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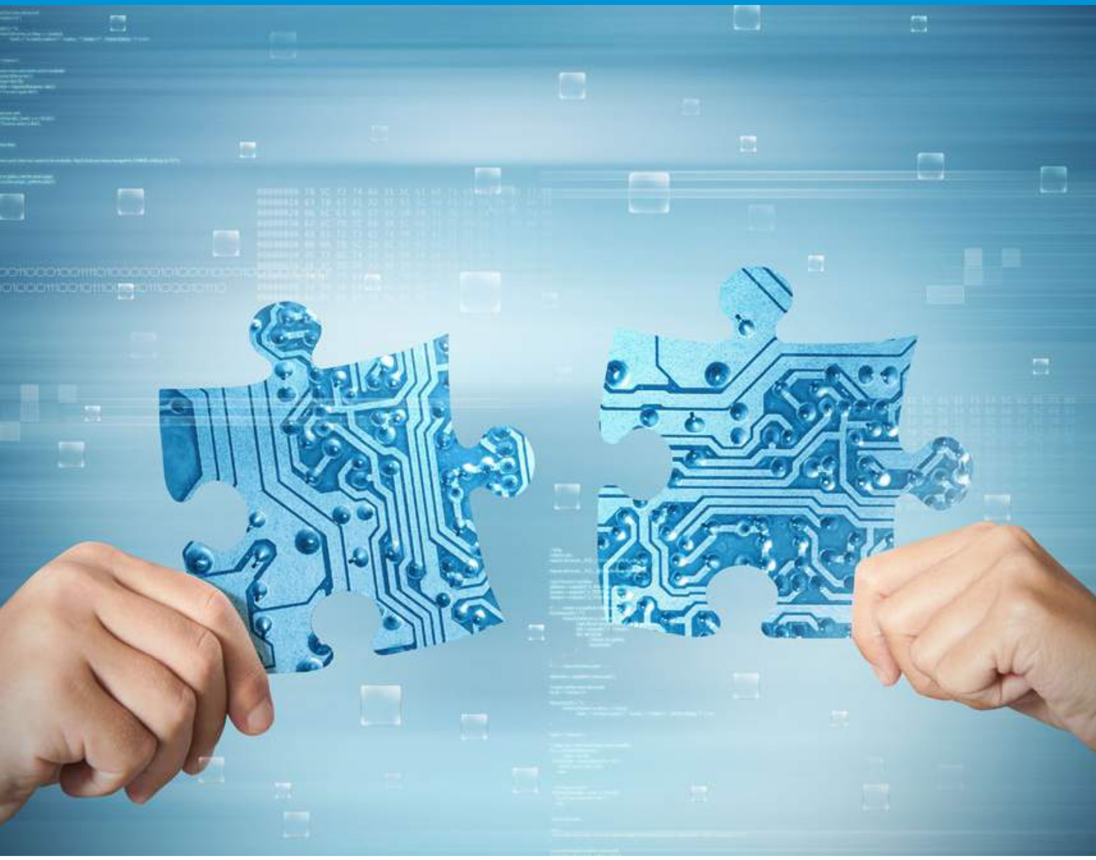

EquiLend joins Eurex's Lending CCP

EquiLend has connected its securities lending platform to Eurex Clearing's central counterparty (CCP) service.

The planned link, due to go live in March 2016, will allow EquiLend's market participants to make use of their existing infrastructure to route transactions to Eurex Clearing's Lending CCP for novation and downstream processing.

Brian Lamb, CEO of EquiLend, said: "The securities finance industry realises the benefits of a CCP model more and more. With market participants now more open to the idea of utilising central counterparties as an additional tool in their trading activity, we felt the time was right to facilitate CCP access for our extensive client base."

"We are very excited to be able to give our clients additional choice on where and how and with whom they direct their business."

Matthias Graulich, chief client officer at Eurex Clearing, added: "We are very pleased to work with EquiLend in our effort to bring the efficiency of Eurex Clearing's Lending CCP to the securities lending market."

"Leveraging EquiLend's existing market position and given the broad utilisation by its members will further enhance the attractiveness of our Lending CCP and be mutually beneficial to our clients and other connected markets."

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SEC lifts OCC capital stay

The US Securities and Exchange Commission (SEC) has lifted a temporary stay of OCC's proposed capital plan amid a challenge from options competitors.

Under its order to discontinue the stay, which was issued on 10 September, the SEC determined that "strengthening the capitalisation of a systemically important clearing agency, such as OCC, is a compelling public interest".

OCC received approval for its capital plan earlier this year. Under the plan, the exchange will increase shareholders' equity from $25 million to $247 million.

OCC stockholder exchanges will provide up to $117 million in replenishment capital in case of unexpected losses, which will be increased to $200 million as its target capital requirement increases.

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EU securities market facing 'very high' risk

European securities markets are severely at risk from high volatilities and fluctuating performances across asset classes, says the European Securities and Markets Authority (ESMA).

The European authority raised its market risk indicator to its most severe level, "very high", following publication of its second Trends, Risks and Vulnerabilities Report for 2015.

The report covers EU securities market developments from January to June 2015.

The risk increase is due to high volatilities and fluctuating performances across asset classes—all of which translates into elevated risks for investors, market infrastructures and the financial system at large.

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EquiLend joins Eurex's Lending CCP

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The Lending CCP, which launched in November 2012, reduces counterparty risk exposure and eliminates the need for multiple credit evaluations. Users can achieve a significant reduction in capital allocation associated with bilateral securities finance transactions.

The service covers loans in equities and exchange-traded funds in Europe as well as fixed income securities.

BNY Mellon and State Street signed up to the Lending CCP in January, as did Natixis. Morgan Stanley joined the service in late 2014.

SEC lifts OCC capital stay

Continued from page 1

Initially, OCC will have access to about $364 million in equity capital resources.

The plan allows OCC to pay a refund of $33.3 million back to its clearing members from 2014's fees, while also returning to a lower fee schedule. This means that the average clearing fee will drop 19 percent, compared to current levels.

BATS Global Markets, BOX Options Exchange, KCG Holdings, Miami International Securities Exchange and Susquehanna International Group subsequently filed petitions contesting approval of the capital plan, citing policy and competition concerns.

The petitions triggered an automatic stay of the approval, which OCC disputed in April. The SEC has finally responded to OCC's motion to lift the stay, while simultaneously granting the petitions to review approval of the capital plan.

"Under the circumstances of this case, the commission believes, on balance, that strengthening the capitalisation of a systemically important clearing agency, such as OCC, is a compelling public interest," ruled the SEC.

"The [SEC] also believes that the concerns raised by the petitioners regarding potential monetary and competitive harm do not currently justify maintaining the stay during the pendency of the commission's review."

"Nor does the commission believe that lifting the stay precludes meaningful review of the approval order."

Craig Donohue, who is executive chairman of OCC, commented: "We are pleased that the SEC agreed with OCC that the concerns raised by petitioners do not justify maintaining the stay during the pendency of the commission's review."

"The SEC's action permits us to further strengthen our equity capital resources so that a compelling public interest can be served."

"The plan will strengthen our capital base from a business perspective, enable our firm to meet the heightened capital requirements that are critical for systemically important financial market utilities like OCC, and better position us to meet international requirements so that market participants are not subject to the costs of punitive capital requirements imposed by international regulators."

EU securities market facing 'very high' risk

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ESMA's credit risk indicators remain unchanged at very high levels. Liquidity risk is additionally expected to intensify further, while contagion and operational risk remain unchanged, at high and elevated levels, respectively.

ESMA cited the improved but uneven economic outlook, ultra-low interest rates, high public sector indebtedness and potential weaknesses in market functioning as the key overall risk sources.

SLTINBRIEF

Other key findings from the report included an acknowledgment that the Greek short-selling ban “did not impact market functioning and infrastructures outside Greece in a critical way”.

The EU’s investment fund industry saw increased appetite for risk-taking, partly prompted by low-interest rates. This was reflected by strong inflows into more risky fund types and large fluctuations in the performance of most fund-industry segments.

Beyond analysing risk, ESMA also monitors possible vulnerabilities, which are provided through specific in-depth analyses—these include shadow banking, market liquidity and alternative funding.

As ESMA continues to monitor risks from the €6 trillion EU shadow banking system, its latest report proposed a focused approach to better measure its size.

The report proposed amended indicators for the asset management industry, and especially bond funds, which will make it easier to disentangle core funds from funds conducting bank-like activities.

Global borrow demand boosted by $10 billion

Global borrow balances grew by more than $10 billion in the first week of September with some industries reporting more than $1 billion of stock value fluctuations, according to S3 Blacklight.

The data analytics provider noted that 150 of 170 recognised sectors categories experienced an increase in borrowing activity in a single week.

Predictably, index funds and exchange-traded funds easily topped S3 Blacklight’s list of ‘industry categories with over $1 billion new borrows’, with much maligned oil and gas companies taking second place, closely followed by the pharmaceutical sector.

Other notable entries include Silicon Valley heavyweights Facebook and Google, along with

multinational banks such as Bank of America and Wells Fargo.

When comparing regional activity, Asia stood out for both positive and negative reasons. Japan boasted significant growth with Nikon Corp attracting over $1 billion in borrows, and $150 million new borrows in the first week of September alone.

The positive market gains could stall the growing number of borrows, however, as the Toyko Stock Exchange marked its largest single session jump in nearly seven years. Japan’s Nikkei 225 Index recovered by 7.7 percent after several weeks of spiralling stock prices, driven by the turmoil in China.

Elsewhere in Asia, the mood isn’t as positive. The Taiwan Financial Supervisory Commission was recently forced to introduce an uptick rule that prevented short selling for less than the closing price for the previous trading day after its technology industry saw increased activity.

Regional brands such as Taiwan Semiconductor (TSM US) and Hon Hai Precision (2317 TT) bore the brunt of shorting interest with over $100 million in new borrows each.

The global repercussions of China’s recent stock crash is well documented already and a pledge by the Chinese state to increase infrastructure spending and establish new

fiscal policies did succeed in rallying the market, which closed 2.3 percent higher following the announcement.

But S3 Blacklight data highlighted ongoing pessimism in Asia as shorts in Alibaba Group alone still accounted for $800 million of new borrows in the first week of September.

Total borrows for the online retailers are nearing $3.5 billion and the stock continues to be the most borrowed in the region.

It is worth noting that this does go against the wider trend of the Chinese market with total borrows down by over two thirds.

Almost $100 million of borrows were returned in China, bringing total outstanding balances down to $250 million.

Associations offer mixed review of FSB data proposals

Associations have expressed a preference for the use of position level data to make securities lending more transparent, in a response letter to the Financial Stability Board's (FSB) data experts group (DEG) meeting.

The International Securities Lending Association wrote the comment letter in partnership with the Pan Asian Securities Lending Association and the Risk Management Association.

The meeting, which took place in London on 26 August, aimed to bring together securities lending industry experts and the FSB DEG to discuss the group's latest data elements and granularity proposals.

On data collection options, the associations stated: "The collection of position level data for securities lending and borrowing is far superior to flow or transactional data."

"Flow data is noisy, difficult to interpret and would require careful re-aggregation in order to build up a picture of risks and exposures in the system."

"Position level data by contrast should be relatively easy to aggregate and by comparing snapshots of positions over time it would also be possible to identify trends."

The associations expressed a largely positive response towards DEG's data elements paper, which acknowledged the points raised by the associations relating to position level reporting and the separation of collateral reporting.

The associations specifically praised Viktoria Baklanova from the financial research office at the US Treasury in relation to points about use of standards such as legal entity identifiers and international securities identification numbers, and the acknowledgement of the challenges relating to the aggregation and classification of data.

On the subject of collateral re-use, the associations highlighted that data might be impractical to collect. They stated: "It is important to recognise that any subsequent reuse or re-hypothecation of collateral is typically driven by the aims and objectives of the receiving party and there is a clear distinction between institutional lenders and brokers or banks that may hold and think about collateral very differently."

"Today very little collateral received by institutional lenders is actively re-used with most being held

within triparty collateral arrangements. Conversely where banks using securities lending techniques receive collateral it is normally held in a central pool and managed as part of the banks overall liquidity process. Consequently and unlike the institutional lending sector collateral received is likely to be re-used."

The associations did express concern that "the different approaches to data collection by regulators around the world will make the task of compiling accurate data much more challenging for the authorities".

"Whilst it was made clear at the roundtable that national regulators may have additional motives for collecting data in respect of these markets, it would be disappointing if the overall objectives of the FSB's exercise are not met or become more difficult to meet as a result."

"We remain unconvinced that the collection of collateral re-use data in order to calculate collateral velocity will be a practical or worthwhile exercise," the letter added.

Demand drops for Clearstream's securities finance services

Post-trade services provider Clearstream experienced a 3 percent drop off for global securities financing (GSF) services in August, falling to €613 billion.

The combined securities services, which includes securities lending, triparty repo and collateral management, collectively achieved a monthly average outstanding of €591.7 billion.

But Clearstream's GSF monthly average outstanding has actually increased overall from €597.9 billion to €617.2 billion since the beginning of the year, representing a 3 percent growth.

Clearstream saw a 25 percent increase in German central securities depository settlement transactions, compared to August 2014. There was also a 16 percent increase in investment funds transactions compared to August of last year.

The total value of Clearstream's assets under custody held on behalf of customers registered an increase of 8 percent for August 2015, to €13.2 trillion, compared to €12.2 trillion in August 2014.

There was also a 10 percent increase in securities held under custody in Clearstream's international business as international central securities depository, representing a rise from €6.5 trillion in August 2014 to €7.2 trillion for the same time this year.

Regarding settlement transactions, Clearstream also achieved a 7 percent increase over August. Of all international transactions, 80 percent were OTC and 20 percent were registered via stock exchanges.

Bloomberg aids Rabobank's Basel III compliance

Rabobank is the latest bank to adopt Bloomberg's high-quality liquid assets (HQLA) solution to assist with Basel III compliance requirements.

Bloomberg's HQLA solution allows Rabobank to monitor its liquidity buffer and ensure it fulfils Basel III's liquidity coverage ratio (LCR) requirement, which will be enacted on 1 October.

The LCR requires banks operating in Europe to hold an adequate number of assets that can

be converted easily and immediately into cash in private markets with no or little loss of value, even in stressed market conditions.

Verifying the eligibility of HQLA requires global market expertise and a large amount of descriptive data, which needs to be organised into logical rule sets accounting for each jurisdiction's HQLA definitions.

In addition, the data sets need to be tested on a daily basis to reflect security level changes.

The LCR will be progressively implemented in Europe between 2015 and 2018 under the Capital Requirements Regulation.

Allan Bolk, Rabobank's head of securities finance and repo in Europe, said: "The tool will allow us to track and report our liquidity buffer efficiently on a consistent and daily basis and will enable our treasury to manage and optimise its investment decisions with real-time classifications."

OFR criticises lending reporting standards

Securities lending and bilateral repo reporting data is "spotty and incomplete", according to the Office of Financial Research (OFR).

The OFR's Reference Guide to US Repo and Securities Lending Markets, published on 11 September, highlighted a lack of "essential" cash collateral reinvestment reporting requirements and a need to improve consistency in data reporting metrics.

The OFR said: "The lack of a common data standards for identifying counterparties presents a substantial challenge in monitoring cross-market and cross-border exposures."

The US-focused guide offers a comprehensive overview of the securities lending and repo markets with a breakdown of the key areas of position options, demographics and the legal and reporting requirements. It was authored by Viktoria Baklanova and Rebecca McCaughrin of the OFR, and Adam Copeland of the Federal Reserve Bank of New York.

Data reporting requirements have had to develop significantly since the 2008 crash and private data providers such as SunGard and Markit now offer granular data on securities lending activity collected directly from industry participants.

However, as the OFR pointed out: "These data collections are voluntary and incomplete. They also lack data on counterparties or collateral management that are essential for market monitoring purposes."

"[Previous reports] argued that at least six data elements are required for adequate monitoring and policy analysis of securities financing markets: principal amount, interest rate (or lending rate for securities lending transactions), collateral type, haircut, tenor, and counterparty."

"Available data sources for the bilateral repo and securities lending segments do not include most of these data elements. For example, counterparty information is not provided in any available sources covering securities lending, making it challenging to track market interconnectedness through this activity."

The OFR concluded that for securities lending and repo markets to achieve a responsible level of transparency and regulatory oversight, "a permanent data collection is needed to fully address the discussed data gaps".

"Success in these and other future efforts will require adoption of international data standards, extensive collaboration, and improvements in data sharing."

Unlinked cleared swaps slash outstanding NZD

TriOptima and LCH.Clearnet are expanding their consolidation of unlinked, cleared interest rate swaps, eliminating 30 percent of New Zealand dollar (NZD) notional outstanding in first SwapClear NZD cycle.

Twelve SwapClear users eliminated NZD 902.3 billion (US $590.2 billion) in the first NZD compression cycle in SwapClear.

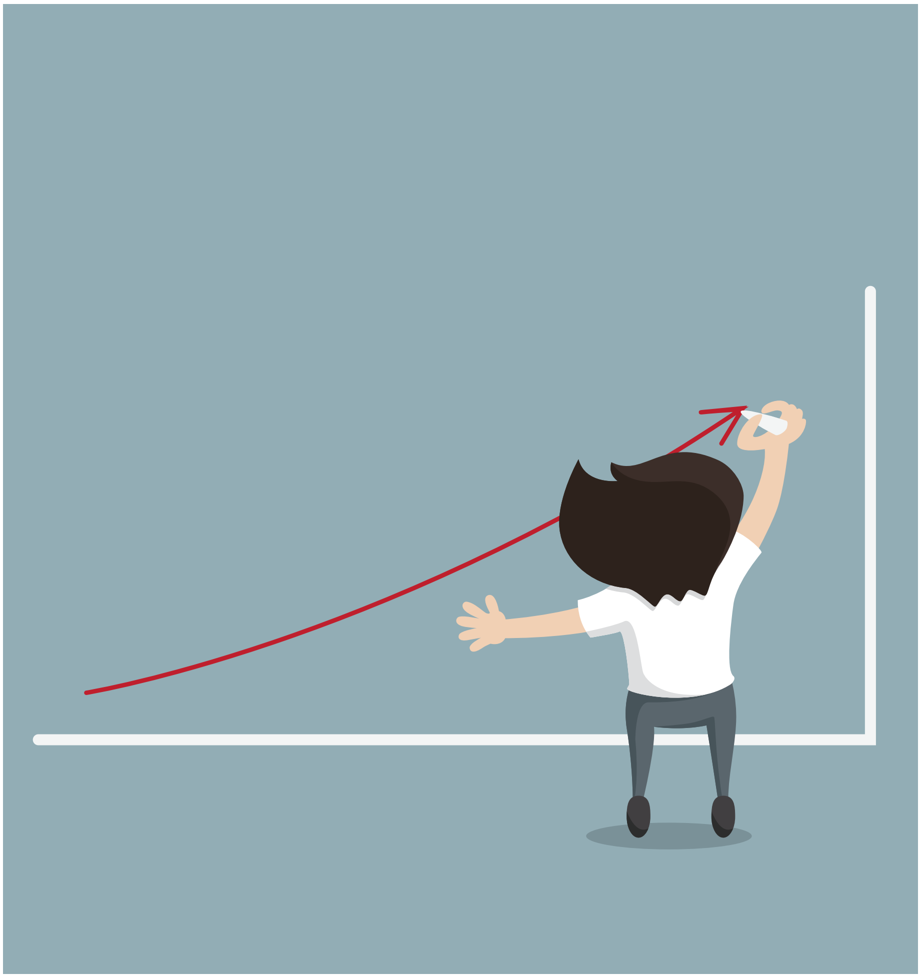
According to SwapClear, this represents 30 percent of the NZD notional and 35 percent of the NZD line items outstanding in the clearinghouse. Peter Weibel, CEO of triReduce, said: "The significant results in this cycle reflect the effect of unlinking trades in SwapClear and the compression efficiency achieved when trades are concentrated in one book rather than dispersed across many trading books."

"We've seen similar results in SwapClear for South African rand swaps where we eliminated 42 percent of the line items and 38 percent of the notional outstanding in SwapClear."

TriOptima and LCH.Clearnet's SwapClear offers compression cycles for 13 currencies, several of which have been subjected to TriOptima compression cycles.

Nikkei 225 short interest increases

Short sellers did not drive a recent one-day rise of Japan's Nikkei 225, according to Markit.



The sharp one-day rise of the Nikkei 225 on 9 September was not the result of short sellers covering their positions.

According to Markit, securities finance data indicated that short interest actually increased.

In Japan so far this year, the value of short positions across single names has increased 18 percent to $33.45 billion. The Nomura Nikkei 225 Exchange-Traded Fund, meanwhile, sees minimal shorting activity.

Markit also found that ahead of the recent selloff, the Nikkei 225 was up 20 percent, in line with an increase in short sellers' total value on loan, which has continued to increase over the last month, despite the index falling.

Some 53 percent of Nikkei 225 firms have seen short interest rise over the past seven days, with the total average increasing to 2.1 percent. The retail, real estate, and technology hardware and equipment sectors contributed the greatest to the recent increase.

Overall, the average short has trended materially higher over the last 12 months, rising from 1.47 percent to 2.1 percent.

Pension funds see global increase

Pension funds around the world are increasingly looking beyond their borders to address their investment needs, according to the Association of the Luxembourg Fund Industry (ALFI) in its new global pension fund report.

The report, Beyond Their Borders: Evolution of Foreign Investment by Pension Funds, was produced by PwC Luxembourg.

It looks at the growth of pension funds globally, the asset allocation of pension funds on a regional basis and the foreign investment of pension funds.

On a regional basis, North America's pension funds represented the largest assets at a global level, having reached $27.21 trillion in 2014, up from $15.8 trillion in 2008, according to PwC.

Taken globally, pension funds allocated 44 percent of their total portfolio to equities, 28 percent to bonds, 26 percent to alternatives and 2 percent to money market products in 2014.

Allocation varies considerably from region to region, with North America allocating 48 percent of total assets to equities, Asia Pacific 40 percent, Europe 37 percent, and South America 34 percent.

The US, Canada, Japan and the Netherlands pursued the largest equity investments in 2014, allocating $42 trillion, $986 billion, $662 billion and $582 billion respectively to this asset class.

Japanese pension funds experienced the largest increase in the share of equities within their total portfolio, which increased by 21 percent from 2008 to 2014.

In contrast, South Korea's pension funds showed the largest decline in their equity share, decreasing by 22 percent from 2008 to 2014.

PwC also found that South America's pension fund assets increased from $184 billion in 2008 to $528 billion in 2014, a 19.2 percent compound annual growth rate.

In terms of investing overseas, foreign investment for the pension funds of the majority of Organisation for Economic Co-operation and Development countries (excluding the US) accounted for about 25 percent on average of their total pension investments in 2008, but jumped to almost 31 percent in 2014.

Denise Voss, chairman of ALFI, commented: "This study provides more clarity on the global investments of pension funds, demonstrating the opportunities offered by global investing and how some markets are approaching this, but also highlighting how pension fund regulations differ from one country to the other."

Banks sign up to NY data deal

Four major banks have agreed to enhanced record-keeping protocols with the New York State Department of Financial Services (NYDFS) when using the new Symphony Communications chat and messaging platform.

Goldman Sachs, Deutsche Bank, Credit Suisse and BNY Mellon all responded to concerns raised by NYDFS in July that Symphony's 'guaranteed data deletion' feature could hinder regulatory investigations on Wall Street.

The agreement stipulates that Symphony, which was created through a consortium of 14 major banks and financial institutions, will retain an encrypted copy of all e-communications sent through its platforms to or from the four banks for seven years.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In addition, all four banks will store duplicate copies of the decryption keys for their messages with independent custodians.

Anthony Albanese, acting superintendent of financial services at NYDFS, said: "This is a critical issue since chats and other electronic records have provided key evidence in investigations of wrongdoing on Wall Street."

"It is vital that regulators act to ensure that these records do not fall into a digital black hole."

BNP Paribas takes on a fifth of Colombian asset managers

BNP Paribas Securities Services has successfully implemented new custody mandates for 16 Colombian asset managers.

The global custodian, which boasts $9 trillion in assets under custody, will take on $3 billion in assets under management for 119 funds.

The asset managers are a mix of local, regional and global players, which together have a 20 percent market share of the Colombian asset management industry.

The new mandate follows a change in Colombian law requiring local mutual funds to appoint third-party custodians in order to increase asset safety and investor protection in the market.

Onboarding of the funds was completed on 3 September, in line with the regulatory timeframe set by the Colombian Ministry of Finance.

"These new requirements represent a major step for the Colombian finance industry," said Claudia Calderon, head of BNP Paribas Securities Services Colombia.

SunGard's hottest stocks

Ambarella, Toshiba and Tesco were among the top stock picks from SunGard's Astec Analytics during the second week of September.

Ambarella, a California-based tech company, came to the attention of short sellers after its Q3 earning predictions were revised down, sparking a sell-off in both its share price, and that of GoPro, for which Ambarella is a key supplier.

Solarcity in turn climbed significantly in the Astec Analytics tables.

The solar panel manufacturer's shorting attention was driven by a high-profile investment by Elon Musk, valued at $5 million in August, while Oppenheimer also begin coverage of its shares with an 'outperforming' rating.

For the Asia Pacific region, Toshiba maintained its pole position for a second week thanks to a recent confirmation that, following years of accounting irregularities, it has overestimated its earnings by $1.9 billion over seven years or more, in some cases four times greater than the initial estimate.

The second most demanded for lending in the region was China Coal Energy Company as a result of disappointing half-year earnings, although a modest price recovery means short sellers are already covering their position and losing interest in the energy supplier.

Looking towards Europe, the Middle East and Africa, it was the British supermarket chain Tesco that caught the most attention after South Korea's MBK Partners finalised a $6 billion deal for all the chain's Korean business.

Astec Analytics data highlighted that borrowing volume for Tesco's stocks boomed by 47 percent.

Short sellers target Chinese automobile industry

China's ongoing financial woes have led short sellers to target struggling Chinese automobile stocks, according to Markit.

The financial data provider pointed to the combination of a slow-down in emerging markets and a strong US dollar (USD) as the main drivers

behind the sharp price drops. Automobile companies across the board witnessed growing interest from short sellers, regardless of individual sales figures.

Disappointing Chinese sales figures exposed Daihatsu and Peugeot to increased short selling activity, while, at same time, strong growth in China could equally not protect Tesla, which was the most short sold automaker globally.

Harley Davidson saw shorting interest in its stocks rise to a five-year high with 9.5 percent of shares outstanding.

The American motor company suffered the consequences of a strong USD in Q2 2015 as its import competitors discounting aggressively in it core market in the US representing 65 percent of sales.

The company's only Q2 sales growth was in the Asia Pacific.

Data provided by Markit PMI showed an 17-month low in vehicles sales for China while global automobile and auto parts sector also endured the first monthly drop in output this August since June 2013.

It hasn't all gone the short sellers way, however, as they were unable to capitalise on a 60 percent drop in Great Wall Motor Company, likely due to short selling restrictions.

BSE adds rollover option for lending contracts

The Bombay Stock Exchange (BSE) has launched a rollover facility for its securities exchange service in an attempt to boost interest in the securities lending market.

The new facility, which went live on 7 September, allows for a three-month rollover period including the original one-month plus two monthly rollover contracts.

The rollover facility is available to all BSE members who have an existing borrow or lend position.

The move adds a greater level of flexibility to BSE securities exchanges by allowing for securities contracts to be extended after the initial trade deal is struck.

The launch was initially triggered by a recommendation by the Securities and Exchange Board of India.

Early recall and early return options will be available for rollover contracts for both lenders and borrowers.

Nigeria to improve market liquidity through CSCS

Nigeria's Central Securities Clearing System (CSCS) is looking to boost market liquidity through its securities lending and borrowing (SLB) and post-trade allocation process flows to capital market operators.

The SLB arrangement would enable market participants to lend securities from a registered securities lending agent (SLA), according to Joseph Mekiliuwa, general manager of operations for CSCS.

The arrangement is aimed at custodian banks and their brokers and will help market participants to go short by selling securities that they do not have and lending from the SLA to cover their short position before the settlement date.

CSCS broke the news at a presentation hosted in Lagos during the third week of September. CSCS will not allow shares to be lent on behalf of the owner of the shares either from a segregated or omnibus account without a securities lending authorisation agreement.

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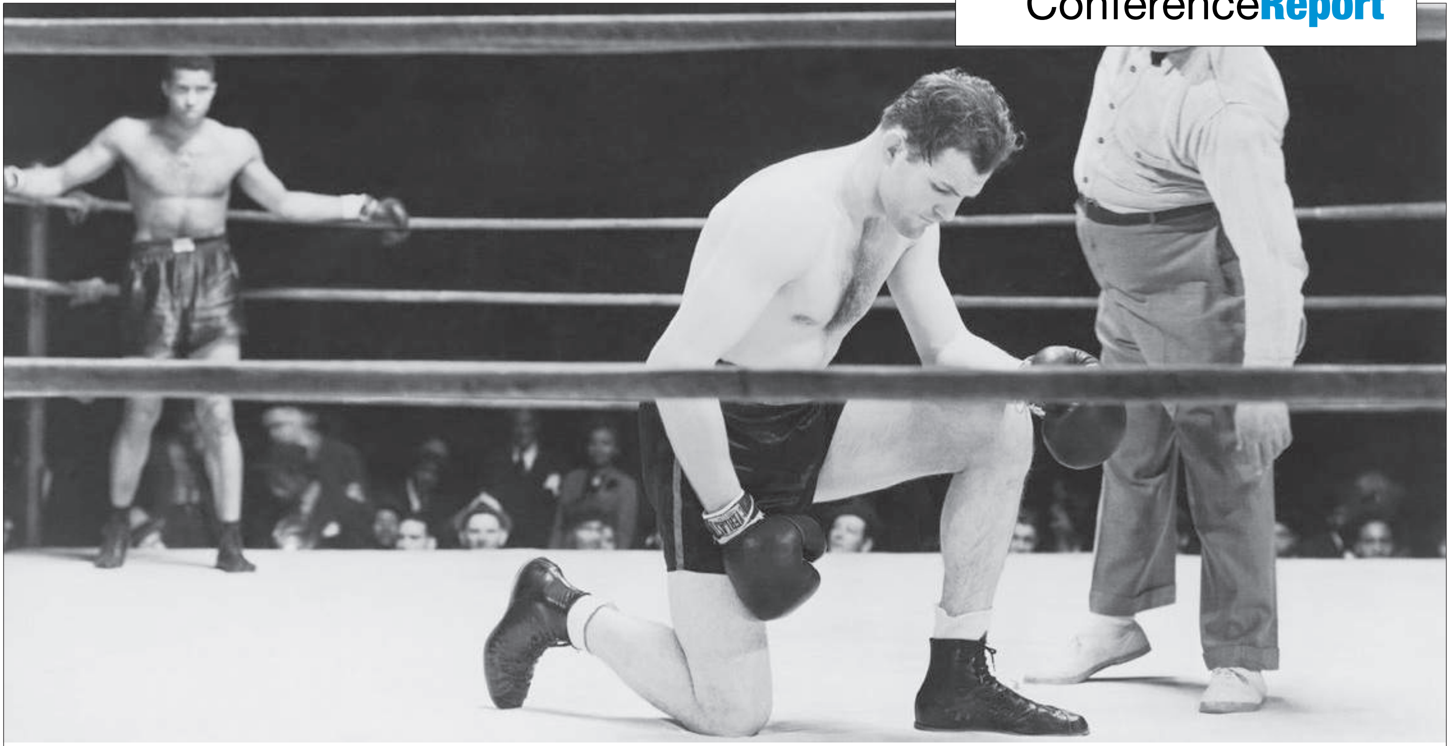

The point of no return

Upcoming regulation is hitting the repo market where it hurts, heard attendees of the Marcus Evans Repo and Securities Lending Forum in London

DREW NICOL REPORTS

The scale of upcoming regulation and the disjointed nature of its implementation across different regions has put the repo industry between a rock and hard place, according to a speaker at the second annual Repo and Securities Lending Forum in London.

The theme of onerous regulatory burdens in the repo market featured repeatedly in the day's discussions and was emphasised by snap survey of the audience that found that just under half thought the repo market would get worse due to new regulation.

Furthermore, none of the attendees, who represented some of world's largest banks, considered the new requirements to be positive for the industry.

The specific regulations in question were the net stable function ratio (NSFR) due in January 2018, the liquidity capital ratio (LCR), which will be enacted on 1 October and, finally, the total loss absorbing capacity (TLAC) due in 2019.

The Financial Stability Board (FSB) proposed a minimum TLAC requirement for 30 banks identified as globally systemically important.

TLAC assets are bail-in-able securities that can be converted to equity for the express purpose of absorbing the catastrophic loss being suffered by the entity. They must have a remaining maturity greater than one year and be unencumbered.

TLAC will support capital/leverage ratios so that banks are able to continue critical functions without threatening market stability and without requiring government support.

The TLAC presentation was dramatically entitled 'TLAC and cheap funding: A devastating blow to the repo market?', but it quickly became apparent that the actual industry backlash to this proposal was, at best, limited.

Beyond the cost and time implications of the various requirements, the speaker also raised concerns that despite industry recommendations, regional regulators are "ignoring the fact that counter-intuitive regulations like LCR, NSFR, and so on are creating a lot of trouble and cost".

The point was raised during the debate that political pressures were driving regulatory zeal beyond what was practical or necessary for the industry and the market would soon reach a stage where banks might find repo business too costly to continue.

As another speaker put it: "If the FSB implemented all the initiatives they have considered we would regulated back to the Stone Age and there would no longer be an industry for them to regulate."

There was also general agreement that no aspect of any regulatory or political body actively wished to cripple the gobal economy and the desire for less volatile markets was the sole driver behind the new implementations.

Beyond the industry's perceived regulatory woes, the other topics discussed included a case study of the re-birth of Iceland's repo markets following a total drop-off of repo activity in the aftermath of 2008.

There was also an insight into a major Japanese securities house's charm offensive on the European market.

The second day included an industry update by the chairman of the European Repo Council.

Regulation took centre-stage again, this time described as alphabet soup. Other key points raised included the cost of placing liquidity through repo, which drives excess to central banks, and the upcoming study on liquidity in repo markets from the International Capital Market Association.

The event closed by casting an eye to the future and discussing what the industry should be doing to optimise market performance. A focus on lobbying against harsh regulation was one suggestion offered. **SLT**

Are we there yet?

A new age could soon be dawning in securities lending, but not before old issues are resolved, according to speakers at the IMN European Beneficial Owners' Securities Lending & Collateral Management Conference in London

DREW NICOL REPORTS

The securities lending industry is on its way to an Age of Enlightenment, according to Kevin McNulty, CEO of the International Securities Lending Association, speaking during the opening speech of the European Beneficial Owners' Securities Lending & Collateral Management Conference in London.

The conference saw a variety of topics discussed, from the ever-present regulatory burdens to the developing use of central counterparties (CCPs) and how beneficial owners can best optimise their collateral management programmes.

The key trends raised early on were the fact that in Europe, unlike the US, there is a conscious move away from cash as collateral towards equity. The problems facing UCITS funds in the securities lending space also featured prominently, as did the debate surrounding the rise of fixed-term lending, as opposed the more traditional open lending style.

Currently, 84 percent of lending business is done on an open basis, but three or even six-month fixed-term contracts are becoming more commonplace every year.

Of the audience on the day, which was made up of beneficial owners (55.3 percent), agent lenders (28.9 percent), prime brokers/principle borrowers (5.3 percent) and service providers (10.5), roughly 45 percent said they would consider or already are involved in fixed-term lending of three months or more.

The role of CCPs was discussed in almost every panel across both days, which was justified by an audience poll which highlighted that almost half of those in attendance were not confident in their knowledge of CCP services, or the risks involved in their use.

The value of CCPs for a beneficial owner was questioned by several panellists, although most considered their growth to ultimately be a matter of 'when' rather than 'if'. One audience member said: "The concentration of risk in a CCP is a problem because they could use counterparties that the owner might not use themselves."

Another concern raised was the lack of clarity around what happens in the event of a default. One speaker summarised: "CCPs are on a journey and don't currently have the flexibility to attract beneficial owners from large parts of the market."

Another speaker countered: "We just need to finalise our product, value will rise next year. For us, it's a matter of crossing the 'T's and dotting the 'I's."

After several hours of debate between representatives from all aspects of the securities lending industry, the majority seemed to agree that CCPs were an inevitable part of the market's future and should be welcomed, as one speaker put it: "To be one tool in a beneficial owner's toolbox."

On the inevitable topic of regulation, the panel and the audience were in agreement.

A majority said they were expecting to have to adapt their lending programmes due to changing regulation.

Regulation was highlighted as the main driver behind most of the industry changes for 2015, from a move towards CCP and term lending, to the move away from allowing cash as collateral.

Basel III was seen to be having the most effect on the industry, closely followed by the Financial Transactional Tax (FTT), then the Securities Financing Transaction Regulation and the Central Securities Depositories Regulation.

One conference veteran commented between panels that there was a greater level of optimism and understanding at this year's event as more of the specifics of new regulations have been finalised and shown certain people's apocalyptic predictions from previous years to be slightly overblown.

As the conversation turned to fixed income, the audience learned that 40 percent of €1.8 trillion worth of securities on loan are government bonds.

It is clear that there is no lack of people willing to lend their high-quality liquid assets (HQLA) and if there is a demand issue, it's on the buy side of the transaction.

This fact stimulated one of the more lively debates of the day as the conflict between allowing agent lenders to make clients' HQLA the most attractive for borrowing is tempered by a need to avoid a race to the bottom with regard to pricing.

It was stated, although not for the first time, that demand for borrowing is expected to break through the $1 billion mark next year, so appetite is robust.

But the audience was repeatedly reminded that, ultimately, lending is an optional activity and if the risks of securities lending, compared to the relatively limited basis points up for grabs, makes a beneficial owner feel uncomfortable, then could simply opt out.

"Be a little pig headed," advised one speaker, who urged lenders to stick to a programme they are comfortable with and not cave to market pressures to take unnecessary risks.

McNulty's opening words heralding the move towards a state of enlightenment were reinforced and concurred throughout the conference. Although many panellists predicted that the securities lending industry could change dramatically as the pipeline of regulations come into effect over the next few years, most accepted that they had endured significant legislative overhauls in the past and survived, and would simply have do it again. **SLT**

The IMN European Beneficial Owners' Securities Lending & Collateral Management Conference

The student always needs the teacher

David Lewis, senior vice president at SunGard's Astec Analytics, reveals why beneficial owners will always need to be educated, and what technologists need to do to help

DREW NICOL REPORTS

What trends have you seen from the securities lending industry over the past few years?

In the long term, we have moved from an industry that was relatively disengaged to one that has a much more hands-on approach following the Lehmann Brothers crisis. Beneficial owners are now much more aware and engaged in their lending processes and don't just leave it up to their agent.

The industry will never stand still, however, and therefore the educational phase for beneficial owners never truly ends. Because it's a dynamic market, we need to maintain the momentum that we have now with stakeholder engagement, or even increase it.

For example, central counterparties (CCPs) are something that have been discussed for several years now but as we have seen at the IMN European Beneficial Owners' Securities Lending & Collateral Management Conference, roughly half the audience of beneficial owners admitted they don't feel confident in their understanding of CCPs.

What's changed since 2008 in terms of behaviour in the market?

We at SunGard's Astec Analytics pay a lot of attention to observing and creating benchmarks of market performance. Pre-Lehmann, everyone wanted to beat the benchmark and be the top performer. Now, people are a lot more realistic about their performance and are perfectly happy with potentially underperforming in terms of the benchmark and concentrate more on having a programme that is appropriate to their needs and meets their appetite for risk.

Almost overnight in 2008, everyone decided they didn't want to lend cheap securities (general collateral) and only wanted to lend selective, higher quality products—this is often referred to as 'intrinsic lending'. There are now some beneficial owners that will drive a large portion of their income from a small selection of stocks, because they are actively involved and know what makes a stock 'special'. This has the double benefit of minimum balances with maximum revenue. Such an approach would not suit every lender, of course. If you don't own any specials you will have to look elsewhere for revenues.

Is part of the reason why the 'educational phase' of the industry's development will never end due to the fact that the market is growing all the time with new 'unenlightened' participants joining?

There are more people in the market and they are more active in their lending programmes than ever before. Education will never stop, because the market will never stop. New features appear all the time on both the buy and sell side: new trade types, new trading structures and routes to market. These are all developments that market stakeholders need to be conscious of.

In the past few years specifically, especially with regulation, we've moved from an initially very fluid situation where no-one was sure what the new requirements would be, to a more solidified position where we knew roughly how the regulations would be formed, to finally our current situation where the details have largely been set, we know what we're doing and what will be expected of us. However, we may reach a collective stage of enlightenment but that doesn't mean the end of the road—the journey will keep going.

What market participants must try not to lose sight of is that for beneficial owners, securities lending takes up only a small amount of their attention, whereas we live it every day. We need to be realistic about just how important this business is to the beneficial owner, and act accordingly. It's important and a valuable part of their strategy, but still just a small percentage of their total operation.

Therefore, to expect every beneficial owner to be highly knowledgeable about every aspect of the industry is unrealistic—that's where agents come in.

How has the role of technology developed within the securities lending market, specifically from SunGard's perspective?

We at SunGard are always developing new features and services because the market moves relatively quickly. If you look at a financing desk when I first joined the industry, the fixed income and equity teams didn't even talk to each other.

Now, technology providers such as SunGard need to provide solutions to allow the delta one, equity finance, fixed income repo, derivatives and collateral optimisation people to be all on one desk, and they want one software product to service all of them. We're feeling the pressure to deliver such products and manage those clients' needs.

As technologists, we have to both mimic and lead the market down a particular route. The industry is all about efficiency at the moment, they want to do more business with less resources and more technology.

We are talking about industrial-strength software that processes hundreds of thousands of complex trades a day and has to get every one of them right, and that doesn't come overnight.

Do you see any limit to automation?

The sky's the limit; there is no end-point. By the time you answer today's questions there are new ones out there.

The market moves fast and regulation will be asking the market to do something new almost continuously—transaction reporting and transparency being key examples that we are currently working on.

How big of an opportunity are the reporting requirements?

Reporting provides a massive opportunity for us. The data experts group for the Financial Stability Board, which I sit on, wants to peer into shadow banking and examine what the unregulated market is doing and how big it is. Their prime objective is to analyse 'interconnectedness', meaning if a broker goes down, who is it going to take with it. To do this the regulator needs trade repositories and we can help our clients meet those requirements.

In the US, for example, SunGard Loanet is the books and records of the vast majority of the biggest market in the world. We have similar infrastructures set up in Europe and China, for example, and we will be using this to help our clients meet their regulatory reporting needs.

What is the trend that has affected SunGard the most this year?

Consolidation. The drive toward consolidation and optimisation influences the market and peoples' behaviour in many ways, and this is all highly connected back to technology, of which SunGard hopes to be the top provider. **SLT**

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US short interest shoots up to three-year high

Short sentiment in the S&P 500 has increased to levels not seen since 2011. Markit's Andrew Laird reports

The increase in the average short interest of the S&P 500 over the past month has been the sharpest rise seen since the summer of 2011, when markets were rattled by the European debt crisis.

Average short interest currently stands at 2.85 percent of shares outstanding, the highest level recorded since September 2011. The recent surge in short interest comes on the heels of a four-year equity super cycle that saw short sellers retreat to the post-Lehman Brothers lows seen in the middle of last year.

The first signs of an increase in shorting activity in 2015 were concentrated in energy names. However, recent weakness and sideways movements in markets has once again attracted short sellers to a broad range of stocks. Market-wide short selling is responsible for a violent rise in the average figure.

Over 75 percent of the constituents of the S&P 500 have seen short positions increase over the past three months. Below are some of the securities that short sellers have targeted, contributing to the overall higher average. Each security has seen short interest increase at least five percentage points and Mattel has seen a rise of more than 10 points.

Mattel, the brand behind Barbie, has seen short interest increase to 18 percent of shares outstanding on loan.

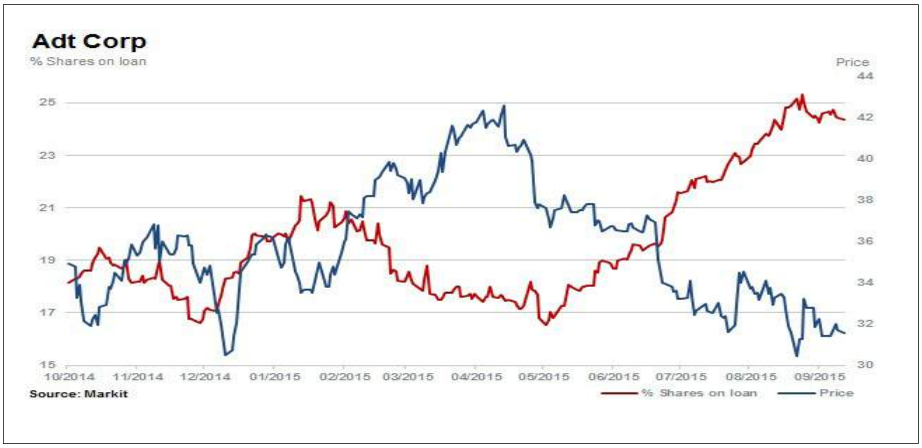
The stock has continued to fall out of favour with investors and attracted short sellers. Shares have fallen 27 percent year-to-date while peer Hasbro has continued to rally.

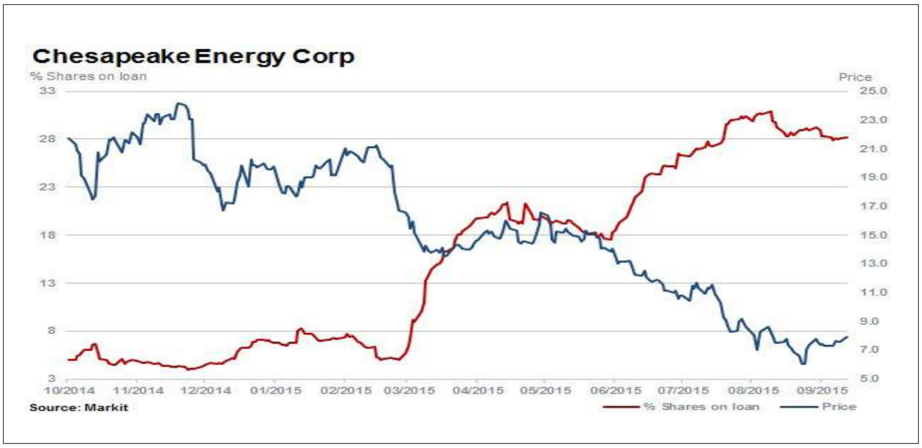
Gamestop saw the sixth largest rise in short interest over the past three months and remains the most shorted company in the S&P 500.

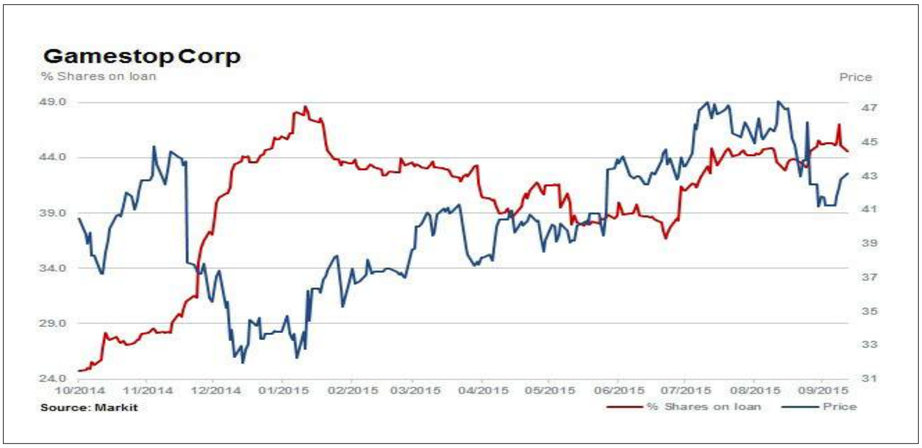
Some 46.3 percent of shares outstanding are currently shorted with sellers pessimistic on the gaming retailer's business model as digital content is increasingly downloaded direct to users' consoles.

Chesapeake Energy is a familiar name on the S&P 500 most shorted list. With a 7 percent point increase in short interest over the past three months, it has become the second most shorted in the S&P 500 with 28.1 percent of shares outstanding on loan.

Strongly influenced by energy prices, investors have increased short positions as the glut in global oil supplies continues to put pressure on prices.







Featuring among those seeing a large surge in short interest in the last three months are Harley-Davidson and ADT. The former has struggled against a stronger dollar and subsequent cheaper competitive imports in its core market, the US.

Since the beginning of the year, ADT has attracted short sellers. Short sellers have returned to ADT after covering while shares fell 24 percent in the last six months. Short interest has increased from a fifth to a quarter of shares currently outstanding on loan. **SLT**

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

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899.50
897.50

Industry Events

Derivatives World Congress

Date: 7-8 October
Location Chicago

Derivatives are a vital part of the capital markets and economy in general, as they allow to manage and hedge risk. In the light of the new regulations, the derivatives industry is on the verge of big changes. Out two-day conference will cover all the latest issues and challenges that companies face, touching three different aspects of the field; Regulations, Operations and Management, and Technology.This event will bring together senior executives from industry leaders across the whole industry.

32nd Annual RMA Conference on Securities Lending

Date: 12-15 October 2015
Location Florida

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

Industry appointments

Northern Trust has responded to increasing demand for its securities lending and transition management services by creating several new senior positions in its global capital markets team.

Sunil Daswani, who has been with Northern Trust since 2002, will become the bank's first head of international securities lending for Europe, the Middle East and Africa (EMEA), as well as the Asia Pacific.

Daswani will also maintain oversight of Northern Trust's transition management sales and relationship management teams across EMEA and the Asia Pacific.

Andy Clayton, global head of securities lending at Northern Trust, said: "By combining responsibility for our transition management and securities lending businesses under his [Daswani's] leadership, we are well placed to continue to support our clients' needs as they evolve and extend across both aspects of our global capital markets business."

Daswani will be assisted by **Dane Fannin** and **Mark Snowdon**, who will assume the new roles of head of securities lending for the Asia Pacific and head of the capital markets client servicing team for the Asia Pacific, respectively.

Fannin will also maintain his existing responsibilities as head of the Asia Pacific trading desk in addition to his new position.

Chris Chanod, previously of PrimeOne Solutions, has taken on a new role as director for prime services sales at Wells Fargo.

Chanod, who is based in New York, made the move after two years as global head of sales and business development for PrimeOne.

PrimeOne was acquired by Markit in August 2015 as part of a wider move by the financial information provider to purchase CoreOne Technologies, of which PrimeOne is one of four core products.

The sale of CoreOne, a global provider of regulatory reporting index management, data management and prime brokerage services, was valued at approximately $200 million.

HSBC Securities Services has appointed **Rafael Moral Santiago** as head of securities services in Europe.

Santiago, who joins HSBC on 1 December, will be responsible for the securities services business across Europe and leading its growth agenda.

HSBC Securities Services is a part of the bank's global banking and markets business.

Santiago will join HSBC from Deutsche Bank, where he spent 13 years in a variety of roles including his most recent of global head of investor services, which saw him oversee custody and clearing, fund services and agency securities lending.

He will report to Cian Burke, global head of securities services at HSBC, and be based in London.

In addition to his new responsibility, Santiago will also form part of the HSBC Securities Services executive committee.

BCS Global Markets has chosen **Adam Wood** to become the new director of its prime brokerage sale team in London.

BCS is the international arm of BCS Financial Group, the largest broker of securities on the Moscow stock exchange.

As director, Wood will maintain and establish strong relationships with high-frequency traders, proprietary trading firms specialising in arbitrage and major hedge funds across accounts in the UK, Europe and the US, according to BCS.

Wood offers a strong technology background and experience of low latency infrastructure, in addition to exchange and product development across multi-asset, regulation, exchanges and multilateral trading facilities.

He will report directly to Max Hayden, head of BCS prime brokerage in London. "BCS is widely recognised as being the market leading broker in the Russian market, so I am delighted they selected me to play a part in their ongoing success and international expansion," said Wood.

Olivetree Financial has appointed **Fred Ward** to boost its events driven sales team and consultancy skills for the buy side.

Ward will be responsible for advising both long-fund and hedge fund clients on how to navigate tough-to-model special situations. He is based in London and will work across Olivetree's clients globally. **SLT**

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