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SFTR text is published at last

The EU Securities Financing Transactions Regulation's (SFTR) text has finally been released for public scrutiny.

The trialogue came to an agreement on the SFTR's final text on 17 June in Brussels. The regulation is likely to be published in the Official Journal in the autumn and will become effective after 20 days.

The final technical rules still need to be worked out between the European Commission and the European Securities and Markets Authority (ESMA), so market participants will have between 12 and 21 months before they will be required to report to trade repositories.

Managers' disclosures will be required 12 months from the effective date of the SFTR, while disclosures on collateral reuse must be made after six months.

The SFTR will apply to borrowers and lenders established in the EU, as well as those in a third country, if their EU branches are used during the course of a transaction.

All UCITS and alternative investment fund managers will need to comply, as those that engage in collateral reuse.

According to the SFTR's text, the new rules require the reporting of details of transactions conducted by all market participants, whether they are financial or non-financial entities.

It said: "[This includes] the composition of the collateral, if the collateral is available for reuse or has been reused, the substitution of collateral at the end of the day and the haircuts applied."

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ICAP expands partnership with AcadiaSoft for collateral

ICAP has increased its investment in AcadiaSoft, an electronic margining provider for over-the-counter (OTC) derivatives trades.

The investment is a joint venture between ICAP, DTCC and Euroclear, along with four banks and six additional investors.

ICAP's TriOptima has also entered in to agreements with AcadiaSoft, DTCC and Euroclear to link AcadiaSoft's messaging service, MarginSphere 2, with TriOptima's ITC trade reconciliation service and DTCC and Euroclear's joint Margin Transit Utility.

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FSB launches new shadow banking risk review

The Financial Stability Board (FSB) has launched a peer review on the implementation of its policy framework for the financial risks posed by non-bank financial entities.

The framework applies to 'other shadow banking entities' that are not money market funds. An evaluation will look at the progress made by FSB jurisdictions when it comes to implementing the main principles outlined in the framework.

In particular, it will address the assessment of shadow banking entities based on economic functions, the adoption of policy tools for mitigating any risks identified, and levels of participation in the FSB information-sharing process.

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SFTR text is published at last

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The text went on to say that ESMA must make sure additional operational costs are kept at a minimum: "In order to minimise additional operational costs for market participants, the new rules and standards should build on pre-existing infrastructures, operational processes and formats which have been introduced with regard to reporting derivative contracts to trade repositories."

"In this context, ESMA should, to the extent feasible and relevant, minimise overlaps and avoid inconsistencies."

As for collateral reuse, the text outlines what information is required and why: "In order to increase transparency of reuse, minimum information requirements should be imposed. Reuse should take place only with the express knowledge and consent of the providing counterparty."

"Therefore, the exercise of reuse should be reflected in its securities account of the providing counterparty, unless this account is governed by the law of a third country which might provide for other appropriate means to reflect the reuse."

ICAP expands partnership with AcadiaSoft for collateral

Continued from page 1

This network intends to create a smooth end-to-end collateral processing hub for non-cleared derivatives.

Michael Spencer, group CEO of ICAP, said: "This cooperation between AcadiaSoft, TriOptima, DTCC-Euroclear and our partner banks is very exciting and we look forward to working with the other shareholders to create a true industry solution."

"We will combine TriOptima's expertise through its triResolve portfolio matching service with AcadiaSoft's margin messaging platform which will facilitate regulatory compliance and a reduction in operational costs and risks."

FSB launches shadow banking risk review

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A questionnaire has been distributed to national authorities of FSB jurisdictions, however the review will also welcome feedback from financial institutions, industry and consumer associations, and other stakeholders.

This feedback could include: comments on the arrangement for defining and updating 'regulatory perimeters' to capture new forms of shadow banking that ensure financial stability; types of information necessary for assessing the risks of shadow banking for those large firms that have the potential to affect the wider financial system; ways to increase public disclosure of risks; and tools for mitigating any identified risks.

The deadline for submitting feedback was 24 June and, although individual submissions will remain private, a peer review is expected in Q1 2016.

Synthetic financing transactions on the rise

A survey of 56 market participants carried out by technology provider 4sight Financial Software and consultancy The Field Effect has revealed that 32 percent of participants are currently booking synthetic financing transactions such as total return swaps and portfolio swaps.

A further 18 percent said they plan to do the same in the near future. Firms surveyed included a range of top-tier and second-tier investment banks and asset managers.

The survey was carried out as part of research for a whitepaper and webinar discussing market trends leading to an increase in synthetic financing, technology challenges and how to define a target operating model in light of

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increasing volumes and the complexity of synthetic trades.

It also discusses the emergence of holistic models incorporating physical and synthetic financing, liquidity and collateral management, and balance sheet and capital deployment.

"The survey highlights the lack of effective technology provision for an increasing volume of synthetic finance swaps trading," said Martin Seagroatt, 4sight's director of marketing and product innovation and co-author of the paper.

"These types of swaps can be complex to process, often including multiple underlying instruments and thousands of trade events. Technology solutions that can provide efficient, automated processing of synthetic financing trades with low manual intervention and high [straight-through processing] are now a key component in running a profitable swaps business."

According to Seagroatt, firms should seek to implement a holistic target operating model that optimises the deployment of scarce resources and maximises synergies across product types.

He concluded: "This approach looks to increase return on capital and balance sheet while reducing funding consumption and provides a deeper analysis of client profitability across all business lines."

Linear Investments deploys Ancona analytics

Investment manager Linear Investments has successfully deployed Ancoa's market surveillance and analytics capabilities for its execution and trading platforms.

With market surveillance being a top priority for regulators, and the new Market Abuse Regulation (MAR) set to come into force in July 2016, the onus is on market participants to detect and deal with potential market manipulation and improve market integrity overall.

Linear Investments has chosen Ancoa to help it take full control of its regulatory obligations across 27 global markets.

Building on Ancoa's platform and standard regulatory alert library, the Linear Investments deployment includes both bespoke alerting logic and custom data integration with their Order Management System.

Ancoa will provide Linear Investments with a manageable number of alerts, drawing attention to only those scenarios that require further investigation for potential market abuse, and are relevant to their specific business as detailed under MAR.

In addition to covering the core surveillance requirements, Ancoa's solution includes a suite of business automation processes in the form of reporting, helping Linear Investments's operations managers gain visibility over the quality and frequency of the alerts received and how these alerts are being internally managed.

Furthermore, with continually evolving market abuse scenarios, Ancoa's ability to create and deploy new and bespoke alert logic, ensures that Linear Investments is well positioned to meet future regulatory developments.

All bespoke development and data integration was accomplished in a two-week cycle from start to go-live.

Kurt Vandebroek, CEO of Ancoa, said: "We are confident that our contextual approach will give Linear Investments's compliance team, and

by extension their customers, the necessary surveillance tools to detect and deal with market abuse, and help them fulfil their regulatory obligations as well as operational oversight requirements with confidence."

Jerry Lees, chairman of Linear Investments, added: "We are delighted to have chosen and deployed the Ancoa surveillance capabilities across our trading and execution platforms in a record time of two weeks, thanks to Ancoa's agile technology team."

"Ancoa's platform is easy to deploy, simple to use and provides our trading and compliance teams, as well as our hedge fund clients, with improved visibility over trading behaviours and operations. This empowers us to act swiftly in order to prevent market abuse and benefit from additional business intelligence."

Record-breaking June for OneChicago

OneChicago's June 2015 volume stood at 1.7 million, a 35 percent increase year-over-year and a new record for monthly volume.

During June, OneChicago successfully consolidated all products onto OCXdelta1, its proprietary matching and reporting platform and onto the multicast market data ticker plant, OCTP.

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

H1 2015 now stands as the most successful to date with volume up 12 percent overall from 2014.

On June 22, the exchange announced a pilot programme to cap the OCX.NoDivRisk execution fees at $700 per side, per trade, from 1 July.

The programme, which applies to all OCX. Weekly products and all '1D' futures, will continue through at least year-end 2015, and may be extended into 2016, according to the exchange.

OneChicago has continued to introduce OCX. Weekly products listing every day of the week expiring one week later and settling to stock on a T+1 basis upon expiration. It now lists weekly futures on 334 stocks including exchange-traded funds and master limited partnerships.

Open interest increased 28 percent year-over-year to 808,053 contracts on the equity finance exchange at close-of-market, 30 June 2015.

In total, 67 percent of June 2015 month-end open interest was in OCX.NoDivRisk products. The OCX.NoDivRisk product suite is an equity finance tool that removes dividend risk for customers carrying synthetic equity delta exposure.

OCC cleared contracts down from 2014

OCC's cleared contract volume in May reached 308.6 million contracts, a 3 percent decrease from the May 2014 volume of 319.7 million contracts.

The clearing organisation's year-to-date average daily cleared contract volume is down 7 percent from 2014 with 16.1 million contracts in 2015.

OCC's securities lending central counterparty activity in May 2015 was up 9 percent in new loans from May 2014 with 109,626 transactions during the month.

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Zürcher Kantonalbank

Year-to-date stock loan activity increased 11 percent from 2014 with 540,068 new loan transactions in 2015. The average daily value cleared by OCC in May was $196.2 billion.

Exchange-listed options volume reached 304,133,734 contracts in May 2015, a 4 percent decrease from the May 2014 volume of 315.6 million contracts. Year-to-date average daily options volume slid 7 percent from 2014 with 15.9 million contracts in 2015.

Equity options volume in May 2015 was 275.4 million contracts, a 3 percent decrease from May 2014. Index options volume in May 2015 was down 9 percent from May 2014 with 28.7 million contracts.

OCC's cleared futures volume in May reached 4.5 million contracts, a 10 percent increase from the May 2014 volume of 4.1 million contracts. OCC's year-to-date average daily cleared futures volume decreased—down 18 percent from 2014 with 217,073 contracts in 2015.

Russian and Chinese CSDs team up

Russia's National Settlement Depository (NSD) and China Central Depository and Clearing (CCDC), which services governmental securities, have agreed to work together to boost participation in both markets.

The parties agreed to share experience and information, to develop cooperation in the sphere of depository and settlement operations, operational interactions using corresponding accounts, corporate actions processing and information services.

NSD and CCDC intend to cooperate bilaterally and within the Association of Eurasian Central Securities Depositories, Association for Corporate Growth and World Forum of Central Securities Depositories.

Eddie Astanin, chairman of the executive board at NSD, commented: "Russia's post-trading infrastructure integration with the global market and with the Chinese market in particular meets our clients' interests and expectations."

Broadridge wins BBVA post-trade mandate

BBVA Group has adopted Broadridge's Managed Service as a post-trade utility model to support its fixed-income business in the US.

Broadrige will provide an integrated service to support fixed-income and repurchase agreement processing, as well as international clearance and settlement and investor communications services. The move is intended to help BBVA expand its product offering and enhance its trade processing and risk controls. It could also lead to cost savings.

Broadridge already supports reconciliations processing of equities, cash and exchange-traded derivatives for BBVA, a service it has provided since 2013.

Ramon Martinez Sobrado, head of corporate and investment banking global operations at BBVA Group, said: "As the fixed income market evolves, new technology and operating models will play an increasingly vital role for our business."

He added: "The strategy to move to Broadridge's Managed Service model enables BBVA to leverage significant scale and cost

efficiencies to gain competitive differentiation for our US institutional fixed income business. The expanded relationship with Broadridge is part of our strategy to deliver superior services to our clients while enhancing our core technologies and efficiencies."

It is estimated that Broadridge technology supports post-trade processing for 60 percent of all US fixed-income trading volumes, including 16 of the 22 primary US dealers. Its Managed Service offering handles about 16 percent of all US institutional fixed-income volumes—a figure that has doubled in the last year.

Wobbly June for Eurex Repo

Eurex Repo reported an average outstanding volume of €183.2 billion across all markets for June 2015, a drop from €222.5 billion in June 2014.

The secured money market GC Pooling saw an average outstanding volume of €148.3 billion, reduced from €180.6 billion in June last year. The Euro Repo market reached an average outstanding volume of €34.9 billion, a dip from €41.9 billion in June 2014, which was attributed to the new quantitative easing policy of the European Central Bank.

Trading volumes at Eurex Exchange reached 11 million contracts in June 2015, up from eight million in June last year.

Of these, 8.6 million were Eurex Exchange contracts, compared to six million in June last year, and 2.4 million were traded on the US-based International Securities Exchange (ISE) —an increase from two million in June 2014.

In total, 189.8 million contracts were traded at Eurex Exchange in June, and 52.7 million were traded on ISE.

TriOptima eliminates $1.65 trillion AUD notional

TriOptima has revealed that 20 financial institutions have reduced notional principal outstanding by $1.65 trillion in the first triReduce compression cycle for unlinked, cleared Australian dollar (AUD) interest rate swaps in LCH.Clearnet's SwapClear.

This cycle reduced dealer-to-dealer AUD interest rate swap notional outstanding at SwapClear by almost 21 percent.

Where clearinghouses maintain their trades as 'unlinked trades', having unlinked them from the original counterparty, a larger pool of trades becomes available for compression since dependence on the participation of other clearing members is reduced.

"This AUD cycle at SwapClear was a dramatic increase over the last cycle in May 2014 where trades were still linked," said John Chiah, head of triReduce Asia Pacific.

"We went from 14 to 20 participants including local representation, and the notional eliminated almost tripled. This continues the trend we've seen of increased focus on compression in the region, and underscores the impact of unlinking trades on compression results in a clearinghouse."

Marcus Robinson, head of SwapClear Australia, added: "This is the largest AUD TriOptima compression cycle we've run at SwapClear."

"We continue to see good uptake for compression in the Australian market, and worldwide, reducing the notional outstanding despite growing average daily cleared volumes."

"We expect this demand for compression services to continue as market participants recognise the benefits of streamlining their portfolios to increase their capital efficiencies."

Liabilities out-dive assets in June

The funded status of the typical US corporate pension plan increased 1.5 percentage points in June to 87.8 percent, as liabilities declined more rapidly than assets during the month, according to the BNY Mellon Investment Strategy and Solutions Group (ISSG).

The June BNY Mellon Institutional Scorecard is the first to reflect a realignment in the December 2014 funded status for the typical US corporate plan.

The realignment resulted from recent changes in mortality tables produced by the Society of Actuaries to estimate life expectancies. These longer life expectancy assumptions caused a 5 percentage-point reduction in the December 2014 funded status, which was then carried forward, said ISSG.

"We expect additional revisions as more companies adopt these changes in the mortality tables," commented Andrew Wozniak, head of fiduciary solutions at ISSG.

Public plans, endowments and foundations all missed their return targets in June due to falling asset values.

For the typical US corporate plan, assets in June fell 2.1 percent, while liabilities declined 3.8 percent as the Aa corporate discount rate rose 29 basis points to 4.49 percent, according to the June scorecard.

This was the fifth consecutive month for a rise in the discount rate and the third consecutive month in which most asset classes outperformed the liability at the typical corporate plan, according to ISSG.

Plan liabilities are calculated using the yields of long-term investment grade bonds. Higher yields on these bonds result in lower liabilities.

"The significant rise in the Aa corporate discount rate in June continued the momentum toward lower liabilities," said Wozniak.

"Discounting the impact of the new mortality tables, the funded status of typical corporate plans continues to improve because of the declining liabilities."

Public defined benefit plans in June missed their return target by 2.3 percent as assets declined 1.7 percent, according to the monthly report. Year-over-year, public plans are 6.8 percent below their annual return target, said ISSG.

For endowments and foundations, the real return in June was -2.0 percent as assets fell 1.3 percent, said ISSG. Year-over-year, endowments and foundations are behind their inflation plus spending target by 5.6 percent.

GCF repo settlement reform to extend into 2016

The last leg of the Tri-party Repo Infrastructure Reform Task Force's seven-point roadmap for reform, the full alignment of general collateral finance (GCF) repo settlement with the new triparty settlement process, still needs to be completed, according to the Federal Reserve Bank of New York.

The New York Fed provided an update on the implementation of the now-disbanded Tri-party Repo Infrastructure Reform Task Force's seven-point roadmap for reform on 24 June.

A key aspect of the reform roadmap, finalised in 2012, was to drastically reduce the share of triparty repo volume that is financed with intra-day credit from a clearing bank. BNY Mellon announced in early May that this had been achieved: the secured credit extended in the triparty repo market was reduced by \$1.44 trillion, or 97 percent, resulting in the practical elimination of such credit in its programme.

Acknowledging this success, the New York Fed said in its statement: "As a result, the share of triparty repo volume that is financed with intra-day credit from a clearing bank has dropped markedly, from 100 percent as recently as 2012, to a level averaging 3 to 5 percent today (as compared with the task force's original target of no more than 10 percent). Clearing banks, dealers and investors all made changes to their practices and processes that helped to achieve this goal."

But the last point of the task force's roadmap, the full alignment of GCF repo settlement with the new triparty settlement process, still needs to be completed.

"The settlement process for the majority of GCF repo trades that occur between dealers at the same clearing bank is largely aligned with the reform goals; minimal intra-day credit is used, and settlement occurs between 3:30pm and 5:15pm," explained the New York Fed.

"However, the subset of GCF repo transactions that occur between dealers at different clearing banks are still unwound at 8:30am, and still require uncapped, discretionary extensions of intra-day credit by the clearing banks to settle. This is a potential source of market instability in periods of stress."

"When triparty repo lenders reduce the provision of financing to a repo borrower, the borrower may seek to obtain funding in GCF repo, where trades are arranged anonymously by inter-dealer brokers. In a full-blown stress event, GCF repo usage, and the associated intra-day credit needed to settle that GCF repo activity, could balloon suddenly and significantly, to levels that a clearing bank is unwilling or unable to support through the provision of the necessary intra-day credit."

The GCF task was supposed to be completed this year, but the New York Fed has admitted that "the work required to align settlement of these inter-bank GCF repo trades with the broader process will stretch beyond 2015, given the complexity of the reengineering challenge involved as well as the contention of this effort with other near-term changes that are required for other purposes".

Finally, the New York Fed admitted in its statement that the risk of a fire sale of collateral by a dealer that is losing access to repo financing (pre-default), or by creditors of a dealer once it has defaulted (post-default), remain concerns.

"Substantial progress has been observed to date with respect to pre-default fire sales, due to capital and liquidity regulations that have prompted dealers to extend the tenor of their financing for less liquid asset," the New York Fed was keen to stress.

"But as yet, no mechanism exists to address the challenge of coordinating sales of collateral by the creditors of a defaulted dealer in an orderly manner."

SEB expands relationship with to derivatives 4sight

SEB has successfully expanded its use of 4sight's Oneworld Settlement system for its derivatives business.

The settlement system will enable SEB to process domestic and non-domestic equity and derivative trades on Oslo, Eurex and Nasdaq OMX exchanges.

SEB has used 4sight's settlement solution for equities trading, but the bank wanted to replace multiple legacy settlement systems across different business lines with a single solution.

The project involved adding the settlement of new product types to the 4sight OneWorld Settlement system, establishing connectivity with a number of central counterparties and data migration from SEB's legacy systems.

Sven Andersson, head of electronic execution equities at SEB, commented: "The 4sight system will enable us to increase trading volumes as our business expands and achieve significant operational efficiencies from using a single system solution to manage our clearing and settlement process across multiple business lines."

Alastair Chisholm, managing director of 4sight, added: "We are delighted with the success of the implementation and the close working relationship we have developed with SEB. This project adds to the growing use of 4sight's software products in Nordic region, with a number of Swedish banks now using 4sight's settlement, collateral management and securities finance solutions."

If you can't stand the heat

ISLA's 24th Annual Securities Finance and Collateral Management Conference saw more than 650 delegates flock to Portugal to discuss the finer points of doing business in a regulation-heavy climate

STEPHEN DURHAM REPORTS

Although the days of the International Securities Lending Association's (ISLA) 2014 conference in Berlin still live on in the memory, it was time once again for the elite of the securities finance world to congregate in Europe and talk business. Lisbon's Epic Sana hotel was the chosen venue, and much of the conversation within its walls breezed past regulatory changes to come, preferring instead to address the hot topic of the here and now.

To this end, the International Swaps and Derivatives Association (ISDA) resolution stay protocol was highlighted as a major concern for the securities financing industry by an early panel. The EU Bank Recovery and Resolution Directive (BRRD) entered into force on 1 January, and essentially allows regulators to take control of ailing financial institutions and freeze activity while they reconstruct them. Regulators have asked for similar powers to be embedded in securities finance agreements, according to the panel.

A speaker commented that, while BRRD must be recognised across the EU, whether it would be recognised outside of the EU (an EU bank dealing with a US counterparty under a New York law contract, for example) is another question. Regulatory authorities from France, Germany, Japan, Switzerland, the UK, and the US have requested that ISDA revise standard ISDA master agreement documentation to eliminate close-out rights triggered by the resolution of a global systematically important bank (G-SIB). The ISDA protocol was adhered to by 18 G-SIBs in November 2014.

The Central Securities Depositories Regulation (CSDR) also has the potential to affect securities financing transactions, according to the panel, particularly with the revised guidelines from the European Securities and Markets Association (ESMA) regarding mandatory buy-ins and settlement times. Although T+2 for settlement of transferable securities was implemented in October 2014, the first iteration of the second-level text covering settlement fines and mandatory buy-ins is expected to be published by ESMA in the near future.

As far as the panel was concerned, another worry for the industry in the near future is the rolling implementation of the Basel III guidelines, which is particularly hitting brokers. Aside from this, in the UK, the Financial Conduct Authority is considering how to implement revisions to the EU Transparency Directive that will require shareholders of major companies to disclose details of their securities finance transactions.

In a break from the usual format, chair of the Portuguese treasury and government debt agency IGCP Cristina Casalinho stepped in to give a local perspective on current issues. She explained how Portugal managed its public debt through the use of tools such as derivatives employed to modify the duration or hedge foreign-exchange risk. Casalinho also hailed the "accommodative stance" from the European Central Bank that has helped Portuguese turnover to improve consistently up to April of this year. She added that liquidity has dried up as a consequence of quantitative easing in recent months.

Casalinho also gave a macroeconomic backdrop to the situation, informing the assembled delegates that Portuguese public debt is projected to enter in a declining trend. Between 2013 and 2014, public debt stood at around 130 percent of GDP, and is projected to fall to at least 124 percent. This is thanks to a pick-up in investment, mainly in machinery and transport equipment for the corporate sector. Casalinho explained that the new growth cycle is based on a gradual recovery of investment, sustainable domestic and external demand, and employment creation.

A later session, given by Melissa Porras of the Prado Nova School of Business and Economics, gave an academic perspective on securities lending—more specifically weighing in on the "to clear or not to clear" debate. Porras claimed the advantages of central counterparty (CCP) utilisation centred on the simplification of credit structure and the improvement of operational efficiency through credit intermediation, standardisation and automation. As Porras put it, the widespread use of the CCP model could create a "level playing field" between institutions.

Conversely, Porras also pointed out that the enhanced incremental costs could be seen as a disadvantage of CCPs, as is the fact that they are not feasible for lenders such as pension funds. She also made the point that clearing has no effect on cash reinvestment programmes, citing the example that bilateral trading worked throughout the financial crisis. Porras also suggested that central clearinghouses may need stronger protection, particularly as competition among CCPs could lead to more risk overall. **SLT**

No more euro any more

As Greek and EU ministers continue to debate the country's third bailout, financial market participants are reacting to the uncertainty, including short sellers

MARK DUGDALE REPORTS

Greece's vehement 'no' to austerity, which received 61 percent of the vote during the referendum on 5 July, left the country on the brink of an exit from the eurozone. As Greek and EU ministers continue to debate the country's third bailout, particularly the divisive conditions under which it will be issued, financial markets are reacting to the uncertainty.

Market reaction has been unsurprisingly negative, with European equities trading lower on the outcome of the 5 July Greek referendum on the international bailout conditions set by the EU, according to Heartwood Investment Management.

Hedge funds, meanwhile, have little to fear from the risk of instability in Greece, according to Lyxor, whose platform has shown they have limited exposure.

Only 11 funds on the Lyxor platform are directly exposed to Greece, a majority found in the event-driven and credit space. Of these funds, nine own Greek equities (local companies and banks). Around half of them have exposures to Greek sovereign bonds.

There is also dispersion in the aggregated net exposure to Greece among managers, ranging from 4.5 percent to 5.6 percent of net assets of the funds. Philippe Ferreira, senior cross asset strategist at Lyxor Asset Management, commented: "We estimate that the impact from future developments in Greece (losses or gains) would be limited for such funds."

"A majority of them have sought to isolate this risk. Some have reduced their exposures; others have implemented hedging strategies. In a worst case scenario, we estimate that the losses would be limited."

Short sellers have had little to do with Greece over the last 12 months, according to Markit. The aggregate value of all loans has averaged $50 million over the last six months, which is by far the least out of any eurozone economy, while utilisation has collapsed to $12 million in the wake of the latest crisis.

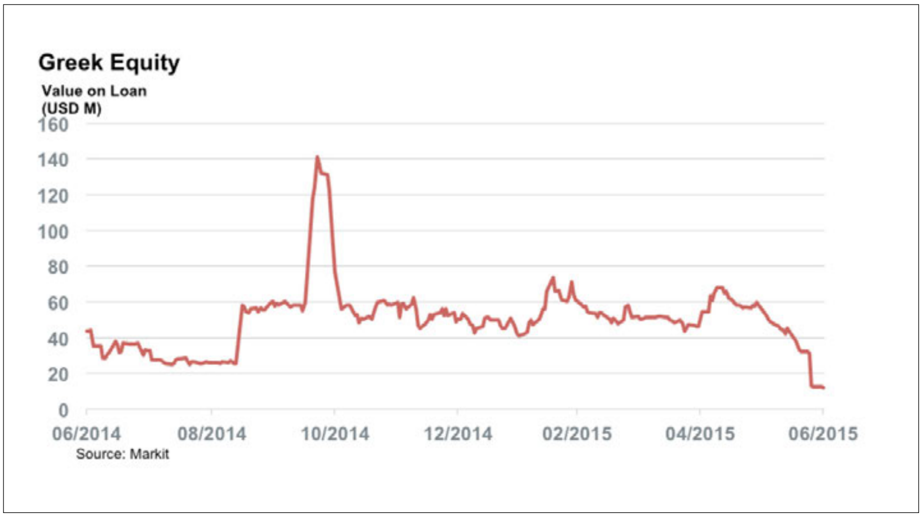
The Hellenic Capital Markets Commission reacted to the latest crisis by implementing a complete ban of short selling on 30 June. Originally intended to last until 6 July but extended until 13 July, the regulator issued the temporary ban of all short selling of any financial instruments on the Athens Exchange, as well as the Multilateral Trading Facility of the Alternative Market of the Athens Exchange.

The European Securities and Markets Authority backed the bans, given the "adverse developments which constitute a serious threat to market confidence" in Greece.

Markit analyst Simon Colvin added in commentary published in early July: "[Greece's] lack of demand looks to be driven by the recent market uncertainty, as the aggregate value of Greek short positions actually fell in the weeks leading up to the short selling ban coming in to place. That number had stood at $60 million as late as April, just prior to the deterioration of talks."

Colvin added: "The worsening situation also looks to have been impacting the supply of shares which lenders are willing to lend out, as total value of Greek securities sitting in lending programmes has fallen by over 40 percent since the start of the year to $880 million. This has outpaced the decline in the country's equity market, so the drop in lendable shares can be attributed to the fact that lenders are either selling their Greek holdings or removing Greek shares from lending programmes."

"Despite the fall in the quantity of Greek equities available to lend to short sellers, over 95 percent of the available pool has remained un-lent over the recent crisis as utilisation never breached the 5 percent mark. This means that the lack of shorting activity was driven by a lack of demand, most likely driven by market uncertainty, rather than any supply constraints." **SLT**



Coming alive (with the sound of collateral)

There are still too many manual processes in collateral management, but the rate of innovation is picking up, says Guillaume Boland of SWIFT

MARK DUGDALE REPORTS

To what extent have you seen collateral movements and instructions increase in recent years?

On one hand, we are seeing traffic for triparty operations growing by 25 percent for the seventh consecutive year.

This traffic is mainly pushed by triparty agents in Europe (Clearstream and Euroclear) and the need for financial institutions to outsource, as much as possible, the burden of intraday collateral valuation, margin calls, and so on.

On the other hand, regulations are pushing for more automation of over-the-counter (OTC) derivatives that need to be centrally cleared. For this reason, SWIFT is working with the industry—mainly central counterparties (CCPs) and clearing members at this stage—to enhance the current process and establish a common standard (ISO 20022).

We now have one CCP and two clearing members using the solution to fully automate the margin process.

What are the effects of more businesses becoming collaterised?

The need for a fully automated and standardised process. At this stage, there are still too many manual processes in collateral management, which won't be sustainable in the near future.

Reporting on collateral will be a knock-on-effect, too. We are seeing an increasing need for collateral reporting in order to track, in almost real-time, the availability of collateral pools.

Finally, we are seeing more and more collateral management applications, proposing customised products to fit customer's expectations. The financial technology space is coming alive in this sector.

How much more pressure will this put on the collateral management function?

With collateral management now at the forefront of many business discussions, these changes are putting tremendous pressure on the function.

We see institutions 'getting ready' to support important business growth. For example, intra-day margin calls are expected to rise by 500 percent to 1000 percent.

Can you elaborate?

This is usually part of important project that is putting pressure on businesses, as of right now.

The market will adjust eventually, but this process takes time and will certainly need to be tweaked at some point to make sure they stay up to date with regulations and maybe new processes that need to be put in place.

Will businesses such as securities lending and repo be relied on to source scarce collateral? How can they be made more efficient to meet demand?

We hear all kinds of things on that subject. At a certain point, the market will adjust, whether with interest rates or the price of collateral.

SWIFT's own collateral management solution offers efficiency and lower costs through standardisation—how does it achieve this? How else does it help deal with collateral movements?

We are working closely with our community to put in place a common understanding of the flows that are needed. We have set up a best practice and implementation guide, both for triparty instructions and for margin messages on ISO 20022.

SWIFT is mostly used already for collateral posting (free of payment instruction of securities for collateral or cash instruction). Our participants can leverage their SWIFT infrastructure in place to avoid multiple communication channels.

For a non-connected institution we also provide a low footprint connectivity package called Alliance Lite2, which provides a cloud-based connection to the SWIFT network and related applications and services.

Finally, we are working with collateral management application providers to enable them on SWIFT standards.

Collateral management technology, to the outsider at least, looks like its undergoing rapid innovation—would you agree with this?

I definitely agree. We see more and more financial technology in the market. They offer a wide-range of solutions to help standardise and facilitate the collateral management process. SLT

Guillaume Boland
Senior market manager
for collateral management
SWIFT

Deal or no deal?

Are mergers and acquisitions frenzies all they are cracked up to be? David Lewis of SunGard's Astec Analytics takes a look

Mergers and acquisitions (M&A) is the thunder and lightning division of investment banking. You can swoop in on a target company, acquire it for your client, boost the revenues of both, and then jet off to the next deal, taking your substantial fee with you. Or is that just for people like Edward Lewis (no relation) in movies such as Pretty Woman?

In reality, M&A activity should be ruled by maths, economics, and cold, hard logic. Few of us have not worked at or been connected to a company involved in M&A activity, whether one that has been in a growth phase, acquiring anything and everything vertically or horizontally integrated to their own businesses, or, when times dictate the opposite, a company that is retrenching and paring back to its core business and competency. M&A is either in feast or famine mode—feeding frenzy or desperate stagnation.

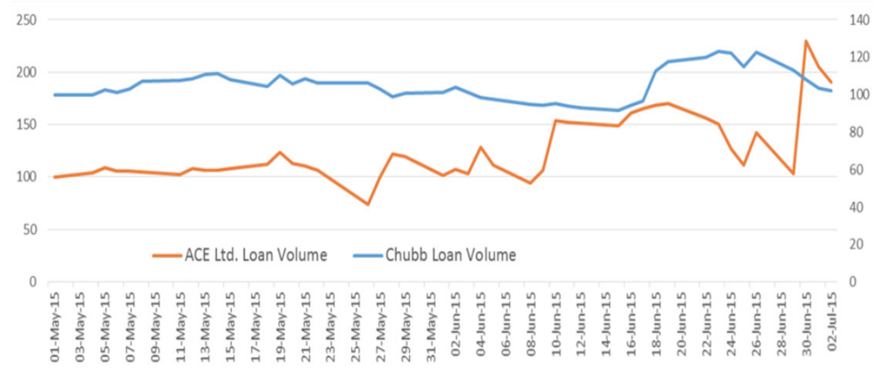


Figure 1: Borrow volumes for ACE and Chubb indexed from 1 May to 2 July 2015

M&A in the US broke a number of records in the first half of 2015—and made the headlines, as breaking records tends to do. Total deal activity over the last six months, for example, has broken the magic trillion-dollar mark for the first time, and half of that has been in the last two months (May and June).

Individual deals across the world are making headlines on their own, too. Brookfield Infrastructure Partners (BIP) of Canada recently bid for Asciano Ltd (AIO.AX) of Australia in what is one of the largest deals in the Asia Pacific region this year and the largest foreign investment/takeover in Australia since SABMiller PLC bought Foster's Group in 2011.

In the US, there were no fewer than 21 deals in the last six months exceeding $10 billion, and July got off to a big start with ACE (ACE) announcing it is buying Chubb (CB) for $28 billion, a horizontal expansion to combine two very large property and casualty insurance providers, and the industry's largest ever deal.

Headlines are great—but do such manoeuvres make sense economically? Many corporations are cash-rich, and with a general lack of growth in some world markets, the only way to 'grow' may indeed be to buy up competitors or expand up and/or down your supply chain. It would certainly seem preferable to returning cash to shareholders, which is tantamount to admitting the company has run out of ideas, signalling to shareholders that perhaps they can do better with the value that has been created.

If net benefits do accrue, then M&A can indeed be justified. Looking at ACE and Chubb, there is some more concrete logic as Ace pursues the more upmarket clients of Chubb in an industry where margins are being squeezed, but what do the short sellers make of it?

In normal circumstances, you would expect to see investors going long on the target company (whose price might be dragged upward) and shorting the acquiring entity that is facing all the expenses of the deal and potentially the risk of the strategy all going wrong.

With Chubb, there was a definite uptick in the borrow volume, shown in Figure 1 as a proxy for short selling, which rose a third from the middle of June to peak at just over 7.5 million shares towards the end of the month. Short positions, however, were closed off in recent days, eroding more than half the June rise. Comparing these moves with the share price identifies some timely trading: Chubb fell slightly between the middle of June and the end of the month (around $1.66, or 1.7 percent), by which time many of the new short positions had been closed, preceding a significant $26 (27 percent) jump across the next two days, bagging a potential $1.66 per share profit and avoiding a $26 per share loss.

ACE saw a 50 percent rise in the volume of its shares being borrowed between the middle of June and the end of the month, and, like Chubb, these volumes fell back a little as the acquisition was announced. The share price of Ace enjoyed a small boost of around 1 percent on the announcement, which suggested the market approved overall.

Asciano Ltd, by contrast, saw increased borrowing in the two weeks ahead of the bid announcement from Brookfield. A 40 percent rise in volumes to over 6.3 million shares preceded a jump in the target company's share price of AUD 1.53 ($1.13), or 23 percent, suggesting that hedge funds don't always get it right. It should be noted, however, that the purchase offer in cash and scrips equates to AUD 9.05 ($6.71), which gives further room for losses if the market price continues to rise. Borrow volumes remain static, so at present, funds appear happy to endure the unrealised losses and may even still be banking on the deal failing and that price rise correcting sharply.

There are, of course, different views of business strategies, and a good deal of price valuation is based on gut instinct for whether a strategy will work or not, but at the end of the day it is cold, hard facts that prove or disprove the value of any plan. Expectations of outcomes drive investors to take long or short positions, but it is the profit or loss at the end of the day that counts.

Let's hope that the M&A 'frenzy' that is being reported is being driven by intelligent strategists using cold, hard data, rather than those willing to jump on a bandwagon so they are being seen to be doing something rather than nothing at all. **SLT**

David Lewis
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SunGard

Industry Events

IMN's 20th Annual European Beneficial Owners' Securities Lending & Collateral Management Conference

Date 17-18 September 2015
Location: London

In light of significant regulatory and market developments, IMN are proud to announce a new title - and expanded focus - for their Beneficial Owners' Securities Lending event series.

32nd Annual RMA Conference on Securities Lending

Date: 12-15 October 2015
Location Florida

This conference brings together all the players involved in the business of securities lending. It is designed by securities lending and borrowing professionals for individuals from banks, brokerage houses, pension funds, endowments, and regulatory agencies in both the U.S. and Europe. Topics include collateral management, international market updates, performance measurement, and legal/regulatory updates.

Industry appointments

Christophe Roupie is leaving his role as global head of trading and securities financing at AXA Investment Managers after more than 10 years at the asset manager.

He is departing to pursue a new opportunity as CEO of a family-run business in Switzerland.

Paul Squires will take over as global head of trading and securities financing at AXA Investment Managers.

He will retain his head of trading responsibilities following his promotion, and will report to Julien Fourtou, who oversees multi-asset client solutions and trading and securities financing.

Jayne Forbes has been promoted to global head of securities financing and will work as Squires's deputy. She has more than 20 years of experience in securities financing sales, trading and product development.

Fourtou commented: "I would like to thank Roupie for the significant contribution he has made over the past 10-plus years. As a key member of our management team, Roupie has played a significant role in AXA Investment Managers's success and we all wish him all the very best for the future."

"Squires inherits an incredibly strong and loyal team who are ready, under his leadership, to continue to develop trading and securities financing, including its expansion in Asia and the US, and increased interaction with electronic platforms."

"We are confident that Squires, with the support of Forbes and the team, will build on the excellent work Roupie has done and ensure that AXA Investment Managers remains at the forefront of trading and securities financing."

CACEIS has appointed **Owain McNeill** as business development director in charge of UK clients as of 22 June 2015. He reports to Annie Blouin, head of regional coverage for North America, UK and Ireland.

McNeill will manage the teams in charge of sales activity for the UK.

He is responsible for further developing CACEIS's sales activity with UK asset managers, institutional investors, banks and brokers, together with all CACEIS's entities; as well as strengthening the relationship with existing clients.

McNeill has over 10 years of experience in the institutional fund services sector covering alternative investment and traditional asset managers.

He joins CACEIS from U.S. Bancorp where he was senior vice president for sales in the London office.

McNeill has also held senior positions at HSBC and Citi, where he was a director of sales in the global investor services business.

LCH.Clearnet Group has appointed **John Vinci** as head of North American repo clearing.

Vinci, who joined LCH.Clearnet on 13 July, is charged with establishing the RepoClear service in the US. He will report to CEO David Weisbrod and Bruce Kellaway, global head of fixed income.

He joins LCH.Clearnet from BNY Mellon, where he was managing director and a member of the bank's operating committee. In this role, he was responsible for product management and strategy within the broker-dealer services division.

Vinci has also worked at J.P. Morgan Chase and Bankers Trust Company.

Weisbrod commented: "LCH.Clearnet Group is already a market leader in repo clearing and this new appointment will support the business' growth ambitions in North America, working with our clients and members to deliver greater efficiencies in the US fixed income markets."

Vinci added: "I am delighted to be joining one of the world's most important and respected clearinghouses. LCH.Clearnet is a global force in repo clearing and end-user client clearing, and I am looking forward to developing our US offering."

Wells Fargo Securities has confirmed that **Robert Sackett** has joined its prime services division as managing director and head of securities lending.

Sackett will lead securities lending as well as support the prime brokerage and equity trading businesses. He is based in New York and reports to Eamon McCooey, head of prime services.

McCooey said: "With over 20 years of experience in prime brokerage and equity finance, Sackett brings strong leadership and depth of expertise that complements and enhances the breadth of our prime services platform." **SLT**

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