SLT SECURITIESLENDINGTIMES

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Cowen Group makes prime moves

Cowen Group has continued its acquisition spree in the prime brokerage space with the purchase of Conifer Securities for an undisclosed sum.

The deal to acquire Conifer Securities, the prime services division of Conifer Financial Services, will close in Q3 of this year. The terms of the agreement were not disclosed.

The financial services group also recently agreed a deal to acquire prime brokerage service provider Concept Capital. That acquisition is expected to close in Q3.

Jeffrey Solomon, president of Cowen Group, said of the deals: "Conifer Securities's services are well-respected among emerging hedge funds and established family offices, segments historically underserved by the market. Following our recent announcement of an agreement to acquire Concept Capital, today's announcement will extend the combined organisation's execution and prime brokerage capabilities."

"Once the acquisitions are complete, we will have established a solid footprint in the emerging manager space with over 400 new client relationships. This announcement validates our commitment to delivering products that help clients outperform. We see a compelling opportunity to advance the prime brokerage business, further grow our equities market share and gain operating efficiencies."

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UAE approves NBAD for lending activity

The Securities and Commodities Authority (SCA) in the United Arab Emirates (UAE) has granted approval for the National Bank of Abu Dhabi (NBAD) to engage in securities lending and borrowing activities, making it the first bank to receive approval.

The move is part of an effort to develop capital markets in the UAE and better meet the needs of investors and strategic partners, while improving the securities industry in line with growth in the region.

readmore p2

Nordic win for BNY Mellon

BNY Mellon has been selected to provide custody and securities lending services for Danish insurance company Topdanmark A/S.

Topdanmark's international equity and bond portfolios are valued at $2.8 billion.

Henrik Thornval, who is head of asset management at Topdanmark, commented: "BNY Mellon's long-standing commitment to providing custody services, evidenced by its ability to combine an impressive customer technology interface with a high-touch service model, were key factors in our decision to appoint the investments company as our new provider."

Brian Blanchard, managing director of asset servicing in the Nordic markets at BNY Mellon, added: "Topdanmark joins a client base of over 30 asset servicing clients supported by our Nordic team which is spearheaded by our relationship managers in Copenhagen."

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Cowen Group makes prime moves

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William Byrne, managing director at Conifer Securities, added: "We are excited to join Cowen Group. With our clients at the forefront of everything we do, we will ensure that the transaction benefits existing client accounts and the manner in which clients are served."

The addition of Concept Capital, which boasts a staff or more than 80 in multiple offices, will allow Cowen Group to better serve investment managers, according to Cowen chairman and CEO Peter Cohen.

He said: "Given the changing prime broker landscape, many investment managers are looking for alternative prime solutions and there are a limited number of organisations offering a similar kind of value proposition as Concept Capital on Cowen's platform."

"Combining Concept Capital with Cowen's business will allow us to better service these funds by providing focused prime broker services, supported by non-conflicted trade execution and world-class equity research."

Cowen's brokerage business is enjoying higher revenues this year, earning $34.9 million in revenue during Q2 2015, a 4 percent increase on the previous year, excluding revenue associated with the stock loan business, which it decided to wind down in late 2014.

UAE approves NBAD for lending activity

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In particular, the development is geared towards supporting local capital markets, supporting the pace of local and foreign investment.

NBAD satisfied the conditions and requirements set by the SCA around regulations on securities lending and borrowing.

Markit backs ETFs as collateral

Markit has launched a new initiative to encourage wider acceptance of exchange-traded funds (ETFs) as securities lending collateral.

The ETF collateral lists filter ETFs and highlight those that track assets in short supply on the collateral market.

They pick out fixed-income and equity ETFs that track liquid indexes in developed markets, and hide any subscale funds and those that have a market value deviating more than 1 percent from the value of assets held.

Using Markit's ETP Analytics and Encyclopedia solutions, the lists can source more that $516 billion in ETFs that track assets meeting widely-accepted collateral rules.

Currently, many money market participants don't accept exchange-traded products (ETPs) because of a lack of standardisation in of the criteria and a lack of transparency in the market, plus a lengthy management process for risk departments and triparty agents, according to a Markit report.

At Markit's London Securities Finance forum, 43.9 percent of attendees said they do not accept ETPs as collateral, and 12.2 percent said they would like to, but cannot.

Only 31.7 percent answered with a straight 'yes', and the other 12.2 percent said they do accept ETPs as collateral "on very few occasions".

According to Markit, acceptance of ETFs as an asset class is increasing; aggregate assets under management managed by about 5,000 funds reached $3 trillion for the first time earlier this year, due to generally strong inflows and markets. However, this has not translated in to acceptance in collateral management, especially in Europe.

Markit developed the solution with industry participants including ETF issuers, securities lending desks and dealers, in order to address the discrepancy.

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Currently, the majority of assets that meet the criteria are listed in North America, but the rules can also be applied to European investors, with $75 billion in assets that meet the criteria identified in Europe.

More that $516 billion in those ETFs identified are assets that are readily accepted as collateral, and the majority of these, $480 billion of the assets identified, are equity products.

According to Markit, the value of ETF assets in lending programmes has remained steady for the last 18 months, at around $140 billion. Greater acceptance of ETFs within the wider industry could lead to more ETF assets becoming available through lending programmes.

Legislation is the best route to transparency, says DTCC

DTCC has publicly supported legislative action to tackle obstacles that hinder the transparency goals of the G20, naming a lack of coordination in global derivative reporting and data standards, and legal barriers to data sharing as significant issues.

The G20 laid out its goals on global transparency in the aftermath of the 2008 financial crisis. But Larry Thompson, vice chairman and general counsel at DTCC, speaking at a US House of Representatives committee, suggested that although progress has been made, global transparency has not yet been achieved.

Thompson said that this transparency is a critical element in understanding systemic risk, and that its absence was a major contributor to the crisis.

He cited the barriers to transparency as: a lack of global communication; a regional approach to trade reporting; and significant legal barriers to global data sharing between regulators. He also expressed support for introducing legislation to enforce the correction of these issues.

According to Thompson, the global derivatives reporting that emerged after the crisis was developed on too much of a regional basis, creating an inconsistent set of requirements. This lack of coordination means trade repositories have not met their potential as tools for monitoring systemic risk.

He also pointed out the need for global standards for transforming the data collected by repositories, in order to create helpful information on mitigating risk and achieve a better quality of data. Common identifiers such as legal entity identifiers and a common reporting vocabulary could help regulators to aggregate this data and put it to good use.

But these common standards will not be effective while cross-border data sharing is restricted, said Thompson. Under the Dodd-Frank Act, swap data repositories must obtain indemnification agreements before sharing information with other regulatory authorities.

This restricts the ability of regulators to make use of the trade repositories, limiting access to data among US authorities and regulators around the world.

He said: "While market infrastructures such as DTCC stand ready to help address these challenges, the best place for this dialogue to advance is among global regulatory bodies."

He added: "These organisations must act with increased urgency to enact global data standards and develop appropriate governance frameworks to enable cross-border access to timely, accurate data. The US, along with its partners around the world, should continue to play a leadership role in these efforts."

Stable funding key to expansion, says Wolters Kluwer

Banks should be cautious about expanding their business and should avoid an over-reliance on wholesale funding, according to Wolters Kluwer Financial Services.

Wolters Kluwer's whitepaper, Managing NSFR by Matching Conversion Ratios, looked into the net stable funding ratio (NSFR), which is a part of Basel III, and encouraged institutions to conduct their own strategic analysis in line with the guidelines.

In the case of business expansion, it suggested that firms should develop their own retail and small businesses to control net funding, and highlighted the importance of sustainable funding, driven by effective management.

According to the report, some banks struggled during the financial crisis because they failed to properly manage liquidity. The NSFR will mean banks have to maintain a stable fund profile in relation to their assets and activities, calculated by dividing available stable funding by the required stable funding.

Banks should already analyse their fund determinants and ratios before the NSFR comes in to effect in January 2018, added Wolters Kluwer.

Spark Wang Jun, a senior regulatory expert at Wolters Kluwer and author of the report, said: "Sustainable funding will be of vital significance going forward, especially for the financial institutions heavily reliant on wholesale funding."

"This is a key factor to be reconsidered during the decision making for the divestment of retail business units."

Summer boom for OneChicago

OneChicago saw volumes of 1.16 million in July 2015, an impressive 44 percent increase on July last year.

Open interest increased by 15 percent year-on-year, recording 771,568 contracts on the equity finance exchange at close-of-market on 31 July. Volumes were also up by 16 percent on the same period in 2014, totalling 6.7 million.

In July, OneChicago implemented improvements to its matching and trading platform OCXdelta1. The changes integrate competitive block calendar spread markets and regular competitive calendar spread markets, creating a single pool of liquidity for clients.

It also launched a pilot programme to cap the OCX.NoDivRisk execution fees at $700 per side, per trade, which came in to effect on 1 July. The programme applies to all OCX.Weekly products and 1D futures, and will continue until at least the end of 2015.

Of the month-end open interest for July 2015, 65 percent was in OCX.NoDivRisk products—the finance tool product suite that helps to mitigate risk for those clients that carry synthetic equity delta exposure.

Shorts on the up for Chinese A share ETFs

The Chinese securities market is seeing an increase in offshore-based investors using exchange-traded funds (ETFs) to access falling Chinese equities, while local investors are moving away from equity and in to fixed-income and money market ETFs, according to securities lending data from Markit.

Offshore investors can short sell about $1.2 billion in ETFs tracking Chinese markets, while the inflow from local investors to money market ETFs has reached a record high of $10 billion. As foreign demand to short sell has increased, cost to borrow has exceeded 25 percent.

Chinese regulators have been quick to blame short sellers for a dip in the market, but according to Markit, there has been minimal short selling in mainland-listed single names.

Short sellers of ETFs should not be blamed either, as the aggregate short position represents less than 1.2 percent of the total assets under management of ETFs.

Instead, investors have gained short exposure to Chinese markets through Hong Kong- and US-listed ETFs, bypassing Chinese measures to stop these activities domestically.

In total, the value on loan of short bets on Chinese ETFs amounts to $1.23 billion. According to Markit, there is over $100 billion in ETFs tracking Chinese markets, and 57 percent of these are listed on the mainland in Shanghai and Shenzen exchanges

These funds don't see significant levels of short interest, with shorting action concentrated on overseas listed ETFs that trade on the Hong Kong Stock Exchange and New York Stock Exchange, which are locations that are more easily accessible to short sellers.

The highest levels of shorting activity occurred in China A share ETFs, as demand from short sellers has driven up the cost to borrow them higher than that to borrow H shares and American depository receipt counterparts, which were previously the preferred route for short sellers.

The most short sold ETF exposed to the region is the Deutsche X-trackers Harvest CSI 500 China A-Shares Small Cap ETF, with 52 percent of shares outstanding on loan, amounting to a value of $17 million in value. This stock tracks 500 small-cap companies on the Shanghai and Shenzen stock exchanges, and more than 90 percent of it is currently short sold.

Deutsche X-trackers Harvest CSI 300 China A-Shares ETF, which focuses on the 300 most liquid stocks on the China A share market, is the most in demand ETF from short sellers. It has $595 billion in assets under management and $38 million in value on loan.

Record-breaking July for OCC

OCC saw record levels of cleared contract volumes in July 2015, but year-to-date volumes are still behind last years' figures.

Cleared contract volume in July reached more than 385 million contracts, a 7 percent increase on July 2014, which totalled 360.5 million

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contracts, and the highest contract volume on record for July.

Year-to-date, however, average daily cleared contract volumes are down 4 percent from an average of just under 17 million contracts in 2014 to 16.3 million contracts in the same period this year.

The same pattern is evident in the figures for exchange-listed options, equity options, and cleared futures.

The volume for exchange-listed options reached 379.2 million, a 7 percent increase on July 2014's total of 355.4 million. Year-to-date, the average daily volume dipped by 4 percent from 16.7 million in 2014 to 16 million in 2015.

Equity options increased by 6 percent, from 322.4 million contracts in July 2014 to 340.1 million contracts in July 2015. Average daily contract dropped by 3.7 percent, year-to-date.

Index options contracts also increased by 18 percent, reaching 39 million in July 2015, compared to 33 million in July last year. Average daily volumes of contracts dipped by 8.1 percent, year-to-date.

Cleared futures volumes reached 6.2 million contracts, a 21 percent increase on July 2014's total of 5.1 million. Again, year-to-date average daily cleared volumes were down by 11 percent, from an average of 267,559 year-to-date 2014 to 237,723 in the same period this year.

OCC's securities lending central counterparty activity increased by 10 percent in new loans in July 2015, reaching 116,406 transactions. Year-to-date, stock activity is up on the same period last year by 12 percent, with 772,132 new loan transactions in 2015 so far.

The average daily loan value cleared in July reached a total of just under $187 billion.

Industry bodies criticise AIFMD passport delay

The European Securities and Markets Association (ESMA) should be making faster progress in extending its pan-European passport to alternative investment fund managers in non-EU jurisdictions, according to the Alternative Investment Management Association (AIMA).

The Investment Company Institute (ICI) has gone a step further, with CEO Paul Schott Stevens saying ESMA's decision not to recommend the US for passport extension will "discriminate against US managers".

AIMA welcomed ESMA's recommendation to extend the pan-European marketing passport to managers in Switzerland—subject to change in legislation—and in Jersey and Guernsey, however, it advised that the passport should be granted to all main asset management and fund jurisdictions.

While the association welcomed the intention to assess the Cayman Islands, Canada and Australia, and the willingness to refine its assessment of the US, Hong Kong and Singapore, it questioned the open-ended decision on the US.

AIMA CEO Jack Inglis said: "While we would have wished ESMA to adopt a more

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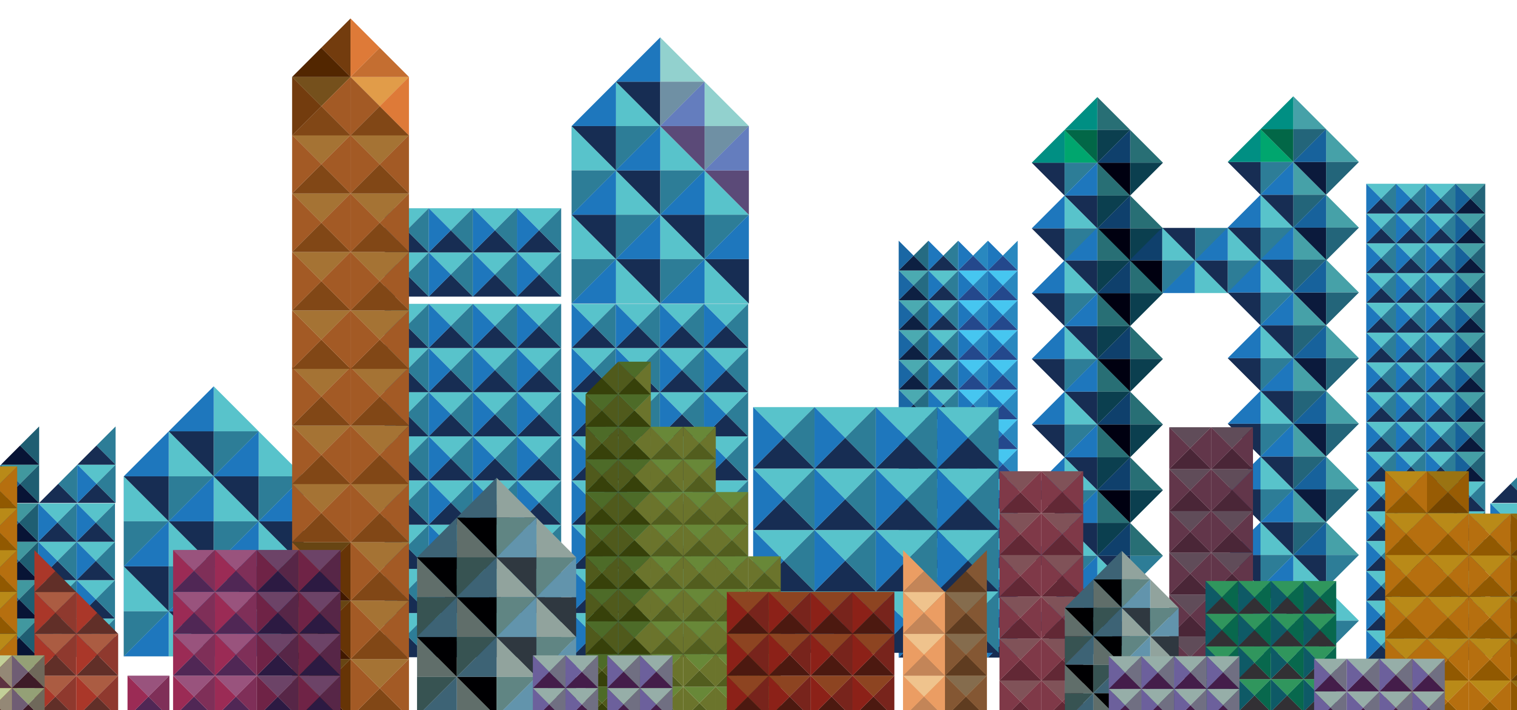

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streamlined and speedier assessment of all important jurisdictions as there is no need for an equivalence assessment in the AIFMD, we welcome the clarity on which jurisdictions are to be assessed in the coming months."

The ICI, whose members represent a total of about $18.2 trillion in assets under management, criticised the decision.

Stevens said the advice "inappropriately confuses the regulation of mutual funds with the regulation of funds sold to professional investors in the US".

"Currently in the US, EU managers can readily sell funds to professional investors on the same terms as US managers, and across the entire US marketplace. Unfortunately, the impact of ESMA's advice would be to discriminate against US managers by denying them comparable access to the entire EU marketplace."

"EU policymakers must correct this error and apply the appropriate legal analysis before they take additional action on the potential extension of the AIFMD passport to the US."

Two G-SIBs trailing for SLR requirements

BNY Mellon and State Street are at risk of failing to comply with the Basel III supplementary leverage ratio (SLR) requirements, and should retain higher levels of capital in order to ensure compliance, according to a report by Moody's.

Of the eight systematically important US banks, BNY Mellon and State Street were identified as having low ratios, based on their balance sheets for the first half of this year.

BNY Mellon's holding company ratio was estimated at 4.6 percent, and State Street's was estimated at 5.1 percent. From 2018, the minimum ratio will be 6 percent.

Although State Street's SLR surpassed the 5 percent mark, that of its lead bank was estimated at 4.9 percent. BNY Mellon declined to release its bank-level SLR, but Moody's suggested that its advanced and standardised tier one ratios are already meeting requirements.

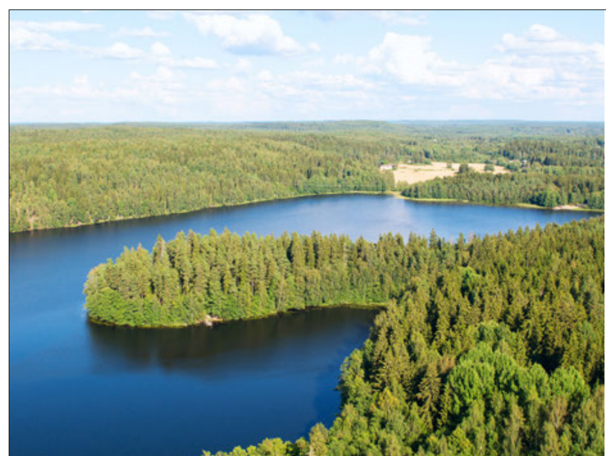
Allen Tischler, senior vice president at Moody's, said: "In large part, this compliance challenge for BNY Mellon and State Street is due primarily to elevated deposit levels because of low interest rates and to the high levels of liquidity deployed by central banks worldwide."

"When rates rise, both banks expect significant deposit runoff, which will shrink their balance sheets and help them comply with the SLR."

The report suggested that if global interest rates do not rise over the next 12 to 18 months, these banks will have to start retaining significantly more capital in order to meet the requirements.

It said that BNY Mellon and State Street have thus far failed to take "aggressive action" towards meeting the requirements because there is an expectation of deposit outflow in a higher-rate environment.

Tischler said: "This stance may have been reasonable at the beginning of 2015, when the market expected the Federal Reserve to raise



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interest rates by mid-year, but no longer: rates have yet to rise, and market forecasts for a rate hike continue to move farther into the future."

If rates do not rise, the banks will have to be more aggressive in managing their balance sheets, and could resort to issuing non-cumulative preferred stock or cutting back commitments on trading books.

The drop in return on capital could lead to more risk-taking in order to generate income and could, ultimately, have long-term negative effects.

But a source close to State Street pointed out that the bank's tier one equity capital ratio is, in fact, above the threshold anticipated under the new regulation.

The source also said: "No one actually knows yet what the common equity tier one requirement will be, because that won't be set until the end of this year."

"The globally systemically important banks surcharge will be refreshed next year, and it won't be fully effective until 2019."

A spokesperson for State Street said: "We've been having constructive conversations with clients on the challenges the industry is facing with excess deposits. Our clients face the challenge of selecting viable alternatives in the face of the same environmental factors that are causing excess deposits."

"Depending on the client and their view of their liquidity needs and investment mandates, we have discussed the use of different outlets including sweeping deposits and using market repo facilities."

"We have also introduced a sophisticated tool that allows asset managers to stress test their liquidity, which can help them evaluate and potentially reduce their liquidity needs."

BNY Mellon declined to comment.

FSB delays due to asset managers' concerns

The Financial Stability Board (FSB) has decided to delay finalising the assessment methodologies for non-bank, non-insurer global systemically important financial institutions (NBNI G-SIFIs).

The FSB wants to wait until its work on financial stability risks from asset management activities is completed.

The G20 body published its second consultative document on NBNI G-SIFI methodologies in March, setting a deadline of 29 May for feedback from the industry.

It received around 50 comments, largely on how the methodologies would treat asset management activities.

Many asset management firms appeared to crticise the FSB, with Fidelity saying in its letter: "Investment funds and asset managers do not, and cannot, present the type and scale of risk required to justify a G-SIFI designation."

"And even if a single fund or manager were capable of presenting that kind of risk to the global financial system, designation would not effectively address the risk."

The FSB has taken particular issue with 'shadow banking' activities such as securities lending and repo, which asset managers engage in to boost returns.

"The significant number of funds available to investors, the intense competition in the industry and the high degree of substitution, mean that particular activities (eg, securities lending, repo, etc) are not limited to a small subset of the largest funds, but, rather, are conducted by a host of funds and other market participants."

"If the goal is to reduce risk across the global financial system, then regulators must deal with

the activities that create that risk consistently across the system. Regulators must restrict those activities not only across all funds, but across all market participants."

Going on to defend its securities lending activities, Fidelity said that its mutual funds "engage in securities lending to a limited extent", and its securities lending programmes "do not pose material investment risk to the funds, let alone the financial stability of the US".

The FSB said the delay will "allow further analysis of potential financial stability issues associated with asset management entities and activities to inform the revised assessment methodology".

It will report on its work to the G20 countries later this year and plans to develop "activities-based policy recommendations" by the spring of 2016.

SunGard's hottest stocks

Aveva Group, Google and Samsung C&T Corporation were SunGard's top picks at the end of July.

UK engineering software company Aveva (AVV.L) was SunGard's top pick for Europe, the Middle East and Africa after news of a £1.3 billion takeover by Schneider Electric propelled its stock price 33 percent higher.

Following news of the takeover, data from SunGard's Astec Analytics suggests short sellers were covering their positions the week before, with borrowing volumes down some 17 percent.

In the US, SunGard pinpointed Google (GOOG) as one to watch following a strong earnings announcement for this quarter.

The news that advertisers on its subsidiary, YouTube, increased 40 percent in the past year sent Google's share value through the $700 million mark for the first time, according to SunGard.

However, short sellers have been active in the meantime, with borrowing volumes up 10 percent, added SunGard.

Samsung C&T Corporation (000830.KS) is SunGard's latest top pick for the Asia Pacific region, after it approved its acquisition by family controlled affiliate Cheil Industries, despite the efforts of US activist fund Elliott Associates to block the deal.

Astec's data suggests that short selling has picked up, with the number of shares being borrowed climbing about 20 percent, albeit from a relatively low base.

Clearstream partners with Indian CCP

Central counterparty (CCP) the Indian Clearing Corporation Limited (ICCL) has joined Clearstream's integrated collateral management engine, the Global Liquidity Hub.

The partnership intends to allow clearing members and custodians to manage the margin requirements resulting from trades on the Bombay Stock Exchange (BSE) platform.

Collateral belonging to Clearstream and partner banks will be pooled at the Global Liquidity Hub in a bid to avoid bottlenecks in sourcing high-grade collateral to meet the CCP's margin requirements.

It means foreign investors trading on the BSE platform will be able to deposit AAA-rated foreign sovereign bonds to ICCL as collateral, all within an automated and efficient triparty environment.

The partnership is based on guidelines issued by local regulators the Reserve Bank of India and the Securities and Exchange Board.

It follows the objective of strengthening the stability of Indian capital markets through using high-quality collateral for risk management, while also allowing access for foreign investors, making India globally competitive.

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Stefan Lepp, head of global securities financing and a member of the executive board at Clearstream, said: "This new partnership is part of our strategy of enabling customers to use the Global Liquidity Hub as a single source of liquidity to collateralise multiple global exposures in a streamlined and optimised manner."

K. Kumar, managing director and CEO of Indian Clearing Corporation Limited, added: "ICCL is committed to providing enhanced clearing, collateral management and risk management services to help members comply with new regulatory requirements and to bring Indian trading practices in line with the best in the world."

The collaboration is part of a wider partnership between BSE and Deutsche Börse. Clearstream is also in discussions with Indian market regulators and BSE over introducing models for government and corporate bonds intended to make access to the Indian market easier for international investors.

Trader jailed in the UK over LIBOR manipulation

The first person to be charged as part of the investigation in to LIBOR manipulation has been found guilty on eight counts of conspiracy to defraud and sentenced to 14 years in prison. Former derivatives trader Tom Hayes was investigated under the Serious Fraud Office's (SFO) investigation, and found to have made submissions of rates to the yen LIBOR submissions that were false or misleading, thereby altering the economic interests of others.

The London inter-bank offered rate (LIBOR) is used as the global benchmark interest rate and underpins investments and contracts around the world.

Southwark Crown Court heard that Hayes repeatedly asked rival brokers and traders, and submitters to his own banks, to alter yen LIBOR submissions, and sometimes offered a reward in return.

The offences occurred between August 2006 and December 2009, when Hayes worked at UBS, and between December 2009 and September 2010, when he was employed at Citigroup.

Citi issued a statement saying: "Hayes was terminated in September 2010 following an incident that was reported to compliance. Citi also reported the matter to the appropriate regulators at the time."

UBS also responded to the decision, saying: "UBS was not a party to this case. It was a matter between the SFO and Hayes and UBS has no comment."

"The bank has resolved this legacy matter with most authorities and is committed to reducing operational risks and upholding a culture of doing the right thing."

David Green, director of the SFO, said: "The jury were sure that in his admitted manipulation of LIBOR, Hayes was indeed dishonest. The verdicts underline the point that bankers are subject to the same standards of honesty as the rest of us."

"This brings to an end one strand of the SFO's continuing Libor investigation. One senior banker previously pleaded guilty and another 11 individuals await their trial."

Justice Jeremy Cooke, who oversaw the proceedings, said: "The seriousness of the offence is hard to overstate … A message has been sent out to the world of banking accordingly [that] probity and honesty are essential."

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SLT in association with Consolo Ltd will be putting on this one day event which is designed as a crash course in all the regulatory initiatives in progress that may have a direct impact on securities lending.

The agenda will include the following initiatives, although others may be included as the regulatory environment continues to evolve:

- Securities Finance Regulation
- CSDR and T2S
- Resolution stays
- AIFMD
- CASS
- EMIR
- Taxation
- Basel III
- CMU

Whilst this list is not exhaustive, it should be noted that these regulations are in development phases and not yet finalised. The presentation will provide up to date status reports for each regulatory initiative.

Attendees: This is intended for anyone directly or indirectly involved in securities financing.

Facilitator: Sarah Nicholson, Consolo Ltd

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Positively growing

What kind of a picture is publically available data painting?

MARK DUGDALE REPORTS

The regulatory push for more transparency in the securities lending markets continues unabated. The Financial Stability Board is still working on its proposed standards and processes for global securities financing data collection and aggregation. While details of that reform are unclear, the EU Securities Financing Transactions Regulation, whose text was finally made public in June, certainly is, although by no means as much as many would like. Add to these the fact that the US Securities and Exchange Commission is collating comments on its own transparency proposal, and it's obvious for the world to see that securities finance is going to be more open in the future.

Of course, market participants have embraced the need to make the business more transparent. Every securities finance conference is brimming with optimism about more clarity, in part because of the—many argue—unfair 'shadow' label used to describe the business. The more transparent securities finance becomes, the less it will have to defend itself, so the argument goes. It will be probably take years to have a full and complete picture of the markets, with data collection and aggregation being most useful when they can paint an historical picture. But, using what is publically available, how is securities finance faring at the moment?

The International Securities Lending Association (ISLA) has been active in assessing securities finance, finding that €1.7 trillion of securities were on-loan globally as 31 December 2014, drawn from an available lending pool of €12.5 trillion.

This represents a growth of some 18 percent in reported on-loan balances during 2014, according to the second edition of the ISLA's Securities Lending Report, which aims to provide policymakers with accurate industry statistics. As of 31 December 2014, ISLA found that institutional investors such as pension funds, mutual funds and sovereign wealth funds, remained the largest participants in the securities lending market.

Banks' securities lending, when acting as principal, represented 23 percent of the market, up from 18 percent in June 2014. Fifty-two percent of all outstanding loans were of equities or exchange-traded funds, which was broadly the same as at 30 June.

The ISLA report has also shown that government bond lending represented 38 percent of the total global on-loan balances by year-end 2014, up from 35 percent at 30 June, with both the supply and demand to borrow government bonds increasing during 2014.

The report stated: "The split between non-cash and cash collateral received by lenders was broadly 55/45 with a clear and ongoing drift away from cash collateral."

"In certain markets such as government bond lending this trend was more extreme with, for example, only 10 percent of loans of European government bonds being booked as cash collateral loans."

More recently, DataLend compiled an infographic that showed the value of available inventory stands at $13.22 trillion, as of 22 June.

Of the available inventory worldwide, $1.72 trillion was out on loan as of 22 June. The value of equity on loan was $851 billion, while fixed income on loan stood at $876 billion. Some 41,673 unique securities were out on loan, according to the infographic, yielding an estimated gross revenue of $19.2 million per day on average, which equates to $2.26 billion for the first half of 2015.

Utilisation has continued to remain below past peaks, with the US seeing 13 percent of available securities utilised, Europe 14 percent and the Asia Pacific 10 percent. Despite this split in favour of Europe, the US is still the largest market with $954 billion out on loan as of 22 June. Canada is the closest market in size, with an estimated $131 billion of securities out on loan.

The US also commands a fee of 38 basis points (volume-weighted average, year to date), whereas Hong Kong, which has $28.8 billion out on loan, yields fees of 210 basis points, according to DataLend.

Recent financial results from the agent lenders that make their securities lending revenues public have largely been positive, with BNY Mellon earning seasonally higher securities revenue of $40 million during Q2 2015.

Securities lending revenue was higher during the last quarter than Q1 2015, when the bank earned $34 million. It was also up on Q2 2014, by $5 million. Asset servicing fees earned overall during Q2 2015 hit $1.1 billion, an increase of 4 percent year-over-year and 2 percent sequentially.

BNY Mellon explained in its earnings report: "The year-over-year increase primarily reflects organic growth, due in part to global collateral services, net new business and higher market values, partially offset by the unfavourable impact of a stronger US dollar. The sequential increase primarily reflects organic growth and seasonally higher securities lending revenue."

Financing-related fees, meanwhile, were $58 million in Q2 2015 compared with $44 million in Q2 2014 and $40 million in the first quarter of this year. "Both increases primarily reflect higher fees related to secured intra-day credit provided to dealers in connection with their tripart y repo activity," said the bank.

Similarly, State Street revealed increases in its securities finance revenue, reaching $155 million in Q2 2015.

The result represents an increase of $54 million, or 53.5 percent, compared to Q1, a jump that was primarily attributed to seasonality. It is also saw an increase of 5.4 percent compared to Q2 2014.

This was attributed to new business from enhanced custody, but was partially offset by lower spreads.

At BlackRock, investment advisory, administration fees and securities lending revenue increased $100 million from Q2 2014, thanks to organic growth and market appreciation, which outpaced the impact of foreign exchange movements. On its own, securities lending fees of $147 million in Q2 2015 showed an increase of $7 million over the same quarter in 2014.

Investment advisory, administration fees and securities lending revenue increased $144 million from Q1 2015, reflecting organic base fee growth, the effect of one additional revenue day in the quarter and seasonally higher securities lending fees, which increased $33 million from Q1 2015.

Northern Trust did see securities lending dip 11 percent during Q2 2015 due to changes in fee arrangements, although that was in comparison to the same quarter in 2014.

Quarter-over-quarter, the bank earned higher revenue, collecting $26.8 million in fees and beating Q1 2015's figure of $21.6 million. "Securities lending increased 24 percent, reflecting higher spreads in the current quarter," explained Northern Trust.

On the prime services side, BNP Paribas saw significant increases in revenues in Q2 2015.

Revenues increased to over €3 billion, a 15.6 percent increase compared to Q2 2014, which reached €2.64 billion. Equity and prime services revenue increased 22.2 percent compared to Q2 2014, reaching €621 million. The increases were again attributed mainly to a generally favourable environment in the global and equity markets.

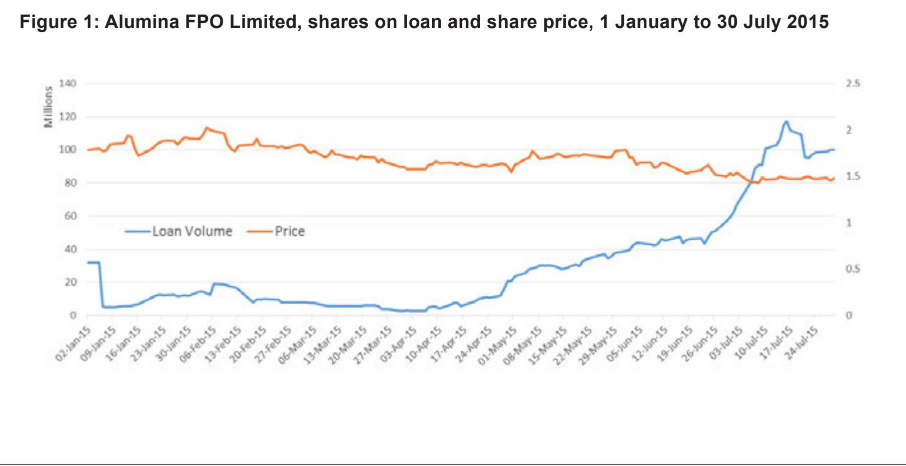
These results are but a snapshot, yet they point to the wider business going well, in the face of the biggest regulatory upheaval in decades. Discussions with industry executives are similarly positive, with BNP Paribas's new US business growing rapidly and reports indicating that equity financing is booming across the Atlantic, too. While regulators push for more transparency from market participants, the going seems to be good. **SLT**

Super-cycles and perfect storms

David Lewis of SunGard's Astec Analytics explains what's putting the wind up the commodities markets around the world, and how short sellers are reacting

'Super-cycles' and 'perfect storms' are terms that might sound reminiscent of dramatic Hollywood films or late-night documentaries on the Weather Channel, but they are also often found in the parlance of economics. Not, as you might think, in an effort to sound cool, but more to try and summarise succinctly what is happening to a certain sector or industry.

Figure 1: Alumina FPO Limited, shares on loan and share price, 1 January to 30 July 2015



Such terms are being increasingly used when describing the tribulations of the commodities markets. Some have even suggested that the commodities 'super-cycle' is coming to an end, and its demise is heralding a 'perfect storm' of economic issues and effects on the wider financial markets.

In normal circumstances, phrases starting with the word "super" suggest something really good, beneficial or superior in some way: 'superfoods' or 'Super Mario', for example. As such, when super things come to an end, which is the case with the commodities market, the end of the 'super-cycle' is not seen as good news.

The explosive growth of the Chinese economy in recent years, and in particular its seemingly insatiable hunger for commodities and raw materials, has driven a massive expansion in the supply side of the industry. Billions of dollars have been spent globally on new mines, new exploration, new drilling rigs and refineries, all targeted at meeting the rising demand from the East. Commodity prices grew (especially crude oil prices), investments were being fuelled, and demand was rising as growth continued seemingly inexorably. Then it stopped.

Just as all this new supply began to come on stream, the Organization of the Petroleum Exporting Countries (OPEC) pushed production to record levels and the new energy kid on the block, Shale Gas, burst onto the scene. The cycle was coming to an abrupt halt, and even looking at hitting the reverse gear. Growth in China seemed to have hit the buffers, relatively speaking of course, which squeezed off the demand for oil, gas, copper and other rare earth materials.

Even gold, the ever-resilient 'safe haven', has lost its lustre as buying demand has slumped. China was one of the largest buyers of gold in the world. It used the resource to bolster its reserves and support its currency, and used it as a raw material for production and consumption. But China has indicated that it has bought 'only' 600 tonnes in the last four years—less than a quarter of what was expected. With a rising US dollar and with crude oil below $50 a barrel, enter the perfect storm.

Building a mine or drilling for oil is not a small, cheap or quick task. These are massive projects with very long payback tails. Now that many of these projects are coming on-stream and producing what they were designed and built for, supply now massively outstrips demand. This leaves the producers with these huge assets counterbalanced by their equally massive piles of debt finance. The oil and gas and metals and mining sectors have been hit hard as the super-cycle turns out of step with the level of demand.

Hedge funds have not been slow to act. The securities lending volumes, taken as a proxy for short selling, have shown growing balances across the globe. As always, there are exceptions and outliers, but in sheer volumes, the balance on loan in the global oil and gas sector (as defined by the Standard and Poor's Global Industry Classification Standard model) has risen by 230 million shares or about 5 percent in July alone. The on-loan volumes for the metals and mining sector have risen 7 percent, or almost 375 million shares over the same period.

Looking into a little more detail, miners in Australia, a global player in the production of commodities such as iron ore, copper and bauxite, whose economy relies heavily on the output from its mines, have suffered perhaps more than most as the cycle turns. As a country, volumes on loan in this sector have risen more than 11 percent over the last month, compared with 7 percent globally. Individual companies stand out within the sixty-four members of this digging party, such as Alumina FPO Limited (AWC.AX).

Figure 1 shows the rising volume of shares on loan paired with the falling share price. As a producer and smelter of aluminium and bauxite, Alumina is vertically integrated into the shipping and transport of both dry and liquid bulk cargoes, which is not what you might call a hedged position when you consider that when demand falls for bulk commodities, both the production and the shipping of such products get hit. This doubly vicious circle for Alumina has been reflected in the 18 percent fall in its share price over the last two months, putting it 28 percent down from its 12-month high.

Larger iron ore producers, such as Rio Tinto (RIO.AU) and BHP Billiton (BHP.AU), have come under fire for emulating the OPEC strategy of late. Vale, a Brazilian producer, was the first to blink, cutting back production by 25 million tonnes a year, somewhat vindicating the controversially aggressive strategy by the bigger players. Fortescue Metals Group (FMG.AX) has been a vocal objector to these moves, and given the precipitous slide of their share price from just under AUD $5 a year ago to now under AUD $2, they appear to have much to worry about.

With oil now below $50 a barrel, gold falling as sellers outstrip buyers, and the US dollar strengthening ahead of expected base rate rises, there indeed appears to be a perfect storm gathering, and many miners across the globe are gazing into deep dark holes hoping there are calmer, more stable times ahead. **SLT**

David Lewis
Senior vice president, Astec Analytics
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 is proud to announce a new title - and expanded focus - for its 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 US and Europe. Topics include collateral management, international market updates, performance measurement, and legal/regulatory updates.

Industry appointments

Pat Curtin has taken on the role of head of sales and client management for global custody at Citi, which will also cover fund services and agency lending.

He is moving on from his position as head of fund services, and his responsibilities will be taken over by **Sanjiv Sawhney**, who becomes global head of custody and fund services.

Previously, Curtin has worked at SWIFT and BNY Mellon. He will now report to Alan Pace, Citi's global head of sales for investor services.

State Street has looked in-house for the new head of its global exchange business and appointed **Lou Maiuri** to the role.

Senior vice president **Paul Fleming** will take over from Maiuri to lead the securities finance group at State Street.

In his new role, Fleming will be responsible for the global strategic direction and operations of both the agency and principal lending programmes, and will report to Karen Keenan, executive vice president.

Current head of securities finance Maiuri, who has 25 years of experience in technology and financial services, will report directly to Mike Rogers, president and COO of State Street, in his new role.

Prior to joining State Street in October 2013, Maiuri served in various roles at BNY Mellon, including deputy CEO of asset servicing, and head of the global financial institutions group within the asset servicing business.

Rogers commented: "Having led our securities finance and investment management servicing businesses, Maiuri has a keen understanding of the needs of our buy-side clients."

Maiuri commented: "As our entire industry continues to adapt to disruptive elements, it is increasingly important to use data and analytics for insights and focus on execution."

"I'm committed to not only capturing new ideas that will help us innovate rapidly, but also to strengthening the information and technology advantage we already have in place to deliver additional front-office solutions for the buy-side."

J.P. Morgan has hired **Lebo Moropa**, giving the bank its first dedicated prime brokerage and equity finance presence in South Africa.

Former HSBC trader Moropa has joined J.P. Morgan in Johannesburg and will focus on synthetic and cash prime brokerage and securities lending, including delta one.

The new vice president for equity finance will report to Paul Farrell in London.

Moropa was a delta one trader at HSBC, and he has previously worked at J.P. Morgan in various capacities.

Lombard Risk has appointed **Kieran Lees** to the newly created role of global sales and marketing director.

Lees will oversee and expand global sales activity at Lombard Risk. He has 25 years of experience and has held positions at Oracle, Sun, NCR and Computacenter, with a strong track record in leading revenue growth.

He will now report to Philip Crawford, executive chairman of Lombard Risk.

Mercer Investments has hired four new executives, as part of the continued growth of its investment business.

Chad Hueffmeier has joined as senior financial strategy consultant with a focus on pension risk management and transfer. Previously, he has held pension risk management positions at Morgan Stanley Investment Management, Towers Watson, and Buck Consultants.

Grace McAdam will be client advisor for investment performance and risk, policy and governance of institutional assets, working from Mercer's Toronto office.

Gina Hughes has also joined the New York office as project manager and annuity placement specialist for pension risk transfer settlement strategies.

Finally, **Melissa Latore-Moore** joins as an annuity placement specialist, helping to develop and market Mercer's annuity placement and due diligence services.

Her experience lies primarily in defined pension plan underwriting and annuity operations, compliance and administration. **SLT**

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