SLT SECURITIESLENDINGTIMES
ISSUE127
02.06.2015 TUESDAY
securitieslendingtimes.com

BlackRock sets the record straight

Policymakers have misunderstood the practices and associated risks of securities lending, according to a whitepaper from BlackRock.

These misunderstandings are centred around potential conflicts of interest, leverage, collateralisation of loans, use of cash collateral and cash reinvestment vehicles, use of non-cash collateral and rehypothecation, and borrower default indemnification.

In addition, BlackRock claimed that there are many misunderstandings specific to its own involvement with securities lending, and these have "unfortunately" formed the foundation of recent policy discussions.

"We believe it is imperative for policymakers to have all the facts," said BlackRock.

BlackRock confirmed that it has never had its indemnification agreements triggered or had to use its own capital to repurchase a security on a lending client's behalf and, as a result, holds $2 billion in unencumbered liquidity against potential indemnification exposure, with access to an additional $6 billion of liquidity.

It is currently rated "A1" and "AA-" by Moody's and Standard & Poor's, respectively, equal to or higher than other major securities lending agents.

The amount of securities loans that BlackRock indemnifies grew significantly between 2012 and 2014.

The increase observed by various commentators reflects a major organisational change during this time period, according to BlackRock.

readmore p2

DBV-X to go live in 2015

DBV-X, a new EU-regulated marketplace for collateral and secured deposits, is set to go live in Europe later this year.

Focused solely on funding and collateral needs, DBV-X will offer market participants what it calls "cost-efficient and rapid access to a diverse range of counterparties and high-quality liquid assets".

All participants will sign a single standard legal agreement to join the platform and have full control over the products and counterparties used, thereby enabling a peer-to-peer market to grow.

The platform will offer full pre-trade counterparty anonymity, price transparency and a choice of execution models, according to the platform's creators.

readmore p2

Collateral is a new currency

Collateral mobility and the pricing of collateral assets are the biggest challenges for effectively managing collateral, according to a Euroclear survey.

The issues of collateral mobility and pricing were each highlighted as challenges by 35 percent of respondents, while a lack of standards and dispute resolution also ranked highly, each being cited by 25 percent of respondents.

The drive towards standardisation was attributed to a focus on collateral resourcing and optimisation, but 30 percent of respondents said that they still do not have an optimisation strategy in place.

Lack of automation was also identified as a challenge by 20 percent of respondents, as was regulatory change.

readmore p2

BlackRock sets the record straight

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As part of the terms governing the acquisition of BGI by BlackRock, Barclays was obligated to continue providing counterparty default indemnification to certain BlackRock securities lending clients until 1 December 2012.

BlackRock assumed these indemnification obligations prior to or upon the expiration of Barclays's indemnification obligation.

In the whitepaper, BlackRock stated: "As disclosed in our 10-K, the amount of securities on loan in BlackRock's securities lending [programme] subject to indemnification as of [31 December 2014] was $145.7 billion."

Borrowers posted $155.8 billion as collateral for indemnified securities on loan at December 2014. The fair value of these indemnifications was not material at 31 December 2014.

DBV-X to go live in 2015

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Market participants will be able to trade automatically within their risk limits to access a wide range of standardised liquid general collateral 'baskets', encompassing a broad spectrum of eligible assets including government and corporate bonds.

This will enable customers to invest or raise cash against collateral, perform collateral upgrades or generate additional yield according to their individual investment, funding and margin requirements.

DBV-X is free to join and open to corporates, asset managers, pension funds, insurance companies, hedge funds, brokers, dealers and banks.

Using standardised products and processes, these firms will have access to a range of maturities, currencies and collateral options, with a choice of triparty or central counterparty-cleared trades. It aims to go live in Q4 2015.

Euroclear has been appointed to act as the platform's triparty agent in Europe.

Jo Van de Velde, managing director and head of product management at Euroclear, said: "We would like to congratulate DBV-X on the launch of their electronic trading platform and are delighted that DBV-X have chosen Euroclear as the market's triparty agent."

"By connecting with Euroclear's Collateral Highway, DBV-X's clients will have fast, efficient and open access to a growing community of counterparties and an ever growing pool of collateral and deposits for trading, margin and funding requirements."

Collateral is a new currency

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A majority, 70 percent, considered collateral transformation to be high on their agenda.

According to the survey, the industry expects a trend towards more relationships, and stronger relationships, among triparty repo participants in the next few years, as related activity between European firms and non-European counterparties doubled from 17.5 percent in 2001 to 31 percent in 2014.

Both buy- and sell-side firms believed there will be greater partnerships between buy-side firms and corporates, specifically in the triparty and cleared derivatives markets.

While 30 percent believe this already happens, 45 percent thought it could happen in a secured funding space.

The survey suggested that the implementation of the European Market Infrastructure Regulation (EMIR) is expected to have a heavy impact on collateral management function, with 65 percent of firms agreeing with this.

SLT IN BRIEF

As over-the-counter derivatives move in to a cleared environment, the increase on daily and intraday margin calls are expected to require more robust strategies.

Jo Van de Velde, managing director and head of product management at Euroclear, said: "This timely research underscores our belief that market dynamics and regulatory changes are propelling collateral management issues to the forefront of both financial and non-financial firms in a major way."

"Many industry experts argue that collateral has become a new currency, as firms look to shore-up credit exposures from a variety of different activities while grappling with increased balance sheet pressures."

Virginie O'Shea, senior analyst at Aite Group, said: "Regulatory reform is a driving force behind firms' current re-evaluation of their collateral management capabilities. EMIR is heightening the need for a more proactive approach to collateral, on a more frequent basis."

"Assets must be quickly identified and seamlessly transported to where they are required. This is a significant challenge, given the internal and external inefficiencies that must be overcome, and something that they are unlikely to be able to tackle on their own."

"One thing is sure, firms are looking to gain an aggregate view of their collateral inventory in order to set the groundwork for optimisation. It is early days for some firms in this regard, but what is certain is that the front office is taking a much more active role overall."

The survey report was released at Euroclear's collateral conference in Brussels. It is based on interviews with respondents from 20 firms and includes input from brokers, banks, asset managers, pension funds and corporates.

Fruitful Q1 for BM&FBovespa

Brazilian central counterparty BM&FBovespa saw securities lending revenue of BRL 22.2 million ($7 million) in Q1 2015, beating the same quarter in 2014 by 4.9 percent.

BM&FBovespa attributed the result to a 4.9 percent increase in the average value of open interest positions, as well as the removal of rebates in January.

In April the number of securities lending transactions conducted through BM&FBovespa reached 122,240, which was down on March, when it processed 136,446 deals.

Trading value amounted to BRL 62.01 billion ($19.67 billion) in April, slightly higher than March's BRL 60.32 billion ($19.7 billion).

Straight AA+ for OCC

Equity derivatives clearing organisation Options Clearing Corporation (OCC) has retained its "AA+" or 'stable' rating from Standard & Poor's.

The result was partly based on the critical function that OCC has in the US capital markets.

Craig Donohue, executive chairman of OCC, said: "The report reflects the outstanding work by the management and employees of OCC to strengthen the resiliency, risk management and capitalisation of our company."

He added: "We understand the importance of continued vigilance and internal oversight in order to strengthen our role as the foundation for secure markets."

"The work we are doing on regulatory remediation and improving our capital position is very positive for OCC. We will continue to enhance our resiliency, strengthen market

protections, and deliver efficiencies for all market participants."

Standard & Poor's said in its report: "The stable rating outlook incorporates our expectation that Options Clearing Corporation will maintain its cautious risk appetite and preserve the sound quality of its financial safeguards."

India's NSE adds rollover

India's National Stock Exchange (NSE) has introduced a rollover facility to boost participation in securities lending and borrowing.

From 26 May, participants could extend deals for up to three months. Borrowers and lenders could only carry positions forward for a month.

In April, the NSE saw 2,446 trades conducted, with 8.52 million shares trading hands.

The Securities and Exchange Board of India (SEBI) introduced the possibility of rollover schemes in November 2012.

SEBI also amended the country's framework to allow authorised intermediaries such as agent lenders and prime brokers to directly enter into agreements with clearing members to facilitate lending and borrowing.

Japanese e-broker signs up to DataLend

The Japanese brokerage subsidiary of Mitsubishi UFJ Financial Group, Kabu.com Securities, has signed on to DataLend for securities finance market data.

DataLend operates on what is known as a 'give-to-get' basis, whereby clients must supply their securities finance transaction data in order to access DataLend's aggregated industry data.

Masakatsu Saito, president and CEO of Kabu.com Securities, said: "Year after year, trading volume has increased and competition has intensified in the Japanese domestic market, thus it is essential to know trends of market and other companies."

"We believe that we can contribute to client revenue by performing ratings referencing DataLend data."

Japan is the largest market in Asia for securities finance by total on-loan value and the sixth largest globally, according to DataLend.

Abenomics, a series of economic policy reforms in Japan, has driven increased interest in the Japanese market from borrowers domestically and globally.

Japan's eased short-selling restrictions were made permanent in 2013, opening up securities finance opportunities in the market.

SocGen Prime Services improves portfolio margining

Societe Generale Prime Services has launched a portfolio margining service for clients trading on the CME Group exchange.

The new service means that clients can treat interest rate swaps (IRS) contracts and exchange traded futures as one single portfolio, and should result in reduced margins when trading CME group products.

At CME Group, portfolios of IRS and futures contracts are created by booking a client's listed futures on to their legal segregation with operational commingling (LSOC) account.

SocGen has now implemented CME Group's 'Optimizer' toolkit for facilitating portfolio margin processes for clients. This should lead to more efficient margins without an increase in costs.

Nicholas Gionfriddo, head of over-the-counter clearing sales for Societe Generale Prime Services in the Americas, said: "This important upgrade to our clearing business allows our clients to optimise their cost of collateral as well as take advantage of capital efficiencies."

Forward redemptions up in May for SS&C

SS&C GlobeOp's Forward Redemption Indicator for May 2015 has shown notifications of 4.68 percent, up from 3.36 percent in April.

Bill Stone, chairman and CEO of SS&C Technologies, said that the rise in forward redemptions is mainly reflective of seasonality, as the increase year-over-year is only 0.36 basis points from the 4.32 percent for May 2014.

The SS&C GlobeOp Forward Redemption Indicator represents the sum of forward redemption notices received from investors in hedge funds administered by SS&C GlobeOp on the SS&C GlobeOp platform, divided by the assets under administration at the beginning of the month.

Forward redemptions as a percentage of SS&C GlobeOp's assets under administration on the SS&C GlobeOp platform have trended significantly lower since reaching a high of 19.27 percent in November 2008.

SS&C GlobeOp's data on the GlobeOp platform represents approximately 10 percent of the hedge fund industry.

Abercrombie & Fitch and APAC among Markit's most shorted

Abercrombie & Fitch is attracting short interest ahead of earnings announcements, while Australian firms are among the most shorted in the Asia Pacific and China, according to Markit Securities Finance.

Short sellers continue to position themselves in Abercrombie & Fitch, which was the most shorted stock ahead of earnings in November last year.

The stock has declined a further 28 percent, with shares outstanding on loan currently at 19 percent ahead of earnings.

Tidewater, an offshore vessel provider to the energy industry, has 43 percent of its shares out on loan, with the stock already having lost 50 percent of its value in the last 12 months.

Shares have rallied in recent weeks along with the oil price recovery, which has seen short sellers cover some of their positions from the April highs, according to Markit. But demand to short remains strong, with the cost to borrow nearly tripling in the last month.

Short interest remains high in Seadrill at 9.7 percent of shares outstanding on loan. The offshore drilling contractor has seen shares fall 55 percent since oil prices started to collapse in June 2014.

In the Asia Pacific and China, Australian-based ALS, which provides testing services to the mineral, life sciences, and energy and industrial segments, has seen a 23 percent spike in shares outstanding on loan.

Australian foreign exchange service provider Ozforex, meanwhile, has seen shares outstanding on loan increase to 5.5 percent.

UniCredit adopts Murex solution

UniCredit has gone live with Murex's MX.3 solution for UniCRedit Bank Austria and eight European banks.

The solution includes a programme of standardising front-to-back office technology and industrialising markets and treasury services. It is designed to consolidate these services on to a single platform to be shared across the whole group, leading to benefits in cost and operational efficiency.

It could also reduce the time-to-market for new products across the group's governance framework.

The new platform has been implemented over two years, involving a partnership between

Murex and UniCredit Business Integrated Solutions, UniCredit's services company. It has now gone live successfully, to replace the previous fragmented legacy systems in the Eastern European region.

Murex's MX.3 for Limit Control solution is now linked to UniCredit's internal Basel III-validated counterparty credit risk model. The solution also includes other features such as risk evaluation, regulatory reporting and payments.

Legal, compliance and security standards are also built in, including protection of sensitive client information, as obliged by local data secrecy laws.

Fabio Cesaretti, head of business line markets, financing and advisory at UniCredit Business Integrated Solutions, said: "In terms of innovation, the global platform provides best of breed functionalities for the end users, therefore extending the baseline from where to exploit digital opportunities."

Murex Group CEO Maroun Edde said: "The strategic overhaul of UniCredit global IT infrastructure is, for us, a great achievement rooted both on the quality of the collaboration and the completeness of offering of our MX.3 front-to-back risk platform."

He added: "We aim to further cement our partnership with UniCredit Business Integrated Solutions in years to come, and pursue our role as an enabler of their vision."

SunGard's hottest stocks

Much of the UK securities lending market has seen buoyancy following a surprise majority win for the Conservative party, according to SunGard's Astec Analytics.

This has reassured investors and benefited companies such as Premier Oil (PMO.L), as many analysts have suggested the win would offer benefits for those companies operating in the North Sea.

As its share price gained ground, short sellers also began to cover their positions, with borrowing volumes falling about 11 percent.

Transocean's (RIG) share price has also gained ground despite mixed numbers.

On the borrowing front, these gains have seemingly triggered a bout of short covering, with volumes falling 9 percent in just one day.

In the Americas, Time Warner Cable (TWC) has seen fresh attention as news emerged that Charter Communications was arranging a debt package in order to pursue its merger with the cable giant.

Astec commented: "As its shares lost ground, so too did borrowing volumes however, hinting at an increase in short covering—the number of TWC shares being borrowed falling 30 percent in the week."

In contrast to oil company activity in the UK, US renewable energy producer Clean Energy Fuel Corporation (CLNE) has caught focus after UPS said they would be using renewable natural gas for part of its delivery fleet—Clean Energy producing the first such gas available in commercial quantities.

Despite this, its share price did see some pressure as a number of investors took profit on the back of recent highs, while on the borrowing front, demand to short sell picked up—the cost of borrowing climbing from under 40 percent to a peak of over 65 percent.

Japanese tech giant Sharp (6753) has secured the top position in Astec's list for the Asia Pacific region after it said its upcoming restructuring plan could include an accounting adjustment that would effectively wipe out much of the underlying value of current shareholder investments—bringing about a 30 percent decline in the stock.

On the borrowing front, Astec's data has suggested short sellers have been covering positions for more than a month, with volumes now down 12 percent compared to 1 April.

Mixi (2121) has also seen interest ahead of its latest earnings numbers; investors seemingly taking on positive expectations as the share price has climbed.

Astec's data has also suggested short sellers have been increasing their stakes, with volumes up 20 percent over the past six weeks.

Macro managers build resilient short positions

Global macro managers that built up short positions on European rates proved to be resilient overall in April, according to a brief from Lyxor.

Some macro managers were up 2 percent while others, which were most exposed to European equities, were down 1 percent.

In the commodity trading advisor space, losses were broad-based and reached high single digits in some cases.

Philippe Ferreira, head of research for Lyxor's managed account platform, commented: "The bond market sell-off that took place in Europe appears to be the result of several factors: rich valuations, a rebound in energy prices lifting inflation expectations and improved growth conditions in the region."

According to Ferreira, the extent of the price action is technical and partly related to the fact that, in "thinly traded" markets caused by the European Central Bank's quantitative easing programme, macro managers have been increasing their short positioning on European rates.

He continued: "Several prominent fixed income managers have been vocal on the opportunity to short the Bund a few weeks ago, and, from what we can see in the industry, have actually implemented these views within their portfolios."

ENSO launches new platform for primes and hedge funds

ENSO Financial Analytics has launched ENSO Color Portal, a platform to allow information between prime brokers and their hedge fund clients to be tailored to their trading activities.

The platform will allow hedge funds to receive customised desk flow colour commentary and trade opportunities from their counterparties.

For banks, the platform will allow prime brokers to receive instantaneous feedback and reduce balance sheet exposure.

This will help improve return on assets in response to Basel III capital requirements.

Michael Gentile, partner at ENSO "Hedge funds and their prime brokers have entered a completely new era of competitive and regulatory challenges."

"For dealers, availability of balance sheet is limited, and both prime brokers as well as hedge funds need to ensure they are using this resource in the most effective manner possible to optimise returns."

KDPW_CCP clears first OTC trades in PLN

KDPW_CCP has cleared the first inter-bank market over-the-counter trades denominated in PLN between Citi Handlowy and mBank.

The launch of the OTC derivatives and repo clearing service was required under the European Market Infrastructure Regulation.

It required all OTC trade in derivatives in certain classes to be be cleared in an authorised CCP. KDPW_CCP was authorised in April 2014.

The new normal

Regulation dominated proceedings at EquiLend's client event in London

MARK DUGDALE REPORTS

New regulation is dominating the new age of securities finance, but markets are adjusting as participants come to terms with how best to incorporate requirements into their practices and systems, heard attendees of the EquiLend client event in London.

Felix Oegerli, head of trading, sales and capital markets at Zürcher Kantonalbank, kicked off a panel discussion on 'The New Age of Securities Finance' by saying that the business itself remains relatively unchanged, at least in terms of how it is conducted.

What have changed are the infrastructure and markets, particularly since the financial crisis struck in 2007 and 2008, when legislators were given a mandate to rein in banks and other institutions. The 'new normal', said Oegerli, is one in which securities finance is recognised as important and outsiders respect it.

The onslaught of regulation should not detract from this, according to Oegerli. "I'm not emotional about regulation—it is what is."

A consequence of new regulations has been

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a widely seen uptake in non-cash collateral, although Oegerli noted that cash collateral is still the preferred choice in Europe, because each trade is different and markets are cyclical.

The decision whether to take cash or non-cash "depends on the relative funding cost of the trading book," he explained, adding that there is a lot of inventory around at the moment and lenders are willing to meet the demands on borrowers.

Anthony Mirabile, global head of securities lending and inventory management operations at Goldman Sachs, pointed to the EU's Central Securities Depositories Regulation (CSDR) and Target2-Securities (T2S) as "opportunities" that will create a single entry point to a fungible pool of assets with underlying issuer CSDs.

"We should be embracing the regulatory changes coming", said Mirabile, because they offer efficiency and scalability. "Regulation is going to help people like me make technical development more compelling."

Oegerli added that the trading floor won't see improvements straight away, but the likes of the CSDR and T2S are good bases for the future. "We have the roads—now we need the cars."

The long-lasting worry about how securities finance will pay for implementing regulatory requirements is becoming easier to quell, said Mirabile.

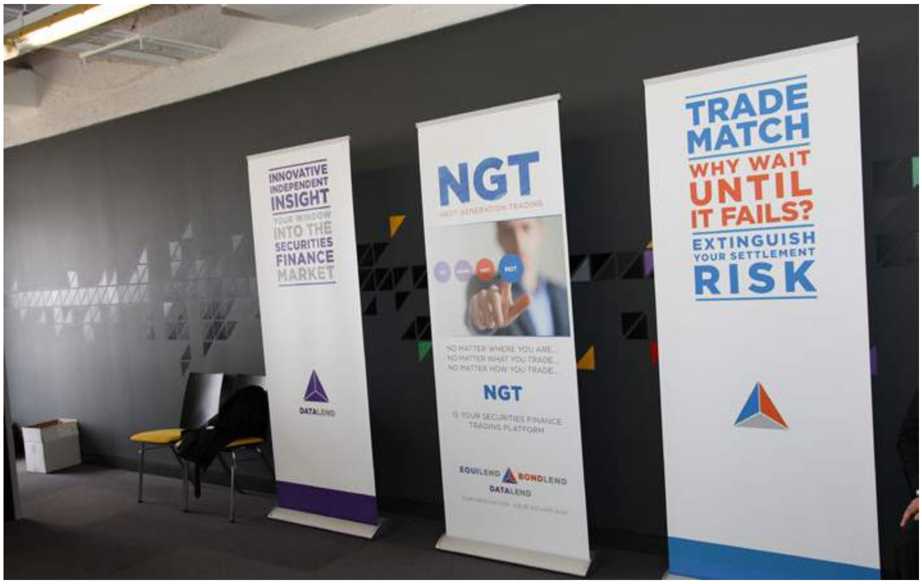
"It's a rational cost that you can explain," he said.

Data to-do-list

Big data was the subject of a later panel in which information technology experts attempted to pin down a working definition.

The panel concluded that the problem with 'big data' is that there are so many definitions. To understand its importance, businesses need to look at the volume of information they hold.

DataLend director Chris Benedict said EquiLend has somewhere between 8 and 9 terabytes,



which is an "incredible volume of data". The trick to making the most of it is having a variety of data sets, from product type to fees, with which to work. Then it needs to presented in the correct manner, added Benedict.

The final panel of the day turned attendees' attention to the pending securities finance transaction regulations.

Kevin McNulty, CEO of the International Securities Lending Association (ISLA), said the EU's legislation might be finalised in the next few weeks.

ISLA is a "little less optimistic that this project will be a small one", he said, because the European Commission wants to see everything that the securities finance market does in the EU.

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.

In terms of transaction reporting to trade repositories, ISLA stated in a letter to regulators in April that it generally 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".

It is "highly unlikely that you'll have to report anything in the next 18 months", added McNulty.

Brian Lamb, CEO of EquiLend, said he is worried about the EU's proposed regulation because it is very different to what the FSB is considering. There is also a perception that regulators will be able to prevent another financial crisis if they have access to lots of securities finance data, which just isn't true, he added. **SLT**

Manage this: collateral conundrums unpicked

DTCC, Torstone, Clearstream, Société Générale Securities Services and State Street on regulatory requirements around OTC derivatives and the best collateral management systems

BECKY BUTCHER REPORTS

Regulatory requirements around OTC derivatives, for example, are creating a bigger demand for cash and non-cash collateral, and for collateral management services. In your opinion, are the best collateral management systems built in-house or by third-party vendors, and why?

Ted Leveroni, executive director of strategy and buy-side relations, DTCC

The changes brought on by global derivatives regulations and new capital and liquidity requirements for financial institutions are driving technology development at a pace we have not seen before. As firms become more aware of these changes, including the increase in the demand for collateral and the exponential increase in collateral movements in general, a large number of market participants are realising that their in-house systems are unable to sufficiently keep up. The ability to leverage ideas generated from an external solution provider's entire client base, not just a single firm's internal pool of experts, has obvious benefits.

It is important to note that the collateral lifecycle spans multiple parties and counterparties. By leveraging a common global collateral infrastructure that is built on extensive cross-border industry engagement and able to service the needs of a broad range of market participants, firms are able to reduce the operational costs and risks associated with their collateral processes within their firms while, at the same time, complying with increased regulations governing derivatives and capital adequacy. Given that much of the collateral process is based on communication, data delivery and collateral movements between different entities, it makes good sense to leverage standards and adopt solutions as a community, rather than implementing firm-specific solutions.

Brian Collings, CEO, Torstone Technology

As a technology provider that was borne out of a management buy-out of a leading global investment bank, Torstone has experienced

> "Given that much of the collateral process is based on communication, data delivery and collateral movements between different entities, it makes good sense to leverage standards and adopt solutions as a community, rather than implementing firm-specific solutions"

Ted Leveroni, executive director of strategy and buy-side relations, **DTCC**

> "There is more choice in the market, so for most financial institutions there is no competitive advantage to building in-house. The exception is where sophisticated collateral optimisation is required because the assets under management are extremely large"

Brian Collings, CEO, **Torstone Technology**

first-hand the advantages of building technology solutions in-house. At the time we built our collateral management module in-house, there was not much choice in the market for both cash and non-cash collateral systems and we wanted to replace a vendor system that was inflexible and costly to change.

Nowadays, however, there is more choice in the market, so for most financial institutions there is no competitive advantage to building in-house. The exception is where sophisticated collateral optimisation is required because the assets under management are extremely large. This is why many top-tier banks still look to build in-house. However, for most firms, having a firm-wide view of their collateral is sufficient.

Buying a vendor solution reduces the burden of regulatory compliance, and means firms can avoid having to make the multiple changes required to in-house collateral management systems as additional regulations come into effect. This constant cost of change is effectively spread across multiple clients when buying a vendor solution. Torstone's collateral management module incorporates multiple feeds to consolidate the transaction data and the business processes to generate the collateral calls, as well as in-built knowledge of the regulatory environment.

Clement Phelipeau, product manager for derivatives and collateral management services, Société Générale Securities Services

The buy and sell sides need to clearly view their collateral holdings and outgoing obligations, as well as the overall way the end-to-end process is managed.

There is no absolute best collateral management technology architecture; the fact that it will be the best-fit solution will depend on the firm's legacy setup, activity and strategy.

Built in-house collateral management systems are very attractive, since they often have the most customised and cutting-edge technology, seamlessly integrated in the legacy setup and retaining both technology and operations expertise in-house. But this flexibility comes with a cost, which can be prohibitive for small firms (or a small budget dedicated to this function) because it implies developing, testing, and constantly updating a system (partly, but not only, for regulatory reasons).

Third-party vendors' systems could be a better option for firms with tighter budget constraints and because of the fact that it is a 'plug and play' solution. Buying a system to a third-party provider will relieve firms from most of the obligations related to the maintenance of the system, ensuring regulatory and market practices compliance. Firms may also benefit from enhancements requested by other clients of the vendor.

It must be kept in mind that buying a system should drain most of the technology expertise (related to the collateral management system) out of a firm while keeping the operations knowledge and will create a heavy reliance on a third-party system provider.

Fabrice Tomenko, senior product manager, Clearstream

The use of securities, but also the general business needs of the firm in question, will

> "It must be kept in mind that buying a system should drain most of the technology expertise (related to the collateral management system) out of a firm while keeping the operations knowledge and will create a heavy reliance on a third-party system provider"

Clement Phelipeau, product manager for derivatives and collateral management services, **Société Générale Securities Services**

> Investing in a collateral management system to manage these more sophisticated but essential functions is one option, but this limits the firm's ability to pick and choose additional functionalities it may need in the future

Fabrice Tomenko, senior product manager**, Clearstream**

require many to adopt more sophisticated collateral management tools and develop expertise to conduct eligibility and reference checks, cheapest to deliver algorithms and settlement processes for instance.

Investing in a collateral management system to manage these more sophisticated but essential functions is one option, but this limits the firm's ability to pick and choose additional functionalities it may need in the future. Investing in in-house systems can also be expensive in terms of licence fees, time and necessary resources to implement and integrate the system with other internal procedures such as SWIFT messaging. These costs should not be underestimated, especially as they are added to the normal profit and loss costs.

In comparison, it may be more cost-effective for a market participant to select an outsourced solution to avoid the costs associated with licensing and maintaining the system. Outsourcing generally reduces operating costs over time but also allows a firm to reallocate its manpower to more value-added areas such as dispute resolution and risk management. Firms that opt to outsource collateral management to a service provider will have access to more sophisticated collateral management functionalities such as collateral optimisation algorithms and funding services.

As an international central securities depository (ICSD), Clearstream is a safe service provider with a proven track record and decades of experience in both collateral management and risk management.

Joern Tobias, head of collateral services for the EMEA and global product management collateral services, State Street

To determine whether to buy or build, firms must first contemplate how the regulations will affect them. Collateral management is a key focus of regulators given the role it played in the crisis of 2008/2009 and a major worry in this space today is a possible shortfall of eligible collateral.

The issue at hand is whether to buy versus build and deciding which option to take rests on several key factors. The first of these is the total cost of ownership for each approach, encompassing both the cost of development for building and licensing, support and maintenance costs. Also key are the staffing costs, the level of in-house expertise, and the willingness to keep the in-house system updated with new regulation. Finally, firms must take into account the uniqueness of the business model, bearing in mind that buying would put them in a queue with other clients for bespoke enhancements.

There is a third option: buy-side firms could outsource their collateral management operations to a service provider, which frees them up to focus on other areas such as trading strategies and risk management. Outsourcing gives not only the opportunity to leverage existing and scalable infrastructure, but also allows benefiting from the subject matter expertise of the provider. State Street, for its servicing business, decided to go down the route of building as a means to provide the greatest flexibility to our clients. **SLT**

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Joern Tobias, head of collateral services for the EMEA and global product management collateral services, **State Street**

Turkish delight turns sour

In a move that mirrors Turkey's credit market, equities have taken a bearish turn. Markit's Simon Colvin explores the recent slump in the market

Markit is expecting Turkish dividends to tumble by 26 percent in 2015 to 10.8 billion Turkish lira, largely due to the absence of Turkcell's accrued dividends for 2010 to 2013, which were distributed in 2014. Turkcell has helped lift the telecommunications sector higher, contributing 28 percent of total dividends compared with banking's now second highest contribution of 23 percent.

Double-digit dividend cuts are projected for the basic resources and construction material sectors. Excluding Turkcell's dividend distributions, total aggregate dividends for the region would have decreased by 6 percent.

As a result of recently reported higher unemployment and bigger budget deficit numbers, the Turkish lira has weakened, hitting record lows against the US dollar. The negative macroeconomic outlook has also affected earnings estimates.

Markit's latest Turkey purchasing management index (PMI) data has signalled a downturn in the manufacturing sector with new orders, output and exports falling for the fourth consecutive month.

Markit is cautiously forecasting dividends for Turkish companies with positive trends in earnings at the lowest range of payout ratios outlined in dividend policies or based on historical averages. Looking forward, dividend forecasts for 2016 and beyond are more positive with growth of 30 percent expected in 2017 and 10 percent in 2018.

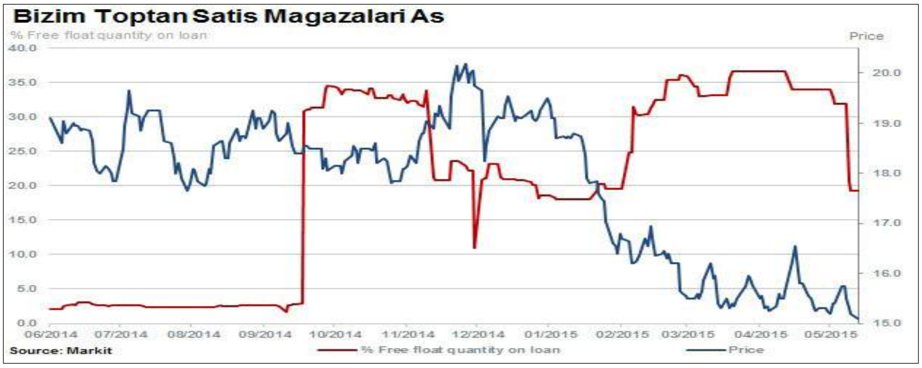
On average, the percentage of free float out on loan for the International Securities Exchange (ISE) 20 has increased by 56 percent, from 1.2 percent to 1.9 percent. The most short-sold company by this metric is Istanbul-based Bizim Toptan Satis Magazalari (BTSM). The company operates a chain of wholesale cash and carry stores, focused on fast moving consumer goods.

BTSM has seen revenue growth and earnings stall in recent years after posting successively strong years of growth prior to 2012. This has been reflected in the share price, which has halved in the last two years.

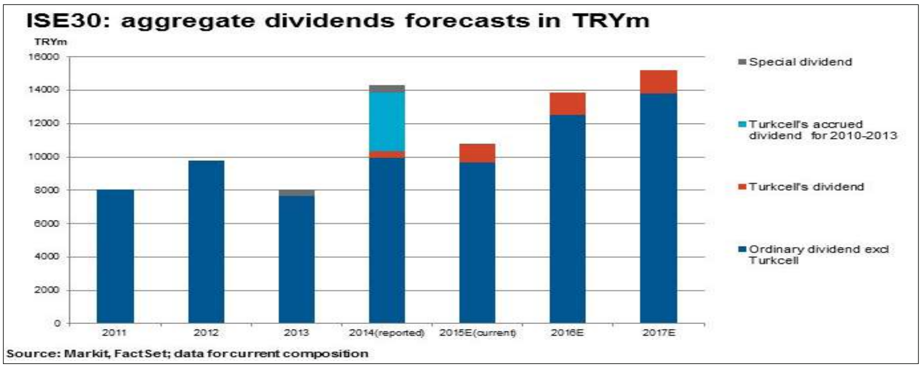
A Turkish manufacturer that has recently seen a rise in shorting activity is Vestel Elektronik Sanayi. The company is based in Istanbul and produces electronic equipment including televisions and white goods. The group is 68 percent exposed to European sales and has seen its percentage of free float quantity on loan double since April, to 11 percent.

The stock is up 92 percent over the last 52 weeks, but has declined 28 percent year-to-date. While consensus forecasts point to record sales for the firm, operating profits are expected to decline.

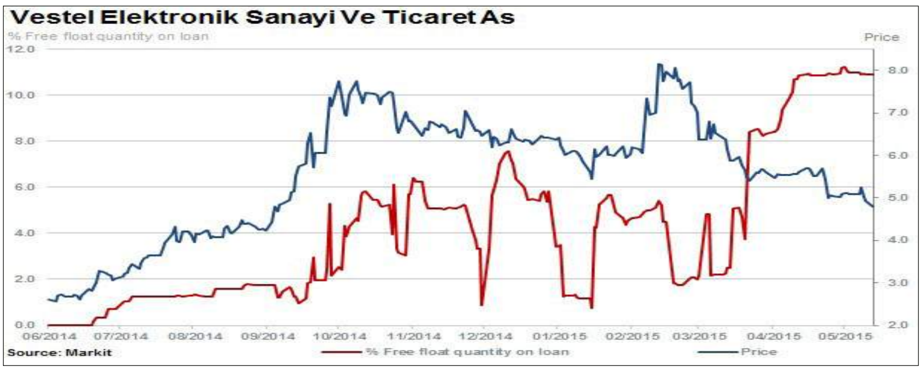
Concerns are growing that Turkey's economy will be negatively affected by recent movements in global markets. The country may continue to run out of steam, exacerbated by a recent slump in foreign direct investment. **SLT**



Source: Markit



Source: Markit, FactSet; data for current composition



Source: Markit

Simon Colvin
Analyst
Markit Securities Finance

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.

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Industry appointments

LCH.Clearnet Group has appointed **Ali Hackett** to the newly created role of global head of sales and relationship management in New York.

Hackett will be responsible for maximising the value, reach and range of the group's existing customer relationships while pursuing new member and client business opportunities.

She will report to group CEO Suneel Bakhshi, and will be a member of LCH.Clearnet's executive committee.

Bakhshi commented: "Hackett's experience, expertise and deep knowledge of our industry will further strengthen our global management team. In her new role, she will be integral to ensuring that we maintain a harmonised approach in our relationships with customers."

Olivier Grimonpont is taking over as global head of collateral management services at Euroclear.

The role has been vacant since Saheed Awan departed at the end of November 2014 after three years at the firm.

Hedge funds service provider ENSO Financial Analytics has hired **Julian Pittam** as head of Europe, the Middle East and Africa, and Stephen Caplen as global COO.

Pittam and Caplen will operate out of ENSO's London office and join the company's global executive management team.

Prior to his new role, Pittam served at Data Explorers, now known as Markit Securities Finance, and was responsible for building out the product and client base.

Caplen previously served at ICAP as deputy group CFO. Before this, he ran ICAP's global IT infrastructure and global business services departments.

Pittam said: "Fast-growing companies with great products and excellent management teams are the most exciting and challenging places to work. I look forward to working with the existing team in Europe as we build our presence."

Caplen added: "Market participants are confronted with extraordinary changes in market conditions that call for exceptional solutions."

"ENSO has successfully brought to market a solution that addresses unprecedented regulatory pressures and the ever-rising cost of capital on dealers' balance sheets."

Pirum Systems has named **Mark Schilling** as its new global head of sales.

Schilling has previously served as managing director of prime services at Scotiabank.

He will be in charge of managing and increasing Pirum's network of securities finance clients.

Schilling takes over from Jonathan Lombardo, who left the role earlier this year to join Eurex Clearing's clearing sales and relations team.

eSecLending has appointed **Erik Skulte** as vice president of US business development and **Nora Bowman** as vice president of client relationship management.

In his new role, Skulte will be responsible for the continued growth and expansion of the firm's securities financing business.

Bowman will serve as the primary point of contact for US-based clients, managing service delivery and overseeing all elements of the client programmes.

Peter Bassler, business development managing director at eSecLending, said: "Skulte will be a key member of eSecLending's business development team. His industry experience will be invaluable as we expand the firm's US client relationships and development of service capabilities."

Brooke Gillman, eSecLending's managing director of client relationship management, added: "We are excited to have Bowman join the firm. Her experience in the securities financing industry and management of client relationships will be an asset to the company and will further expand our team."

Joseph Kamnik has been promoted to senior vice president and general counsel at OCC, effective 1 June.

Previously, Kamnik served as vice president and chief regulatory counsel, where he was responsible for working with and effectuating OCC policies with the US Securities and Exchange Commission. **SLT**

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SECURITIESLENDINGTIMES

Editor: Mark Dugdale
editor@securitieslendingtimes.com
Tel: +44 (0)203 750 6022

Reporter: Stephen Durham
stephendurham@securitieslendingtimes.com
Tel: +44 (0)203 750 6022

Reporter: Stephanie Palmer
stephaniepalmer@blackknightmedialtd.com
Tel: +44 (0)203 750 6010

Editorial assistant: Becky Butcher
beckybutcher@blackknightmedialtd.com
Tel: +44 (0)203 750 6018

Publisher: Justin Lawson
justinlawson@securitieslendingtimes.com
Tel: +44 (0)203 750 6028

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

Company reg: 07191464