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Taiwan relaxes SBL rules further

The Taiwan Stock Exchange (TWSE) is now allowing brokers to borrow securities directly from customers while extending the rollover limit from once to twice, as part of a major overhaul of its securities lending framework.

The borrowing limits placed on customers will also be removed and the range of securities eligible for securities lending will be expanded.

The reforms, which applied from 1 February, mark a significant step for Taiwan's securities lending market, which many hope will soon reassert itself as a major profit centre in Asia.

The removal of the rollover limit in particular will be welcomed by many Asian market participants. It was recently described as the "elephant in the room" for the Taiwanese market during a panel discussion at the PASLA/RMA Conference on Asian Securities Lending.

These reforms are just the latest in a string of amendments made by TWSE in recent years. In 2015, onshore Taiwanese banking rules were relaxed to allow them to set more flexible margin levels and also to accept more currencies than just Taiwanese dollars.

Looking ahead, the TWSE has indicated that further changes in the pipeline include: allowing all institutional investors to participate in TWSE's securities lending system; relaxing existing percentage restriction on daily short sales; and lowering the collateral ratio for fixed rate and competitive bidding transactions.

During a publicity day for the reforms, Dr Naikuan Huang, senior executive vice president at TWSE, said: "The recent adjustments to TWSE's securities borrowing and lending rules are the latest steps to be implemented as part of Taiwan's ongoing reform of its trading rules and market structure. By sharing these developments with foreign institutional investors in Hong Kong, Malaysia and Singapore, we illustrate the increasing range of investment options and strategies now available in the Taiwan market."

IOSCO adds voice to calls for greater collateral transparency

The International Organization of Securities Commissions (IOSCO) has joined industry voices in calling for a more granular data collection of collateral transactions.

IOSCO claims that as new regulations drive a growing trend of collateralisation to mitigate certain risk types, a greater understanding of the collateral market landscape is needed.

The supranational regulatory body also cited changes in market structure and the way market participants interact with each other as drivers behind the growth of collateralised transactions.

"Very little data exists on the demand for [collateral transformation] services," IOSCO stated in its Securities Markets Risk Outlook 2016 report.

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Equities as collateral on the rise

Post-crisis regulatory and macro-economic trends have turned conventional wisdom in the securities lending market on its head, bringing equities as collateral to the fore, according to Steve Kiely, BNY Mellon's head of securities finance new business development for Europe, the Middle East and Africa.

The rise of equity as collateral is a key symptom of this new post-crisis regulatory landscape, argues Kiely in a BNY Mellon Focus on Regulation Readiness article outlining the top securities lending trends to watch in 2016.

The percentage of non-cash collateralised securities lending trades has been steadily rising for several years now, he explained.

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IOSCO adds voice to calls for greater collateral transparency

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"To achieve better monitoring and surveillance of such a market-wide activity, better quality and quantity of data is necessary. Currently, comprehensive, detailed data is not available. What does exist is piecemeal, covering specific segments of the industry, as mentioned previously. This makes a true assessment of the activity more difficult."

The Committee on the Global Financial System, the Office of Financial Research and the US Federal Reserve have also highlighted the need for a more coherent overview of the potential risks that more collateral transactions might pose to the global financial market.

Additionally, the Investment Industry Regulatory Organization of Canada (IIROC), the self-regulatory organisation for investment dealers, has begun phasing in reporting for its members.

Under the changes, they will be required to report all fixed income transactions, including repo and reverse repo transactions, on a post-trade basis.

The IIROC intends to make an aggregate of statistics public, rather than the underlying transactions, according to IOSCO.

Equities as collateral on the rise

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The latest International Securities Lending Association industry report claims that non-cash collateral rose from 55 percent in the H2 2014 to 60 percent in the H1 2015.

Kiely points out that 57 percent of securities held in Europe's four largest triparty providers, including BNY Mellon, were equities at the end of June 2015, up from 53 percent six months earlier.

But where some regulations giveth, others taketh away, according to Kiely.

While Basel III's liquidity coverage and net stable funding ratios are widely considered to be primary drivers behind the trend, other regional market regulations stop it in its tracks.

Kiely does not refer directly to US Securities and Exchange Commission Rule 15c3-3, which prohibits certain funds from accepting equities as collateral, but does allude to the fact that "regulatory issues may stay the hand of certain buy-side market participants—such as public sector pension schemes or mutual funds subject to UCITS V".

"But other securities lenders can benefit from as much as a doubling of revenues on individual transactions by accepting equities as collateral. In the prevailing environment, this could be the difference between making a trade or not."

Kiely concluded: "18 months ago, the use of equity collateral was an emerging trend. Now, it is so dominant that market participants are being disadvantaged if they do not follow suit."

Term trades and collateral consolidation were also highlighted as the second and third most important growing trends in 2016.

Short sellers not liking social media

The collapse in share price among social media companies has taken short sellers by surprise, with demand to borrow falling by more than a third and short interest at a two-year low, according to Markit.

Although social media shares have dropped following a recent market sell-off, they're not attracting the interest of short sellers.

The performance of these shares was tracked by the Global X Social Media Exchange-Traded Fund (ETF) (SOCL), which saw demand to borrow throughout 2015, and constituents moving into 2016 with below-average short interest.

According to Markit, this goes against trends seen in the rest of the market, which has seen short selling reach multi-year highs.

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So far, 2016 has seen a 7 percent increase in demand to borrow social media shares, however, this still trails average shorting activity in the S&P 500, which has reached double-digits.

Markit data suggests that this lack of interest is fairly universal, with only seven SOCL constituents have more than 3 percent of shares out on loan.

Pandora is the most shorted with 8 percent of shares out on loan, and shares down by 24 percent, while Groupon has 7.4 percent of shares out on loan, despite being the highest conviction short at the beginning of the year. Markit attributes this to the disclosure of Alibaba's stake in the company.

LinkedIn is highlighted as the only firm to see a significant rise in short interest since the start of the year.

Its share prices have halved since a disappointing earnings update, but, although short interest has quadrupled, only 2.1 percent of shares are out on loan—fewer than at the start of 2015.

According to Markit, $32 million in funds has flowed out of the SOCL ETF in 2016 so far, more than a quarter of the total AUM held.

The ETF saw a two-and-a-half-year low in February, and is down 13 percent year-to-date, more than double the dip seen by the rest of the market.

BoE to offer extra repo operations near EU referendum

The Bank of England will offer three new indexed long-term repo (ILTR) operations in the weeks around the UK's referendum on its EU membership, in a bid to quell uncertainty.

UK voters will decide on 23 June whether they want to remain a member of the EU. The operation date for the Bank of England's ILTRs will be 14, 21 and 28 June, with settlement dates of 16, 23 and 30 June respectively. The maturity date for all three operations is 8 December.

Regular ILTR operations will continue to take place once a month, according to the central bank.

The central bank will also continue to offer liquidity insurance via its other facilities, including running a weekly US dollar repo operation, throughout this period.

Market conditions will be monitored carefully by the central bank and operations will be kept under review.

Bank of England governor Mark Carney warned on 8 March that the possibility of the UK leaving the EU is the "biggest domestic risk to financial stability".

He did add: "The global risks, including from China, are bigger than the domestic risks."

Canadian early warning system exempts securities lending

Securities lending transactions have been exempted from changes to Canada's early warning system in certain circumstances, the Canadian Securities Administrators (CSA) has confirmed.

The CSA, an umbrella organisation of Canada's provincial and territorial securities regulators, issued its final changes to the country's early warning system for securities reporting on 25 February. They will go into effect on 9 May.

Under the early warning system, the acquisition of 10 percent or more of a company's shares has to be announced through a press release and then reported to the relevant regulator within two business days.

The CSA had been considering reducing that to 5 percent, bringing Canada in line with the US, but that proposal was dropped in favour of disclosures after a 2 percent decrease in ownership or when falling below the 10 percent threshold.

For securities lending transactions, lenders will be exempt from the early warning trigger for securities lent or transferred pursuant to a “specified securities lending arrangement”, according to law firm Stikeman Elliott.

The arrangement must include an unrestricted ability to recall the securities before a meeting of shareholders or a requirement that the borrower votes as instructed by the lender.

Going beyond the original proposal, the CSA has also introduced a new exemption from the reporting trigger for borrowers in connection with certain short sales, according to Stikeman Elliott.

The law firm explained in a client note: “This exemption can be relied upon where, in connection with a securities lending arrangement, the borrowed securities are disposed of by the borrower within three business days, the borrower will later acquire those or identical securities and transfer or return them to the lender and that the borrower does not intend to, and does not, vote the securities during the relevant period.”

“Notwithstanding these exemptions from the reporting trigger, securities lending arrangements in effect at the time of a reportable transaction will be required to be disclosed in an early warning report even if the transaction triggering the report did not involve such arrangement.”

UK supermarkets see shorting surge

The food and retail sector is the most shorted in Europe, with UK supermarkets bearing the brunt, according to Markit.

Most European sectors have seen an increase in short interest over the last year, the one exception being the technology hardware and equipment sector, which has seen a 17 percent dip, year-to-date, and now has 4.2 percent of shares out on loan.

The sector that has seen the biggest jump, year-to-date, is automobiles and components, which has seen a 29 percent increase in short interest, reaching shares out on loan of 2.9 percent.

The most-shorted sector is food and staples retailing. It has a total of 7.7 percent of shares currently out on loan, representing a 19 percent increase, year-to-date.

According to Markit, this has been particularly evident among UK retailers, with conditions of deflation and competition negatively affecting earnings.

Sainsbury’s saw a spike in short selling activity in January, when it announced plans to acquire Argos. According to Markit, this reflects scepticism about the deal, proven valid by news that South African firm Steinhoff had offered a higher cash offer for Argos.

Short interest in Sainsbury’s increased by 27 percent, year-to-date, with shares outstanding on loan currently standing at 21.6 percent.

Online supermarket Ocado saw a dip in share prices in 2015 after rumours surfaced of Amazon entering the UK marketplace. While talks of a partnership led to an uptick

in early 2016, Amazon actually partnered with Morissons shortly afterwards.

As a result, Ocado has seen a 12 percent dip in share price, year-to-date, and a 70 percent increase in short interest.

Morrisons, on the other hand, has only seen a 2 percent dip in short interest, with 20 percent of shares out on loan, despite sellers suffering losses estimated to be around $200 million.

Liquidity Alliance launches new platform

The Liquidity Alliance has rolled out a new browser-based customer platform.

The new platform aims to deliver greater transparency and improved management tools for collateral transactions.

The Liquidity Alliance claims that customers will get a clear, comprehensive overview of all of their collateral management positions and activities.

“Collateral receivers are now able to view all their collateral profiles throughout the entire lifecycle of a trade, while collateral givers will have a consolidated overview of eligibility criteria and concentration limits for all baskets for active contracts across all counterparties,” stated a Liquidity Alliance brief on the launch.

“The Liquidity Alliance members can now offer their customers greater flexibility thanks to rule-based collateral baskets instead of having to rely on more static templates.”

Anthony van Eden of Strate, a Liquidity Alliance member, said: “This upgrade to the front-end solution for our collateral management services enables us to offer customers new services such as eligibility viewing and repo simulations.”

“The Liquidity Alliance has helped us to quickly implement state-of-the art collateral solutions for the South African market.”

Philippe Seyll, co-CEO of Clearstream Banking and head of global securities financing, said: “These new functionalities further boost the leading collateral management solution used by the Liquidity Alliance.”

“Its unique flexibility makes it suitable for all markets as it can be adapted to local volumes and regulatory requirements.”

OCC sees 54 percent rise in new loans

Options Clearing Corporation’s (OCC) securities lending central counterparty registered 150,326 transactions last month, up 54 percent in new loans from February 2015.

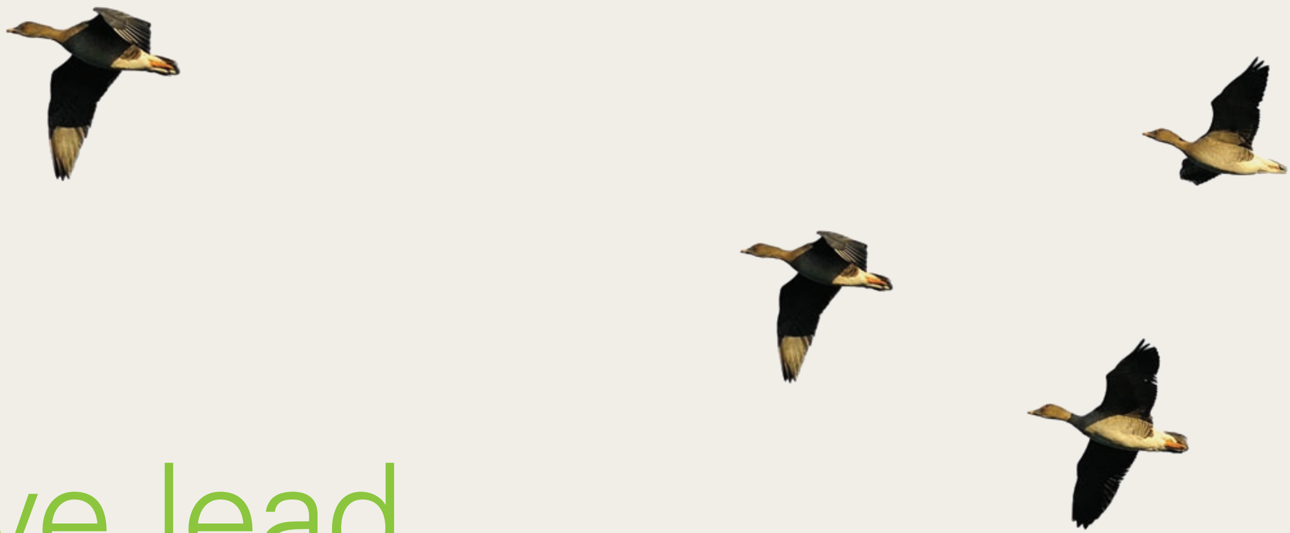
Year-to-date stock loan activity is up 41 percent from 2015 with 287,098 new loan transactions so far in 2016.

The average daily loan value cleared by OCC in February was approximately $145.75 million.

Elsewhere at OCC, overall exchange-listed options volume was up 10 percent in February from the same month in 2015.

OCC’s cleared futures volume achieved a 59 percent increase on February 2015.

Overall total cleared contract volume last month was up 10 percent from the year before.



we lead the way

OCC guides its customers safely and securely through a dynamic marketplace with the industry's most innovative risk management, clearing and settlement services. We're always on course.

OCC is the world's largest equity derivatives clearinghouse and a leading innovator in risk management solutions. As a Systemically Important Financial Market Utility, OCC provides 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.

OCC

The Foundation for Secure Markets www.theocc.com

Markit and CloudMargin partner up

Markit's Portfolio Valuations services will be made available through CloudMargin's cloud-based collateral management system, the companies have confirmed.

CloudMargin and Markit pointed to the introduction of initial and variation margin requirements, set for September 2016, as a reason for the service integration, which will help to overcome resulting inconsistencies in valuations and ensure connectivity and workflow across systems.

Nosheen Amir-Ebrahimi, managing director of Markit's Portfolio Valuations, said: "The integration of our valuations service into CloudMargin's platform provides a seamless valuations and collateral management solution, bringing operational efficiency, transparency and accuracy to our customers."

Steven Husk, executive chairman of the CloudMargin board, added: "In a rapidly changing regulatory landscape, the combination of CloudMargin's solution and Markit's portfolio services places us in a unique position to support our clients' end-to-end collateral management requirements and deliver real competitive advantage across all cleared and uncleared transactions."

Illuminate Financial Management, a financial technology venture capital firm, became a CloudMargin investor in February 2015, paving the way for the partnership with Markit, which became a strategic investor in the Illuminate Fintech Opportunities Fund later in the year.

"The partnership is a valuable collaboration between two important solutions in the valuation and collateral management spaces," said Mark Beeston, founder and managing partner of Illuminate Financial Management.

"It also demonstrates the strength of the Illuminate model in connecting portfolio companies like CloudMargin to industry leaders like Markit to benefit the industry."

Eurex Repo records frosty February

Eurex Repo, a subsidiary of Deutsche Börse Group, saw a decrease in its average outstanding volume across all markets.

Average outstanding for February 2016 reached €139.8 billion, significantly lower than February 2015's average of €213.1 billion. This drop was attributed mainly to the quantitative easing policy of the European Central Bank.

The secured money market GC Pooling recorded an average outstanding volume of €109.7 billion, down from €177.1 billion in the same month last year.

The Euro Repo market was also down on last year, reaching an average outstanding volume of €30.1 billion, compared to €36 billion in February 2015.

AIA Group appoints BNP Paribas for OTC

BNP Paribas Securities Services has been selected to provide OTC derivatives operations to Asian life insurance company AIA Group.

BNP Paribas will provide trade management, collateral management and trade repository reporting for AIA in Hong Kong and Singapore.

Kong Siew Cheong, AIA's regional director of investment management for operations, said: "We have been impressed with the expertise and regulatory knowledge demonstrated by BNP Paribas Securities Services in implementing the OTC derivatives service solution for us."

"Each of our locations has its unique operational and regulatory challenges and the team is able to partner with us to find flexible and effective solutions," Cheong added.

"The quality of the support we receive through BNP Paribas' global operating

model is excellent, and the commitment and professionalism of the project team is highly commendable."

Philippe Benoit, head of Asia Pacific at BNP Paribas Securities Services, said: "AIA is a leading insurer across Asia Pacific and we are delighted to be supporting such a high-quality and forward-thinking business. We look forward to continuing the on-boarding process and partnering with them further in other service areas."

OneChicago makes strong start to 2016

Securities finance exchange OneChicago has seen its February volume of 790,085 contracts dip 6 percent year-over-year, although year-to-date volume is up 19 percent.

Open interest stood at 619,759 contracts in February, an increase of 7 percent over the same month in 2015.

More than half, 56 percent, of February open interest was in OCX.NoDivRisk equity finance products, according to OneChicago.

Pirum automates loan release process

Pirum has completed work on its new Loan Release functionality, allowing lending clients to fully automate the release process for their new loan instructions.

Pre-collateralisation of new loans, usually required the day before or on the day the loan is due to settle, is "manual and time-consuming", according to Pirum, leading to long delays between collateral being received and loans being released, and a risk of loans being released in error.

Pirum's new Loan Release service works in combination with Exposure and RQV to fully automate the release cycle for new loans.

It calculates the collateral required, once a loan is booked, and automatically compares this with the collateral received, either bilaterally or via triparty accounts, to determine when the loan is collateralised and can be released.

When loans are ready to be released, a message will be sent from Pirum directly to the lender's system, triggering the loan to be released for settlement.

This calculation is performed continuously throughout the day as both new loan data and updated collateral information is received, "significantly reducing any delay between collateral being received and loans being marked as collateralised and released".

Pirum's new Loan Release service also reacts to fully customisable criteria to automatically prioritise loan release, and includes manual override.

Participants falls but value grows for BM&F Bovespa

Brazil's central counterparty (CCP) BM&F Bovespa's securities lending participants is at its lowest level since 2002, according to the CCP's monthly report.

The number of securities lending participants grew from 21 in 1996 to peak at 100 in 2007 and then dropped to its current level of 72 in 2016.

Despite this apparent drop-off in interest, securities lending volume has actually enjoyed a modest year-to-year boost of 0.58 percent for February.

The monthly value of securities lending was valued at BRL 45.46 billion ($12.45 billion) for February.

Registered contracts grew by 10.17 percent, compared to 2015, to number 121,623 contracts for the month.

Mutual funds and foreign investors made up the lion's share of the borrowers and lenders for February, with 39 percent and 36.9 percent respectively of lent securities coming from these demographics.

On the buy-side, 42.45 percent of borrowers were by mutual funds and 52.4 percent by foreign investors.

Brazilian bank Itaú Unibanco was the most valuable security to be shorted in February, with total transactions valued at $1.3 billion.

Just behind Itaú was Brazilian brewing company AmBev and Banco Bradesco, who earned traders $915.7 million and $619.4 million respectively.

Polish zloty IRS compressed by 40%

TriOptima has seen 18 SwapClear members compress 40 percent of outstanding notional and 49 percent of outstanding trades in Polish zloty (PLN) interest rate swaps and forward rate agreements (FRA).

The local and international participants eliminated PLN 2.6 trillion ($654 billion) in the risk-constrained, multilateral triReduce cycle for unlinked transactions.

Cameron Goh, head of clearing solutions, SwapClear and listed rates at LCH.Clearnet, commented: "This is the largest PLN triReduce compression cycle that SwapClear has run to date. Capital requirements for banks continue to be a major incentive for firms to compress their swaps books and drive down notional outstanding."

"As a result, our members and their clients have a healthy appetite for the capital and operational efficiencies that can be achieved through compression and we expect demand for these services to continue to grow."

Peter Weibel, CEO of triReduce, said: "This is a great example of how triReduce's risk-constrained compression achieves high efficiency when trading books are concentrated. The triReduce process is trusted, scalable and efficient which contributes to the success of new and ongoing compression cycles."

Clearstream sees GSF fall in Feb

Clearstream's global securities financing (GSF) services fell by 15 percent year-to-year for February.

The monthly average outstanding reached €532.7 billion in February, compared to €629.5 billion achieved at the same time last year.

The year-to-date average outstanding for the combined services, which include securities lending, triparty repo and collateral management, also fell by 15 percent, worth €616 million, to sit at €526.3 billion.

CO:RE a hit for SIX

SIX Securities Services has gone live with its new repo trading facility, CO:RE.

The new trading platform replaces the current legacy system and provides single-point access for more than 160 Swiss domestic and international clients, including banks, insurance companies and the Swiss National Bank, to the multi-currency Swiss repo market.

CO:RE brings together trading and collateral management capabilities in an integrated securities finance offering that supports collateralisation right up to the central securities depository and custodian levels.

It also provides monitoring of collateral in real time, while a forecast over a projection period of five days supports traders in proactively managing their collateral.

Thomas Zeeb, division CEO at SIX Securities Services, commented: "We are delighted by the successful launch of this platform for the Swiss financial market. We are also excited by the potential that this platform offers our clients—including the SNB—to support and manage liquidity and regulatory requirements for Switzerland."

"This is in complete alignment with our strategy to safeguard and grow the attractiveness of Switzerland as a competitive market for financial investment."

ABN AMRO joins EuroCCP for UK equity clearing

ABN AMRO Clearing Bank is set to consolidate its UK equity clearing with EuroCCP, as of 10 February.

EuroCCP is the largest cash equities central counterparty (CCP) in Europe and ABN AMRO Clearing aims to reduce operational risk by directing all trades in UK stock to EuroCCP, in order to to maximise cross-platform netting.

All cleared trades in the same UK stock with the same settlement date executed on any platform, including LSE, will be netted into one single settlement obligation.

EuroCCP has been providing CCP services to Stock Exchange's SETS and SETSqx order books since October 2015 on an interoperable basis with LCH.Clearnet Ltd. and SIX x-clear.

James Egan, chief commercial officer of ABN AMRO Clearing in Europe, said: "Over the last 10 years ABN AMRO Clearing has supported innovative market initiatives that have brought more competition and resulted in extended functionality for all market participants."

Diana Chan, CEO of EuroCCP, added: "Thanks to market demand, as much as 65 percent of European equity trades can now be cleared with a choice of CCPs, ahead of MiFID II mandating trading platforms to give CCPs access to their trade feeds."

Do you have a story we should be covering? Let us know via: editor@securitieslendingtimes.com

A spot of confidence

An abundance of optimism for the future of Asian securities lending markets was exuded at the annual PASLA/RMA Conference in Singapore

Delegates at this year's PASLA/RMA Conference on Asian Securities Lending heard how overzealous and fragmented regulation has bred discontent and industry pushback in Europe, while Asia is enjoying overriding confidence in its steady growth.

Representatives from all aspects of the securities finance industry from around the world gathered in Singapore to review the progress of Asian securities lending markets in a global context.

Panellists and audience members alike voiced bullish sentiments that Asia's potential was only just being realised as Asian early bloomers, like South Korea, begin to come of age, while the sleeping giants of China and India finally begin to show signs of life.

A lot of the positive change that had occurred in the past few years was attributed to the work of organisations such as PASLA and its global partners, which were highlighted repeatedly as a genuine driving force for reform and progress in the region.

South Korea was considered the most promising securities lending market, while China "will have a huge impact on the global securities borrowing and lending market", if it ever opens, according to one PASLA panellist.

The South Korean two-tier system, which offers central counterparty (CCP) and bilateral trading, was given unanimous praise by the panel made up of both buy- and sell-side representatives.

South Korea was described by industry experts based in Asia as a liquid and accessible market that is rapidly gaining offshore attention and investment.

Just over half of PASLA delegates voted to hear primarily about either South Korea or China out of the six Asian securities lending markets. When asked to define how important China could potentially be for the global securities borrowing and lending industry, one panellist claimed: "It will be the most significant market of our careers."

The Hong Kong-Shenzhen Stock Connect was highlighted as a potential driver that could kick-start the securities lending industry in China, although the latest unofficial launch date is Q3 2017.

Panellists also voiced hopes that agent lenders, which are currently excluded from the Shanghai-Hong Kong Stock Connect, will soon be allowed to participate on both platforms and boost liquidity in the process.

One panellist and Stock Connect participant summarised, saying: "We still see challenges [in the Stock Connect] but we are closer than we were."

India was the next market that most captured the imaginations of delegates.

As the only Asian market with a mandatory CCP model, India presents a certain number of unique challenges, which several market participants are currently grappling with.

The Securities and Exchange Board of India (SEBI) has recently taken on industry concerns around the lack of offshore securities lending activity and general lack of liquidity.

"It's very reassuring to see that they [SEBI] understand there is a problem with the product in their market," said a panellist.

Representatives from a wide variety of established institutional investment banks to newcomers to the Asian markets all claimed to be making moves towards entering the Indian securities lending market, and named it as the most appealing frontier market in the region.

On the regulatory front, audience members heard how Asia had lagged behind in its overall economic development because of a lack of a unified governing body like in the EU.

The patchwork quilt of Asian regulations was cited by one panellist as one of the key issues that the region needs to address in the coming years.

Another panellist also argued that the way Asia has grown as a region, by relying heavily on international funding, has created an environment when small Asian firms are not being given a seat at the table by the big institutional banks.

Although some relationships have been formed between offshore and onshore entities, the panellist suggested that this was only being done for regulatory compliance reasons, and not due to the smaller player being genuinely valued in the partnership.

A further concern was raised that as EU equivalency regulations began to form in Asian markets, these smaller participants would be priced out the market under the weight of implementation costs.

Despite these obstacles, the sense of optimism throughout the conference still shone through.

In contrast to the blossoming Asian industry being presented to attendees of the conference, the European market was painted as troublesome and stuttering.

Panellists were split between acknowledging that, following the 2008 crash, things had to change and complaining that the process was being managed poorly and unfairly penalised the securities finance industry.

'Shadow banking' has finally come onto EU regulators radars and bodies such as the G20's Financial Stability Board (FSB) are now dedicating themselves to shedding more light on this growing sector.

Paul Landless, partner at Clifford Chance, described how national regulators are beginning to introduce rules to tackle shadow banking, but their priorities and timing differ. "Not everyone can agree on what shadow banking is," he explained.

The FSB has chosen to focus on financial stability risks. "The key issue is whether regulators differ and expand on the FSB's aims and policy approaches and if the debate becomes politically charged," added Landless.

The EU, meanwhile, has opted for a blanket approach to its reporting requirements and will request information from all financial entities. "The Europeans are speeding ahead [of other regions]. They have a much better idea of who needs to be reporting what."

The EU's Securities Financing Transactions Regulation (SFTR), which came into effect in February, requires the reporting for all transactions, excluding those concluded with central banks, to trade repositories.

Reporting requirements will be implemented at a regional level between 12 to 21 months after the SFTR came into force.

As EU regulators continue full steam ahead with the latest batch of requirements, industry confidence in the Basel Committee on Banking Supervision's recommended regulatory framework is being tested by several member states and senior financial figures.

The governments of Denmark and Japan, along with the chair of the European Banking Authority, Andrea Enria, have all voiced concerns that the sheer volume and scope of financial regulation set to come into effect might not be in the best interests of markets.

Panel moderator Greg Lyons, partner at Debevoise & Plimpton, said: "Until now, no one has gone to look back at how all of these regulations fit together, or asked if they actually do more than they should be doing."

According to Lyons, a state that amends or disregards minor aspects of the Basel framework may not have significant repercussions in its treatment by more compliant markets.

But to fall substantially out of step with the wider consensus could pose serious problems for continuity in the wider market and invite extra burdens on businesses working within states with different frameworks.

"They [sovereign states] have a lot of scope to change [the Basel framework], but a lack of equality between states could be a problem," added Lyons.

Lyons explained that in contrast to some EU and Asian states, the US was imposing regulation that in many cases went above and beyond those suggested by the Basel Committee on Banking Supervision.

The emerging trend of increasing divergence of the opinion on regulations, such as Basel III and the Financial Transaction Tax, could spell trouble for Europe, whose economy has so far benefitted from greater compatibility and cohesion across the region.

Looking forward at the major events scheduled for this year, the panel agreed that, in the current political climate, the UK referendum on EU membership, set for 23 June, could lead to an open revolt against what are seen as overbearing and unnecessary financial constraints.

Asia may have successfully dethroned Latin America as the most engaging emerging region, but its substantial dependence on EU and US investors, at a time when these countries are beginning to look inwards, means the confidence enjoyed by the conference's attendees may be soon put to the test. **SLT**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& COLLATERAL MANAGEMENT
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BNY MELLON
0900 – 0915
Welcoming Remarks
Kirtes Bharti, Scotiabank
Jason P. Strofs, BlackRock
0915 – 1015

DATALEND | ASIA PACIFIC

ALL FIGURES ARE AVERAGES FROM FEBRUARY 2015 TO FEBRUARY 2016

INVENTORY	ON LOAN	AVERAGE FEE
$1.34 TRILLION USD	$147.54 BILLION USD	97 BPS

MOST PROFITABLE SECURITIES

- HANERGY TFP
- CELLTRION
- EVERGRANDE
- DAUM KAKAO
- HUISHAN DAIRY
- FORTESCUE METALS
- SHARP
- SANRIO
- MIXI
- CRRC H

TOP MARKETS	INVENTORY (USD BILLION)	ON LOAN (USD BILLION)	FEE (BPS)
JAPAN	$612	$70	47
HONG KONG	$287	$28	179
AUSTRALIA	$236	$27	36
KOREA	$93	$10	298
TAIWAN	$46	$9	169
SINGAPORE	$42	$4	106

AVERAGE FEE BY SECTOR

HEALTHCARE	260 BPS
INFORMATION TECHNOLOGY	186 BPS
ENERGY	130 BPS
MATERIALS	108 BPS
INDUSTRIALS	99 BPS
TELECOMMS	96 BPS
CONSUMER STAPLES	94 BPS
CONSUMER DISCRETIONARY	89 BPS
FINANCIALS	78 BPS
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It's better to have and not need

OCC remains innovative in the face of external pressures, says John Fennell

What was the aim of the CalPERs partnership?

We developed the committed liquidity facility with US pension fund CalPERS to increase our overall resources from $2 billion to $3 billion, while diversifying our pool of committed lenders to be less bank-focused. The partnership made Options Clearing Corporation (OCC) the first central counterparty (CCP) to establish a committed liquidity facility with a non-bank, all for the purpose of mitigating concentration risk. We already have a lot of bank risk and the way regulations are evolving and being implemented has put a lot of pressure on the costs of these kinds of facilities and more importantly the long term supply.

Also precipitating this change where the changes under Basel III related to the liquidity coverage ratio are making these facilities costlier for banks. We saw that as a potential problem in the future, so we moved to expand our pool of committed lenders and diversify beyond banks.

How has the partnership gone since its inception?

We used a potential disruption as an opportunity to collaborate with CalPERS and develop a really innovative solution by entering into the committed liquidity facility with us. It's worked well so far, with several tests proving that, operationally, it's running excellently.

Subsequently, we were able to also diversify the maturities of our current committed liquidity facilities and by working with CalPERS spread our lines out so we had portions maturing at different times throughout the year. That's a new innovation for us.

Why were the facilities due to expire at the same time?

Our committed credit facilities were comprised of one syndicated line, usually lasting for 365 days, so when that line matures there is a risk that one or more of the banks in the syndicate do not want to renew due to market conditions or other business related issues. Trying to ladder out a syndicated credit facility when there are 10 to 20 banks involved becomes complicated and if market conditions change, it can put a lot of pressure on the renewal day if banks don't subscribe.

The advantage of the CalPERS facility is that we're dealing with one counterparty, so it's a lot easier to move the battleship. Working with them we were able to reduce a portion in one term and then increase it in a different term spreading out the maturity of our liquidity which was much easier logistically.

How do you see your pool of facilities increasing in the future?

When we set up the CalPERS facility, it was all about forward thinking. This would lay the foundations, so in the future we will be able to set up other facilities with other pension funds. That forward thinking has worked out, because other pension funds have seen the trade and expressed an interest, and so we're talking to them.

At the same time, we're evaluating our overall resources and, whether it's through our stress tests or some other means, we're also looking at how much liquidity we need. We always look at whether these pension funds provide a good supply for us, while trying to strike a balance between wanting some exposure to the banks and alternative sources. It's about finding the right mix. We have worked on mitigating our counterparty risk, through moving to more non-banks. Then came the concentration risk, which we have diversified by spreading out the line so it matures at different times. Next, we'll work on bank-sponsored versus pension fund-sponsored and try to optimise the mix.

How do pension funds view this?

For the banks, these committed liquidity facilities take up their balance sheet, whereas pension funds look at them as a reinvestment opportunity for their stock lending collateral. After the financial crisis, pension funds were more cautious about their reinvestment cash and what the counterparty risk was on the cash reinvestment side. I think they look at CCPs such as OCC and see high-quality, high creditworthy counterparties to trade against. Pension funds are getting a good return for the risk trade-off and it's hard to find other assets on that risk spectrum to invest in.

> ***We are pushing hard for the US regulators to adopt an alternative method to the standardised approach for measuring counterparty credit more quickly***
>
> **John Fennell**, Executive vice president, financial risk management, OCC

This is particularly true with the advent of money market reform in the US. We're seeing a lot of mutual funds having to buy up short-term US treasury securities as a result. Even from our perspective, we're always looking to protect our cash through reverse repo transactions and we're finding it very difficult to secure enough good quality collateral. I think you see that on the pension fund side and CCPs just give another good option for collateral.

What's in store for the rest of the year?

Money market reform is another event we're focused on. In terms of protecting our cash investments, it's a regulatory event that we really need to plan around. I think money market reform is going to make it more difficult, for ourselves and our clearing members, to secure US treasuries as collateral, because they are going to be so in demand. Treasuries are our second most popular type of collateral, so if we see that moving away, especially in the low interest rate environment, you can see cash increasing in importance as a collateral type.

We're also focused on various other bank regulations, such as risk-weighted assets calculations, that make banks engaging in capital markets significantly more capital intensive. The current exposure method calculation is causing stress because banks are having to cover what we would call punitive capital requirements. We are pushing hard for the US regulators to adopt an alternative method to the standardised approach for measuring counterparty credit (SA-CCR) more quickly. From our perspective, the current exposure method calculation is punitive, especially for options, because it uses a notional value as a proxy for risk. There's no delta-adjusted component, whereas SA-CCR incorporates this, which brings those capital charges to a more reasonable risk-based level. **SLT**

European rally hits shorts hard

The recent rally in European equities has cut short sellers' winning bets down to size, but on average they continue to hold onto positions with marginal covering. Markit analyst Relte Schutte reports

After declining some 24 percent in the past year and reaching a 52-week low on 11 February 2016, the Stoxx 600 Index has subsequently rebounded higher by an impressive 12 percent in the past month. Year-to-date, however, the Stoxx 600 is still down over 6 percent and, despite the recent rally hurting short sellers, average short interest in Stoxx 600 constituents remains at its highest levels for over two years.

The top 60 most shorted names across the Stoxx 600 have in fact outperformed the overall index for eight consecutive weeks (as measured by the iShares Stoxx 600 exchange-traded funds). The main concern for short sellers is that the outperformance posted by the most shorted stocks in the past four weeks has been net positive and, worse still, seems to be gaining momentum.

Despite the recent rally, short sellers have been hesitant to cover positions. Average short interest across the 60 most shorted names has only declined marginally from highs, down by 3.2 percent to 11.7 percent of shares outstanding on loan, on average. This compares to the wider index average of 2.7 percent.

The top 10 rising stocks in recent weeks across the top 60 most shorted in the Stoxx 600 reveal that short sellers have not only been hesitant to cover in the face of spiking prices, but in some cases, they have increased positions.

Since 11 February, the most costly absolute to short position would have been in Seadrill. Shares in the firm have risen 202 percent with short sellers only covering 6 percent of positions. With a longer-term perspective, however, shorts have been profitable on Seadrill.

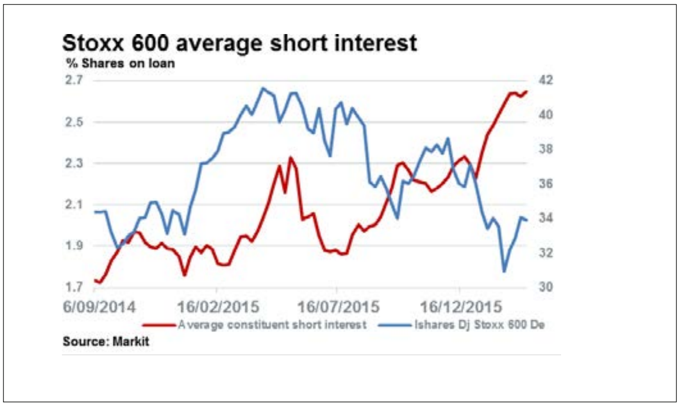
Having consistently reduced short positions by a cumulative 35 percent in the past 12 months, short sellers have taken profits, while the stock has fallen 25 percent over the same time, including the recent two-fold spike.

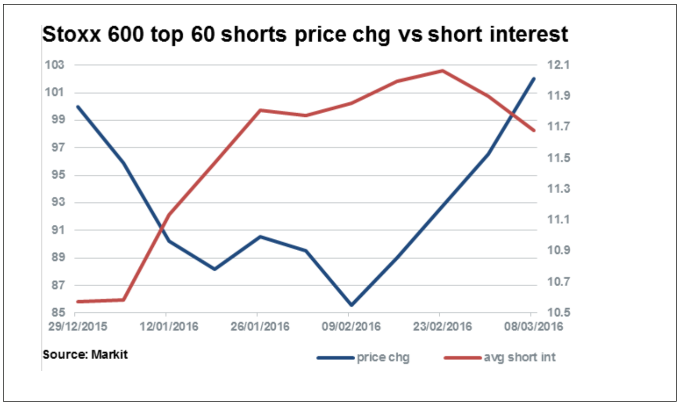
Short sellers covered positions in Anglo American and Glencore as shares have surged significantly by 77 percent and 54 percent respectively, year-to-date. The rise in shares has been supported by a recovery in iron ore prices and outlook in resources, but both stocks are still lower however, by over 50 percent on a 12 month basis.

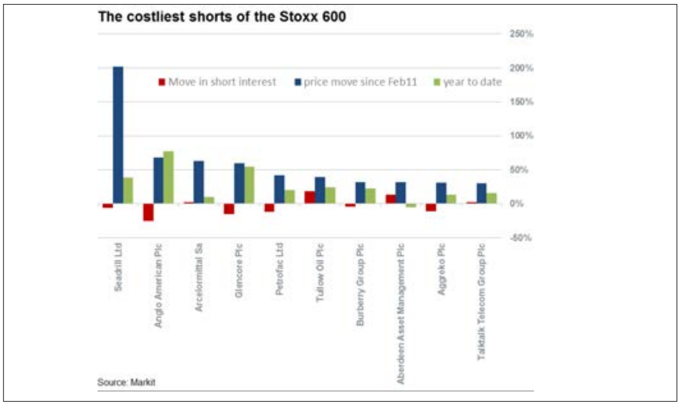
Shares in Tullow Oil also rallied by almost a quarter year-to-date but short sellers have accelerated increases in short positions. Shares outstanding on loan have increased by a fifth year-to-date, with 10.3 percent of shares outstanding on loan currently.

Aberdeen Asset Management has also seen an increased appetite from short sellers in the past month with shares spiking some 14 percent, while short interest has been driven higher to 9.3 percent.

The rally in Tesco shares continues to attract further interest from short sellers. Despite its stock rising some 31 percent year-to-date, shorts have increased positions to reach 6.9 percent of shares outstanding on loan which is the highest level seen in 12 months. **SLT**







A departure at TradeStation, a promotion at CIBC Mellon, and more

Salomon Sredni is set to retire as president and CEO of TradeStation Group, the parent company of TradeStation Securities, effective 31 March. Sredni will also vacate his seat on the TradeStation Group board of directors and retire as COO of Monex Group, the parent company of TradeStation Group.

John Bartleman, president of TradeStation Securities, will succeed Sredni as president of TradeStation Group, and join its board of directors, effective 1 April.

CIBC Mellon has named **Jeffrey Alexander** to the newly-created role of vice president and head of relationship management.

Jeffrey Alexander served as vice president of global securities lending at CIBC Mellon

In addition to leading the bank's relationship management team, Alexander will be responsible for bringing a unified strategy and service experience for relationship management across all industry segments, as well as working to connect clients with advanced BNY Mellon and CIBC solutions.

Alexander previously served as vice president of global securities lending, with primary responsibility for business development and relationship management for the bank's global securities lending programme.

He will report to Rob Ferguson, who retains overall responsibility for CIBC Mellon's global securities lending products and services, relationships with global clients and prospects across the asset servicing spectrum, as well as foreign exchange processing and settlement services, and treasury services.

Lisa Tomada is set to take over as global head of securities lending, following Alexander's promotion.

Schulte Roth & Zabel has appointed **Julian Rainero**, previously of Bracewell, as part of a major expansion of its broker-dealer practice.

Julian Rainero's practice involves all aspects of broker-dealer regulation, with a focus on securities lending

Rainero joins the New York-based law firm, which has previously represented the likes of Citigroup Global Markets and Goldman Sachs, as partner and co-chair of its broker-dealer regulatory and enforcement group.

He advises broker-dealers and alternative trading systems on compliance with Securities and Exchange Commission and Federal Reserve Board rules. His practice involves all aspects of broker-dealer regulation, with a focus on securities lending, prime brokerage, cash equities trading practices, alternative trading systems, net capital, customer asset segregation, correspondent clearing.

Simon Waddington has left RBC Investor & Treasury Services to join State Street. He has joined State Street as managing director and head of business development for Europe, the Middle East and Africa (EMEA) securities finance.

At RBC Investor & Treasury Services, Waddington was director and head of EMEA securities finance trading.

He previously held securities lending trading and product development roles at RBC Investor & Treasury Services, and is based in London.

Conifer Financial Services has hired industry heavyweight Jeff Strauss to join its business development team as managing director, based in New York. Strauss has held several senior roles at various fund administrators. He recently as president of Mitsubishi UFJ Fund Services. **SLT**

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