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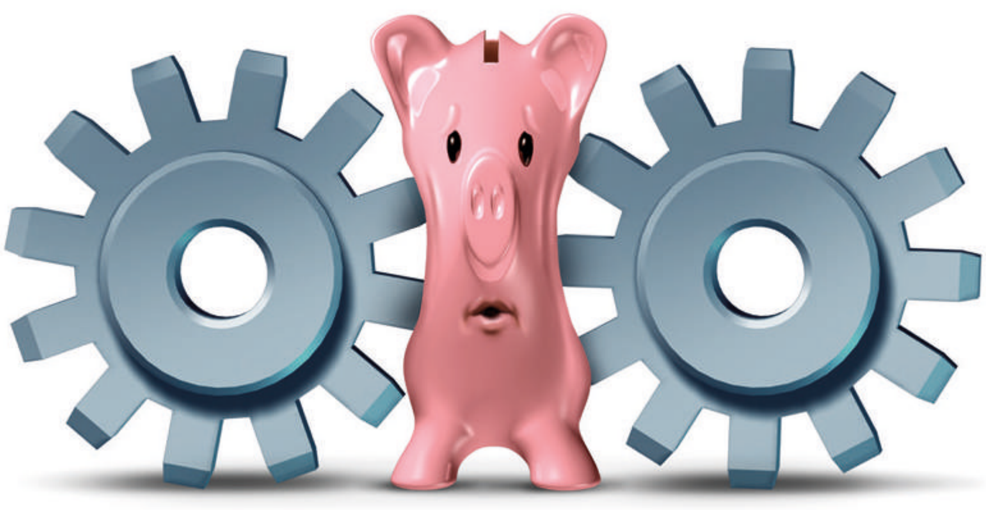

Sovereign wealth funds cash in on collateral squeeze, finds study

Sovereign wealth funds and central banks are emerging as large scale collateral providers, according to a new study by BNY Mellon and the Official Monetary and Financial Institutions Forum (OMFIF).

The study, Crossing the Collateral Rubicon, covered 24 sovereign institutions with more than $2 trillion in assets under management.

Of the 24 participants, 37 percent said they are in advanced stages of considering collateral trades or already implementing them, while 66 percent reported that enquiries from potential counterparties to the trades were increasing.

Quantitative easing programmes have resulted in central banks acquiring significant amounts of government securities, moving them away from traditional suppliers of liquidity such as banks and brokerage companies, according to BNY Mellon and OMFIF.

These securities are among the most sought after for collateral trading. Governments that issue the highest-rated debt have had lower debt issuance in recent years, further constricting the supply, the report said.

"Collateral is becoming the sole determinant of institutions' ability to engage in financial transactions in the cash or derivatives markets," said Hani Kablawi, CEO of BNY Mellon's asset servicing business for Europe, the Middle East and Africa.

"Since the financial crisis, new regulations have placed a premium on counterparties gaining access to high-quality collateral."

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DTCC and Digital Asset plan to develop blockchain for repo

The Depository Trust & Clearing Corporation (DTCC) and Digital Asset Holdings, an encrypted straight-through processing solution provider, are planning to develop a distributed ledger-based solution to manage repo clearing and settlement.

The blockchain initiative will cover US treasury, agency, and agency mortgage-backed repo transactions that are matched and verified through DTCC's Fixed Income Clearing Corporation (FICC).

FICC does not currently settle the start leg of same-day starting trades, meaning the settlement of a same-day repo start leg may occur in real time elsewhere.

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EquiLend goes live on Eurex's Lending Central Counterparty

EquiLend's link to Eurex Clearing's Lending Central Counterparty (CCP) went live on 4 April.

The global platform for trading and post-trade services will use the CCP for loans in equities and exchange-traded funds in Europe, as well as fixed income securities.

According to Eurex Clearing, EquiLend customers that connect directly to Eurex's Lending CCP will benefit from a significant reduction in capital allocation costs.

As the newest CCP user, EquiLend joins the likes of BNY Mellon, State Street, Natixis, Societe Generale and Morgan Stanley.

Commenting on the news, Brian Lamb, CEO of EquiLend, said: "We are pleased that our participants from the buy and sell sides will be utilising our connectivity to Eurex Clearing's Lending CCP as an additional tool in their trading activity."

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Sovereign wealth funds cash in on collateral squeeze, finds study

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"Yet, central bank macroeconomic policies have reduced the supply of collateral," Kablawi explained. "This has produced a great challenge for markets and a large-scale opportunity for official holders of these securities such as sovereign wealth funds."

"We now have a situation in which the lower-rated securities that cannot be used for collateral trading are circulating more freely than the higher-rated securities, which have been taken out of the markets."

"While the mismatch between demand and supply for credit is evident in the US and the UK, it has become particularly acute in continental Europe and has been a major factor behind the sluggish recovery. Sovereign institutions that provide collateral are playing an important part in overcoming these liquidity shortages and limiting market volatility."

In turn, falling oil prices have helped to drive up demand for collateral from energy supplying nations, according to BNY Mellon and OMFIF.

One chief risk officer for a Middle East sovereign fund that took part in the study said: "In the current environment of low oil prices, the liquidity framework becomes more important so investment activity can continue."

"We must make sure the liquidity profile is appropriate, prioritising liquidity over returns. In the future, maintaining the liquidity management framework is the key."

DTCC and Digital Asset plan to develop blockchain for repo

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"With this project, DTCC and Digital Asset seek to reduce risk and capital requirements for the repo market by enabling FICC to become the settlement counterparty for repo transactions in real-time, thereby allowing additional netting and offsets," DTCC explained in a statement.

Mike Bodson, president and CEO of DTCC, said: "Distributed ledger technology has the potential to revolutionise certain post-trade processes that are inefficient and complex, and repos are a great place to start."

"There are absolute opportunities to make clearing in this area much more efficient, and we look forward to working with Digital Asset on this exciting project."

Blythe Masters, CEO of Digital Asset, added: "This collaboration further demonstrates Digital Asset's commitment to enhancing post-trade processes for financial market infrastructure providers and market participants."

"DTCC has an important role to play in the integration of a distributed ledger ecosystem with the existing financial landscape and this joint effort will accelerate innovation while decreasing cost and risk for our clients."

EquiLend goes live on Eurex's Lending Central Counterparty

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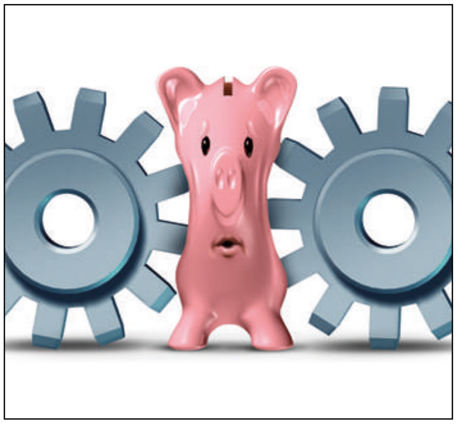
Lamb added: "Driven by the need for further capital and cost efficiencies as well as the overall market environment, the securities finance industry realises more and more the benefits of a CCP model."

Marcel Naas, global head of sales funding and financing for trading and clearing at Eurex, commented: "We are very pleased to work with EquiLend in our effort to further broaden the reach our offering for the securities lending market."

Kenya's repo market gets a kickstart

A first-of-its-kind East African cross-currency repo transaction between Commercial Bank of Africa (CBA) and Standard Bank of



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Southern Africa (SBSA), worth $25 million, was completed in March.

CBA received $25 million in one-year funding from SBSA and provided Kenyan government bonds as collateral.

The deal was facilitated and guaranteed by Dutch clearinghouse Frontclear.

It also includes a guarantee to SBSA to cover any residual credit risk on the transaction.

The transaction was executed under a standard International Swaps & Derivatives Association agreement and assumes transfer of legal ownership of the collateral instruments.

This is a step up from the Kenyan ‘horizontal repo’, which is based on a pledge of a security and does not furnish the same comfort with regard to mitigating credit risk, nor does it ensure the wider benefits of a liquid repo market, said SBSA, CBA and Frontclear.

Reggie Mlangeni, regional head East Africa, client solutions at SBSA, said: “With this transaction, SBSA, CBA and Frontclear worked together as partners to develop Kenya’s domestic financial markets.”

He added: “The market development initiative and focus of Frontclear assisted with lobbying the various regulating bodies in Kenya as a collective.”

“We were able to transact under global industry-standard documentation.”

“We see this type of transaction as key to developing deep and liquid financial markets in Kenya and across Africa as a whole.”

Raphael Agung, head of treasury at CBA, added: “This repo transaction has allowed us to term out our funding by a considerable magnitude thereby infusing the much needed stability to our balance sheet.”

Regulation may force out securities lending players, says ISLA

Growing regulatory pressure could push institutional lenders out of the securities lending market, according to the International Securities Lending Association’s (ISLA) latest market report.

The ISLA Securities Lending Market Report claimed the consequences of a participant drop-off would be a squeeze on market liquidity and institutional investors finding it harder and more expensive to invest in equity markets.

The combined burden of compliance with the EU’s Securities Finance Transaction Regulation, Bank Recovery and Resolution Directive and Central Securities Depository Regulation was cited as likely to be too much for some market participants to bear.

UCITS funds, which were highlighted in the previous ISLA report as being disproportionately targeted by regulation, are also facing further restrictions on their involvement in securities lending.

The report’s focus on regulation continued with the insight that Basel III and the liquidity coverage ratio have created a term market in high-quality liquid assets that didn’t exist two years ago.

Data shows that 25 percent of all government bonds are borrowed for three months or more.

The report also covers appetite for cash versus non-cash collateral, the fall of equities in triparties, and the dominance of mutual and pension funds as a percentage of all beneficial owners’ assets available for lending.

BNY Mellon expands with JGBs

BNY Mellon has introduced a Japanese cross-border solution to enable the use of Japanese government bonds in triparty arrangements.

The launch aims to capitalise on recent regulatory and tax changes and serves to boost liquidity for all forms of Japanese government debt, according to BNY Mellon.

Jim Malgieri, head of collateral management and segregation for BNY Mellon Markets Group, said: “This enhanced support for clients using Japanese government debt in their collateral management programmes showcases the strategy that’s driving the growth of our business.”

Malgieri added: “We’re leveraging collateral-related strengths across BNY Mellon to provide innovative solutions that anticipate and respond to client needs in a changing market environment.”

Tony Smith, head of collateral management product for the Asia Pacific in BNY Mellon’s markets group, added: “With more than $100 billion in outstanding balances in Japanese government securities at the end of 2015, we were already a significant source of support for clients using Japanese government bonds as a form of collateral.”

BNY Mellon’s collateral management team in Tokyo is led by Toru Hanakaw.

Lombard Risk’s updated Colline tackles uncleared margin regulation

A new version of Colline allows Lombard Risk’s client base to meet multiple global regulatory deadlines for uncleared margin rules, the technology firm has revealed.

Through the latest version of Colline, Lombard Risk aims to help its clients affected by the 1 March 2017 and later deadlines to deal with the operational complexities of meeting cross-jurisdiction margin rules.

These challenges include identifying the locations of counterparties, inter-affiliate trade differences and currency regimes.


The greater the challenge, the more important your partner.

The new Colline will allow Lombard Risk clients to automatically deal with credit support annex terms, asset class definitions, ratings, eligibility controls and alerts, workflow processes, and reporting.

Helen Nicol, global product director of Colline at Lombard Risk, explained further: "In such a changing environment the most efficient way for firms to stay up to date is through a technology solution that automatically calculates exposure, performs eligibility checks and provides increased levels of automation."

"We've seen a number of existing clients already sign up for the regulatory licence as well as an influx of enquiries from other interested organisations requesting information on our offering and how it can assist them in meeting the regulations."

OCC endorses DOL options ruling

The Options Clearing Corporation (OCC) is "gratified" that the US Department of Labor's final fiduciary rule did not limit investors' ability to hold listed options in retirement funds.

The Department of Labor is currently consulting on changes that will expand the types of conduct that will cause a person or entity to be considered a "fiduciary" under the Employee Retirement Income Security Act and the prohibited transaction provisions of the Internal Revenue Code.

"OCC and the Securities Markets Coalition are studying the Department of Labor's new fiduciary rule as it relates to the use of listed options," OCC executive chairman Craig Donohue explained.

"We are concerned that the final rule may limit the ability of brokers to provide education regarding listed options to self-directed investors. Investor education is exactly what is needed in order to promote responsible and prudent use of listed options by investors."

Online broker TD Ameritrade has joined the coalition and OCC in filing comments.

Donohue added: "We will continue to study the rule, and if appropriate, continue to fight aggressively on behalf of investors who use listed options in their retirement accounts. We also thank those members of Congress who supported us through this process."

Committee backs BOE repo pledge

The Bank of England's committee on financial policy has endorsed the central bank's decision to offer three additional indexed long-term repo operations while continuing to offer dollar liquidity in the weeks around the UK's 23 June EU referendum vote.

The supervisory committee is tasked with monitoring the UK's macro economic security and headed by the governor of the Bank of England, Mark Carney.

In a brief on its decision to support the Bank of England, the committee acknowledged "the risks around the referendum to be the most significant near-term domestic risks to financial stability".

"Any period of extended uncertainty following the vote could increase risks to financial stability," the committee said, agreeing with Carney's warning in early March that the referendum on the UK's membership of the EU is the country's "biggest domestic risk to financial stability".

The committee noted that the initial market uncertainty brought about by the confirmation of the referendum, which primarily hit sterling and options markets, could be followed by "a further depreciation of sterling and affect the cost and availability of financing for a broad range of UK borrowers" if uncertainty remained beyond 23 June.

The date for the Bank of England's indexed long-term repo operations will be 14, 21 and 28 June.

They will have settlement dates of 16, 23 and 30 June, respectively.

The maturity date for all three operations will be 8 December.

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

SEC's asset management rules must change, argues SIFMA

Important changes must be made to the Securities and Exchange Commission's (SEC) proposed portfolio limits and asset segregation requirements, according to the Securities Industry and Financial Markets Association (SIFMA).

The association outlined in a recent comment letter that it supports the SEC's regulatory goals but stated its opposition to the portfolio limits and suggested changes to the asset segregation rules.

According to SIFMA, the current portfolio limits could "create perverse incentives for portfolio managers to invest in riskier, less liquid instruments".

"[They would] restrict regulated funds from engaging in risk management and portfolio management activity that otherwise may be beneficial for investors," SIFMA argued.

SIFMA's recommended reforms, in the event they are needed, include changes to calculate exposure based on the relative riskiness of the derivative rather than flat notional amount.

There should also be a substitute for the absolute value-at-risk (VaR) test for the proposed relative VaR test when applying the SEC's 300 percent risk-based portfolio limit, and the 150 percent exposure-based limit should rise to 200 percent.

SIFMA's suggested assets segregation revisions include enhancements to ensure asset segregation requirements are workable and effective.

A broader group of portfolio instruments, beyond cash and cash equivalents, should also be allowed to satisfy asset segregation requirements, said SIFMA.

The definition of 'qualifying coverage assets' should be expanded to include high-quality instruments allowed under the margin rules applicable to uncleared swaps, subject to application of haircuts, to promote regulatory consistency and help avoid potential negative impacts to investor returns caused by a 'cash drag', among other benefits.

"We support the SEC's efforts to consolidate and update its guidance regarding the use of derivatives by regulated funds," said SIFMA president and CEO Kenneth Bentsen Jr.

"At the same time, however, derivatives are important investment tools, and it is imperative that any new rules be appropriately balanced to provide sufficient flexibility for regulated funds to use derivatives in order to manage risks effectively and help investors achieve their financial goals."

ECB enhances liquidity by cutting securities lending fees

The European Central Bank (ECB) has slashed its securities lending minimum fee by a quarter in an effort to boost bond and repo market liquidity. Borrowers will now pay the higher fee of either 30 basis points (bps), down from 40 bps, over general collateral, or a fee over general collateral based on market rates.

The fee is the difference between repo and reverse repo rates. The term will be open repo, instead of a one-week fixed-term with rollovers, said the ECB.

In a statement on the change, the ECB said: "While, in principle, transactions have an open term and there is no fixed time limit on extending a borrowing transaction, loans with a duration of more than 30 calendar days will be monitored by the ECB to ensure that the facility is being used for its intended purpose of supporting secondary market liquidity."

The ECB's fail fee will also be significantly reduced from approximately 145 bps to the fee at the time of fail plus 25 bps.

Covered bond purchase programme 1, 2 and 3 holdings, meanwhile, will now be made available via the agent, instead of being lent bilaterally, according to the ECB.

The 4 percent haircut applied to borrower collateral in reverse repo transactions will remain unchanged.

Eurex launches new access model

Eurex Clearing is launching a new buy-side membership type to allow a direct contractual relationship with the clearinghouse, facilitated by a clearing agent, starting Q3.

ISA Direct is initially available for interest rate swaps and repo transactions of Eurex Repo's Select Finance service. Securities lending transactions and listed derivatives will be included at a later date.

ISA Direct alleviates the regulatory requirement to centrally clear over-the-counter (OTC) derivatives by enabling them to become direct members of the central counterparty (CCP). This allows counterparty credit risks, clearing costs and portability of assets to be better managed.

The new model offers buy-side firms the ability to meet regulatory requirements with reduced counterparty risk and strong protection for their assets, according to Eurex Clearing.

For clearing agents, the new service aims to ease the adaptation to the new capital rules, as it frees up equity capital currently required

for client's business, while maintaining existing client relationships.

Jason Vitale, managing director for listed derivatives and markets clearing at Deutsche Bank, said: "The positive impact of Eurex Clearing's new clearing models for OTC derivatives and repo is evident. GC Pooling positively influences our ability to fund business activities of our clients and tackles current liquidity constraints in the repo market."

Matthias Graulich, a member of the Eurex Clearing executive board, added: "This new innovative CCP membership type is a win-win for all involved parties. Besides higher capital efficiencies and the resulting lower costs as well as enhanced segregation and portability, ISA Direct will broaden the membership base of the clearinghouse, thereby lowering the concentration risk among existing clearing members; and subsequently strengthening the robustness and diversity of the CCP."

BCBS internal risk rules are 'wrong'

The Basel Committee on Banking Supervision (BCBS) proposal to restrict banks' usage of internal risk models for determining credit risk is unnecessary and counterintuitive, the Global Financial Markets Association has argued.

In a statement, Kenneth Bentsen, CEO of GFMA, said that the proposed measures would be "unnecessary at best", and that they could represent a divergence from the BCBS's originally stated objective not to increase capital requirements.

The new measures would restrict banks' ability to use their own internal models for calculating credit risk for the purpose of determining regulatory capital requirements.

Bentsen went on to say that this is also at odds with statements from the Financial Stability Board, which suggested there would not be a new wave of capital requirements regulation.

The paper released by BCBS gave the impression that decisions have already been made, Bentsen said, which would "do away with the risk sensitivity of the international regulatory framework for credit risk".

He said: "The outcome of this approach to reduce risk sensitivity is that regulatory designed models would override objective risk assessments and the consequent pricing for end-users."

"This proposal represents a step towards regulatory policy that overestimates economic risk with consequences for growth and financial stability. A fundamental rethink is required in order to support vibrant economies where risk is identified and assumed, without recourse to taxpayers."

The GFMA will now review the proposal with its members and will submit more substantial comments at a later date.

REGIS-TR takes on Swiss reporting

REGIS-TR, the European trade repository owned by Clearstream and Iberclear, has developed a new service for regulatory reporting under the Swiss Financial Market Infrastructure Act (FMIA).

The act draws on the European Market Infrastructures Regulation (EMIR) and regulates derivatives trading in Switzerland. It requires all entities with their registered office in Switzerland and which trade in derivatives, to report to the Swiss supervisory authority for financial markets, FINMA.

REGIS-TR will offer transaction, position and valuation reporting for compliance with FMIA, allowing clients to use the same platform as for compliance with EMIR reporting.

Clients can use the same inbound and outbound connectivity channels for both

regulations, streamline onboarding processes and maintain one relationship, while having access to detailed documentation and a transparent fee schedule.

The new service is still subject to regulatory approval. REGIS-TR has submitted a letter of intent to become a recognised foreign trade repository in Switzerland, and reporting on the platform should begin six months after it receives that approval.

Irene Mermigidis, managing director of REGIS-TR, said: “REGIS-TR already has a number of important Swiss customers for reporting under EMIR.”

She added: “We have experienced significant demand to extend our services to cover FMIA so that these participants can benefit from a number of synergies and be able to re-use the tried and tested infrastructure already in place with us.”

Eurex Repo sees March drop-off

Eurex Repo achieved an average outstanding volume of €147.4 billion in March, representing a fall of €61.4 billion from the previous year.

Eurex, which operates GC Pooling and Euro Repo markets, put the negative results down to to the European Central Bank’s ongoing quantitative easing policy.

The secured money market GC Pooling also fell, compared to the same time last year, with an average outstanding volume of €113.8 billion, down from €169.5 billion.

The Euro Repo market reached an average outstanding volume of €33.6 billion last month, compared to €39.3 billion in March 2015.

OneChicago’s bittersweet March

Securities finance exchange OneChicago boasted a 65 percent increase in year-over-year volume for March.

The Chicago-based exchange recorded 1.4 million transactions last month, up from 870,000 the year before.

OneChicago offers single stock futures (SSFs), a Delta One product, on approximately 1,800 equities, including exchange-traded funds (ETFs) and american depository receipts (ADRs).

Although total volume saw significant growth, ETF and ADR volume actually fell by 42 percent and 62 percent, respectively.

OneChicago’s monthly volume was rescued by its SSF volume, which jumped a massive 182 percent, leading to a net positive figure of 65 percent.

Open interest also increased 6 percent year-over-year to 660,000 contracts on the securities finance exchange, as of 31 March.

OCX.NoDivRisk products captured 59 percent of open interest for March.

OCC’s securities finance new loan volume shoots up

The Options Clearing Corporation (OCC) saw its central counterparty securities lending new loan volume soar by 47 percent in March 2016, well ahead of the same month last year.

Over 455,000 securities lending transactions were recorded for March, with an average daily loan value of $145 billion.

OCC cleared futures also boomed in March, growing 62 percent from the previous year.

The average daily cleared futures volume in Q1 was 343,586 contracts, 53 percent higher than in Q1 2015.

Overall exchange-listed options volume rose by a modest 3 percent during the same period, with 347 million contracts recorded over the month.

Equity options volume reached 309 million contracts, a slight increase of 0.26 percent from March 2015.

This includes cleared exchange-traded funds options, which went up by 11 percent with a volume of 142 million contracts for March.

Index options volume was up 32 percent with 38 million contracts in March.

Landmark Infrastructure expands interest rate swap programme

Landmark Infrastructure Partners has extended the terms of its interest rate swap (IRS) hedging programme.

The revised swaps agreements extend two of the company’s agreements, with a combined notional value of $95 million, by three years to 2021 and beyond.

The average duration of the company’s IRSs will increase by approximately two years while maintaining the all-in effective rate at current levels for hedged borrowings, according to Landmark.

“With the decline in interest rates during the first quarter, we have been extending the period covered by our swap agreements to further reduce our floating interest rate exposure,” said George Doyle, CFO of the firm.

“The execution of these additional IRS agreements serves to further enhance the company’s ability to generate stable cash flows for our unitholders.”

“With these new swap agreements, we have fixed the floating interest rate component (one month LIBOR) on approximately 70 percent of our existing borrowings for an average of six years.”

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

Hold your shortages

Societe Generale's Richard Déroulède discusses the collateral shortage, arguing there is no need to get carried away with the idea of a lack of liquidity

What trends are you observing in the equity finance market in 2016?

We see volume increasing throughout the whole equity market, including physical products such as securities lending and repo transactions, as well as synthetics products, such as total return swaps and futures.

At the same time, we're also seeing a growth in the volume of securities lending transactions collateralised with non-cash. This trend is driven primarily by the fact that lenders are trying to reduce the amount of cash collateral they have on their books, because it's too costly to reinvest it in the current environment.

Banks also want to avoid doing transactions with cash when possible because it impacts on the leverage ratio. Generally speaking, banks will only want excess cash on their books to finance clients, not to build liquidity.

Liquidity can easily be borrowed through collateral exchange transactions, such as borrowing government bonds in exchange for equities. This method is much more efficient than simply borrowing cash, again, due to the leverage ratio.

From Societe Generale's perspective, we have seen growth in both the volume of trades and the average value of those trades.

Another major trend is that transactions are becoming more complex, which is driven by a variety of reason. First, banks must now manage a business that includes several asset classes. In the past there used to be a clear distinction between fixed income, where the repo desk trades fixed income assets versus cash on one side, and on the other the equity finance traders were dealing in equity versus cash.

Today, with all the collateral exchange transactions taking place traders must now understand both markets. This means they need a clear picture of two very different markets and be able to operate in both of them simultaneously.

Complexity is also growing because traders must operated on several different maturity timeframes at once. Only 10 years ago you might only be trading on open transactions but now the needs of our counterparties have evolved and they need more long-term liquidity to hedge. Liquidity exposure now needs to be balanced between open, fixed maturity and evergreen within your book.

We are also seeing growth in the synthetics market thanks to the advantage of getting transactions off balance sheet as long as you can get a counterparty to refinance the position.

How does a bank go about tackling these challenges?

Managing all these complexities in a safe and industrial way for the bank is a major challenge. The first way to start this is with accurate and careful reporting of risks into the different systems of the bank, making sure that with each transaction we understand exactly what the implied risk and the liquidity risk really is. This calculation then needs to feed into a wider conclusion about the overall liquidity risk of the whole portfolio book.

In addition, it's vital to understand and factor in the risk of a shortage in high-quality liquid assets (HQLAs) that are essential to the day-to-day running of the market. This risk must be manage continuously at the bank level and the requires significant back-office investment.

Banks must be ready to invest to be able to know their maximum risk. Typically, you're lending assets and receiving a wide range of collateral in return. Most banking systems will only be able to provide an overview of what a bank is receiving as collateral, but that's not your true risk. To properly assess true exposure a bank must analyse the most liquid asset in its collateral field, which is a totally different story and requires a very different risk analysis tool.

Why is synthetic finance increasing in prominence?

The primary driver behind the growth in synthetics is the leverage ratio. However, the net stable funding ratio (NSFR) is a major threat to the future of synthetics business. When you're synthetically financing a client you're buying assets versus a derivative, the maturity of which is not taken into account, which is a difference between physical trades.

This means that when you're creating a synthetic position you're automatically creating a liquidity cap. Depending on the cash equivalent of the asset, this cap can be particularly costly if you can't refinance. If refinancing isn't possible, the NSFR is a big problem.

To assess the future of synthetics, the market must first wait for the final text of the NSFR to understand any exemptions that may exist.

Another challenge for synthetics is that, in my opinion, you cannot exclusively run a synthetics business when doing equity financing. Physical and synthetic business must be run together, simultaneously, in order to diversify risk across platforms and manage liquidity and capital regulations. There is no magic product that ticks all the boxes, so your book must contain several.

It's also vital to be able to switch from physical to synthetic products, and visa versa, efficiently when managing liquidity. If you're unable to refinance a synthetic position on the same day you must have physical products that can refinance it until you find a suitable counterparty, which could take days or even weeks.

How concerned are you about any HQLA shortage seriously affecting your business?

The idea of a bank not being able to meet its requirements because it cannot find government bonds and cannot transform cash into bonds is certainly a risk but, compared to all the other risks and challenges the industry is facing, a liquidity shortage is a manageable one, for the moment.

For me personally, making sure that I'm able to effectively stress test my books on a daily basis to ensure I have a clear view of my risks is a much more immediate and important challenge to manage.

However, we are already seeing some seasonal periods where there is a collateral shortage. For example, the second quarter of the year is tricky because there is a lot movement among market counterparts and so dealing with collateral velocity can be difficult.

A collateral shortage should not be thought of as a one-off event that could occur any day and take everyone by surprise. It happens occasionally now and all it means is you have to pay a little more for assets, but once you have accepted that, the shortage is subdued.

The situation is manageable now, but will further regulation create more market tension?

There is certainly a big question mark remaining on what the impact of further regulation will be on collateral. There is the European Market Infrastructure Regulation (EMIR), which is definitely increasing the number of assets being posted when trading over-the-counter derivatives. Banks must post collateral that is segregated and each counterpart will also have to contribute to this, so there is clearly a new market need for collateral.

EMIR's aim is to encourage market participants to use central counterparties (CCPs) for more trades. CCPs lower your collateral requirement significantly. Fixed income and repo traders have been doing this a lot in recent years.

Will CCPs be the counterweight to greater collateral demands in the market?

I think so. The question isn't whether there will be enough collateral at all times for all market participants as the number of assets available to borrow is extremely vast. It's almost impossible to predict if the evolution of CCPs on one side and higher collateral needs on the other will continue to balance out as there are further regulations to come and the full impact is always unpredictable.

Historically, the market has been able to adjust quickly to shortages, even if that means prices going up temporarily. There are also new lenders out there but again they come with a higher price. **SLT**

The net stable funding ratio is a major threat to the future of synthetics business

Richard Déroulède, Head of equity finance trading, Europe, Societe Generale

Scandinavians lead European airline shorts

Shielded by declining oil prices, traditional European airlines join Scandinavian carriers being targeted by short sellers while short-haul budget carriers are ignored. Markit analyst Relte Schutte reports

SAS and Norwegian Air Shuttle lead European airline shorts as the benefit of lower oil prices on earnings fades, rewarding short sellers staying the course.

The lowest fuel costs seen in almost two years have provided a bump in airline earnings. Sustained lower oil prices have now seen airlines once again actively hedging their energy exposure.

Established long haul airlines have for some time been squeezed by larger legacy cost bases, less efficient fleets, labour issues and fierce competition (in particular from long-haul Middle East carriers). Combined with the success of short haul budget airlines in past decades, revenue and earnings growth at traditional airlines has remained mostly grounded.

Low-cost budget airlines Easyjet and Ryanair are for now flying below short seller's radars but ambitious low-cost long-haul carrier Norwegian Air has been targeted as of late. The most shorted European airline, however, is Norwegian Air's rival SAS with 13.4 percent of its shares currently sold short.

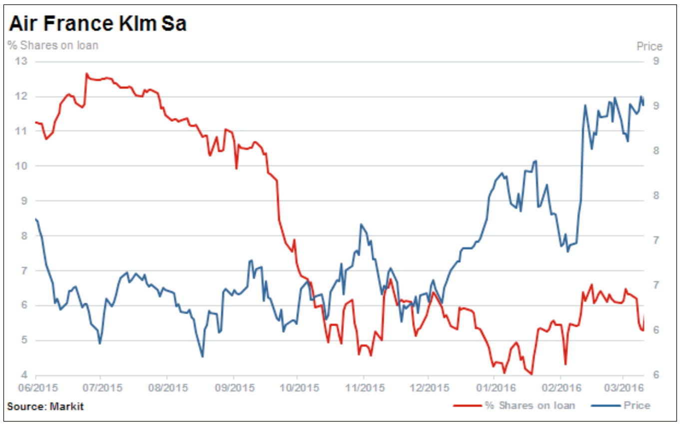
SAS shares have fallen 7 percent so far this year after posting a strong rally in 2015, which saw short sellers double down and increase positions by almost two-fold. SAS recently released earnings for the company's first and "seasonally weakest quarter" for 2016. Figures were improved on a year-on-year basis, however, boosted by lower jet-fuel costs and cost cutting measures.

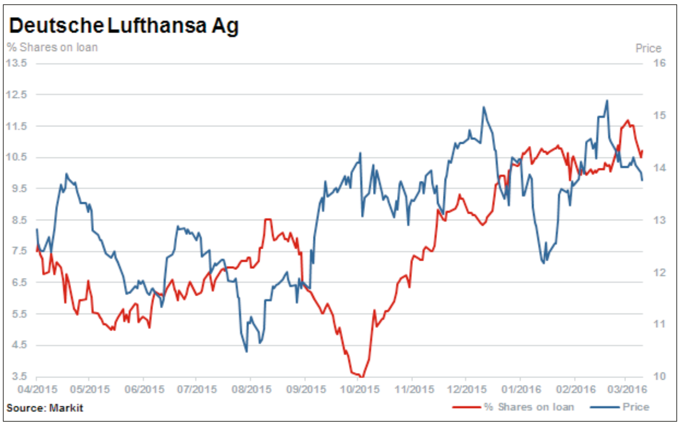
The second most shorted European airline is Norwegian Air with 12.9 percent of its shares outstanding on loan. Short sellers have, however, again covered positions in the stock since the end of January, reducing positions by almost a third as shares rallied 30 percent. The company posted strong overall earnings for 2015, benefiting from market share gains and lower fuel costs.

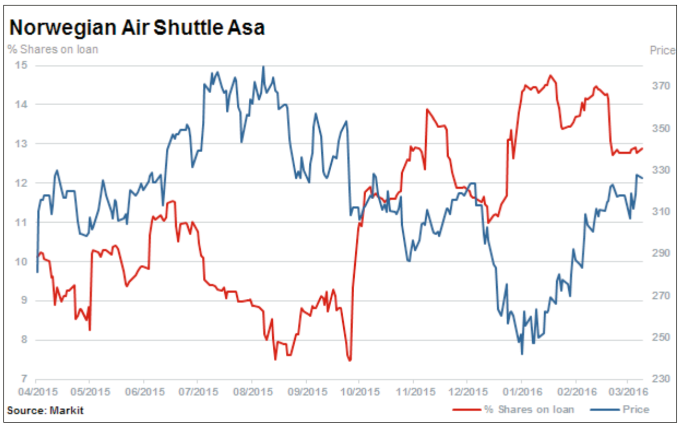
With 10.7 percent of shares out on loan, the third most shorted airline in Europe is Deutsche Lufthansa, whose shares have come under recent pressure after an impressive recovery staged in late 2015. Shares have fallen as the company reported higher-than-expected costs caused by labour issues, including strikes and a cabin modernisation programme.

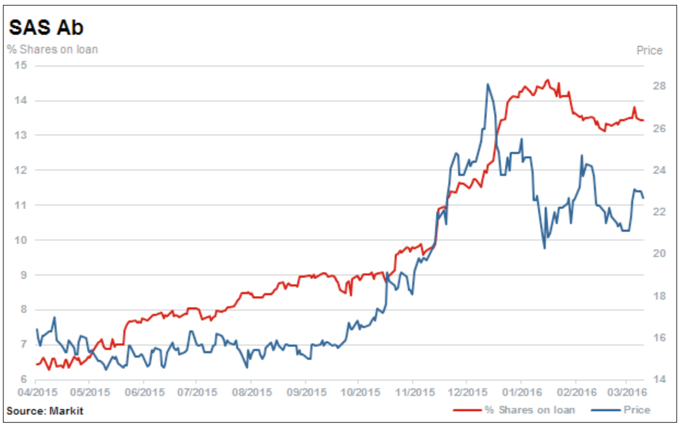
Unable to improve Air France-KLM's competitive outlook, the firm's CEO just stepped down after three years battling trade unions and declining profitability. Shares have tumbled in reaction to the news, but short sellers had already abandoned more than half of their positions in the stock since late 2015.

Short sellers retreated as Air France KLM shares (like Deutsche Lufthansa) benefited from rising earnings with shares rising almost 40 percent since October 2015. These movements were driven by improved earnings, which were predominantly driven by lower fuel costs. **SLT**









Industry **Events**

5th Annual Collateral Management Forum

Date: 02-03 June
Location: Amsterdam
www.glceurope.com

The ongoing flow of regulatory changes created many challenges for financial institutions to ensure that their effectiveness, workflows and optimised operations in the field of collateral management.

The ever changing environment has set many obstacles also in optimising the collateral that is fundamental in order to find a solution to the gap between collateral supply and demand.

Topics that will be covered at the conference include regulatory mandates, digitisation in collateral management and more.

ISLA's Annual Securities Finance and Collateral Management Conference

Date: 21-23 June 2016
Location: Vienna
www.isla.co.uk

Join ISLA in Vienna for the 25th Annual Securities Finance and Collateral Management Conference 2016 to:

- Understand from industry leaders how they are redefining our markets and how supply can more effectively link with demand
- Consider how new products and alternative ways of doing business will define the next five years
- Better appreciate how regulation is changing trading patterns and behaviours and how the industry will deal with future shocks
- Debate with your peers the changing role of collateral and how we do more with less
- Hear how the buy side view the role of securities financing and their service providers evolving to reflect these new norms

For more events visit securitieslendingtimes.com/events/events.php

Industry **Recruitment**

Representative

Recruiter: ISLA
Location: London

An opportunity exists to join the small team at the International Securities Lending Association. The position will report to the ISLA COO.

Corporate Actions Associate

Recruiter: Core-Asset Consulting
Location: Glasgow

Core-Asset Consulting's client, a leading global financial services firm has an exciting opportunity for a Corporate Actions Associate located in Glasgow.

Client Relationship Associate

Recruiter: eSecLending
Location: London

This role will support the firm's European clients, reporting to the senior client relationship manager in London within the client relationship management team.

Tax Operations Associate

Recruiter: Bruin
Location: London

Apply for this fantastic opportunity at a top-tier investment bank if you have strong tax, FATCA and CRS experience from a comparable background

New arrivals at Citi, Northern Trust and OCC

Citi has appointed **Angus Yang** as head of prime finance for Asia Pacific.

Yang will be based in Hong Kong, and will be responsible for prime services, equity finance and agency securities lending across the Asia Pacific region, including Japan and Australia.

He joins from Barclays in Asia, where he was head of prime finance, and has more than 20 years' experience in prime and securities financing markets.

In his new role, Yang will report jointly to David Russell, managing director of Citigroup and Asia region head for securities services, and to Adam Herrmann, managing director and global head of prime finance.

Northern Trust has appointed **Joseph Gillingwater** as head of fixed income securities lending trading for Europe, the Middle East and Africa (EMEA), and the Asia Pacific (APAC).

Gillingwater, who is based in London, is responsible for all aspects of fixed income trading strategy and reports to John Irwin, head of international trading in the EMEA and APAC.

Prior to joining Northern Trust, Gillingwater was a senior portfolio manager at State Street Global Advisors where he was responsible for the management of securities lending investments.

The Options Clearing Corporation (OCC) has appointed **Susan Lester** and **William Yates** to its board of directors.

Lester joins as a public director, replacing Matthew Gelber of Bitterroot Asset Management. Yates joins as a member director, replacing Judith Kula of Wolverine Execution Services. They were elected for three-year terms.

Lester currently advises Pac West Bancorp and Arctic Cat as a member of their respective boards of directors and chair of their audit committees. Previously, she served as executive vice president and CFO for Homeside Lending, a $35 billion production mortgage banking operation and subsidiary of National Australia Bank, from 2001 to 2002.

Yates is currently managing director of finance for TD Ameritrade. In that role, he is responsible for providing regulatory financial support for the firm's back-office securities clearance and settlement functions. **SLT**

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