ISSUE134
08.09.2015 TUESDAY
securitieslendingtimes.com

Europe's Elite
Making securities finance stronger

EQUILEND BONDLEND DATALEND

NEW YORK
+1 212 901 2200

LONDON
+44 207 426 4426

TORONTO
+1 416 865 3395

HONG KONG
+852 3101 7070

EquiLend LLC, EquiLend Europe Limited, and EquiLend Canada Corp. are subsidiaries of EquiLend Holdings LLC (collectively, “EquiLend”). EquiLend LLC is a member of the FINRA and SIPC. EquiLend Europe Limited is authorized and regulated by the Financial Conduct Authority. EquiLend Canada is authorized and regulated by IIROC. All services offered by EquiLend are offered through EquiLend LLC, EquiLend Europe Limited, and EquiLend Canada Corp. EquiLend and the EquiLend mark are protected in the United States and in countries throughout the world. © 2001-2015 EquiLend Holdings LLC. All Rights Reserved.

ISLA reviews the state of securities lending in 2015

The International Securities Lending Association (ISLA) has published its annual report on the securities lending market.

The third such report from ISLA focuses on the traditional securities lending market and seeks to highlight emerging and ongoing trends and promote greater transparency and understanding on all aspects of the industry.

The report cited increasing regulatory requirements as the most significant factor affecting the market.

It stated: "UCITS funds appear to be less able to engage in lending due to regulation, corporate bonds appear to be less attractive as a collateral security due to higher bank balance sheet charges, and the demand to borrow high-quality liquidity assets (HQLA) continues to grow as a result of Basel III, EMIR and similar regimes that require the mobilisation of collateral."

The data used was taken from January to June 2015.

Initial figures showed that on-loan balances increased by 8.5 percent globally to €1.8 trillion, from €1.7 trillion, in the first half of 2015.

Mutual funds and pension plans also continue to dominate the global lending pool. Together they account for 66 percent of the reported €14 trillion of securities that institutional investors make available for lending.

At the same time, however, the latest data shows that direct lending among banks and broker-dealers fell back to 11 percent of total securities on-loan, from 23 percent by the end of 2014.

Government bonds accounted for 39 percent of all securities on loan and the proportion of government bonds on loan globally has increased steadily over the past 12 months. This trend underlines the growing importance of securities lending programmes as a conduit for mobilisation of HQLA.

Equity loan balances grew grew by 13 percent and still represent the largest proportion of loans outstanding.

In the wider industry, by June 2015, just over half of all outstanding loans were of equities or exchange-traded funds.

Commenting on regional expansion, the report highlighted that growth was seen evenly across Europe, the Americas and Asia.

On the issue of collateral, ISLA observed the continued drift towards the use of non-cash collateral across the industry.

The proportion of loans collateralised with non-cash collateral increased to 60 percent of all transactions, up from 55 percent six months earlier.

In addition, fixed income government bond lending continued to record much higher levels of non-cash collateral, with 90 percent of all European government bond loans being collateralised with other securities.

When analysing equities, the data showed that 57 percent of the collateral pool held by triparty service providers, which is up from 53 percent in December 2014. This trend reflects the increasing use of equities as collateral.

In contrast, corporate bonds fell from 12 percent of all triparty collateral to 8 percent by June.

Asian repo relies on standard best practices

An efficient Asian repo market could help to develop infrastructure and benefit the economy, but it is being held back by inconsistencies between countries, according to a report by the Asia Securities Industry and Financial Markets Association (ASIFMA) and the International Capital Market Association (ICMA).

SLTINBRIEF

Cover special
Nerin Demir, head of securities finance at SIX Securities Services, on Europe's securities finance markets and how his firm is working to make them stronger

page14

Collateral management
Every transaction now has post-trade consequences that need to be handled efficiently. Pierre Lebel of Societe Generale Prime Services explains

page22

Equity collateral
Equity-heavy broker-dealers in the US could soon receive a regulatory boost

page24

New leader
State Street's new head of securities finance, Paul Fleming, talks about his role and what's on the horizon this year and beyond

page30

Agent perspective
Sunil Daswani of Northern Trust reveals how the bank's 2015 has been so far

page34

DataLend analytics
Chris Benedict of DataLend looks at several emerging global securities lending trends and highlights some of the changes seen so far in 2015

page42

With configurable components, users can complete complex tasks, front-to-back, all from a single screen.

See how Argent can become your workspace of choice.

info@anetics.com
413.395.9500

www.anetics.com

The report stated that establishing best practices in the region is essential for developing the market. It puts forward best practices for trading and settlement of cross-border repos in Asia, in a bid to encourage efficient trading and to bring Asia in line with international standards.

According to the report, integrating bond and repo markets in Asia would improve access to finance and reduce reliance on banks for lending. It could also support the development of local currency bond markets, bond futures markets and over-the-counter derivatives markets.

ASIFMA and ICMA also suggest that improving bond and repo markets would encourage the retention of savings for more regional investment and improve mobility of securities, which would counter the effects of asset encumbrance driven by regulatory change.

But the markets face significant challenges in the region, including inconsistent legal systems between Asian countries. There is also a lack of creditor protection in cases of bankruptcy, and close out rights are not generally established in law.

On top of this, there is a lack of liquidity in the market, barriers against investor access, and unfavourable tax regimes in place.

The report set out comprehensive suggestions for best practice throughout the entire repo trade lifecycle, including performing anti-money laundering and know-your-client requirements in line with both their home and host jurisdictions and sharing that information, and agreeing on various operational protocols.

It also puts forward parameters that parties should agree upon before trading, including minimum transfer amounts, the price sources that will be used to value collateral both routinely and in the event of a dispute, and deadlines for delivering cash margin and margin securities.

Guidelines cover fixing repurchase dates, messaging standards, confirmations, managing collateral, margining, and more.

Morningstar backs SEC's call for fee-split transparency

The securities lending aspects of the US Securities and Exchange Commission's (SEC) investment company reporting modernisation programme are necessary because fund investors are entitled to know the revenue split between the manager, the agent lender and the fund itself, according to Morningstar.

The mutual fund data and analytics provider submitted a comment letter to the SEC on 21 August, following publication of a new set of disclosure requirements aimed at taking advantage of the benefits of advanced technology, and to modernise the fund reporting regime in the US.

Under the reforms, which the SEC published for public comment in May, Rule 6-03 of Regulation S-X will be amended to include a new subsection mandating certain disclosures of a fund's securities lending activities.

These could include a fund's gross and net income from securities lending, and all fees and compensation it pays out, including borrower rebates. Funds would also have to reveal the revenue sharing splits in place with their agent lenders.

Explaining the requirements, the SEC said: "We believe that these proposed disclosures would allow investors to better understand the income generated from, as well as the expenses associated with, securities lending activities."

Morningstar backed the move in its comment letter. The data provider explained: "Securities lending is … an area in which frequent, comprehensive disclosure would allow market participants to assist the SEC in identifying risky practices and exposures."

"We further support the SEC's proposal to provide more granular information about funds' fee income from securities lending. We believe that investors are entitled to know the revenue split between the fund manager, the lending agent, and the fund itself."

"Collecting and publishing this additional information will allow investors to learn whether they are being adequately compensated for securities lending, at least in comparison with other funds."

Forms N-Q and N-CSR will also be replaced with a new portfolio holdings reporting form, dubbed N-PORT.

The previous forms made investment management companies report on a quarterly basis, but Form N-PORT will have to be filed with the SEC every month, and securities lending and repo information will need to be included.

Each monthly report will need to include borrower information, such as the aggregate value of all securities on loan, although the SEC is assessing whether a loan-by-loan basis would be more appropriate.

Morningstar added in its letter: "By collecting and making available additional information about counterparty risk and other important factors, the SEC will make it easier for investors and financial advisors to monitor portfolio risks. We also believe the enhancements to securities lending disclosure will assist the SEC in monitoring potential systemic financial risks."

Taiwan reintroduces uptick rule

Taiwan's Financial Supervisory Commission (FSC) reintroduced the up-tick rule on 24 August and did not implement a ban on short selling, as previously reported.

Effective 24 August, margin shorts and short sales of stocks listed on the Taiwan Stock Exchange and GreTai Securities Market, as well as Taiwan depository receipts, cannot be shorted below the previous day's closing price, the FSC announced.

Certain exemptions were introduced, including for hedges made by local securities and futures companies.

The FSC also said it is continuing to encourage listed companies' treasury stock programmes

Untouched opportunities through diversified services

LAGO
KAPITAL
LEADING FINNISH SECURITIES FINANCE BROKER

- ✓ Securities lending
- ✓ Single Stock Futures
- ✓ REPO
- ✓ Portfolio margin
- ✓ Emerging markets

Lago Kapital Ltd | www.lagokapital.com | © Lago Kapital Ltd
info@lagokapital.fi | tel. +358 10 320 8950

Flexible, customised securities lending

Securities lending can be an important source of return and a key part of overall portfolio and risk management strategies — but you need a proven lending agent you can trust. We offer the client-facing technology, commitment to transparency and individualized service that you need to get the most out of your securities lending programme. Whatever the market conditions, our dedicated team is committed to helping you optimize opportunities, maintain flexibility and manage risk.

For more information, contact:

Doug Brown, CFA
The Americas
+1 617 664 7665
dabrowniii@statestreet.com

Maurice Leo
Europe, Middle East & Africa
+353 1 776 8414
mvleo@statestreet.com

Francesco Squillacioti
Asia Pacific
+852 3667 7080
fsquillacioti@statestreet.com

STATE STREET GLOBAL MARKETS®

State Street Global Markets is the investment research and trading arm of State Street Corporation (NYSE: STT), one of the world's leading providers of financial services to institutional investors.

©STATE STREET CORPORATION

and the buy side to accumulate stocks with good fundamentals.

The regulator also wants Taiwan's exchanges to continue hosting meetings for listed companies and investors, and the Taiwan Stock Exchange will also invite business leaders to speak and provide industry outlooks to investors.

Thai stock exchange updates systems to boost business

The Stock Exchange of Thailand has rolled out new clearing and depository systems to enhance securities lending and asset servicing.

The new systems will enhance overall straight-through processing in the capital market, which has been attracting increasing demand, according to the exchange.

The clearing system has been integrated in to a single platform to accommodate the settlement of equity and derivatives products.

Thailand Securities Depository Co, a subsidiary of the exchange, adopted the new systems for its depository function, while the securities borrowing and lending system was enhanced to facilitate transactions.

A buy-in process was also implemented to allow members to buy securities in the event that a client fails to deliver securities on time.

Commenting on the launch of the new systems, which went live on 24 August, Bordin Unakul, Stock Exchange of Thailand executive vice president, said: "[We implemented] after working closely with securities firms, custodians and depository members, as well as completing several tests to ensure smooth and seamless migration and implementation. Significantly, this [was] to make sure that the implementation [would not affect] investors."

Greece renews short selling ban

Greece has extended its ban on short selling until the end of September.

The latest ban, which will continue to exclude market makers and took effect at the beginning of September, was authorised by the Hellenic Capital Market Commission and is the sixth consecutive prohibition on short selling by the Greek regulator.

All exchange-traded funds on the Athens Exchange and the Multilateral Trading Facility are included, as well as sales that are covered with subsequent intra-day purchases.

The European Securities and Markets Authority has approved of the continuation of the ban given the ongoing "adverse developments" in the Greek market.

REGIS-TR approved for energy regulations reporting

REGIS-TR has been approved as a registered reporting mechanism (RRM) for the European regulation on wholesale energy market integrity and transparency (REMIT).

The EU Agency for Cooperation of Energy Regulators (ACER) confirmed its status as an RRM for the reporting of wholesale energy transactions.

As of 7 October, REGIS-TR will begin phase one of the REMIT implementation, supporting market participants and third parties in reporting standardised products. Non-standardised product reporting will follow on 7 April 2016.

The approval includes orders for trading and ensuring coordination and consistency in monitoring activities under REMIT.

REGIS-TR's participants already include various European energy utilities, and it processes large amounts of energy commodity derivatives.

It was the first trade repository to get involved in ACER's initiative for providing transparency and addressing market abuse and manipulation, a project designed to facilitate the reporting of financial derivatives, spots and orders in the wholesale energy market.

David Retana, managing director at REGIS-TR, said: "We are proud to be approved as a registered reporting mechanism for REMIT reporting. Several leading market participants are already testing the service, and others have shown significant interest in a single consolidated view on their REMIT trading activity."

"REGIS-TR is now the only RRM to offer a full REMIT RRM service, encompassing interconnectivity with a number of leading organised market places and providing a full reporting service for non-standardised contracts for April 2016."

He added: "RRM approval is another important step towards becoming the one-stop shop for trade reporting."

SS&C sees increases in August

SS&C GlobeOp's Forward Redemption Indicator shows that notifications have recovered somewhat, increasing from July's 2.08 percent dip to reach a figure of 3.46 percent in August.

The indicator represents the sum of forward redemption notices received from hedge fund investors, divided by the assets under administration of SS&C GlobeOp fund administration clients at the beginning of the month. It reached an all-time high of 19.27 percent in November 2008, and a 12-month high of 5.87 percent in December.

Data on the platform represents about 10 percent of the whole hedge fund industry.

Bill Stone, chairman and CEO of SS&C Technologies, attributed the change primarily to seasonality, however, he pointed out that August 2015's figure was still less than the same time last year.

He said: "It's noteworthy that on a year-over-year basis, the 3.46 percent for August of 2015 is sharply lower than August of 2014 which came in at 4.19 percent. In particular, there was a decline in near-term redemptions, which together with other recent SS&C GlobeOp index results, suggests that hedge funds are benefiting from the recent elevated market volatility."

4SIGHT XPOSE COLLATERAL MANAGEMENT SOFTWARE

- Boost revenues by optimising your Collateral usage
- Centralise Collateral Management across business lines
- Turn Collateral Management from back office function into front office trading tool.

4SIGHT FINANCIAL SOFTWARE

For further details visit www.4sight.com

... and climbing.

A global player in asset servicing...

Offering leading value in investor services demands constant evolution. At CACEIS, our strategy of sustained growth is helping customers meet competitive challenges on a global scale. Find out how our highly adapted investor services can keep you a leap ahead.

CACEIS, your comprehensive asset servicing partner.

www.munier-bbn.com

Custody-Depositary / Trustee
Fund Administration
Corporate Trust
CACEIS benefits from an S&P A+/A-1 rating
www.caceis.com

caceis
INVESTOR SERVICES
solid & innovative

The SS&C GlobeOp hedge fund performance index reported a flash estimate of 0.69 percent, a considerable improvement on July's estimate of -0.65. Year-to-date the performance has achieved 7.51 percent, while the last 12 months has seen an increase of 9.8 percent.

Boom time for short sellers

Short sellers enjoyed their highest average short positions heading in to the recent economic turmoil in more than 18 months, according to Markit.

The financial information provider noted that average short interest in the FTSE 100 index is up by more than a third since this time last year.

The market witnessed the largest selloff since 2011 as the FTSE 100 lost 4.6 percent in value on 24th August and closed at its lowest level since January 2013.

Short sellers were able to leverage the recent high in the average demand for borrowing across the index ahead of the slump.

Short interest reached 1.75 percent in the lead up to the selloff, which was just shy of the 18-month high achieved in the prior week and reflects a 43 percent growth since the start of the year.

The most shorted firms were those with high exposure to commodities and emerging market risk.

Morrisons, Sainsbury's and Weir Group, which services the oil, gas and mineral industries, were the top three most shorted and reflect the widespread negative market attitude towards natural resources and commodities.

Short sellers also targeted the FTSE 250 index and its constituents now have an average of 1.6 percent of shares out on loan, an 18-month high.

Two new clients go live on Comyno's X-Repo Hub

Frankfurt-based consultancy and software house Comyno has successfully implemented its X-Repo Hub solution with Germany's Finance Agency and DekaBank. Both projects were completed on time and to budget.

Based on Comyno's C-One system infrastructure, the X-Repo Hub has been developed to provide participants of the Eurex Repo markets with a cost-effective solution for connecting to Eurex Repo's new trading platform, F7. The C-One X-Repo Hub meets the needs of any financial institution active on all Eurex Repo markets, according to Comyno.

Markus Büttner, CEO and founder of Comyno, said: "We are delighted with the success of the implementations and the close working relationship we have established with our new clients."

"Our X-Repo Hub enabled the Finance Agency and DekaBank to migrate to the new trading platform without the need of costly and resource consuming internal developments."

Michael Cyrus, head of short-term products at DekaBank, added: "The Eurex Repo markets are a significant source of liquidity for any market participant."

"For us, it was important that the internal migration to the new trading platform took place in an efficient, diligent manner and with a focus on providing us with full transparency during the transition and implementation. With Comyno's X-Repo Hub, we experienced a smooth transition process."

FOLEY O'NEILL LIMITED

Securities Finance Consultants

Independent - Experienced - Creative

Bill Foley Tel: +44 (0) 7769 657579 | Sean O'Neill Tel: +44 (0) 7789 907717
Bill.foley@foley-oneill.com | Sean.oneill@foley-oneill.com

www.foley-oneill.com

SHARED INTELLECT.
Work with BBH to redefine your securities lending program.
With a program founded on intrinsic value lending, Brown Brothers Harriman offers proven expertise in structuring risk controlled securities lending solutions. We consult with our clients to co-create programs designed to generate high returns within their defined risk parameters.
BBH provides customized custodial and third party securities lending solutions to many of the world's most sophisticated asset gatherers. Consistently ranked a top global provider†, our service is underpinned by performance.
Our culture is our strength. Learn more about our differentiated approach at www.bbh.com.
†As measured by results in major industry surveys. Please see www.bbh.com/accolades for a comprehensive listing of recent industry accolades.
ACCOUNTING
BROKERAGE
FOREIGN EXCHANGE
FUND ADMINISTRATION
FUND DISTRIBUTION SUPPORT
GLOBAL CUSTODY
INFOMEDIARY®
OFFSHORE FUND SERVICES
SECURITIES LENDING
TRANSFER AGENCY
BROWN BROTHERS HARRIMAN
WWW.BBH.COM
NEW YORK BOSTON CHARLOTTE CHICAGO NEW JERSEY PHILADELPHIA WILMINGTON
BEIJING DUBLIN GRAND CAYMAN HONG KONG LONDON LUXEMBOURG TOKYO ZÜRICH

Japan adds T-bills to securities lending facility

The Bank of Japan will now include treasury discount bills (T-bills) as approved securities to be sold through the Securities Lending Facility, effective from 1 September, following the recent turmoil in Asian markets.

A statement from the central bank suggested the move aims to increase liquidity and ease the recent stress in Japanese government fixed-income markets and "further facilitate the bank's money market operations as well as contributing to smooth settlement of Japanese government securities".

For the newly added T-bills, the upper limit for sales per issue will equal either the amount outstanding of the bank's holding or JPY 100 billion ($875.5 million), whichever is smaller.

Counterparties will also be "permitted to consecutively purchase the same issue from the bank for a maximum of five business days".

However, this rule is not applicable to rollover transactions subject to fails charge in accordance with market practice. The minimum fee rate will be 0.5 percent.

The central bank also stated it may extend the period for consecutive sales transactions per issue when necessary in light of the volatile conditions of financial markets.

OCC enjoys August securities lending climb

Options Clearing Corporation (OCC) has announced that its securities lending central counterparty clearing activity was up 27 percent for new loans in August 2015, reaching 119,360 transactions.

Year-to-date stock loan activity was up 14 percent from 2014 with 891,492 new loan transactions in 2015, with an average daily value cleared by OCC of $183 billion.

OCC also released its clearing contract volume, which stands at 434 million for August this year, marking a 33 percent rise on 2014.

The corporation's year-to-date average daily cleared contract volume is up 0.15 percent from 2014 with 16 million contracts so far in 2015.

Scott Warren, executive vice president of business development at OCC, said: "August's volatility reached historic levels, surpassing the intraday levels last seen during the 2008 financial crisis and contributing to a surge in volume."

"OCC's increased resilience strengthened our ability to process and manage the elevated levels of risk activity efficiently and effectively for market participants."

OCC's futures and options data revealed 48 and 33 percent increases respectively from August last year.

Last month's figures achieved the second highest number of futures contracts for OCC, recorded at 5 million, although the year-to-date average for daily cleared futures was actually down 4 percent on last year's data.

In contrast, exchange-listed options volume outdid last year's total by 0.21 percent, reaching 426 million.

Equity options volume achieved 373 million contracts, a 30 percent increase from last year while index options volume in August was also up 60 percent.

JSE launches new interest rate swap futures product

The Johannesburg Stock Exchange (JSE), Africa's largest marketplace, has launched JSE Eris interest rate swap (IRS) futures.

The new IRS futures product is based on the Johannesburg Interbank Agreed Rate (JIBAR) and operates in South African rand.

The offering will be available for trading by all registered interest rate market members and their clients, and will be cleared through JSE Clear.

Experts in:
☐ Securities Lending
☐ Cash Management
☐ Risk Management
☐ Client Servicing
☑ All of the above

You want to focus on your strategic priorities. You need experts anticipating your needs and developing the tools to make you successful. For your securities lending business, rely on Northern Trust's market knowledge, experienced professionals, unique solutions and industry leading technology. So you can concentrate on running ***your*** business. To find out more, visit northerntrust.com/securitieslending or contact George Trapp at +1 312 444 3126 (North America), Sunil Daswani at +44 (0)20 7982 3850 (EMEA) or Mark Snowdon at +65 64376777 (Asia Pacific).

Asset Servicing | Asset Management | Wealth Management

DIRECTED TO PROFESSIONAL CLIENTS ONLY. NOT INTENDED FOR RETAIL CLIENTS. FOR ASIA-PACIFIC MARKETS, THIS MATERIAL IS DIRECTED TO INSTITUTIONAL INVESTORS, EXPERT INVESTORS AND PROFESSIONAL INVESTORS ONLY AND SHOULD NOT BE RELIED UPON BY RETAIL INVESTORS.

© 2015 Northern Trust Corporation, 50 South La Salle Street, Chicago, Illinois 60603 U.S.A. Incorporated with limited liability in the United States. Products and services provided by subsidiaries of Northern Trust Corporation may vary in different markets and are offered in accordance with local regulation. For legal and regulatory information about individual market offices, visit northerntrust.com/disclosures. Issued by Northern Trust Global Services Limited.

Flexible Financing Solutions

New regulations and market changes have transformed securities financing. In this evolving environment, innovative tools and new strategies can help you to collateralise transactions, enhance returns and facilitate liquidity more effectively.

BNY Mellon has the resources to design securities lending solutions to help support your pursuit of incremental revenue. Explore how BNY Mellon's agency securities lending program can fit into your portfolio strategy.

To learn more, please contact
Stephen Kiely at **+44 20 7163 2513**

bnymellon.com/securitiesfinance/2015

Products/services are provided in various countries by subsidiaries or joint ventures of The Bank of New York Mellon Corporation (and in some instances by third parties) that are authorised and regulated within each jurisdiction, under various brand names, including BNY Mellon. Not all products and services are offered in all locations. This information is for general reference purposes only and does not constitute legal, tax, accounting or other professional advice nor is it an offer or solicitation of securities or services or an endorsement thereof in any jurisdiction or in any circumstance that is otherwise unlawful or not authorised. Your ability to use these services is subject to a wide variety of applicable regulations and to the oversight of relevant regulators in different territories and/or jurisdictions. You should obtain your own independent professional advice (including financial, tax and legal advice) before agreeing to use the various services referenced herein. ©2015 The Bank of New York Mellon Corporation. All rights reserved.

It follows the standard South African swap market conventions while using the Eris Methodology, allowing the contracts to replicate the cash flows of over-the-counter swaps.

Warren Geers, head of interest rates and currencies at the JSE, said: “Bringing this product to market has been a collaborative effort between us, our clients and our partnership with Eris.”

“After significant engagement with market participants we took a global product and modified it to make it a truly South African product relevant to the South African market needs.”

The JSE has stated it will make appropriate pricing alignment as the product gathers more trading momentum.

The JSE expects trading of the IRS futures to grow in the last quarter of 2015 as clients are in the process of ensuring their systems are equipped to start trading the new Eris product.

OneChicago sees August highs

OneChicago, a securities finance exchange, boasted a 57 percent increase in its trading volume for August 2015, compared to the same month last year, with more than a million recorded trades.

The data marks the fourth consecutive month of double-digit growth in trading volume at OneChicago.

The exchange offers single stock futures, a delta one product, on approximately 1,500 equities, including American depository receipts and exchange-traded funds.

Total year-to-date trading volume reached eight million by 31 August, a 21 percent increase on 2014.

In contrast, open interest decreased 8 percent from 2014 to 676,611 contracts on the equity finance exchange at close-of-market, for August. About 60 percent of this interest was in OCX.NoDivRisk products.

Taiwanese tech companies look shaky, says Markit

The turmoil in Asian financial markets has prompted short sellers to target Taiwan’s technology companies, according to Markit.

The three most shorted stocks in the region are technology firms, with the sector’s average short interest rising by 10 percent since the beginning of July.

Hardware manufacturer Acer is attracting the most interest. Shares outstanding on loan have increased to 8.9 percent. With 70 percent of available shares short sold, the cost to borrow the stock remains high.

In the semiconductor sub-sector, the second most shorted in the region is Epistar, which manufactures LEDs. Shares outstanding on loan have jumped in recent weeks to 8.6 percent, a 52-week high.

Smartphone manufacturer HTC, meanwhile, has seen its stock fall 71 percent in the last six months, with short sellers covering positions by a half during the same period. Following a free-fall of HTC’s stock value in early September, the company was also dropped from the index of Taiwain’s 50 largest firms.

“The struggling handset maker has battled against an incredibly competitive Asian market that has reached signs of saturation with signs of demand slowing down,” explained Markit analyst Relte Schutte.

Markit has also witnessed short sellers use the iShares MSCI Exchange-Traded Fund (ETF) to efficiently short the Taiwan market, “a similar trend to that seen in China”. The number of shares out on loan for the ETF currently stands at 9.6 percent, a decline of 22 percent in the last month.

One CCP. Multiple Efficiencies.

Increasing capital and collateral requirements across the derivatives and securities financing business keep raising costs for market participants, sell side and buy side alike.

At Eurex Clearing, we provide innovative and integrated solutions across exchange-traded and OTC derivatives as well as securities financing.

They are geared to improve your economics and help you to tap into new opportunities arising from the new regulatory framework.

Unlock the full benefits of a CCP – leverage our superior solutions and services to maximize capital, margin- and collateral efficiencies.

Eurex Clearing – smart solutions keeping you clear to trade.

www.eurexclearing.com

Nerin Demir, Head of securities finance, SIX Securities Services

A faster, stronger Europe

Nerin Demir, head of securities finance at SIX Securities Services, gives his take on Europe's securities finance markets and explains how his firm is working to make them stronger

How would you describe European securities finance at the moment?

Securities finance markets are under significant pressure from regulators. A drying up of the fixed income market, combined with scarcity of high-quality liquid assets (HQLA), has put further pressure on repo markets.

SIX Securities Services has seen indications that repo volumes are falling in the market and is looking ahead to the next International Capital Market Association (ICMA) survey to establish whether or not this is a continuing trend on the horizon. Our repo arm—SIX Repo—has been resisting this trend however, by keeping volumes steady, in fact, even increasing volumes over the past two quarters across a number of currencies, particularly the euro (EUR) and the Swiss franc (CHF). The move of the Swiss National Bank on 15 January to abandon the currency alignment to the euro and the introduction of negative rates at -75 basis points has further pushed volumes up.

> "Despite the plethora of regulation directly and indirectly affecting markets, securities finance has held up a lot better than expected"

Securities finance still lies at the core of financial markets and provides a crucial backbone to the smooth functioning of capital markets as a whole—despite the plethora of regulation directly and indirectly affecting securities markets, it has held up a lot better than expected.

The regulatory environment is likely to create new opportunities within the securities finance space—collateral upgrades and downgrades, for example, are likely to become traded more actively than activity levels today would suggest, as firms short of HQLA will need to borrow or buy those assets to cover shortfalls.

In addition, the European Market Infrastructure Regulation (EMIR) and the Financial Market Infrastructure Act (FinfraG), the Swiss equivalent regulation, will drive over-the-counter (OTC) derivatives business to central counterparties (CCPs), which, in turn, will require more and higher-quality collateral, further fuelling demand and driving securities finance markets to support transformation trades.

At SIX Securities Services, we have now rolled out our securities finance offering CO:RE (collateral and repo) for integrated securities finance services, including brand new trading platform capabilities, which will roll out in Q1 2016, in addition to the existing and reliable triparty functionality.

Recent market volatility, particularly on the equity markets, may throw up challenges with regards to increased margin call activity. This could challenge the overall robustness of the market, although at SIX Securities Services we run a robust mark-to-market process many times a day ensuring that even a volatile market environment does not pose any challenges to our participants and to the wider market.

Where are you seeing demand and supply coming from in securities lending in Europe, and are we back to pre-crisis levels? What about the repo business?

Overall volumes have been recovering but have not achieved the pre-crisis levels, both in the repo and securities lending markets. In fact, a dichotomy has appeared between the US and European repo markets since the 2008 financial crisis. The US repo market shrank from a pre-crisis peak of approximately $7 to $10 trillion, to only $3.88 trillion in October 2014, according to Federal Reserve research.

The European repo market, on the other hand, has been more resilient. Although it did not reach the pre-crisis peak of €7 trillion, it shrank at a lower rate. However, volume growth in the European market over the past two quarters was flat, and in fact was slightly down when looking at the last two ICMA surveys from June and December 2014, which constitutes a decreasing trend that is partly due to tightening regulation and resulting increases in capital costs.

Within the repo market, SIX Securities Services has seen some trend changes in the type of

Nikola Todorovic, Head of sales and relationship management, SIX Securities Services

business that is conducted. Drivers differ across currencies and curves, but, for example, the CHF repo market has seen a lot of movement around the negative rate of -75 basis points. While the volumes at which the negative rates apply are individually based on the underlying institution, this also provides 'gaps' between the so-called free amount available to one single institution—no negative charge and negative rate applied. This has led to some lively activity with regards to 'topping up' the free amount and creating funding and trading opportunities for institutions in the market. This is just one example of the change in trading patterns that SIX Securities Services has observed in the repo market.

Additionally, there appears to be an increased interest from the non-bank sector to get involved more directly in the traditional inter-bank repo market, particularly from the institutional buy side and asset management and, indirectly, the pension fund market. Some of this stems from the current rate environment in Switzerland, Europe and the US.

The search for increased yield drives some of those institutions to seek access to cheap, fast and large liquidity pools to ensure funding access at all times while still being able to have a higher proportion of assets invested longer term. On the other hand, demand from the institutional banking side for stable and long-term cash balances generates interest for the corporate sector to move in to the market and provide such funding.

What is SIX Securities Services doing to meet the changing needs of securities finance participants in Europe?

SIX Securities Services is building on its existing strong client relationships to further those relationships and support client needs across the whole value chain of securities finance transactions. Furthermore, closer involvement with its clients through a bi-annual advisory board, in order to exchange the latest trends and ideas as well as possible product enhancements, further strengthens the client relationship and closeness to the market. Providing more tailored services away from over-standardisation further strengthens SIX Securities Services client and market engagement.

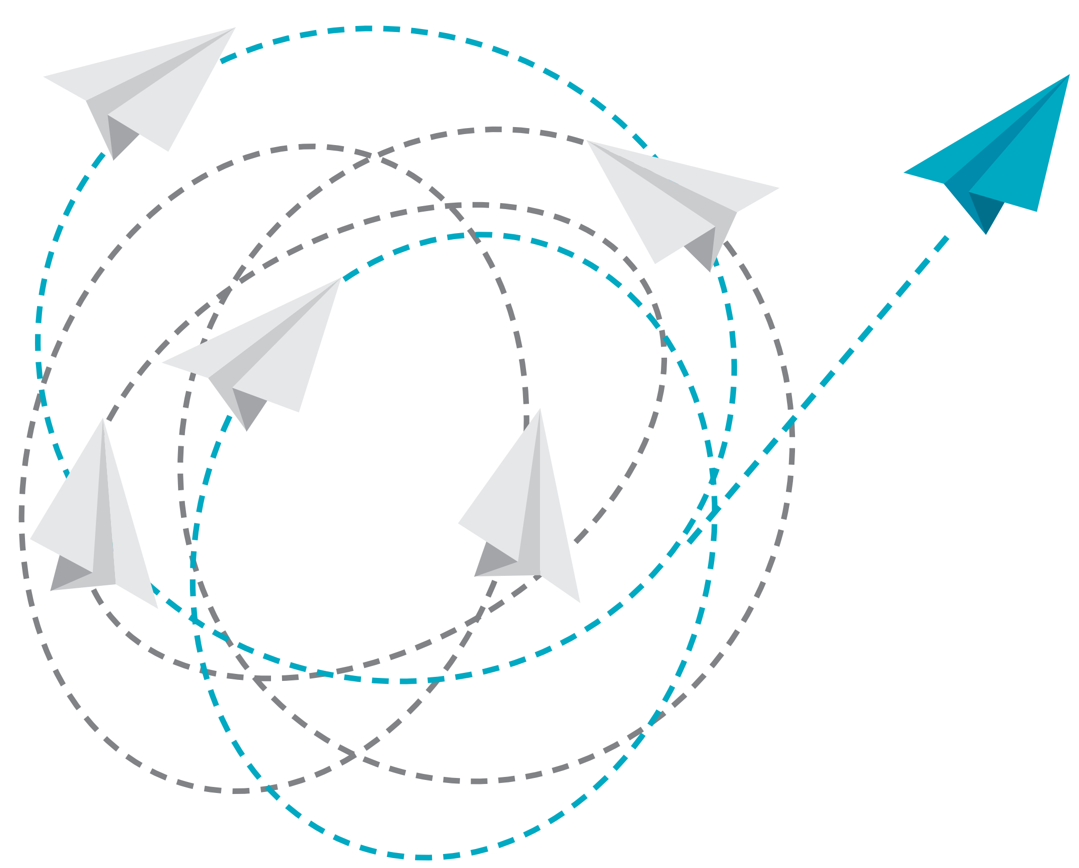
In a challenging economic environment, the SIX Repo market provides some rather unique characteristics: for example, applying no haircuts to the standardised basket trading while continuously achieving a settlement rate of 100 percent. Further, we provide an on demand service—repo on demand—which also supports equity-driven repo transactions, special baskets, and so on.

There are numerous initiatives currently undertaken at SIX Securities Services to adapt the product chain and make it future-proof for all the challenges that we believe lie ahead.

> “There is increased interest from the non-bank sector to get involved more directly in the traditional inter-bank repo market”

SIX Securities Services is also actively present at all major industry forums and conferences,

Clearstream
Global Liquidity Hub
Supporting collateral mobility



Are you looking for a secure and efficient collateral management solution?

Our Global Liquidity Hub provides award-winning solutions to source and allocate collateral across locations, time zones and asset classes in realtime.

gsf@clearstream.com

Left: Giancarlo Novello, Senior sales manager, SIX Securities Services

Right: Raphael Heuberger, Head of business development, SIX Securities Services

tracking current developments in the market and engaging with academia and the press to remain focused on all the developments in the securities finance arena.

How are repo participants being challenged at this moment in time, and how is SIX Securities Services helping them?

Current challenges for our repo participants come from two main directions: regulation on the one hand, and the general market situation on the other.

With regards to regulatory developments, Basel II and Basel III are weighing in on the capital cost side of the business. The liquidity coverage ratio is affecting repo trading, particularly the length of term.

At SIX Securities Services we are in the process of rolling out a new trading platform, expected in Q1 2016, that will support enhanced functionality to support the increased challenges of our clients to manage the increased complexity and regulatory framework of repo transactions.

Additionally, the current interest rate environment in Switzerland (-75 basis points) also poses separate challenges for our clients. In a wider context, FinfraG will affect clients soon as the initial implementation date is set for 1 January 2016.

For the term of a repo, SIX Securities Services provides comprehensive and fully automated risk management. How does this work?

SIX Securities Services provides a fully automated risk management service in its repo triparty transactions. In order to ensure the right level of collateralisation, SIX Securities Services undertakes a twice-daily mark-to-market with movements of collateral when required.

A third mark-to-market happens in the evening, which does not include any collateral movements.

The whole SIX Securities Services repo market is underpinned by a triparty agent function and all concluded transactions are passed over to the triparty agent, which significantly reduces the operational risks normally associated with concluding the business.

This ensures an almost seamless transaction for all parties.

The triparty agent always ensures that the exposed party—be that on the cash or collateral side—is always covered.

Furthermore, the triparty agent ensures that any collateral with pending corporate actions is automatically substituted where possible before any of the corporate actions are due, therefore avoiding any possible withholding tax implications and further improving the ease and efficiency of repo transactions.

> “SIX Securities Services allows for full re-use of collateral outside of its environment while still ensuring a settlement rate of 100 percent”

Uniquely on the European repo platform and infrastructure landscape, SIX Securities Services allows for full re-use of collateral outside of its environment while still ensuring a settlement rate of 100 percent.

Their Assets,
Your Fiduciary Responsibility.

Eliminate **Counterparty Risk**

Eliminate **Collateral Management**

Eliminate **Revenue Splits**

Simplify your Responsibilities.

A Better Way

www.onechicago.com - An Equity Finance Exchange - OCXdelta1

David G. Downey, CEO - 312.883.3440

The securities finance team at Six Securities Services

What are the biggest changes you have witnessed in collateralisation in securities finance?

SIX Securities Services has seen an increase in demand for the collateralisation of derivatives instruments, particularly OTC derivatives on the FX futures side as well as some demand for exchange-traded derivative collateralisation. For the past few years, SIX Securities Services has been working closely with CCPs in Europe and with the Swiss insurance market to create an EMIR- and FinfraG-compliant platform that will manage increasing collateral requirements in a more efficient manner. This approach from SIX Securities Services offers one of the highest forms of asset protection for underlying insurance firms and their corresponding funds.

To achieve such a sophisticated protection model, SIX Securities Services has tied up with CME Clearing Europe in the first instance of its kind to offer an integrated service for the collateralisation of the initial margins required in centrally cleared derivatives transactions such as interest rate swaps and credit default swaps.

Beyond this, SIX Securities Services's segregation capabilities continue to support both individual and omnibus account structures as various client requirements. CCPs such as CME Clearing Europe and SIX X-clear are already committed, and we are in ongoing discussions with other CCPs that hold, or want to hold, collateral with SIX Securities Services in the form of high quality securities on behalf of banks and institutional clients.

What about CCPs?

SIX Securities Services is constantly in contact with its clients to evaluate the trends and requirements in the market. While CCP uptake in the repo market has somewhat evolved over the past years, we do not see the same trend on the securities lending side. In our set-up, we currently do not use a CCP and provide a focus on the platform within the bilateral market, which also provides access to central bank intra-day funding as well as access to the spot market auctions that the Swiss National Bank conducts from time to time. We do have a CCP within the Swiss value chain and we provide triparty services for a number of other CCPs, including the UK-based clearinghouse, CME Clearing Europe.

We see the trend of triparty usage for CCPs increasing further and leading to closer collaboration. The regulatory costs imposed by Basel III (among others) will certainly create an increased demand for CCP securities finance transactions. Not least because of the differing capital cost treatments that will increasingly manifest themselves—some which already have—as we move closer to the implementation date. **SLT**

we
tame
risk

OCC manages risk in everything we do.
It's a job for the lionhearted.

OCC is the world's largest equity derivatives clearinghouse and a leading innovator in risk management solutions. For more than 40 years, OCC has provided market participants with industry leading efficiencies in the clearing and settlement of options and futures transactions. We strive to achieve the highest standards possible in everything that we do in order to promote financial stability and integrity in every market we serve.

The Foundation for Secure Markets www.theocc.com

New world order

Every transaction now has post-trade consequences that need to be handled efficiently. Pierre Lebel of Societe Generale Prime Services explains

MARK DUDGALE REPORTS

How much pressure has new regulation put on the collateral management function?

It was in 2009 when regulators decided to bring clearing to markets that had not done so in the past. It soon became apparent that any transaction done bilaterally, or with the minimum exchange of collateral, would have to be fully collateralised. That is not putting pressure on collateral management—it's creating a whole new world for the function. Only the securities lending, repo and listed markets really collateralised transactions. For everyone else, collateral management is a new concept.

The result of this was felt in 2011. Suddenly, professional gatherings focused on collateral management, and many market participants began implementing their plans in this area. We also saw new vendors and systems coming out. So there was not more pressure, but a new need where there was not one before. And where there are needs, there are opportunities.

Where is Societe Generale seeing opportunities in the collateral management space?

Societe Generale took full control of Newedge in 2014, and in doing so, added full execution and clearing services to its global banking and investor solutions business. Clearing goes hand-in-hand with collateral management. When clients deposit cash or securities with us to pay their initial or variation margin, a clearer must also manage this collateral and optimise it as much as possible. This is what the client collateral management team does at Societe Generale Prime Services—we're responsible for the management and the optimisation of this collateral. And it was a logical next step for us to develop a collateral management service on a third-party basis, which is what we created with Tempo.

Tempo is a collaborative effort between Societe Generale Prime Services and Securities Services designed to help clients diversify investment strategies in compliance with changing regulatory requirements. It can also help them to reap the benefits of diversified collateral mass, productivity gains, reduced counterparty and operational risk, and enhanced collateral flexibility. What's more, while it caters for top-tier financial institutions, it can also work for those at the lower end of the scale, particularly lower top-tier and upper second-tier clients, which cannot waste time or resources on project managers or expensive consultants to upgrade their collateral management functions or create them altogether.

Has Tempo been built from scratch?

We built Tempo very quickly because it is made up of several existing services, so it has proven concepts that are already serving clients. The difference now is that everything is under one roof with a single point of contact for the client. We have begun marketing and already have several clients in their final processes. We expect the next phase to be ready in 2016, when we will be marketing to those financial institutions that have to provide initial margining by 2017.

You've centralised a group of services within Tempo—how does this reflect what's happening in collateral management generally?

Every transaction now has post-trade consequences that need to be handled efficiently, and until recently, collateral management has been fragmented. Some focused on asset class, so equities, fixed income and derivatives each had their own collateral management function. Others focused on geography, so each location, be it Europe, the US or Asia, had its own collateral manager. Some even separated assets by custodian. These siloed approaches resulted in the loss of money, because they were inefficient for a firm as one single organisation.

What should be clear is that an institution that moves $15 billion of collateral per year can make $15 million in savings for every 10 basis points that optimisation allows it to save. It's as simple as that. Collateral efficiency and optimisation do not simply look good—they also result in hard money.

The best proof of that is the collateral transformation trade, which was not even a concept five years ago. But since 2010, it's become something you have to do because you have assets but they are not necessarily eligible at central counterparties or with your counterparts, hence you turn to the likes of Societe General Prime Services to upgrade them to eligible ones. The collateral transformation trade makes up a large slice of the flows of that business today.

Of course, as a prime brokerage business, we locate as well as cover shorts for our clients. Another standard service of a prime broker today is to provide collateral transformation and that's part of the Tempo project. You give us access to your collateral pool and we take care of the allocation.

How does that work in practice?

It's quite complex in practice because we have to manage, at the same time, the situation where the client is a giver of collateral while also using the collateral it gets as a receiver. The purpose is to find the most efficient way to use the asset pool as it will be after these moves. When I say efficiency, that is of course down to the client. It can be economical efficiency, less risk, or a maximum number of transformations. The schedule is really down to the client. **SLT**

Pierre Lebel
Global head, client collateral management
Société Générale Prime Services

Lombard Risk

Managing collateralised trading. Enabling regulatory compliance with clarity and confidence in the 'new world'

Lombard Risk

Provider of cross-product collateral management, optimisation, risk management and regulatory solutions

Collateral Management

COLLINE: Consolidated end-to-end cross-product (OTC derivatives, repo, securities lending and ETFs) collateral management, clearing, inventory aggregation and optimisation.

Mitigating exposure risk while satisfying the growing demand for multiple/global entities, margining, master netting, dispute management and electronic messaging.

- COLLINE OTC has market-leading functionality including a legal agreement repository supporting CSA, SCSA and umbrella agreements, **flexible margin calculation and configurable workflow, reporting and reconciliation.**
- COLLINE REPO and SEC LENDING supports front-to-back margin operations for an institution's repo and securities lending agreements, including optional **mark-to-market calculation and exposure profiling.**
- COLLINE CCP/CLEARING **workflow supporting both** house and client clearing requirements. Validation of **CCP and broker calculations with configurable margin process definition and cash flow management to support** multiple clearing house models on a single platform.
- COLLINE OPTIMISATION **offers a highly configurable** solution to enable real-time algorithmic calculations, **according to user-defined rules, goals and evolving** priorities, to ensure optimal use of assets.
- COLLINE ETF organises, manages and tracks the creation and redemption process of an ETF (Exchange-Traded Fund) – improving an **organisation's operational efficiencies.**
- COLLINE ELECTRONIC MESSAGING - automates **the interaction between financial institutions on** their margining requirements (margin calls, partial **and full dispute notification, real-time visibility of** counterparty actions, interest statements, and collateral substitutions) thus reducing operational risk.

For more information:

visit our website: www.lombardrisk.com

email: info@lombardrisk.com

www.lombardrisk.com

Breaking barricades

Equity-heavy US broker-dealers could soon receive a regulatory boost

MARK DUGDALE REPORTS

A significant regulatory barrier to US securities lending business has, for a long time, been Securities and Exchange Commission (SEC) Rule 15c3-3. This rule, as laid down in the Securities Exchange Act of 1934, essentially bars broker-dealers from using equities as collateral in securities lending transactions.

The rule has long been a target for reform because it is one area in which the US is behind. European and Canadian markets recognise equities as an acceptable form of collateral, for securities lending and repo. They do so because equities have proven to be highly liquid assets that can even outperform cash during times of crisis. Equities have a readily determined price, can be sold immediately, correlate highly to lent securities, and have higher margins than other typical forms of collateral. These were all arguments put forward in 2011 by the Risk Management Association (RMA), but a change to Rule 15c3-3 is yet to materialise.

Now, the RMA, along with the Securities Industry and Financial Markets Association (SIFMA), has taken up the mantle again and plans to submit a comment letter to the SEC proposing an update to Rule 15c3-3 that will allow broker-dealers to add equities to their collateral arsenals. It must be made clear that a change to this rule would be a long and complicated process, and the RMA and SIFMA should be applauded for putting the time and effort into lobbying for a change.

Rule 15c3-3 is complicated enough in itself, because it contains multiple requirements that broker-dealers have to comply with when borrowing the fully-paid or excess margin securities of their "customers". The definition of "customer", although not expressly stated, applies to agent lenders. At the same time, equity securities are not listed as a permissible category of collateral with the rule, and even if they were, a broker-dealer would have to make a net deposit in a reserve account every time it used equity securities as collateral in order to borrow securities to meet delivery obligations for customer transactions.

On top of Rule 15c3-3 in the US, the Employee Retirement Income Security Act, the Investment Company Act and several federal statutes would also have to be amended, because they affect the securities lending activities of pensions funds and investment companies, as well as lenders' rights in the event of a counterparty default. The result is that any reform of Rule 15c3-3 would require a cross-regulator discussion—no easy task for the RMA and SIFMA, whose mission it is to push this reform through, at long last.

And push it through they should, according to many active in US securities lending. "Collateral providers are generally excited about pending changes to SEC Rule 15c3-3 because they will be able to more directly finance their equity inventories. We share the industry's desire to expand or improve collateral profiles in a thoughtful manner that promotes reduced operational risk, price transparency, liquidity, and so on," says Robert Chiuch, who is global head of equity and fixed income finance trading for the markets group at BNY Mellon.

Gregory Sorrentino, managing director and head of US equity finance at Nomura, says: "The equity for equity business is growing rapidly in the US equity finance broker-dealer community as a result of balance sheet constraints. So this is a relatively large add-on here in the US. If and when changes are implemented around 15c3-3, it would, in my opinion, benefit most firms and the overall US equity finance product."

"General collateral trades via equity-for-equity makes sense on all levels, and can be highly automated. Perhaps the only type of trading that will be done in a cash capacity will be specials at some point."

Unbalanced sheet

The balance sheet immediately stands out as a prime example of how equities as collateral in the US could be good for certain market players, particularly hedge funds. The headlines have been busy with news of some prime brokers shedding hedge fund clients because their relationships do not make sense in the new regulatory landscape. And it is these prime

brokers, and by extension their hedge fund clients, that would stand to gain the most from reform of Rule 15c3-3.

Sorrentino explains: "With prime brokers being focused on return on assets (ROA) due to capital constraints stemming from the leverage ratio, any reduction in balance sheet usage through equity-for-equity trading would enable new business."

"Under the current conditions, prime brokers are being forced to make some difficult decisions around picking which funds they can prime for based on client ROA. My hope is that with these changes, we will see an uptick in the overall US prime broker businesses."

Despite the positives that such a rule change would bring, it could also bring a material change to the current dynamics in the US market.

Chiuch says: "Where there is a potential hurdle—and this is something that needs to be carefully contemplated in the dynamics between lenders and borrowers—is the overall impact of the new capital rules on such transactions. If you look at the current landscape, most equity collateral businesses occur outside of the US, with the highest concentrations out of Europe, the Asia Pacific and Canada."

"On the face of it, this change may initially provoke or lead to a global rotation in balances. We would, therefore, expect a global rebalancing in the equity collateral space as some participants go more directly to the US market."

The same regulations that are increasing capital costs for prime brokers are also affecting agent lenders and their clients, and this could be made more severe if the market changes as predicted.

"On the surface, it's not hard to envision a higher volume of equity collateral directly moving towards the US market," says Chiuch. "The challenge, however, will lie in the pricing. The capital requirements under Basel III attach a 100-percent capital charge for non-bank entities delivering risk-weighted assets. This would mean that the change to Rule 15c3-3 would have to factor that into that equation."

"A global rotation of equity collateral providers could—in theory—result in a rotation out of banks that currently attract a 20 percent capital charge, in terms of these collateral pools, to non-bank entities. By accepting equities as collateral from non-bank entities in the US, for instance, agent lenders would essentially attract five times the capital charge on those same transactions."

As ever, whether or not a counterparty will participate in this kind of business remains entirely its decision.

Sorrentino says: "It's really going to be an individual's choice and will depend on the kind of collateral they want to accept. Both sides would have to agree on the types (grades) of equities they will choose to use. For instance, lenders may say they want equity for equity, but will only do it on S&P 500 type names. The risk appetite is going to be subjective."

Julie Hubbard, head of US sales and relationship management for securities lending at Brown Brothers Harriman, adds that any potential change to Rule 15c3-3 is more of a concern for general collateral lenders since regulation has further increased funding costs for borrowers in what was already a low margin activity.

"However, intrinsic value lenders will be able to continue to demand cash as the higher margin nature of these trades means borrowers can withstand the funding costs of raising cash collateral," she says.

For Chiuch, the likelihood is a more dynamic pricing model than the market currently experiences. "The pricing will have to adapt and evolve accordingly. The market will have to consider agent lenders' appetites to absorb increased capital costs. That said, this rule change is yet another step in the secular evolution of the marketplace. The market will adapt, as it has before." **SLT**

simply made to work better...

Being able to achieve your goals can be as simple as selecting the right vendor.

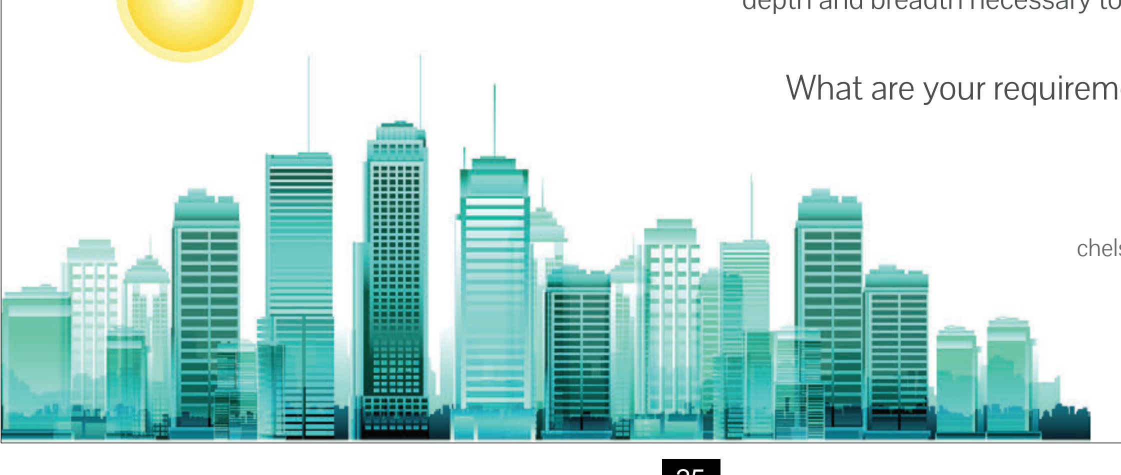
With fifteen years of experience and a user base that spans the globe, we have the depth and breadth necessary to deliver.

What are your requirements?

Chelsea Potvin
Business Analyst

chelsea.potvin@anetics.com
413.395.9500

www.anetics.com



Intrinsic to the business

Market turbulence and creeping regulatory costs are just some of the challenges that John Wallis and Rob Lees, the new co-heads of securities lending in Europe at Brown Brothers Harriman, expect to face in the market

DREW NICOL REPORTS

You've recently taken over as co-heads of the European securities lending business in Europe—will this mean any changes to the direction of the business?

John Wallis: It's been a really exciting time to join the business in Europe and it's great to be part of a team that is so focused on the future and taking our programme to the next level. We each have our own strengths and insights that we bring to the table and Rob and I are committed to building on the growth we've seen during 2014 and 2015 so far, and developing our offering in Europe.

In terms of strategy, our programme was built on intrinsic value lending and this continues to be a proven approach. For us, the next step is really about how we can build on this by creating new opportunities for our clients and providing greater levels of control and transparency.

I come from a technology background and previously headed up Brown Brothers Harriman's (BBH) infomediary business in Europe, a product that underpins much of BBH's securities lending connectivity—so having worked closely with the team throughout my time at BBH, it really does feel like an ideal point of convergence, especially as we start to consider how some of the broader financial technology trends could intersect with the securities lending industry.

Rob Lees: Having worked for the BBH securities lending business in the US, Europe, the Middle East and Asia now, it's great to see the level of engagement and enthusiasm the team has here in Europe, in spite of a pretty challenging environment in recent years.

As John mentioned, intrinsic value lending was our founding philosophy and is an approach that increasingly resonates with not just beneficial owners, but also other agent lenders. Regulation continues to put balance sheets under pressure, forcing some to move away from general collateral lending as the trade's profitability comes into question.

Considering the difference in nature of an intrinsic value programme in terms of balance sheet impact and profitability, as well as our experience in intrinsic value lending throughout all market cycles, we feel well positioned to continue executing upon this strategy for our clients.

You mentioned that the demand environment in Europe has been challenging in recent years—how has it changed? Are there really positives for beneficial owners in today's market?

Lees: Recent years have no doubt challenged the industry and circumstances caused participants on all sides to pause and reflect. However, it's important to note that most industries have cyclical lows and there are definitely reasons to be positive about the long-term resilience of the market, as well as its ability to adapt and identify new revenue opportunities.

We have begun to see real signs of a sustained recovery and from an intrinsic value perspective, fundamental demand drivers have not really changed, with directional and event driven strategies representing key value drivers. For strategies more focused on general collateral lending however the combination of balance sheet constraints and a prolonged interest rate environment has affected demand more negatively.

classicservices | real-timeservices | exposuremanagement | ccpgateway

Global Leaders in Securities Finance Automation

Financial Institutions from around the world have responded to Pirum's creative approach by joining the secure on-line community. They have increased processing efficiency, reduced operational risk and improved profitability by using Pirum's services to reduce manual processing.

pirum.com | sales@pirum.com

Request your live demonstration online.

We feel optimistic about future opportunities, especially in the US and Asia where markets are either normalising post-stimulus measures or are continuing to develop and grow.

The picture in Europe is more mixed, as we have central bank intervention, concern around the fragility of the eurozone and of course an evolving regulatory environment, all of which could negatively affect activity. That said, there is an improving economic picture that could very well lead to increased opportunities, such as mergers and acquisitions.

Wallis: We definitely think there are reasons to feel optimistic and challenging times can often force you to find more efficient ways of doing things. We think there is real opportunity for us to provide clients with greater control, transparency and insight into specific opportunities. Improving demand is of course fundamentally important in creating opportunities for our clients, but our ability to present new opportunities transparently will make a difference in achieving the marginal gains that can really enhance a portfolio's lending performance.

What are you seeing in terms of demand in Asia, given the recent volatility in the Chinese economy?

Lees: The main development in Asia has been the Shanghai-Hong Kong Stock Connect scheme and already it has become an integral component of Asia's capital markets. After a rather tepid launch, the Stock Connect scheme has witnessed strong volumes and, in recent months, increased volatility. From a securities lending perspective, although very much in its nascent stages, it has opened up access to some longer-term opportunities. Since the start of the year we have seen significant borrowing interest across several sectors in Hong Kong such as brokerage, commodities, consumer and luxury retail, and property, with demand partly being spurred by increased trading volumes in the scheme.

Elsewhere in the region, there have been developments in the Taiwanese onshore lending market that could potentially lead to increased volumes, such as local brokers being permitted to onward lend securities. That said, this is balanced somewhat by continued restrictions on short selling and the subsequent negative impacts on end-user demand.

More broadly speaking, the market volatility we have witnessed in China of late has led to some investors taking a more cautious approach, especially given the recent devaluation in the renminbi. Many investors are digesting the activities of recent weeks and fine tuning their strategy accordingly. Larger investors will be more likely to take a more balanced and longer-term approach, but will need to factor in some changes given recent developments.

Have beneficial owners been able to 'sit tight' and wait for the upturn, or have they had to adapt?

Lees: It's true that some have had to adjust their programmes more than others. Even in improving market conditions, borrowers' selectiveness in how they use their balance sheet and borrow securities has again exposed the importance of strategically structuring a programme to optimise performance—a 'one-size-fits-all' no longer works.

Wallis: Importantly, our clients recognise that you do not need to increase risk by lending a large percentage of your portfolio to generate revenue, unless you posses a small number of high-value securities and can therefore command a higher fee. Our clients are more interested in assessing special lending opportunities at the individual security level rather than just the portfolio level, but this requires a greater degree of transparency.

What is the industry doing to improve transparency?

Wallis: The industry has taken great strides to improve transparency in the past few years, but the focus has been very much on the post-trade environment. We think that given the over-the-counter nature of the market, there are real opportunities to improve pre-trade transparency and ultimately, change the way beneficial owners engage in lending.

For beneficial owners partly or fully engaged in lending, as well as those considering whether it is an activity for them, greater transparency will certainly provide more insight into opportunities, affording them more control and the ability to lend on their own terms.

What are your predictions for the future of lending?

Lees: The discussion around indemnification is set to continue as agent lenders evaluate balance sheet usage versus the commercial viability of some lending activity and relationships. As the true cost of providing an indemnity becomes fully priced across the industry, we may find the provision of indemnities as a default are no longer commonplace.

The topic of central counterparties (CCPs) is also a conversation gaining momentum within the industry, as participants work to understand the strengths and weaknesses of proposed structures. There are still questions around risk in relation to counterparty default, but CCPs could be a new distribution channel for certain trades and clients due to regulatory constraints. As CCPs reduce the barriers for entry and expand coverage across markets and jurisdictions, we expect the model will gain traction and, when it is right model, should have its place in the industry.

Wallis: There are also significant macro trends in play, such as greater demand for transparency, as we mentioned, as well as the active versus passive investment debate and financial technology trends that could intersect with the securities lending industry and cause significant structural change.

Increasing demand for low-cost investing has seen an increase in flow towards passive investments. Many exchange-traded funds (ETFs) and passive fund providers engage in securities lending as lending revenue is seen as a way to off-set the already low management fees. Lending will become an increasingly useful tool for passive funds looking to gain competitive edge.

In the case of financial technology trends, innovations such as Blockchain and Uber are clear illustrations of how some industries can become rapidly disintermediated. The idea of this applying to the securities lending industry might seem farfetched, but with the increasing adoption of CCPs and triparties alleviating some of the credit counterparty concerns, it poses the question of whether this could become a reality for lending.

While the impact of broader trends remains up for debate, it is clear that structuring a programme for relevancy will be critical to optimising performance and realising incremental gains in a changing environment. **SLT**

Rob Lees
Co-head of securities lending in Europe
Brown Brothers Harriman

John Wallis
Co-head of securities lending in Europe
Brown Brothers Harriman

Global securities financing and collateral management solutions

- Optimize funding and collateral decisions
- Reduce counterparty and operational risks
- Enable efficient and high-growth operations
- Meet regulatory and market requirements

Contact us:
+1 888 237 1900
broadridge.com/cm

© 2014 Broadridge Financial Solutions, Inc., Broadridge and the Broadridge logo are registered trademarks of Broadridge Financial Solutions, Inc.

Agent of change

State Street's new head of securities finance, Paul Fleming, talks about his new role and what's on the horizon this year and beyond

DREW NICOL REPORTS

Can you tell us about your new position at State Street?

As head of securities finance, I'm responsible for the strategic direction and daily operation of the bank's global agency and principal lending programmes. This is an exciting opportunity and I'm looking forward to building upon the division's existing strengths to ensure we are poised to deliver to our clients the solutions they need to enhance the value of their portfolios.

I am fortunate to be taking over this role from Lou Maiuri, who has stepped forward to lead global exchange, State Street's data, research and analytics division. While heading securities finance, Lou championed the division's strategic planning efforts, helping pave the way for us to comprehensively address the challenges and seize any opportunities brought about by new and proposed financial industry regulation. He

Tailor-made solutions in Prime Finance.

Visit us at **www.zkb.ch**

We are the perfect choice when it comes to prime finance. Our central Prime Finance Desk will deliver a bespoke solution that is sure to lead you to your desired goal in the shortest time. Nowhere else will you find more expertise than on +41 (0)44 293 62 62 or at primefinance@zkb.ch.

encouraged the global team's entrepreneurial spirit and, with that and the depth of talent within the division, we are well positioned to continue those efforts.

> "The impacts of regulatory change are far-reaching, but what lies ahead is becoming clearer as more details are finalised"

As I am transitioning from the immediate oversight of enhanced custody, our principal lending group, Marty Tell is transitioning to manage the team. Marty has led enhanced custody's global trading activities for the past two years, and he arrived at State Street with a wealth of senior leadership experience in various equity finance roles in the industry.

What are you focused on now?

In the near term I will be spending time with our clients to better understand some of their challenges and priorities. As a start, I've had the opportunity to meet with a number of our clients in the US in the past few weeks, and I'll be visiting our offices and clients in both Asia and Europe, the Middle East and Africa. At the same time, I am also reviewing our progress against our top risk management, regulatory and business development initiatives.

Tell us more about the enhanced custody business that you've been running. How is it doing?

As brief background, our enhanced custody business provides financing and securities lending direct to end users, similar to conventional prime brokerage. However, we do the financing and securities lending within the context of a ring-fenced custodial account.

We've seen tremendous growth in our customer base over the past several years. In part that is because we are well-aligned with the bank's initiatives with alternative investment managers. The overall growth in alternative assets under management, plus a combination of balance sheet and capital constraints for traditional financing providers, has created new opportunities for us to provide solutions to our clients.

What has changed on the agency side of the business since you worked there?

A lot has changed. The market environment is different, of course, with a greater focus by all participants on risk management since the financial crisis. Agent lenders and clients undertook structural changes to their programmes immediately to reduce risk, and regulators have continued to focus on risk management in the industry.

Many clients have elected to adopt minimum spread programmes and, where relevant, cash collateral investment guidelines are generally more conservative as well. Both changes lower total on-loan volumes, but retain the majority of the participants' revenue opportunity. For clients that can do so, many have also looked to non-cash collateral alternatives and term opportunities. Broadly, clients are more knowledgeable than ever about our business and the industry, and that's a great thing, as it facilitates really interesting discussions about how we can help them achieve their risk-return objectives in the context of some of the business challenges we face going forward.

What is the biggest challenge for securities lending programmes right now?

The impacts of regulatory change are far-reaching, but what lies ahead is becoming clearer as more details are finalised. Our securities financing business is different today than it was five years ago, and it will continue to evolve. We have a great deal of experience within our group, and I'm energised by the team's enthusiasm and ideas about where our business will be in another five years, and beyond.

We know you've been looking at central counterparty development with Eurex Clearing. How is that going?

Yes, the industry is moving towards a greater use of central counterparties, given the capital efficiencies that central counterparties (CCPs) afford their participants. Our efforts with Eurex Clearing and discussions with other industry participants have been very productive to date. It will take some time to arrive at a solution that works for all, but we continue to work on this and other projects that we believe will deliver value to our clients.

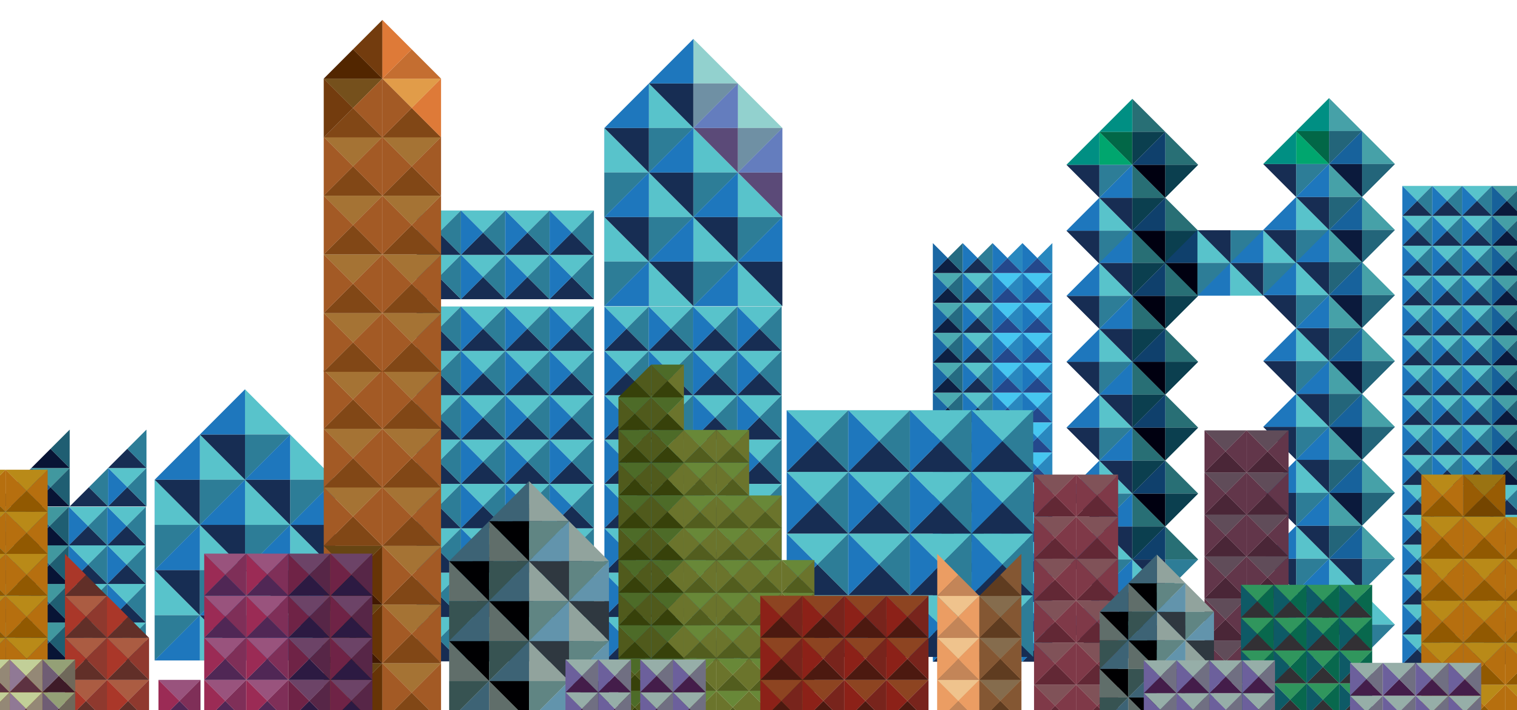
What do you think will define the winners and losers in this business in the long-term?

I expect that successful firms will be those that work with both clients and counterparties to find mutually beneficial solutions that help borrowers address their balance sheet, regulatory capital and liquidity constraints and help clients address their risk/return expectations, given the changes to the marketplace. **SLT**

Paul Fleming
Head of securities finance
State Street

Asset Managers | Lenders | Investment Banks | Hedge Funds

Innovative solutions for an evolving landscape



World Class Securities Finance Apps

Invaluable Apps that can be combined to create a comprehensive set of tools designed specifically for your own trading environment.

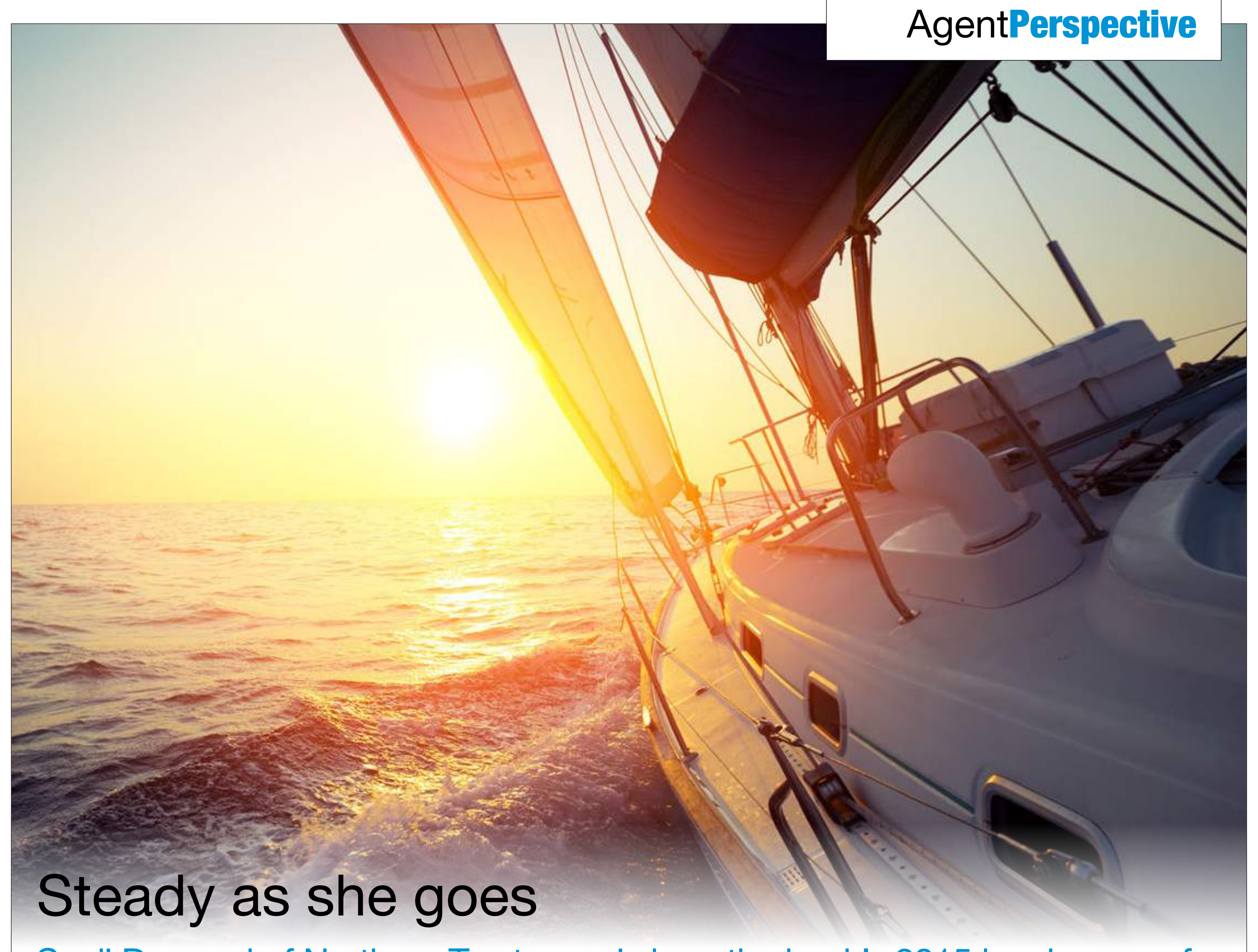
Trading Apps uses advanced technology to deliver 24/7 enterprise level software through a web interface, making it instantly available worldwide.

Our top 5 Securities Finance Apps

inventory | collateral management | trade negotiations | portfolio pricing | business analytics

Discover the solution that's right for your company

tradingapps.com



Steady as she goes

Sunil Daswani of Northern Trust reveals how the bank's 2015 has been so far

DREW NICOL REPORTS

How has Northern Trust's year been so far?

Northern Trust has had a solid year and we have seen relatively stable to higher volumes on the trading side compared to last year, however, in general fees and spreads are slightly lower.

In addition, we continue, as always, to seek new ways to enhance volume and revenue for our clients.

We launched securities lending in Poland in 2014 and Brazil in 2015, and are looking potentially at opening up in Malaysia and Turkey next. Being able to add new markets regularly to our programme is encouraging and has contributed to our overall supply and transaction growth for 2015. We added 26 borrowers to our programme in 2014, and have added nine so far this year, and will continue to review key strategic counterparties for our programme for the remainder of this year and in to 2016.

The securities lending industry as a whole must continue to look for new avenues and opportunities. For Northern Trust, we consider the product to be quite straightforward to develop. We aim to lend in new markets, expand the number of counterparties we deal with, expand the collateral that we take, and add clients to our programme.

On the collateral side, we expanded the number of equity indices that we accept for our programme, mainly in Asia Pacific. This has allowed us to increase utilisation of lending in our programme, as borrowers in general prefer to pledge equities as collateral.

We have also had a lot of success in introducing new clients to securities lending. Our international client base has increased by more than 35 percent over the last 24 months, and we have a very strong pipeline of new clients to take us through to the end of the year. In response to this we have increased the size of our client servicing team globally.

Looking forward, our aim is to ensure smooth integration for our new business and clients, while maintaining our high service standards for our client base.

How is the wider securities lending industry developing and what are the most significant challenges?

We are seeing greater demand for fixed income assets, which is being driven by borrowers needing to acquire high-quality liquid assets for their trading activities.

The demand for overall borrowing has maintained at a steady level. However, due to continuing regulatory initiatives, we must maintain our watchful eye on our beneficial owners and the lending of their assets. Basel III in particular remains an area of focus, with clarity still required over some areas of implementation processes.

Under Basel III, the type of loaned and collateral securities dealt with will dictate the amount of capital that must be retained. It currently looks like equity collateral and lending to non-banking institutions will be the most costly scenarios under the current framework. Northern Trust continues to review its options for collateral within the context of capital requirements and increasing regulatory compliance costs.

Optimise your securities lending programme.

Benchmark performance against a dataset covering $15tn+ of global securities in the lending programs of 20,000+ institutional funds. Enhance programme management with solutions for securities lending, repo, collateral management and trading analytics.

- Collateral and exposure
- Consulting
- Corporate actions
- Dividends
- ETP
- Research

Learn more:

Sales@markit.com

Copyright © 2015, Markit Group Limited. All rights reserved. Any unauthorised use, reproduction or dissemination is strictly prohibited.

Is recent global and regional market turbulence driving demand for borrowing?

The apparent slowdown of the Chinese economy has had global consequences and all markets have taken a significant hit recently. It will be interesting to see if this trend is sustained. We haven't seen an immediate growth in demand for securities lending and hedge funds specifically seem to be sitting long on the sidelines and waiting to see what happens.

Looking at the broad picture, overall, securities lending opportunities have not shifted dramatically but the issues regarding regulation and the wider market conditions are creating some challenges for the industry.

How popular are new trades, such as collateral upgrades, and why?

As with any trade, our role as an agent lender is to ensure our clients are well-versed and clear in all aspects of the business in which they engage. Historically, it has been more common to see lending of fixed-income assets versus equity at a higher level of risk than the other way around.

Some clients within our securities lending programme have reviewed this type of trade and decided to participate in collateral transformation trades. The way to mitigate the additional risk in turn for the additional revenue that can be earned is through taking a greater margin, above the 2 to 5 percent industry standard. These trades are also typically done on a term basis, which can be an 'evergreen' 97-day trade, or a 'bullet' trade of 365 days.

Here, we also see some clients undertaking their own risk modelling, but Northern Trust can undertake this task as well, performing various stress tests for clients based on different scenarios. We are continuously seeing more supply coming to market for fixed-income versus equity to meet the demand, so it is growing.

How big of a player is Northern Trust in the UK pension fund market, and how are these beneficial owners behaving in the current climate?

Northern Trust currently services 31 percent of the top 100 UK pension funds and also 37 percent of the UK local government pension schemes (LGPS). We have added three new LGPS clients to our securities lending programme in the past 12 months. LGPS clients represent 18 percent of our total international client base with £23 billion in lendable assets.

In terms of regulation, LGPS beneficial owners are governed by their own regulations. These guidelines dictate they can only lend to borrowers in the European economic area and with a maximum lending cap of 35 percent of their total assets. Generally, in this sector we are seeing clients move towards a national framework agreement, which they have set up to provide uniformity and standardisation in what they do.

In terms of upcoming considerations for LGPS clients, these are largely the same issues as all our other clients, in terms of the need to meet regulatory compliance and exercise strong oversight of their programmes. No direct demands on them are exercised by new regulation, but ongoing developments may have an indirect impact on supply and demand in the market, which may, of course, in turn lead to increases or decreases in revenues. **SLT**

Sunil Daswani
Head of international client relations for capital markets
Northern Trust

BMO Capital Markets®
We're here to help.™

As a leader in global prime finance, we offer strong securities lending capabilities, a balance sheet you can count on, and a stable platform for synthetic financing. For the international reach you need to achieve your financial goals, look to BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (member FDIC), Bank of Montreal Ireland p.l.c, and Bank of Montreal (China) Co. Ltd and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada and Asia, BMO Capital Markets Limited (authorised and regulated by the Financial Conduct Authority) in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Inc., used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license. ® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.™ Trademark of Bank of Montreal in the United States and Canada.

BESPOKE SOLUTIONS

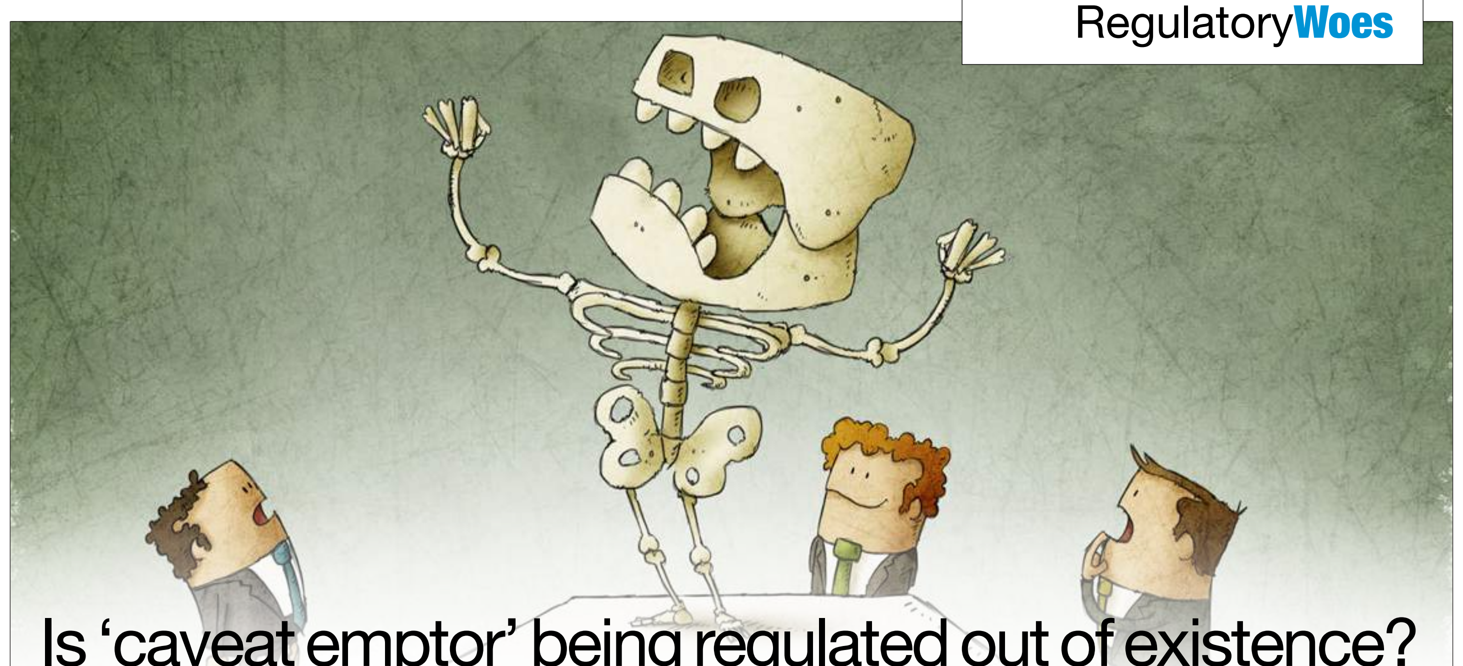
ACROSS ASSET CLASSES IN SECURITIES FINANCE

SGCIB.COM

BUILDING TEAM SPIRIT
TOGETHER

THIS COMMUNICATION IS FOR PROFESSIONAL CLIENTS ONLY AND IS NOT DIRECTED AT RETAIL CLIENTS.

Societe Generale is a French credit institution (bank) and an investment services provider (entitled to perform any banking activity and/or to provide any investment service under MiFID except the operation of Multilateral Trading Facilities) authorised and regulated by the French Autorité de Contrôle Prudentiel et de Résolution ("ACPR") (the French Prudential and Resolution Control Authority) and the Autorité des Marchés Financiers («AMF»). This document is issued in the U.K. by the London Branch of Societe Generale, authorized in the U.K. by the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request. 2014 Societe Generale Group and its affiliates. © David Despau – FRED & FARID



Is ‘caveat emptor’ being regulated out of existence?

David Lewis of SunGard’s Astec Analytics looks at inappropriate regulation and whether it will hit beneficial owners in the pocket

Caveat emptor, or ‘let the buyer beware’, is a fundamental tenet of the laws governing contractual relationships. There are, of course, a multitude of laws in existence with the objective of making sure the seller of a product or service doesn’t mislead or defraud the buyer, but a great deal of the responsibility in any contract lies with the buyer. Underpinning this point is the principle that the law cannot, and will not, undo what is simply a poor deal. If you agree to buy a product or service that is poor value for money or uncompetitive in the marketplace, the law cannot help you simply if you were uninformed.

Regulations about protecting the consumer both in terms of their physical health and safety, such as the ever-present warnings on food and drink (classics include ‘contents may be hot’ on coffee packaging, or ‘may contain nuts’ printed on peanut packing), as well as their financial security, seem to get increasingly invasive. The objectives of regulators and indeed the regulations they set can be easily understood, especially in the light of the recent financial crisis. However, is there a point at which the regulations harm the very people they are intended to protect?

A commonly used and easy to apply ‘stick’ is a fine for transgressions. The Central Securities Depository Regulation (CSDR) is one such regulation, which intends to levy fines for non-settlement of securities and apply mandatory buy-ins where settlement failures extend too long. These changes are combined with the move to settlement dates of trade date plus two days (T+2), which was widely welcomed in the marketplace. However, the same shortening places extra strains on the securities lending market, which would also need to comply with the new tighter settlement periods.

For example, when a security is lent out at, say, 10 basis points, that security is then sold by the beneficial owner and must be recalled from the borrower in order to effect settlement. The proposed CSDR fines equate to one basis point a day, or an annualised rate of 365 basis points, which is somewhat greater than the 10 basis points per annum being earned by the loan. The result of this situation is the likely withdrawal from the lending market of certain firms not willing to risk the fines.

Less lending in the market would mean less liquidity and far fewer opportunities for beneficial owners to earn revenue and provide lendable securities, which can be lent to cover settlement failures. While in theory the regulations that are intended to tighten settlement certainty are more than welcome, the actual approach could, in practice, be counterproductive.

The Financial Transaction Tax (FTT, or sometimes known as the ‘Tobin Tax’) as proposed, is a levy rather than a fine, and much has been written and spoken about it. The jury remains out as to whether the repo and securities lending markets will be exempted from the 10-basis point tax, but the International Securities Lending Association (ISLA) has been clear in what it believes the introduction of this tax will do to the securities lending market: reduce the market size by some 65 percent, resulting in a loss to beneficial owners of around €2 billion per annum, with €500 billion of European government bonds likely to be lost from collateral markets just when other regulations will be increasing the demand for such assets.

Little will happen on this before 2016, as the European Council continues its deliberations, but the potential impact is hugely damaging for European beneficial owners, the very people these regulations are meant to protect.

While there is a strong expectation that countries participating in the FTT will gain useful taxation revenues, this is not felt to be the main motivation. It is inferred that the primary reason behind the levying of such a punitive tax is to reduce the size and influence of the market, deemed to be a significant part of the so-called ‘shadow banking’ sector.

Shadow banking is, many feel, a label implying darkness and something that is hidden, or intentionally hides away from the spotlight and safety of the regulated markets. Other directives seek to open this shadowy area to more scrutiny through greater transparency. The appropriately named Transparency Directive aims to measure the securities finance market defined as securities lending and repo transactions and “economically equivalent” contracts. This last point is arguably the most important as it brings in almost any type of trade that has the same economic effect as a securities finance loan or borrow.

The Financial Stability Board (FSB) is also working towards transparency and disclosure in the securities finance market through its own Shadow Banking Review, with local jurisdictions being made responsible for gathering data at the national or regional levels. The European Securities and Markets Authority is managing this effort across Europe. The work of the FSB and its data experts group (of which SunGard’s Astec Analytics is a member) is currently being carried out behind closed doors in advance of publicly announcing exactly what data they are looking to gather.

It should be unsurprising that this project is one of enormous magnitude. As a wise man once told me, if you can’t measure it you can’t manage it. On that basis, one can understand what the FSB is trying to achieve in terms of

After 20 years of driving innovation with the *HelixRepo* and *HelixMBS* platforms, we now introduce:

HelixSL

The Future of Stock Loan Technology

featuring:

- Domestic Stock Loan Trading, with full connectivity to Loanet
- International Stock Loan (Trading, Billing, Accounting, Settlement, etc.)
- Short Sale Locates
- Rebate Billing
- Compliance and Risk Analysis
- Full integration with *HelixRepo**

* The *HelixRepo* and *HelixSL* applications are integrated to provide a comprehensive collateral management and summary reporting tool that is unparalleled in the securities lending market!

For more information, email us at info@helixfs.com

measurement, but it is the management part that seems to elude many who are looking at this initiative. Once the number is known—specifically, the size of the market—what then? How would you decide whether a market is too large, or too small, mispriced or efficient? You could of course argue that if the FTT does indeed come in as proposed and financing transactions are included, then the FSB's task will suddenly become a lot more manageable.

The prime objective of such transparency should be to understand the interconnectedness of market participants and the extent to which the failure of one market participant could lead to more firms suffering financial difficulties through contagion or a domino effect.

Such a measurement of the market would be of great value in the fight against systemic risk. Systemic risk is certainly of great concern and much new regulation is being created to counter such knock-on effects. In almost any other industry in the world, the sudden loss of even one major participant would cause shockwaves. For example, if British Airways were to suddenly stop flying, there would be disruption and certain financial costs, but the entire industry wouldn't be in dire trouble. However, if one major bank goes down, it could very easily bring down others and their clients with them. This creates understandable concern, and the tightening of capital requirements such as those stipulated in Basel III and the Capital Requirements Directive IV, as well as transparency initiatives, are understandable in their ultimate objectives to make the world's financial markets safer.

However, risk comes in many forms and cannot ever be legislated to zero. If it could, we would all invest in everything and all make endless returns while exposing ourselves to no risk at all. Clearly the industry requires protections—in the UK, the miss-selling of payment protection insurance (PPI) was a real scandal in the retail banking arena, and regulations have rightly been tightened and compensation paid out, but are we at risk of extending the 'hot coffee warnings' so far that markets cannot function properly or efficiently anymore?

Few would sensibly argue against improving and clarifying legislation and regulation of the financial markets, but not to such a point where that market is obstructed from providing services and returns for the investors it serves. Investors need returns, and in order to receive returns, there has to be some risk. More information and transparency will lead to better informed clients who must decide on the levels of risk that they themselves are comfortable with.

As a final analogy, food establishments of all types, sizes and standards in London display their food hygiene ratings on a bright green poster, ratings given by local authority inspectors. The ratings run from one to five where five is the highest. The regulations and tests behind this bring a level of transparency as well as a clear indicator of the risk for the buyer. It is then up to the buyer to decide whether he or she may buy that burger from the restaurant with a hygiene rating of three, and take the risks and consequences that such a decision may bring, but the industry itself is not strangled and the supply not reduced.

Appropriate and proportionate regulation of the food industry keeps us healthy, so let's hope the forthcoming waves of regulations in the securities finance market serve to keep our industry's pockets healthy, too. **SLT**

David Lewis
Senior vice president, Astec Analytics
SunGard

STONEWAIN

A complete solution for all your business needs and emerging requirements.

Stonewain provides a comprehensive, fully integrated solution for securities finance industry that is scalable, flexible and customizable to meet all your business needs.

Services.
Scalability.
Solution.
Strength.
Support.

info@stonewain.com 973.788.1886 www.stonewain.com

The New Normal

Helping clients live with
continuous regulatory change
in the financial markets

> gft.com/newnormal

Business consulting | Design and technical consulting
Consult our specialists: >gft.com | info@gft.com
UK: +44 (0)20 3753 5700 | USA +1 212 205 3400 | Canada +1 647 724 1745

Changing fortunes in European securities lending

Chris Benedict of DataLend looks at several emerging global securities lending trends and highlights some of the changes seen so far in 2015

The securities finance market has seen a lot of changes in the past year. With tens of thousands of pages of global legislation taking effect (or still evolving), the emerging importance of central counterparties, balance sheet restrictions, oil and energy stocks trading at historic lows, global uncertainty about China's economy and recent volatility in the equities markets, things have been pretty busy, even during the usually quieter summer season.

With this backdrop in mind, we wanted to take a look at several emerging global securities lending trends that highlight some of the changes we've seen so far in 2015, particularly in the European markets.

Trend one: revenue

The traditional agent lender to broker-dealer aspect of the securities lending market saw global gross revenues of slightly over $6 billion in 2014. By the end of Q2 2015, we saw gross revenues of close to $3.2 billion, which puts us a little behind the mark compared to revenues of $3.4 billion for Q2 2014. But if you look closely, it is the European market that is driving most of the decrease.

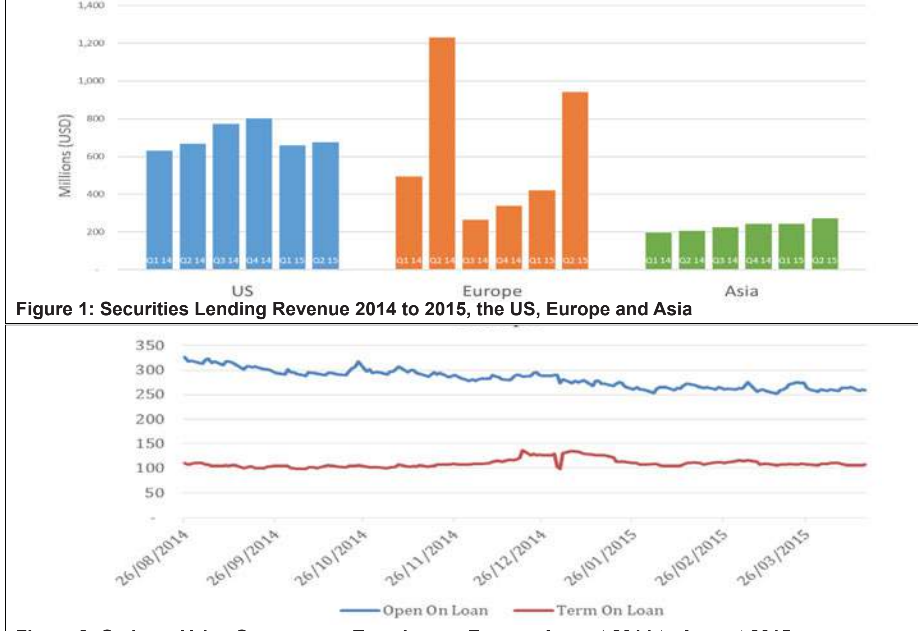


Figure 1: Securities Lending Revenue 2014 to 2015, the US, Europe and Asia

Figure 2: On Loan Value Open versus Term Loans, Europe, August 2014 to August 2015

Europe saw gross revenues of $494 million in Q1 2014 and $1.23 billion in Q2 2014. When we compare those figures to Q1 ($420 million) and Q2 ($940 million) of this year, we can see a significant drop in revenues. For Q1, that amounts to a 15 percent year-over-year decrease, and a 23 percent year-over-year decrease for Q2.

Conversely, we've seen the exact opposite occur in Asia, which yielded gross revenues of $197 million in Q1 2014 and $206 million in Q2 2014. Those figures grew to $242 million and $272 million in Q1 and Q2 2015, representing very impressive increases of 23 percent and 32 percent, respectively. Those revenues have been boosted by activity in Hong Kong, which grossed more than $250 million in securities lending revenue by the end of August this year.

In the US, the securities lending market has vacillated less. With lender-to-broker gross revenues of $631 million in Q1 2014 and $669 million in Q2 2014, we see about a 5 percent increase in year-over-year revenue for Q1 2015 ($660 million) and flat year-over-year revenue change for Q2 2015 ($675 million).

Trend two: European on-loan balances

We took a deeper dive into Europe's trading patterns to see what was affecting revenues from an on-loan and fee perspective. We're seeing a big 26 percent drop in the on-loan balance for France, from approximately $86 billion this time last year to $68 billion at the time of writing. Germany has also suffered a 16 percent drop from $109 billion in late August 2014 to around $92 billion today. The Netherlands has seen a 23 percent year-over-year decrease in on-loan balances from $38 billion to $29 billion today. Spain, Portugal, Belgium and Greece follow similar patterns.

But not all of Europe is down. On-loan balances for the UK have increased from $99 billion from late August 2014 to $103 billion today. Switzerland has seen its balances jump 35 percent from $17.5 billion to $23.6 billion. Italy has also increased 6 percent from $14.86 billion last year to $15.7 billion on loan today.

Trend three: open loans versus term loans

A final trend of note across the European securities lending markets is that while open trade types have decreased over time, term trades have stayed relatively steady (see Figure 2). That could reflect an increase in evergreen trades in Europe while the overall on-loan balances for certain countries shrink.

This year is shaping up to be a transitional one for the securities lending industry. Balance sheet concerns are paramount with aspects of Basel III taking effect and US Dodd-Frank Act rules continuing to be rolled out. This will have a huge impact on collateral management and how assets are allocated across organisations. New markets representing big sources of potential revenue are emerging in Asia while the US and Europe have held steady or decreased. Time will tell if these changes are aberrations or the beginning of the new normal. **SLT**

Chris Benedict
Director
DataLend

The Technology Partner of your Transformation

M X.3, THE WORLD'S LEADING CAPITAL MARKETS INTEGRATED PLATFORM

Leveraging on near 30 years of experience, Murex is a leading provider of integrated trading, risk management, processing and post-trade solutions for sell- and buy-side financial institutions.

www.murex.com

EMEA

BEIRUT DUBLIN MOSCOW
DUBAI LONDON PARIS

ASIA PACIFIC - CHINA

BEIJING SEOUL SYDNEY
HONG KONG SINGAPORE TOKYO

AMERICAS

NEW YORK SÃO PAULO
SANTIAGO TORONTO

MUREX, Murex logos and product names are trademarks of Murex S.A.S and Murex S.A.S reserves all intellectual property rights with respect to the trademarks.

Bet you didn't see this coming

Does the house always win from mergers in the gambling space? David Lewis of SunGard's Astec Analytics takes a look

Paddy Power and Betfair are planning to merge, with the combined group potentially becoming the largest online betting and gaming company in the UK, and certainly one of the largest in the world. With a combined annual revenue of £1.1 billion and a collective market share of some 16 percent, the combined entity would be larger than the recently merged Ladbrokes and Coral, which hold 14 percent of the market and easily exceed the next largest firms, William Hill and Bet365.

Such a merger will need to pass several approvals including those of the Monopolies and Mergers Commission, which are bound to take an interest in the £5 billion deal. Both companies believe, however, that the merger will not raise any serious monopoly concerns due to their complimentary rather than additive businesses—Paddy Power is a traditional bookmaker with some 350 high street shops, while Betfair is a user-driven exchange where users circumvent traditional betting shops.

While it was certainly a surprise to many, the market seemed to think the merger was a good idea, with shares in both companies jumping after the announcement. Paddy Power, whose shareholders would own 52 percent of the combined group, saw its shares rise 18 percent, and Betfair enjoyed a gain of 17 percent. Each company is now valued at £2.5 billion and £2.4 billion, respectively.

Ladbrokes and Coral, which merged in a £2.3 billion deal in July of this year, had leapfrogged William Hill to become the UK's largest bookmaker, and did not do so well, dropping up to 4 percent on their competitors' announcement and closing around 2 percent down over the week. Shares in William Hill also found the going soft and had closed down around 2 percent by the end of the week, and the firm now faces being left behind as its competitors join forces and grow larger.

The announcement of the Paddy Power and Betfair merger was a well-kept secret, but a hint in a Telegraph article suggested that talks between the two firms began at least two months ago. Figure 1 shows the securities lending volumes for both Paddy Power and Betfair since 1 June 2015 (note that the Betfair values are against the right hand axis and Paddy Power on the left). Both companies had low levels of securities lending volume, shown in this context as a proxy for short selling, through the early part of June, with Paddy Power actually decreasing for much of the month.

However, 25 June marked a significant inflection point. An immediate jump for Paddy Power moved the index value of 39 (relative to 1 June) up to 147 overnight. Betfair also began a very definite climb on the same day, moving from an index value of 332 to 983 overnight. By the date the merger was announced, exactly two months later, the short interest index values stood at 146 and 9,881 for Paddy Power and Betfair, respectively. This would certainly suggest that while much of the market may have been surprised by the merger announcement, it may not have been a surprise to everyone.

Figure 1: Shares on loan for Paddy Power and Betfair indexed to 100 as at 1 June 2015

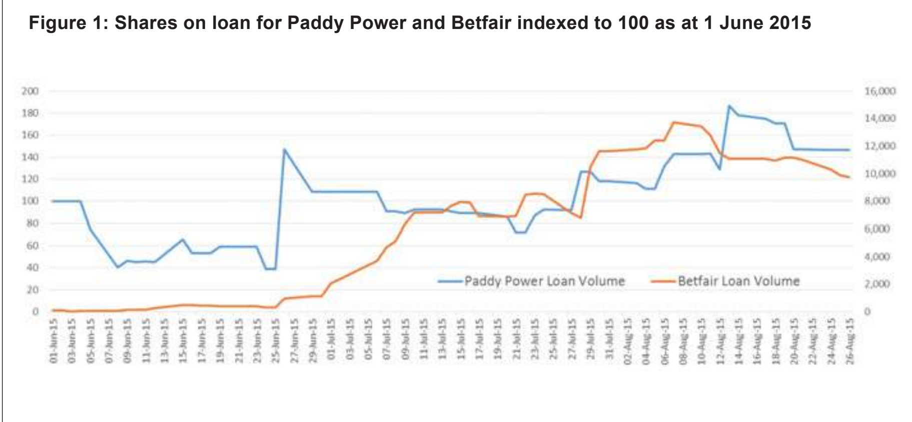


Figure 2: Shares on loan for William Hill and Ladbrokes/Coral indexed to 100 as at 1 June 2015

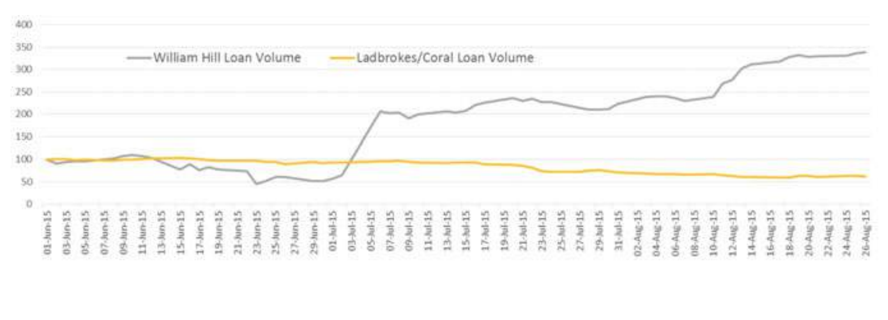


Figure 2 shows the same period for William Hill and Ladbrokes/Coral, using the same 1 June index date. William Hill, potentially the company with the most to lose as its competition gains from the scale of their operations, also showed a marked increase in short interest, albeit up to a week later than the newly merging competitors. Ladbrokes/Coral, a little more insulated from the competitive risks from a combined Betfair/Paddy Power entity, saw its short interest decrease in a steady slide, closing down to 63 towards the end of August.

Both Paddy Power and Betfair have seen a small retreat in the volume on loan, but the levels remain significantly elevated compared with their normal positions, despite the rising share price having caused some potentially uncomfortable unrealised losses for the short sellers. Balances on loan over the next few months will give an indication of the market's view as to how likely the merger will be to succeed, and whether it will add shareholder value for both firms, or fail and send their share prices plummeting back from where they came. Now, if I were a betting man… **SLT**

David Lewis
Senior vice president, Astec Analytics
SunGard

J.P.Morgan

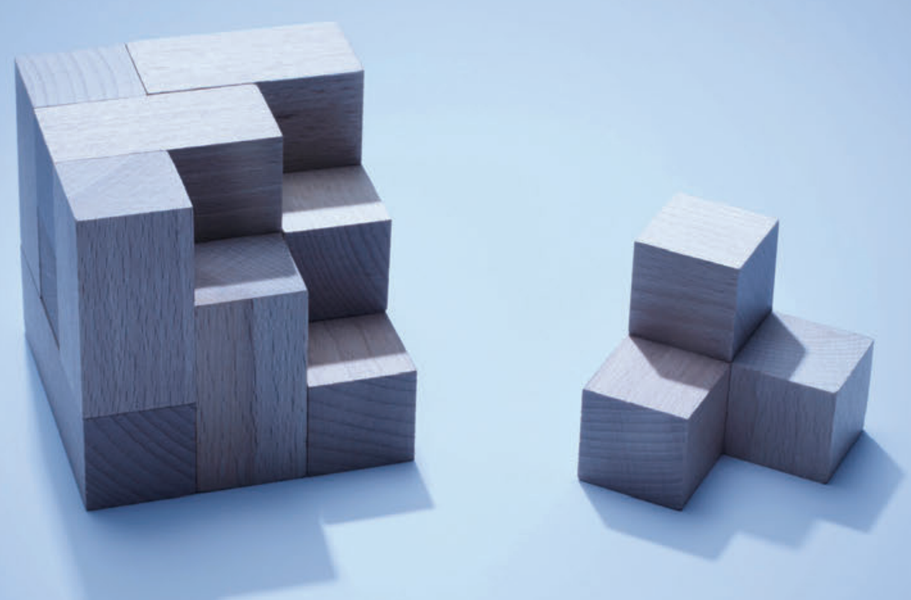
Are you in need of a customized Securities Lending Program?

Think J.P. Morgan.

For 35 years, J.P. Morgan has been helping clients to enhance returns with securities lending programs tailored to their unique requirements.

Our clients individual lending, collateral and reinvestment needs are met through a comprehensive range of flexible solutions supported by our leading technology infrastructure, our global expertise and the strength of our firm.

jpmorgan.com/visit/securitieslending



© 2013 JPMorgan Chase & Co. All rights reserved. J.P. Morgan is the global brand name for J.P. Morgan Chase & Co. and its subsidiaries and affiliates worldwide. Access to financial products and execution services is offered through J.P. Morgan Securities LLC ("JPMS") and J.P. Morgan Securities plc ("JPMS plc"). Clearing and brokerage custody services are provided by J.P. Morgan Clearing Corp. ("JPMCC") and JPMS plc. Bank custody services are provided by J.P. Morgan Chase Bank, N.A. ("JPMCB"). JPMS and JPMCC are separately registered US broker dealer affiliates of JPMorgan Chase & Co., and are each members of FINRA, NYSE and SIPC. JPMS plc is authorized by the PRA and regulated by the FCA and the PRA in the UK and is a member of the LSE.

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.

With the increasing velocity of change, the difference between who succeeds – and who merely survives – will be defined by clear thinking, quick decisions and rapid reflexes. This is where SIX Securities Services comes in.

As one of Europe's few truly international post-trade service providers, we have learned to adapt to rapidly changing landscapes, carve out our own innovative path and deliver industry-recognised performance. The result is satisfied customers who enjoy having us to help steer them to success. **Solutions for the future. Now.**

SIX Securities Services

Unlocking the potential.

Industry Jobs

Senior Development Operations

Recruiter: Pirum
Location: London
Salary: Competitive
Date: 07 September 2015

The Development Operations position is responsible for effective provisioning, installation, configuration, operation, and maintenance of systems hardware and software and related infrastructure. This role ensures that system hardware, operating systems, software systems, and related procedures adhere to organizational requirements and standards. This role also involves research and development to deliver infrastructural improvements with respect to reliability, capacity planning and performance.

Reporting and Control Administrator

Recruiter: Bruin
Location: London
Salary: Competitive
Date: 17 August 2015

This is a fantastic opportunity to join an Investment Bank with global presence, as a Reporting and Control Administrator. The ideal candidate will have Operations experience and will be educated to Degree level or equivalent with strong Excel skills.

Prime Brokerage Reconciliations Analyst

Recruiter: Bruin
Location: London
Salary: Competitive
Date: 17 August 2015

One of the largest Investment Banks is currently seeking a Reconciliations Prime Brokerage Analyst to join their team. This is a long term temporary contract starting immediately. As Reconciliations Prime Brokerage Analyst you will be you will be working closely with the global margin and risk teams. You will be required to understand the margin functions to accurately perform control related processes.

Senior Admin Operations International Securities Lending

Recruiter: BNY Mellon
Location: Manchester
Salary: Competitive
Date: 07 August 2015

For over 230 years, the people of BNY Mellon have been at the forefront of finance, expanding the financial markets while supporting investors throughout the investment lifecycle.

Expand. **Economically.**

Hosted Prime Finance Technology

SwapOne **Cash**One **Loan**One **Prime**Reporter

New York | London | Hong Kong

www.primeonesolutions.com info@primeonesolutions.com

Industry appointments

Jemma Finglas has resigned from BNP Paribas after 10 years service, effective immediately.

She joined the French bank in 2005 and spent the past eight years as global head of business development for asset financing and repo.

BNP Paribas is a global bank and financial services provider based in Paris.

Finglas has accepted another position. She has gone on leave until January 2016 and could not be reached for comment.

DataLend has appointed **Robert Antelmann** as its vice president and product specialist in Hong Kong.

Previously, Antelmann was a senior business analyst for Westpac, based in Sydney, working in global over-the-counter derivatives.

He said: "DataLend is used by a broad range of firms in the securities finance industry in Asia Pacific. I look forward to working with our current and future users as we further extend our presence in the region."

Don D'Eramo has joined RBC Investor & Treasury Services as head of distribution and product development for securities finance within treasury and market services activity.

He left his previous position as head of securities finance for Europe, the Middle East and Africa (EMEA) at State Street at the end of June, after five years.

ENSO Financial Analytics has appointed **Michael McMahon** as chief technology officer.

McMahon will join the executive team and will be responsible for expanding ENSO's network infrastructure and core analytics.

Prior to his new role, McMahon served as managing director at BNY Mellon, where he led several engineering and architecture teams in building a data analytics platform for the bank.

Raakhee Miller has joined market data and trade technology provider SR Labs as head of sales for North America.

Miller has more than 15 years of experience in the derivatives trading and prime brokerage space, and joins from Macquarie, where she was head of futures product development for the Americas.

Delta Capita has hired technology specialist **Kevin Covington** as a non-executive director of the board.

Covington has 30 years' industry experience, including four years as head of ITRS. He has also featured in the top 40 most influential people in Institutional Investor's Trading Technology for the last two years running.

He said: "My core role will be to build on Delta Capita's achievements in bringing innovative IP-led technology solutions to market to solve real client problems."

"I will also be working closely with the senior management team to support the next stage of business growth."

AcadiaSoft, provider of collateral hub MarginSphere, has hired **Mark Demo** as product director.

He will be responsible for directing AcadiaSoft's response to regulatory changes, and will lead the firm's product and industry working groups.

CEO Chris Walsh said: "[Demo] is an industry leader who has pioneered many of the standards and best practices implemented within the MarginSphere hub today."

David Clarkson is leaving his role as European head of prime brokerage at J.P. Morgan, and will now pursue new opportunities outside of the firm.

Jonathan Cossey has been appointed to replace him as EMEA head of prime brokerage and will also expand his role in equity finance from head of EMEA to global head.

Paul Brannan has been appointed as head of prime brokerage for North America, and **Jason Sippel**, who will move to join the London office this autumn, will lead the prime brokerage unit as a whole.

BNY Mellon has hired **Michelle Neal** as the new president of its markets group.

Neal, who assumes the role on 30 November, moves from Deutsche Bank where she is global head of listed derivatives, markets clearing and fixed income market structure. **SLT**

SLT SECURITIESLENDINGTIMES

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

Reporter: Drew Nicol
drewnicol@securitieslendingtimes.com
Tel: +44 (0)203 750 6019

Reporter: Stephanie Palmer
stephaniepalmer@blackknightmedialtd.com
Tel: +44 (0)203 750 6019

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

Designer: Steven Lafferty
design@securitieslendingtimes.com

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

Company reg: 07191464
Copyright © 2015 Black Knight Media Ltd.
All rights reserved.

Need migration relief?
Just take C-ONE!
F7 Connectivity made easy

www.comyno.com/x-repo-hub | contact@comyno.com

ENHANCEMENTS NOW LIVE

DataLend has released the following enhancements, which are now live for all clients.

- Expand or collapse Pricing, Volume or Ratios graphs in the **Graph Builder** section of the Security Search page to help you focus on what's most important to you
- **New! Recalls** tab incorporates recall information on Security Search pages
- Added My Utilization (as percentage of book) and Total Lendable Value to the **Data Ribbon** on the Security Search page
- Improved color distinction between the industry and your performance on **Graph Builder** lines
- Now choose between displaying data in rebate rate or fee format in the **Counterparty Variance** tool on Security Search page
- Now switch between heat map and list view on **DataLend Target 50** and **DataLend Newly Hot** indices
- **Seamless rollover** as new data is uploaded throughout the day

For more information or to schedule a demo of DataLend's enhancements, please reach out to your DataLend sales rep or email sales@datalend.com

BNP Paribas Securities Services is incorporated in France as a Partnership Limited by Shares and is authorised and supervised by the ACPR (Autorité de Contrôle Prudentiel et de Résolution) and the AMF (Autorité des Marchés Financiers). BNP Paribas Securities Services, London branch is authorised by the ACPR, the AMF and the Prudential Regulation Authority and is subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request. BNP Paribas Securities Services, London branch is a member of the London Stock Exchange. BNP Paribas Trust Corporation UK Limited (a wholly owned subsidiary of BNP Paribas Securities Services), incorporated in the UK is authorised and regulated by the Financial Conduct Authority.