades, including repo and securities lending and borrowing transactions.

Under the proposal, all UCITS and alternative investment funds must disclose more information about securities finance transactions to investors, while rules surrounding collateral rehypothecation will also change.

ISLA has claimed that the most technical, yet potentially most damaging, area for securities financing transactions and the broader collateral markets is the transparency of collateral reuse.

The EU proposal requires certain disclosure and consent requirements before collateral may be rehypothecated.

ISLA has claimed that broadening the scope from "rehypothecation" to "reuse" has introduced significant legal risks that would "undermine the use of title transfer collateral arrangements (TTCAs) on which securities financing transaction and other collateral markets heavily rely upon at present in Europe".

Under a TTCA, the collateral-giver passes full title (full ownership rights) in the collateral to the collateral receiver. These ownership

SLTINBRIEF

EQUILEND CLIENT EVENT

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Level 39, **CANARY WHARF LONDON**

KEYNOTES

The European Regulatory Landscape

Diego Valiante
Ph.D., Head of Financial Markets & Institutions, Centre for European Policy Studies; Member of the Group of Economic Advisers GEA, European Securities and Markets Authority (ESMA)

Does Culture Eat Strategy for Breakfast?

Harvey Young
A noted writer, speaker, coach and consultant helping both professionals and organizations in measurably increasing their effectiveness and productivity

PANELS

Navigating the Current Regulatory Environment for Synthetic Instruments

Andrew Jamieson, iShares
Stephen Fulford, Fidelity Investments
Ali Kazimi, Mazars
Rob Maloney, Credit Suisse
James Treseler, SG CIB

The New Age of Securities Finance

Bob Currie, Financial Services Research
Justin Chapman, Northern Trust
Jim Malgieri, BNY Mellon
Felix Oegerli, Zuercher Kantonalbank
Anthony Mirabile, Goldman Sachs

Big Data for the Financing Industry

Mark Faulkner, Credit BenchMark
Mark Bailey, Barclays
Chris Benedict, DataLend
John Morton, CPM
Len Welter, Red Deer Systems

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Thought Leaders Review the Key Topics from the Day

Dominic Hobson, COO Connect
Jayne Forbes, AXA Investment Managers
Brian Lamb, EquiLend
Kevin McNulty, ISLA
Duncan Wilson, J.P. Morgan

Email **equilend@eventrock.co.uk** or go to **www.equilend.com/clientevent2015** for more information or to register rights include the right to reuse, or to sell, the collateral.

This mechanism gives the parties a high degree of legal certainty and protection should one of them default on its obligations, according to ISLA.

ISLA commented: “The best outcome is to exempt TTCA from both disclosure and consent requirements in order to fully remove the [legal risk].”

In terms of transaction reporting to trade repositories, ISLA supports detailed position level reporting of securities lending transactions as it will provide supervisors with “better quality, more quickly actionable, information for the monitoring of risks to financial stability”.

ISLA also said it fully supports reporting requirements to investors.

Plans to boost Chinese securities lending revealed

The Shanghai Stock Exchange has confirmed plans to promote securities lending business in China.

Margin trading and securities lending were launched five years ago on the exchange.

Chinese Margin trading has boomed, with the balance of financing reaching RMB 392.63 billion ($63.62 billion) by the end of March 2014, a year-on-year increase of 144.12 percent.

But securities lending has lagged behind, with business amounting to RMB 2.77 billion ($448.78 million) by the end of March 2014, slightly lower than the end of 2013.

To boost securities lending business, the Shanghai Stock Exchange plans to encourage institutional investors to participate, including publicly-offered funds and asset managers. They will be allowed to take up securities lending from the date of their establishment.

“Such investors shall be supported to engage in securities lending and securities lending of refinancing to propel supply and demand of securities sources in the market, on the basis of making risks controllable and protecting holders’ rights and interests,” said the exchange in an announcement.

Securities lenders and borrowers will also be allowed to negotiate rates and term length, “in a bid to raise the trading efficiency and meet the market demand for securities lending”.

Following reports that the exchange was planning to allow fund managers to lend shares for short selling and expand the number of stocks that can be sold short, it has confirmed that “the trading mechanism of selling through securities lending shall be optimised to enhance trading efficiency, the announcement stated.”

The Shanghai Stock Exchange explained in its announcement that the order price at which an exchange-traded fund is sold by investors through securities lending will be kept within the range of valid bidding price stipulated by the exchange, and allowed to be lower than the latest trading price.

“The money from selling through securities lending can be used for purchasing or subscribing for cash management products of securities companies, money market funds and other high-liquidity securities recognised by stock exchanges.”

Short selling is also receiving a boost. “According to actual market development, stocks fit for short selling through securities lending shall be included in the range of underlying securities of securities lending and those of securities lending of refinancing, the number of which shall be increased to 1,100, thereby fully exerting the market regulating role of [the] short selling mechanism of securities lending.”

Earlier in the year, the Shanghai Stock Exchange released guidelines to promote the development of the bond market and increase the liquidity of various bonds and asset-backed securities.

Its existing collateralised repurchase of bonds adopts the trading settlement mechanism of auction and guaranteed delivery, and takes the standard bond system for accounting of the value of pledged bonds.

The exchange said this will further improve market infrastructure, promote innovation in trading products and trading mechanisms of bonds, strengthen the investor protection mechanism, and promote the steady development of the bond market.

The short selling of certain Shanghai-listed A shares was also permitted through the Shanghai-Hong Kong Stock Connect programme at the beginning of March.

Some 414 securities could be sold short through Stock Connect from 2 March, including Industrial and Commercial Bank of China, KPC Pharmaceuticals and state media website People.cn.

Naked short selling is prohibited for northbound trading under Stock Connect’s rules.

Stock Connect, Hong Kong Exchanges and Clearing’s mutual market access programme with the Shanghai Stock Exchange, launched in November 2014.

DTCC to integrate Omgeo ProtoColl with MTU

The Depository Trust & Clearing Corporation’s (DTCC) Omgeo ProtoColl front-end collateral management system is to be integrated with DTCC-Euroclear GlobalCollateral Limited’s Margin Transit Utility (MTU), a solution designed to deliver straight-through processing of the settlement of margin obligations.

With this integration, Omgeo ProtoColl clients will gain a view of all transactions processed in the MTU from their existing ProtoColl user interface, streamlining margin call activities and enabling better monitoring of the collateral management process from a single interface.

"Our clients have been asking for ProtoColl to be linked with the MTU in order to ensure that activities taking place within the MTU seamlessly integrate with ProtoColl functionality," said Tim Keady, managing director and DTCC's chief client officer.

"Users will benefit from a uniform experience, while enabling them to further automate their collateral processes, reduce counterparty risk, and allow them to more efficiently manage all areas of the collateral workflow."

Omgeo ProtoColl uses a rules-based workflow approach, allowing for exception processing on reconciliation, counterparty exposure, collateral optimisation, auto-fulfilment of pledged assets, and downstream notification.

The MTU is a global collateral processing utility to streamline and bring automation and transparency to collateral movements and settlement.

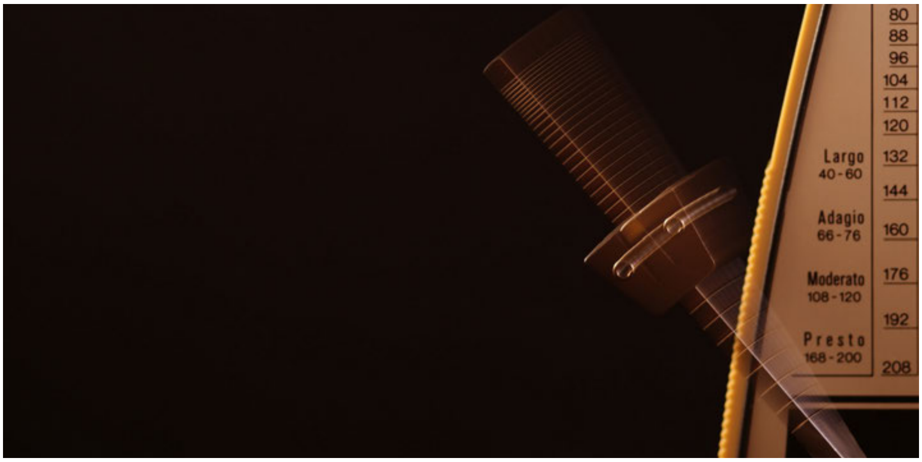
"The open architecture of MTU aligns well with ProtoColl's architecture, enabling us to bring the benefits of the MTU directly into existing ProtoColl workflow processes," added Keady.

Forward redemptions down for SS&C in April

SS&C GlobeOp's Forward Redemption Indicator for April 2015 has shown notifications of 3.36 percent, down from 3.91 percent in March.

Despite the fall in notifications, SS&C said it is to be expected in the context of the year.

"The Forward Redemption Indicator for both April and year-to-date 2015 are consistent with seasonal trends and closely in line with year-ago numbers. This suggests the hedge fund sector remains stable," said Bill Stone, chairman and CEO of SS&C Technologies.



SS&C GlobeOp's data on the GlobeOp platform represents approximately 10 percent of the hedge fund industry. The next publication date is 21 May.

SocGen ups the Tempo on collateral management

Societe Generale has unveiled Tempo, its collateral management outsourcing system for buy- and sell-side market participants.

The solution is designed to reduce the complexity, operational burden, and costs associated with collateral management for asset managers, institutional investors, banks and major corporates.

The launch comes as a response to new risk management standards and margining regulations for both cleared and uncleared derivatives. In the modern market environment, there is greater need for automation in these processes across the full network of counterparties and clearing brokers.
Varying collateral eligibility, concentration and haircut criteria also increases the need for additional high-quality collateral.

Tempo is designed to address these complexities, helping clients to diversify investment strategies in compliance with changing regulatory requirements. It can also help them to reap the benefits of diversified collateral mass, productivity gains, reduced counterparty and operational risk, and enhanced collateral flexibility.

Clément Phelipeau, product manager for derivatives and collateral management services at Societe Generale Securities Services, said: "As transactions will increasingly need to be collateralised to mitigate market risk, implementing the best possible collateral management strategy will be imperative for both the buy-side and sell-side."

The new solution draws on Societe Generale's securities services business and its multi-asset prime brokerage arm, Societe Generale Prime Services. It is designed to integrate smoothly with existing internal systems and can work alongside Societe Generale's prime services clearing solution for OTC derivatives.

Tempo's agency mode is available for OTC derivatives, exchange traded derivatives, securities lending and repo collateral needs.

The solution spans the full collateral lifecycle, including central margining, dispute management, asset pool management, and collateral optimisation and allocation.

Phelipeau added: "Tempo is a unique combination of Societe Generale's multi-asset collateral

management expertise which will help clients make the most of their assets in the coming years."

Lombard Risk hails record quarter for Colline

Technology solutions provider Lombard Risk enjoyed a successful Q4 2014, bagging a record number of sales and implementations for Colline, its collateral management, clearing, inventory management and optimisation system.

Four US and Canadian firms and two Japanese institutions selected Colline for various collateral management needs, while two European banks went live with the system over the course of the same weekend.

John Wisbey, CEO of Lombard Risk, commented: "We are delighted to have been able to add several more prestigious clients to our very high quality client list for Colline in addition to successfully implementing the solution simultaneously at two well-regarded European client sites, on time and within budget."

State Street's securities finance revenue trumps Q1 2014's

State Street earned $101 million in securities finance revenue during Q1 2015, down on the previous quarter but up significantly on Q1 2014.

The bank's securities finance revenue was down 4.7 percent on Q4 2014, primarily due to lower spreads, but was 18.8 percent higher than Q1 2014, thanks to new business from enhanced custody, its principal securities lending service for custody clients, and higher volumes.

New asset servicing mandates during Q1 2015 totalled $214 billion.

Servicing fees during Q1 2015 decreased 2.2 percent from Q4 2014, falling to $1.27 billion. State Street attributed the slight decline to the impact of the stronger US dollar, but fees were 2.8 percent higher than those earned in the same quarter last.

Joseph Hooley, chairman and CEO of State Street, said: "We are pleased with our Q1 2015 results, which reflect strong fee revenue growth compared to the first quarter of 2014, continued momentum of our core business, and our focus on managing expenses. We continue to benefit from our strong market position and client demand for our servicing solutions remains robust as evidenced by $214 billion of new servicing commitments."

"Our fee revenue growth in the Q1 was supported by strong foreign exchange trading activity. The divergence in interest rate expectations for the US relative to most other major economies and the actions taken by several central banks around the world to increase their quantitative easing has contributed to an increase in volatility and volumes of foreign exchange trading."

"The strengthening of the US dollar during the quarter reduced our fee revenue outside of the US, but the parallel reduction in expenses largely offset this impact on our bottom line."

CFA Institute: standardisation and transparency are key

Creating a robust framework around the reuse of collateral in securities financing, and greater transparency through transaction reporting could be the key to preventing financial instability and supporting healthy capital markets, according to a study by the CFA Institute.

The investment association's study found that this kind of framework could mitigate the build-up of excessive leverage.

It also suggested that transparency could be improved through reporting transaction data to trade repositories and investors, with 47 percent of respondents agreeing.

The study also called for increased standardisation and simplification of issuance structures, with 55 percent of professional investment respondents identifying a need for this in order to improve the ease and certainty of enforcing ownership rights and creditor protections.

Here, the recent study also recommended improvements in transparency through initial and ongoing disclosure to investors.

The study found that 25 percent considered the potential default of Chinese wealth management and trust products the greatest systemic risk, while 23 percent considered collateral management risks the biggest concern.

Respondents in Europe, the Middle East and Africa (EMEA), the Asia Pacific region and China believed that regulators should be treating transparency and disclosures in shadow banking activity as a priority.

The CFA Institute conducted the study as banks are addressing new capital regulatory requirements and slow balance sheet growth, and as shadow banking is increasingly viewed as a potential systemic risk for the finance and investment industry.

According to the Financial Stability Board, the global shadow banking sector is worth an estimated $75 trillion. In an environment of constrained bank lending, markets-based finance is being viewed as a potential solution to help channel capital to productive enterprises, and to help revive the real economy.

Rhodri Preece, head of capital markets policy for the EMEA region at CFA Institute and author of the study, said: “Amid the myriad shadow banking policy initiatives, the challenge facing regulators is to achieve coherence in the implementation of these measures and to minimise regulatory gaps and overlaps.”

“Shadow banking feeds directly into the capital markets union agenda because there is a desire from the policy perspective for markets-based finance to flourish and deepen the sources of finance available for European companies.”

“Non-bank finance has the potential to deliver many benefits to the financial markets in Europe and indeed globally if the right measures are put in place to stimulate demand and justify confidence.”

The study was informed by a survey of 600 CFA Institute members.

Hedge fund manager takes aim at more pharma rights

Hedge fund manager Hayman Capital Management is seeking the revocation of more pharmaceutical patents.

Hayman Capital, whose Coalition for Affordable Drugs has already challenged the validity of patents belonging to multiple pharmaceutical companies, filed a post-grant review petition with the US Patent and Trademark Office on 20 April, in addition to another two filings

It challenged the validity of Pharmacyclics’s patent (8,754,090), which contains two claims directed to a method for treating mantle cell lymphoma (MCL) in a patient using anti-cancer drug ibrutinib (marketed as Imbruvica).

The ’90 patent has already had multiple claims rejected during examination, according to Hayman Capital. The examiner was finally convinced of the validity of the remaining two after Pharmacyclics argued that “ibrutinib demonstrates substantial improvement over existing therapies”, despite the “obvious” claimed methods not being made in comparison to the closest prior art.

Imbruvica is currently approved for the treatment of patients with chronic lymphocytic leukemia, and under accelerated approval for the treatment of patients with MCL.

Pharmacyclics is studying ibrutinib to see if it can be used alone or in combination with other drugs to treat several blood cancers.

The pharmaceutical company most recently presented data at the American Association for Cancer Research Annual Meeting that suggests ibrutinib may be an effective therapeutic option for pancreatic ductal adenocarcinoma.

The hedge fund has also targeted patents belonging to Shire that protect its ulcerative colitis drug Lialda and its short bowel syndrome treatment Gattex, and rights belonging to Acorda Therapeutics and Jazz Pharmaceuticals. Neither companies, nor Pharmacyclics, have responded publically to the challenges.

Shire has denied the challenges, saying it will "continue to defend vigorously its patents and pursue all legal options available".

Critics believe that Hayman Capital Management is targeting pharmaceutical patents so that it can profit from resulting stock price falls, despite Bass claiming that the petitions are a bid to challenge a small minority of drug companies that are "abusing the patent system" to the "detriment of Americans suffering from illness".

Borrow volume for Acorda Therapeutics shares spiked upwards at the beginning of February, rising almost 50 percent to its second highest level for the last 12 months, according to data from technology company SunGard's Astec Analytics platform, which tracks securities borrowing and lending activity.

Astec Analytics senior vice president David Lewis explained: "Positions fell away again by a very similar value by 23 February, before a further climb of about 20 percent ahead of the second [IPR] filing on 27 February."

"In each case, the price dropped away on the date of the relevant [IPR] filings. In simple monetary terms, around one million shares were borrowed ahead of the 10 February filing, which coincided with a $3.85 per share price fall. Filings cost $23,000 to make, suggesting that this is a very lucrative strategy indeed."

Hayman Capital has not responded publically to the claims.

T+2 is the future, says Omgeo

A study published by Omgeo has revealed that 80 percent of respondents believe T+2 will become the global standard for settlement cycles within 10 years.

Currently, settlement cycles vary between T+3 in the US, to T+2 in Europe and differing cycles across Asia, including T+2 in Hong Kong and T+3 in Singapore.

Of those surveyed, 52 percent expect the US to move to a T+2 settlement cycle within the next three years while 34 percent and 14 percent believe Canada and Japan, respectively, will do the same.

Tony Freeman, Omgeo's executive director of industry relations, said: "It is encouraging to see overwhelming support for a globally harmonised settlement cycle to T+2, which would significantly reduce counterparty and operational risk across the financial markets."

"Harmonising settlement cycles globally will help to better facilitate cross-border trading, as well as reduce margin and liquidity requirements during market volatility. Europe's move to T+2 has been smooth, as recognised in the survey."

Freeman hastened to add that wide-ranging views on failed-trade penalties were still present, as were those related to the sanctions that should be implemented for non-adherence.

He said: "The future will bring further change, with more detail expected on the settlement discipline regime."

The survey confirmed that, in terms of Europe's move to a T+2 settlement cycle in 2014, 74 percent of market participants believe the migration was smooth, with only 12 percent citing they would have a low chance of meeting the Central Securities Depositories Regulation (CSDR)-mandated 99.5 percent settlement efficiency target.

There was an almost equal split in opinion on whether the proposed compensatory, not punitive, sanctions from the CSDR for failed-trade penalties would be enough to drive behavioural change.

Paula Arthus, president and CEO at Omgeo, added: "62 percent of respondents believe that it makes sense to send allocations and settlement instructions to broker-dealers on trade date and that broker/dealers must confirm allocations within just two hours."

"Furthermore, over 90 percent think that accurate Standing Settlement Instructions are relevant for T+2 settlement cycles."

Cyan Oak mandates SocGen

Societe Generale has been mandated by investment management company Cyan Oak Capital LLP to process derivatives for its range of alternative investment funds.

As a result, Cyan Oak will be able to use Orchestra, Societe Generale's global offering dedicated to managing the post-trade value chain for derivatives, as well as from additional prime brokerage services from the bank.

Orchestra is a modular and fully integrated third-party post-trade offering which comprises, in particular, clearing services for derivatives and post-trade services for middle-office operations, collateral management, settlement and custody.

Societe Generale will provide Cyan Oak Capital LLP with derivatives processing that is fully compliant with the European Markets Infrastructure Regulation.

Custody, depository, fund administration and registrar services, as well as trade repository reporting services for over-the-counter (OTC) derivatives, are provided by Societe Generale Securities Services in Luxembourg.

Societe Generale Prime Services also provides Cyan Oak with prime brokerage, from execution and clearing services for listed and OTC derivatives, equities, bonds and foreign exchange for all its multi-asset class funds, to additional value-added services including securities lending, financing and capital introductions. **SLT**

STAR TECH:
THE NEXT GENERATION

Following clients' demands for a consolidated trading system to enable increased executions, EquiLend has unveiled NGT. Global product owner Dow Veeranarong explains the ins and outs

STEPHEN DURHAM REPORTS

What is Next Generation Trading and are any of its features groundbreaking or unique? Will changeover complications be an issue?

Next Generation Trading is a consolidated, multi-asset class trading platform for the securities finance marketplace. Often, with a new product or service offering, it is not a brand new invention; rather using existing technologies in different ways. As such, NGT is leveraging existing concepts and technologies in a new way—consolidated from a screen perspective and from a back-end messaging perspective. We have taken the best of our existing services to create one platform for our clients. What is unique is how clients are interested in changing their trading behaviour to increase efficiency and execution, and therefore we've built NGT to accommodate those needs.

As with any change, personal or professional, there will be some challenges. And like with any technology, we expect to have early adopters, then the majority of our clients in the bell curve divided into the early and late users and finally the laggards. Challenges will depend on clients' resources to invest in their technology and connectivity to EquiLend as well as their traders' willingness to adopt the platform.

Because the securities finance business is a business based on relationships, counterparties will be encouraging each other to leverage NGT for their trading activities to take full advantage of the system.

Where did the idea come from?

In 2013, EquiLend's board of directors—consisting of representatives from each of our 10 owner firms—agreed with EquiLend that we should host trading and technology working groups to revisit our trading suite. This group met monthly to identify the main challenges experienced on the platform, common goals across our clients, and technological capabilities and limitations for different clients. One immediate observation was that the business landscape was constantly changing at a pace much quicker than in previous years due to the ever-changing regulatory environment.

Our platform, along with many of our clients' trading systems, needed certain enhancements in order to keep up with the changing business demands. With this information, EquiLend brainstormed ideas for what a future landscape could look like. Because we met with both traders and technologists via our working group, we were able to propose a solution that made sense from the business perspective as well as to the technology teams, which ultimately helps with implementation.

Is it a finished product or is it an ongoing process? Can clients expect modifications in the future?

It is definitely an ongoing process. As with any new technology that people are exposed to as consumers, technology is ever changing and improving. With NGT, we expect the same. We have a number of new components planned for our clients in 2015, but at the same time we wanted to get NGT out to the market to allow our clients to use the system and give us feedback.

“Because securities finance is a business based on relationships, counterparties will be encouraging each other to leverage NGT for their trading activities to take full advantage of the system”

We are truly focused on the client experience, and that means hearing from the clients what they need and taking that feedback into consideration in our future decisions. We expect that NGT will be the platform to support our clients' trading needs going forward. That means it isn't just something that we can design and release in one shot; it means that we need to ensure we are continually working with our clients to improve the platform.

Will its day-to-day functions vary for clients in different jurisdictions?

NGT supports different asset classes as well as trading in different jurisdictions. The functions don't vary greatly, but the required fields to support the different regions do vary. We've built this into NGT because we need to ensure that clients across regions, asset classes and technology capabilities can interact with each other.

So on one side, the client might be a screen-based user, while on the other side, the client might be completely automated. We have to standardise the underlying information so that those two clients can seamlessly communicate with one another to execute trades.

How important is client opinion to these kinds of platforms?

It is critical—we couldn't develop something for our clients without their involvement. Over the past 18 months, we have sat with clients on the ground in five continents to understand their unique technological limitations and main goals with NGT.

With that information we were able to develop NGT. Client feedback is critical in helping us identify the most common challenges where we can add the most value for the greatest good. As with any technology, there are many enhancements that we have identified as part of our ongoing use and testing. Client feedback helps us prioritise those items as well as identify new ideas that could improve the user experience.

What prompted the phasing out of AutoBorrow 'schedules'? Will the process be missed?

Clients did. Doing away with schedules will allow clients to onboard their trading counterparts much more efficiently, which was something many of them have asked us for, even before we began developing NGT.

In particular, our clients trading international securities often highlighted the cumbersome setup as well as the time spent on a daily basis chaining their list of needs through every schedule (combination of terms) in order to fill their requests.

As with any change, there is a degree of uncertainty around changing the process. But in general clients are looking forward to the flexibility offered in the new schedule-free paradigm, where trade terms are embedded in each message. **SLT**

Dow Veeranarong
Global product owner
EquiLend

Sitting tight

The UK's securities lending landscape seems to be holding steady, but with the country's EU membership under scrutiny, is there danger ahead?

STEPHANIE PALMER REPORTS

As the UK gears up for a general election, it seems as if, when it comes to the keys of 10 Downing Street, this could be anyone's game. Pre-election polls fluctuate by the day, the country is still reeling from the tight-as-they-come referendum on Scottish independence, and with the possibility of a vote on EU membership looming, this is a jurisdiction full of uncertainty.

In securities lending, however, Q1 2015 bucked the trend and followed a fairly stable pattern. According to data from DataLend, utilisation of securities kept a steady course for the most part, seeing gentle fluctuations between about 12 and 14 percent.

Mid-February saw a jump to just over the 14 percent figure, before swiftly falling to just under 12 percent, and this peak was repeated in early March.

The value of securities on loan mirrored this almost perfectly, holding steady between $100 and $120 billion, with the exception of two spikes that peaked at around $125 billion, while the dip in between fell to just under $110 billion.

The volume-weighted average fee statistics showed the same pattern again, but to a greater extent. The jump in February was more significant, jumping from about 24 basis points to a high of 37. It dipped to 34, and then swiftly to the 21 to 22 mark again. The spike was even more drastic in early-March, flying from 24 to 42 basis points, and back down again between 5 and 12 March.

While these considerable changes in the market could reflect the economy as a whole, company results or other external factors, what is clear is that the UK market doesn't appear to be in decline. According to the UK equity centre, UK FTSE100 companies saw a dip in value from 6,950 to 6,700 between 3 and 12 March, followed by a steep climb to about 7,040 by 23 March.

This inverted pattern shows that as stocks dipped in value, lending increased, suggesting that one caused the other.

According to Simon Lee, managing director of eSecLending, the trends in the UK market are not noticeably different to any other area. Mainly, this is down to the same regulatory landscape applicable to the UK and continental European countries.

"Lenders in the UK face the same challenges, and can benefit from the same opportunities, as lenders in other jurisdictions," he says.

"Understanding how the cost of regulation will affect their securities lending programmes is one of the main areas lenders will be focusing on this year, so as to ensure lender objectives around risk management and performance continue to be met."

With such political upheaval on the horizon, one could expect market players to be a bit more flustered than they are. However, Andrew Dyson, COO of the International Securities Lending Association, believes that, realistically, the effects will be minimal.

He says: "The bulk of people who undertake lending are long-term investors themselves, and so wouldn't necessarily be concerned with the relatively short-term event of the general election. Secondly, a lot of the investors who loan securities are domiciled outside of the UK so it's not an immediate issue for them."

Even if there are drastic changes in power, or even a referendum on the UK's EU membership, Dyson doesn't expect any immediate activity in the market. And those changes that will come about are too far away to even anticipate.

"If there were to be a decision to leave the EU, that will be quite a significant event but not just for securities lending, for the whole of the financial services market in the UK, and it's very difficult to know what that would mean, because clearly it would mean quite a lot of change," says Dyson.

"A new government could change people's sentiment towards lending or even the geographical location in the context of the UK, but I think it's far to early to have any details on that."

One seemingly significant drive in the election is various pledges to increase or relax regulation on the financial industry. However, particularly when it comes to securities lending, a vast majority of the regulation is actually imposed by European institutions, and it's this regulation that really drives the market.

Dyson says: "We've seen a swathe of regulations coming through over the past two or three years as a reaction to what happened in the global financial crisis. Consequently, the market is weighed down quite a lot by regulation. The question at the moment its whether we will struggle to deal with any more."

"It will be interesting to see what happens over the next year to 18 months as the market absorbs and deals with those regulations. I think they do present opportunities, and those lenders and borrowers who think creatively will create interesting revenue opportunities."

Again, it comes back to what could happen in the case of the UK leaving the EU, and what the jurisdiction could end up missing out on as a result. In February, the EU issued a paper proposing a move towards a capital markets union, building a single market for capital and encouraging investment for the long term.

In a speech to the European Parliament committee for economic and monetary affairs, Jonathan Hill, member of the European Commission for financial stability, financial services and capital markets, said: "A single market for capital will benefit the whole European economy, helping to unlock the capital that is currently frozen and putting it to work to support Europe's businesses, particularly small and medium-sized enterprises and start-ups."

"We want to remove the barriers that stand between investors and investment opportunities; and we want to make the system for channelling those funds more efficient."

Economically, the EU seems to have a strategy in mind, moving from the alliance funding model typically seen in Europe towards one more reminiscent of that in North America.

Hill specified: "If EU venture capital markets were as developed as in the US, companies would have been able to tap into an extra €90 billion of funding between 2008 and 2013."

Whether the outcome of the general election leads to an EU referendum or not, it seems clear that, while they're not particularly worried, industry players tend to back the strategies of the EU, regulations and all.

Lee says: "The evolving regulatory environment presents opportunities for lenders in the UK, as it does elsewhere. Particularly, it can benefit those lenders that participate in term transactions and those that can accept a broad range of collateral types."

Dyson agrees, saying that, while a referendum could lead to changes, it is important to avoid moving backwards, and look forward to a more effective future, whatever that might entail.

He says: "The capital markets union is a signal that now is the time to think about how we take things forward, rather than just looking backwards at what has happened in the past." **SLT**

Rise of US non-cash loans

Borrowing US equities using non-cash collateral has surged in popularity in the last few years, a trend that non-US beneficial owners have been best placed to capture. Markit's Simon Colvin reports

The overarching theme coming out of the recently held Markit Securities Finance Forum was that regulation holds as big a sway as ever over the industry's behaviour. To this end, lenders that are best able to adapt to regulatory developments stand to see a strong demand for their assets.

One particular area of area of change singled out by both panellists and delegates was general collateral balances, which have fallen out of favour in the wake of recent capital regulation such as Basel III. The increased cost of balance sheet stands to see borrowers increasingly ration high cost collateral and favour the lenders that are willing to lend out on more pragmatic collateral terms.

This regulatory driven trend is behind the rise of the use of non-cash collateralised loans for US equities.

Non-cash growing in popularity

Loans for US equities have historically been overwhelmingly tilted towards cash securitised loans. But the recent wave of balance sheet regulation has heralded the increased use of non-cash collateral in the seven years since the financial crisis. The aggregate value of non-cash collateralised US equity loans has jumped more than fivefold since 2009, surging from $20 billion to a current all-time high of $118 billion.

Non-cash loans now make up 29 percent of the total US equity value on loan, up from 7 percent at the start of 2009.

This increased use of non-cash seems to be driven by general collateral balances. The proportion of S&P 500 loans, which are overwhelmingly general collateral names, are now made up of 44 percent of non-cash borrow.

Non-US beneficial owners take the helm

This trend looks to be playing into the hands of non-US beneficial owners as non-US domiciled funds tagged in the Markit Securities Finance database have 76 percent of their US equity loans secured against non-cash collateral. US-domiciled beneficial owners have been less able to capitalise on this trend, with less than one tenth of their US equity securities lending transactions collateralised against non-cash.

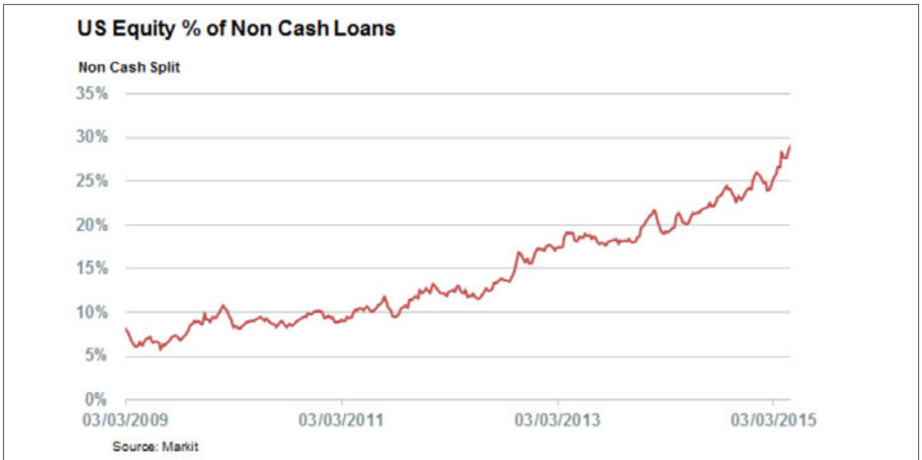
The willingness of non-US beneficial owners to accept non-cash collateral has seen the aggregate value of US equity loans from these beneficial owners jump 40 percent over the last 12 months.

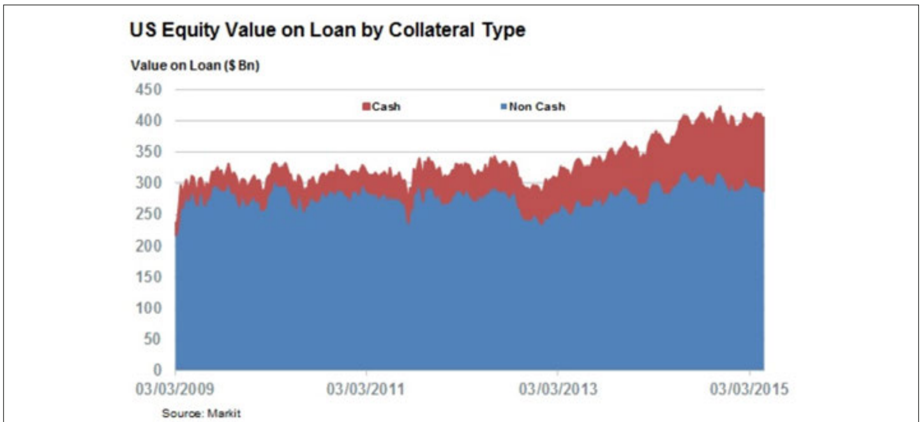
Cash loans remain flat

While non-cash collateralised loans have surged in popularity over the last few years, the value of the relatively less capital-efficient cash collateralised loans has remained relatively flat at $280 billion since the start of 2009. This represents a massive atrophy in real terms given the recent strong market run.

US-domiciled beneficial owners, which are less able to accept non-cash collateral, look to be on the losing side of this trend as their utilisation of US equities has fallen to an all-time low 4.5 percent recently, down from 6 percent three years ago.

This puts flesh to the argument that the lenders that stand to best capitalise from the recent regulatory regime are those with the ability to be pragmatic about the collateral they accept. To this point, non-US domiciled beneficial owners have more than 6.5 percent of their US equities out on loan, much higher than their US peers. **SLT**





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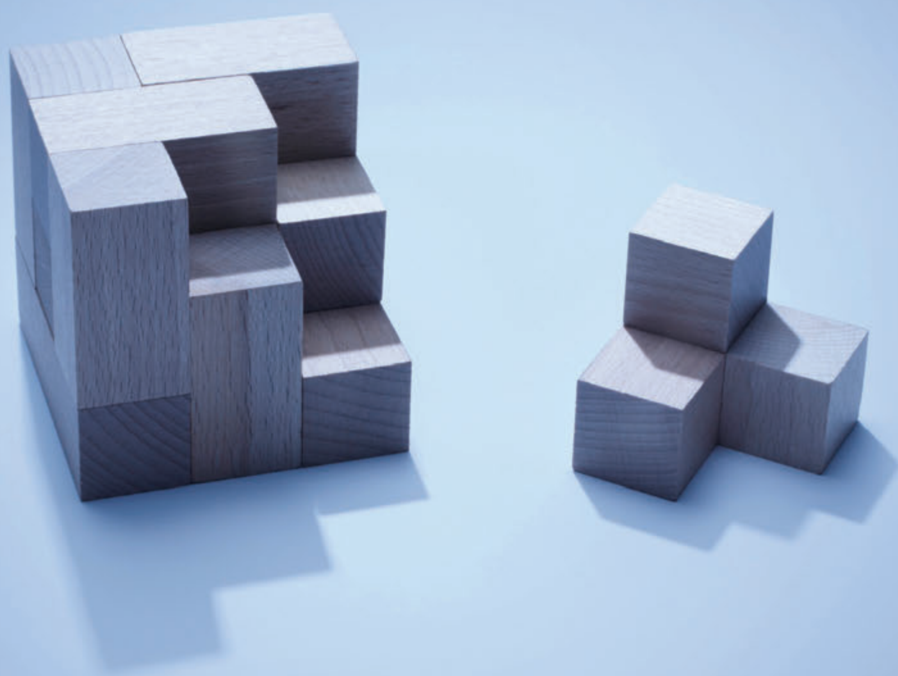

Industry Events

5th Annual CASLA Conference on Securities Lending

Date 3 June 2015
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

Citi has hired **Murray Roos** as global head of sales for its equities and prime finance divisions.

In this newly created role, Roos will be responsible for developing and leading a unified and global sales strategy across the full range of equity and prime finance products offered to Citi's clients.

He will be based in London and report to Derek Bandeen, global head of equities, Okan Pekin, global head of investor services, and Jim O'Donnell, global head of investor sales.

Roos joins Citi from Deutsche Bank where he spent eight years in a variety of senior management positions, most recently as global co-head of prime finance and co-head of European equities. He had previously worked at UBS where he ran the EMEA index flow-trading desk.

He will join Citi's investor services global management team and sit on the global equities executive committee.

Pekin commented: "The addition of Murray is of strategic importance to our businesses. We are confident that Murray's extensive industry experience will drive growth and further enhance our ability to serve our clients across the full spectrum of equities and prime finance products and solutions."

Jim Coppola has joined Mitsubishi UFJ Trust & Banking's agency lending desk.

Previously, Coppola served as director of strategic partnerships at Financial Tracking Technologies. He has also held roles at SG Americas and Unicredit Bank.

In his new role, he will be managing Mitsubishi's agency lending trading team, which will work on fixed income and equity lending as well as repo and cash reinvestment.

He will report to Hideto Shimada, executive vice president at Mitsubishi UFJ Trust & Banking in New York.

PIMCO has appointed **Ben Bernanke**, former chairman of the Federal Reserve, as a senior advisor to the firm.

He will contribute with his economic expertise to the firm's investment process and engage with PIMCO's clients.

Douglas Hodge, CEO PIMCO, commented: "His experience in navigating the global economy through the Financial Crisis will provide PIMCO's investment professionals with unique insights as we help our clients."

Christian Katz, division CEO of Swiss Exchange, has decided to leave SIX.

Katz's decision is based on the strategic direction and on the further development of Swiss Exchange.

Since May 2009, he has headed up the business area and under his leadership, Swiss Exchange has expanded to become one of Europe's leading stock exchanges.

He will leave SIX at the end of April 2015 and **Christoph Landis**, head of operations and deputy division CEO Swiss Exchange, will assume responsibility for the management of the business on an interim basis.

Katz will continue to serve as the president of the Federation of European Securities Exchanges (FESE) until a suitable successor is found.

Urs Rüegsegger, group CEO of SIX, commented: "In an extremely challenging environment, Katz stopped Swiss Exchange from losing market share in blue-chip trading and successfully expanded SIX's leading market position."

Maitland has hired **Scott Price** to spearhead its growth in the US as head of business development and client management in North America.

The move is part of Maitland's growth strategy, and comes after it acquired 100 percent of UK-based Phoenix Fund Services. This acquisition added £2.6 billion to Maitland's assets under administration, making a total of more than £140 billion.

It also coincides with the rebranding of Maitland's US operations, which previously operated under the name Admiral.

Price will play a large part in moving towards Maitland's 'one firm' model.

He will be responsible for leading sales and client management in North America. **SLT**

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

Company reg: 07191464


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