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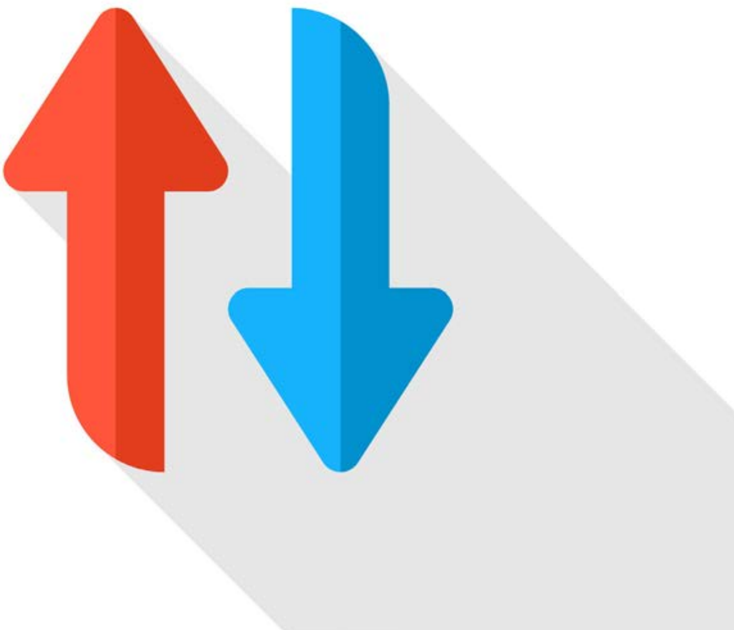

EquiLend serves total return swaps

Trading and post-trade provider EquiLend has launched a new service for total return swaps.

Swaptimization, which is already being used by market participants in the US and Europe, utilises a proprietary matching algorithm to pair natural positions across market participants to facilitate bilateral security-based total return swaps.

EquiLend launched Swaptimization following an increase in synthetic financing volumes and a call for automation from its existing client base, according to swaps product owner James Palmer.

Palmer said in an exclusive interview: "Where firms are focused on attaching the cost of balance sheet to each trade across financing groups, the synthetics business is treated advantageously and is therefore often a cheaper alternative."

Using Swaptimization, each total return swaps participant is able to load a list of long inventory and/or short needs into a matching session that, taking into account credit limits, pairs the securities they have loaded with counterparties on the other side of the trade.

A new graphical user interface then makes it easy to communicate and agree matches before producing a comprehensive term sheet once the trade has been finalised.

Live trades are then reflected on the screens that support the full trade lifecycle, managing unwinds, substitutions, resets and expiries.

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ICAP agrees to postpone ending the federal funds open rate

ICAP has agreed to delay ditching the federal funds open (FFO) rate at the request of associations that were worried their members were not given enough time to adjust to its replacement.

The Risk Management Association (RMA) and Securities Industry and Financial Markets Association (SIFMA) confirmed on 2 June that the FFO rate would not be discontinued until 30 September.

The delay is aimed at avoiding possible market disruption during the change over to its replacement.

Commenting on the delay, Fran Garritt, director of securities lending and market risk at the RMA, said: "Considering the wide use of FFO in various trading strategies including securities lending, margin lending, and swaps, it makes sense for the industry to work towards a non-disruptive implementation timeframe that will allow for all market participants to understand any changes."

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OCC enjoys bumper increase in new loans in May

Securities lending activity at the Options Clearing Corporation (OCC) was up 52 percent in new loans last month.

The central counterparty processed 167,054 new transactions in May, well ahead of the same month in 2015, when it processed 109,626 transactions.

Year-to-date stock loan activity is up 46 percent from 2015 with 787,220 new loan transactions in 2016. The average daily loan value cleared by OCC in May was more than $141.3 billion.

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EquiLend serves total return swaps
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Palmer added: "Our technological solution automates a trade that happens either bilaterally or manually via voice brokers today. By centralising market participants into a single venue, the available pool of liquidity is greater than that available in the broker market."

"The graphical user interface also makes the agreement of the total return swaps more efficient than existing processes—which, with additional plans to leverage existing connectivity to our client base to automate the trade booking and confirmation, adds scalability to this enhanced market access."

ICAP agrees to delay ending federal funds open rate
Continued from page 1

"We believe that this extra time will allow the industry to achieve this goal," Garritt added.

Rob Toomey, associate general counsel at SIFMA, said: "We believe clarity around the industry incorporation of OBFR is important to minimise disruption and meet the expectations of all market participants and we hope the associations' recommendations and further work over the next few months will ensure a smooth changeover."

OCC enjoys bumper increase in new loans in May
Continued from page 1

Elsewhere, exchange-listed options volume reached over 311 million contracts in May, a 2 percent increase from the same month in 2015.

Equity options volume in May reached more than 278.7 million contracts, a 1 percent increase from May 2015. This includes cleared exchange-traded fund options volume of almost 121 million contracts, a 15 percent increase over May 2015's volume of around 105.1 million contracts.

OCC's cleared futures volume in May reached roughly 8.36 million contracts, a massive 86 percent increase from the May 2015 volume of around 4.51 million contracts.

Orange County pension fund seeks securities lending provider

The Orange County Employees Retirement System (OCERS) is assessing bids from global custodians to take over the management of its securities lending programme.

The deadline for custodians to register their interest was 20 May.

As well as securities lending, prospective custodians will be expected to provide a number of services, including accounting, securities settlement, cash management, directed brokerage services, corporate actions, class actions and proxy processing.

The OCERS's request-for-proposals came as part of its contractual requirement to ensure it has the most cost-effective overseer for the custody of its assets by opening itself to re-bids every five years.

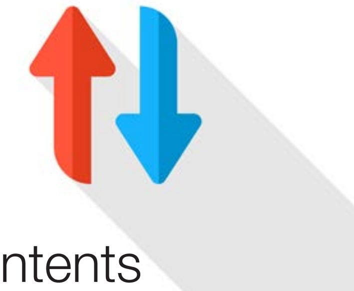
In its request for proposals, OCERS said: "We are not obligated to retain the incumbent nor motivated to change for the sake of change."

State Street, OCERS's current provider of custody services, will be aiming to renew its contract with the US state.

SIX and LCH to clear through Goldman Sachs' SIGMA X MTF

Clearinghouses LCH and SIX x-clear will both be offering clearing services on the Goldman Sachs SIGMA X MTF platform from July.

SIGMA X MTF, a multilateral trading facility, will significantly expand the market coverage of both firms. LCH's EquityClear service will offer clearing across 17 active interoperable European equities trading venues, while SIX



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x-clear, the clearing arm of SIX Securities Services, will offer clearing in cash equities, exchange-traded funds (ETFs) and fixed income securities.

LCH has increased its cleared volumes by 30 percent year-to-year through its EquityClear service, clearing 204 million trades in Q1 2016.

The increase in cleared volumes reflects an increasing trend for clearing members to consolidate their cash equities clearing through a single central counterparty as well as the addition of new venues, according to LCH.

Cécile Nagel, global head of equities and commodities at LCH, said: "This is a real milestone for EquityClear. We're proud to be clearing for SIGMA X MTF and this latest addition builds on the significant extension of market and venue coverage we've achieved in the past 18 months."

"Open access is at the heart of LCH's business model and our equities clearing members can benefit from further cost and operational efficiency as well as improved risk management by consolidating their activity into one central counterparty."

For SIX x-clear's clients trading on the SIGMA X MTF platform, the central counterparty aims to eliminate bilateral risks that occur between trade execution and settlement, according to SIX.

Additionally, x-clear provides its clients with market leading real time risk management capabilities as well as efficient margining and settlement netting functionalities.

Euroclear and Lyxor AM team up to launch liquidity tool for fixed income

Euroclear and Lyxor Asset Management have teamed up for the launch of an asset liquidity monitoring tool for the fixed income market.

e-Data Liquidity was developed in response to the increasing regulatory emphasis on maintaining liquidity and aims to allow participants a way of accurately gauging their asset portfolio's 'intrinsic liquidity' in order to effectively price assets and allocate their funds, according to Euroclear.

In a brief on the launch, Euroclear explained that the product is aimed at the fixed income market because "measuring liquidity can prove particularly challenging for fixed income securities, which mainly operate OTC and offer less transparency by nature than other markets".

Stephan Pouyat, global head of funds and capital markets at Euroclear, said: "The current market climate is prompting investment managers, treasurers, risk managers, insurers, collateral takers, central counterparties and other buy-side institutions to better manage their asset portfolios and strengthen their balance sheets, including liquidity buffers."

"e-Data is a modular tool and the liquidity module provides key indicators founded on our neutral settlement data and presented in its simplest form, relying on the infrastructure stamp of Euroclear. This first module, designed in close collaboration with Lyxor, focuses on supporting the management of fixed income and more specifically high quality liquid assets."

Jean Sayegh, co-head of sovereign bonds investments at Lyxor, added: "Lyxor has always helped its clients understand and adjust to a rapidly changing environment."

"By teaming up with Euroclear we are participating in the current regulatory drive for market transparency and providing fixed income investors with an innovative tool helping them better manage their portfolios. This partnership confirms our expertise as an innovative and growing fixed income asset


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Securities lending can be an important source of return and a key part of overall portfolio and risk management strategies. We offer individualised service, technology and a commitment to transparency to help you achieve your goals.
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manager. By utilising the depth of Euroclear data, Lyxor creates value for its clients".

Short sellers poised to play their Trump card

Short sellers are hoping to come out as the real winners of the US presidential election by positioning themselves to profit from the grand promises made by candidates to raise the federal minimum wage, according to Markit.

All three of the leading US presidential hopefuls, Hillary Clinton and Bernie Sanders for the Democrats and Donald Trump for the the Republican party, individually pledged to raise the current federal minimum wage from $7.25 to at least $12, which has the potential to dramatically affect the profit margins of America's biggest employers.

Short sellers are hoping to leverage this campaign pledge by opening short positions with US stocks that have the worst net-income-per-employee dynamics, causing shorting in those companies to rise to 63 percent higher than the market average, according to Markit.

Markit's study on the new trend shows that average short interest across the worst ranked 10 percent of US equities ranked by the Markit Research Signals net-income-per-employee factor now stands at 7.3 percent of shares outstanding, over two thirds higher than the average seen across the rest of the market.

Since the elections process gathered pace, shares with poor net income to employee profiles have underperformed against the market average by 21 percent in the past nine months.

Markit noted that while share prices in these companies did bounce back somewhat in March and April, these stocks are still nearly 15 percent behind the returns of the 3,000 constituents of the US total cap universe, making them the worst performing group by quite a wide margin.

Boutique prime broker on board with RSRCHXchange

Boutique prime broker Global Prime Partners has mandated RSRCHXchange to give its clients access to institutional research content.

The RSRCHXchange online platform will allow the prime broker's hedge fund, family office and asset manager clients access to material from over 130 research providers, in a way compliant with new rules due to come in with the Markets in Financial Instruments Directive (MiFID) II. Under MiFID II, investment research must be bespoke to each institution, and investment firms must pay for research with their own funds, or through a separate designated account, which is charged to the client. Research fees also have to be separated from execution and trading fees.

The new rules are designed to improve transparency, and to stop research costs being unfairly passed on to clients.

RSRCHXchange is designed to help asset managers purchase research in a more efficient, transparent and auditable way, with straightforward payment methods.

A dashboard also allows asset managers to track their research consumption, helping them to ensure their research practices are MiFID II compliant.

Sean Capstick, head of prime brokerage at Global Prime Partners, said: "As our business has grown, we find ourselves increasingly working with larger and more complex clients."

"They are looking to Global Prime Partners not just for their financing needs, but also for support in their core business of providing alpha to their end clients."

He added: "This partnership enhances our offering to the Fund Manager and helps them

with the core role they perform—generating returns for their investors."

Vicky Sanders, co-founder of RSRCHXchange, said: "By using our RSRCHX platform, asset managers can be confident that their access, procurement and management of research is MiFID II compliant. This partnership expands our ever-growing international client base and we look forward to working with Global Prime Partners and their customers in the future."

Russia's NSD sees sharp repo drop

Russia's National Settlement Depository (NSD) suffered a decline in its monthly repo transactions with the Bank of Russia in May.

NSD's monthly value of repo transactions with the Bank of Russia reached RUB 2.4 trillion ($36 billion), compared to RUB 8.4 trillion ($128.4 billion) at the same point in 2015.

The drop in repo with the Bank of Russia's securities basket was due to a general decline in the amount of credit organisations' debt to the Bank of Russia, in line with the new monetary policy of the regulator.

The value of repo transactions with the Federal Treasury performed using NSD's collateral management system hit RUB 6.7 trillion ($102 billion). The number of transactions reached 497.

The aggregate value of repo transactions with the Federal Treasury and the Bank of Russia stood at RUB 9.1 trillion (USD 139 billion) in Q1 2016.

Collaboration key in cyber security, says SWIFT

SWIFT has unveiled a five-point plan for tackling cyber crime in the financial system and to help protect its customers on a global scale, following the high-profile theft of millions of dollars from the Central Bank of Bangladesh.

Speaking at the European Financial Services Conference in Brussels, SWIFT CEO Gottfried Leibbrandt addressed the threat of cyber attacks in the industry, calling it a "critical issue for the financial system".

In the Bangladesh attack, hackers managed to orchestrate the sending of fraudulent payments to several accounts in the Philippines by infiltrating SWIFT Alliance Access software running on the central bank's own infrastructure using malware.

They attempted to steal $951 million, most of which was blocked before it left the Central Bank of Bangladesh.

Of the $101 million that was successfully transferred, only $20 million has been recovered.

The attackers also skilfully covered their tracks so that the breach was not discovered until after the stolen money had been laundered.

Leibbrandt suggested that the cyber attack on the Central Bank of Bangladesh is likely to become a "watershed" moment for the industry, adding that at least two other attacks have been carried out using the same technique.

He said of the cyber attacks: "SWIFT, our network, software and our core messaging services have not been compromised. In Bangladesh and the other cases, the thieves compromised the IT environment and worked their way to the bank systems where the SWIFT instructions are generated and the confirmations received."

Leibbrandt continued: "And while we (and other providers) give tools and software to our customers, our customers run these in their own environment and need to keep them secure. We cannot secure our customers' environments and cannot assume responsibility for that."

He conceded that SWIFT plays a significant role in the system and that it should be a part of the solution, which will require collaboration from all sectors of the industry.

But he said: "SWIFT is not all-powerful, we are not a regulator, and we are not a policeman; success here depends on all the stakeholders in and around the industry."

SWIFT's five-point plan, dubbed the Customer Security Programme, begins with information sharing. According to Leibbrandt, SWIFT has stepped up its efforts in sharing information, and the rest of the industry should be striving to improve as well.

"We are calling for a collective effort in our global financial community to reinforce the security of our entire, shared system," he said.

"Banks can learn from one another about the modus operandi and put better preventative measures in place; entities like SWIFT can serve as the information sharing channel, and we can develop indicators of compromise to help those banks improve their detective capabilities," Leibbrandt explained.

Leibbrandt also pledged that SWIFT will: improve security requirements for customer-managed software, in order to better protect local environments; improve SWIFT guidelines and help develop security and audit frameworks for customers; and introduce certification requirements for third-party providers.

SWIFT will also try to provide more support with regards to payment pattern controls, helping banks to identify suspicious behaviour.

Cyber crime poses a significant risk, Leibbrandt said, and there will be attacks, some of which will be successful. However, he stressed: "Acknowledging this doesn't mean we are resigned to it. Rather, it means that we must work even harder at our collective defensive efforts."

CCPs feel northern chill

The limited size of Canada's securities lending industry means that only unilateral action by all participants could spearhead the creation of a Canadian central counterparty (CCP), according to panellists at CASLA's Conference on Canadian Securities Lending.

A representative for service providers in the region stated that they "stand ready for when the industry wants it [a CCP]", but a panellist from a large Canadian bank highlighted that the limited number of industry participants means that "there really isn't any point".

Another panellist added that the high quality of Canadian banks' credit ratings also means the demand for a CCP doesn't exist in the same way it does in the US and Europe.

A buy-side panellist offered some limited hope for CCP in the future, suggesting that "we haven't seen much innovation in the CCP world, but with the net stable funding ratio on the way in 2018, any potential netting opportunities will be needed".

The future looks much less gloomy in the US, however, as one custodian panellist argued that the popularity of CCPs in the US is growing, with increasing numbers of market participants "joining the CCP bandwagon every year".

More securities litigation to be heard at state level following ruling

More US securities litigation cases may now be heard in state courts rather than at the federal level, following the unanimous ruling by the US Supreme Court on a case of alleged naked short selling.

In the verdict to the case of Merrill Lynch, Pierce, Fenner & Smith v Manning, the highest court in the US held that "the exclusive jurisdiction of securities claims in federal court provided by the Securities Exchange Act is limited to claims 'arising under' the Exchange Act".

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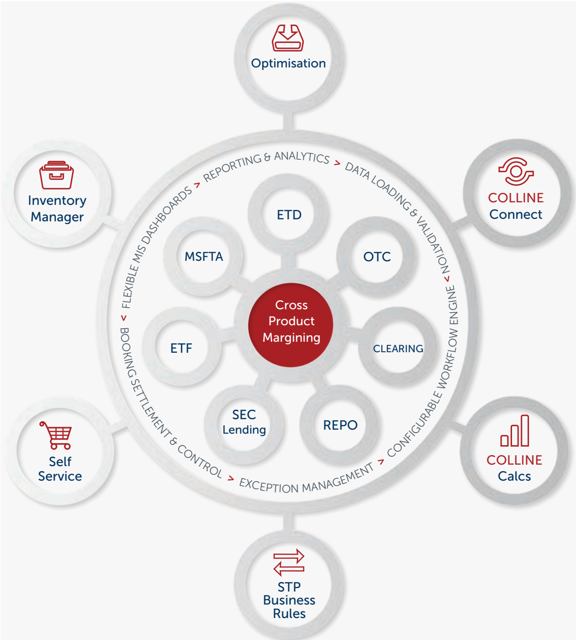

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The case was brought by the plaintiff in New Jersey's state court, alleging that several financial institutions facilitated and engaged in naked short sales of stock, causing a devaluation in value.

In the US, naked short sales are regulated at the federal level by Securities and Exchange Commission Regulation SHO, which prohibits short sellers from intentionally failing to deliver securities.

The allegations held that the short sales in question violated Regulation SHO but the plaintiff only asserted New Jersey statutory and common law claims, without citing any federal securities laws.

In a note for clients on the ruling, US law firm Kaye Scholer suggested the new precedent may be a boon for plaintiffs that have been campaigning for securities litigation cases at a state level in an attempt to "find more plaintiff friendly fora or to avoid automatic discovery stays imposed by federal law".

HSBC to tackle new swap clearing rules with OTC service

HSBC has launched a new over-the-counter (OTC) clearing collateral service to support clients in meeting the requirements of the G20 swap clearing reforms.

Reforms coming in to effect through regulations such as the European Market Infrastructure Regulation (EMIR) require buy-side firms to better manage and mobilise collateral.

EMIR mandates clearing of OTC derivatives through a central counterparty, and similar initiatives are underway in Asia.

The new capability from HSBC will provide an independent and automated collateral management service including calculation and verification of margins and interest, and automated margin payments. Collateral movements will be processed on a straight-through basis using standard SWIFT links with custodians.

The HSBC client portal can also provide underlying trade and collateral position information, as well as reporting services.

Craig Cowe, head of collateral management product and securities services at HSBC, commented: "Incoming regulations to centrally clear OTC derivatives mean that it's crucial for investment managers to know where their assets are and what they can be used for. We've put in place collateral processing hubs in Europe and Asia and have invested significantly in our capability to ensure our clients can keep pace with global regulatory change."

John Van Verre, HSBC global head of custody and treasury, added: "In the past, collateral management has been viewed by many institutional investors as a back office activity."

"These new regulatory requirements mean that the process is becoming more firmly integrated with the front office, which requires much more proactive management of positions than historically was the case," Van Verre explained.


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No longer born equal

Experts discuss the possible Brexit, fears over the future of repo and how business is faring in Europe, as well as their most vivid memories of the past 25 years with the ISLA conference coming up later in June

This month marks ISLA's 25th anniversary conference. What have been your highlights during the past quarter of a century in securities lending?

Robert Chiuch: Using 1991 as a reference point, I was then on the 'equity loan post' at Levesque Beaubien (now National Bank Financial) in Toronto. Ignoring the various stress events and bubbles over that period, three industry themes come immediately to mind: industry consolidation, technology and globalisation. I nostalgically recall dealing with BNP Paribas, Chemical Bank, Chase Manhattan Bank and Salomon Brothers, to name a few, each as distinctly separate entities. MS Office 1.0 launched in 1990. Google officially launched in the 1990s, and it's amazing how truly global this business has become.

Personally, being part of the team that helped launch the CIBC Mellon JV, being a co-founder and the first president of the Canadian Securities Lending Association, and being invited to join BNY Mellon in the US, were among my highlights.

Dan Copin: In those 25 years, we have seen the evolution of securities lending from a back office service to a front-office profit centre. There has also been a marked increase in product sophistication (synthetics, financing, liquidity and collateral management), which has grown in line with the complexity of the capital markets. This increasing complexity, and the 2008 market crisis, has led to numerous initiatives seeking to better regulate business, such as the naked short selling ban, Basel, the European Securities and Markets Authority (ESMA), Solvency I and II, and strengthened regulatory reporting requirements.

Alex Lawton: In the 42 years that State Street's securities finance programme has been operating, there have been three events that stand out as transformational developments in relation to the structure of the industry.

First was the founding of EquiLend by State Street and nine other major industry participants in 2000. This was a quantum leap in improving the automation and efficiency of the industry, and Next Generation Trading (NGT) will soon take this to the next level.

Second was the impact of regulatory change following the Lehman Brothers collapse and subsequent financial crisis. This has rendered the securities lending market almost unrecognisable today versus its pre-Lehman state, and the effects of this will continue to impact how we approach risk, liquidity and capital for years to come.

Third was the launch of State Street's enhanced custody product in 2010. This was created in response to client demand and highlighted a need for safer, differentiated financing solutions and an alternative to the traditional prime brokerage model.

Laurence Marshall: Over the last 25 years, the industry has shared many highlights. The 1990s delivered great expansion of the securities lending and repo markets, both with the globalisation of markets and legal, regulatory and fiscal barriers removed to support the growth. In 1996, the UK market opened up, lifting the restrictions and removing the privileges of the gilt-edged market makers and stock exchange money brokers. As global capital markets grew, so did the securities finance markets, with more and more participants increasing the level of competition. The marketplace has developed and matured with the creation and increasing use of trading venues and third-party providers supporting an increasingly complex trading lifecycle.

Throughout this time, the securities finance market has of course also had to overcome the occasional bump. Helping to identify and deliver a new structure with the International Securities Lending Association and creating the CEO role of the industry organisation when we did remains a pleasing memory.

Felix Oegerli: In the rather early stages of international securities lending, there were a few visionaries who foresaw the emergence of a combined securities lending, repo and collateral trading market and they have now seen this vision become reality. Of course, in retrospect, this has happened in an evolutionary way and in their eyes with a delay of at least a decade.

I am very proud of how the business has evolved. Twenty-five years ago securities lending markets were opaque and the business was managed opportunistically. The product was only to a certain extent strategic in nature but made a lot of money, which one may of course also call strategic. It has now become a key element of financial markets while being a strategic business function of larger intermediaries. Collateral velocity, further standardisation as a basis for the growing importance of electronic trading/matching venues and more effective post-trade services such as clearing are still ongoing challenges. The future for securities finance is still bright.

Paul Wilson: Two things really stand out for me. Firstly, during this time the industry faced two material defaults, with the collapse of Lehman Brothers clearly being the largest and most complex. It was really the first time that the 'model' and unwind were put to the test. And while the industry learned some lessons in the process, the unwind event occurred for the most part exactly like it was supposed to. I think for our clients and for beneficial owners contemplating lending for the first time, they can take great comfort from this. One could possibly argue that with the lower volumes and higher levels of capital supporting the industry today compared to that at the time of Lehman's demise, the industry is even better placed to handle something similar in magnitude in the future.

Secondly, the securities lending and financing industry has proved to be remarkably resilient with an ability to adapt. In this regard it has gained great credibility. Seldom now do you see debates on questioning the relative merits of lending—the positive case for the liquidity it brings to the market (even more important today) and the earnings it brings to beneficial owners (much of which ends up in the hands of savers and pensioners via pensions funds or mutual funds) has pretty much been won. The industry has innovated and continues to adapt to demand, regulations, client needs. It has also continued to find ways to generate positive returns for participants.

Sunil Daswani: Overall, we have seen securities lending evolve into being a more efficient and impactful business for our clients. For Northern Trust, highlights include significant expansion in our client reporting, the creation of custom funds for non-cash collateral, and the expansion of our collateral and borrower options.

The growth of securities lending into new markets has been significant. Over the last few years alone, Northern Trust has entered new markets such as South Korea in 2002, Israel in 2010, Taiwan and Poland in 2012, and Brazil in 2015. We have also expanded the location of our trading desks strategically around the world so our business can function 24 hours a day. Australia is a key focus for our capital markets business this year and going forward. We currently have desks in London, Hong Kong and Toronto to enhance our service to clients and further underscore our commitment to the market.

"Clearly, market uncertainty has also been a key element affecting the daily business, as we've seen much volatility and experienced negative interest rates"

Dan Copin, Head of securities lending, CACEIS Bank Luxembourg

What's generally different for 2016 is the intensity of engagement around implementation schedules regarding looming deadlines or even, perhaps, in response to reactive competitive forces

Robert Chiuch, Global head of equity and fixed income finance, BNY Mellon Markets

The period has also been marked by increased collaboration within the industry. In particular, Northern Trust, along with nine other leading securities lenders and borrowers, founded EquiLend to connect borrowers and lenders through a common, standards-based global lending platform.

This platform facilitates market liquidity through increased efficiency and speed—ultimately reducing both cost and risk—and has proved to be an extremely positive industry development.

In the past year, what developments have most affected your day-to-day business, either positively or negatively, in Europe?

Wilson: Macroeconomic issues and challenges both inside and outside of Europe have been a significant influence on the business environment. Only recently, I was reviewing year-to-date performance and loan activity with one of our sovereign clients, and it was remarkable how evident these macro themes were both in terms of positive earnings uplift year-over-year but also in places where earnings have fallen, such as yield enhancement.

Technology continues to be front, line and center of our business strategy. We have made great progress in replacing our legacy lending platforms and we continue to focus on enhancing the tools on the trading desk, including NGT, as well as delivering enhanced reporting and analytics to our clients. With the industry of the cusp of potential change, technology is critical to embracing and taking advantage of changing business models as well growing our third-party/non-custody business.

Daswani: Regulatory rules on capital have been at the front and centre of everyone's agenda in the past 12 months. These rules have introduced different drivers of demand from our borrowers and an increased focus on the cost of capital from the agent's perspective. Today, they are a significant additional factor in our decision making.

Automation and efficiency remain at the heart of what we do on a day-to-day-basis, so investments in that area also have been a particular focus for our program recently, including the introduction of Equilend's NGT. NGT is scheduled to be implemented later this year and will enable more automation of loan execution across general collateral and 'specials', allowing traders to take advantage of attractive lending opportunities.

Marshall: Clients continued to focus on extracting greater value from our platform, which remains a positive development for us at EquiLend. The launch of Swaptimization, our swaps matching platform, in both the UK and US has delivered great value to our clients and increased the breadth of product that we deliver to them. More and more of my time these days is spent on the regulatory agenda, particularly our project plan to enable us to meet our Markets in Financial Instruments Directive (MiFID) II requirements.

Copin: The main factor that affect the daily securities lending business is regulation from the buy side, including ESMA, Solvency I and II and other national regulations. On the sell side, it has been mainly naked short selling, reporting, risk-weighted assets and liquidity ratios.

Traditional repo collateral has become less liquid in short dates and, for clients that cannot reinvest in longer duration, this has limited the balances that can be run over month/quarter-ends as the risk of uninvested cash has significantly increased

Alex Lawton, Head of securities finance EMEA, State Street

The year started very strongly with increased flow in European securities across our trading platform, driven primarily by activity in the UK as well as in fixed income—both corporate and sovereign bonds

Laurence Marshall, Managing director, EquiLend Europe

Clearly, market uncertainty has also been a key element affecting the daily business, as we've seen much volatility and experienced negative interest rates.

Lawton: The UCITS V implementation in March 2016 was significant because the additional liabilities it placed on depositories meant that it was no longer viable for agent lenders to accept collateral on a pledge basis for UCITS funds. Any borrowers using an Master Securities Loan Agreement instead of a Global Master Securities Lending Agreement (GMSLA)—mostly US and Canadian entities—had to be either turned off for UCITS clients or re-papered with a non-pledge agreement. For State Street, this resulted in approximately $300 million of loans having to be either swapped to non-UCITS clients or non-US and Canadian borrower entities with GMSLAs.

On the fixed income side, European Central Bank (ECB) policy and the move to negative interest rates had a direct impact on cash reinvestment processes. Traditional repo collateral has become less liquid in short dates and, for clients that cannot reinvest in longer duration, this has limited the balances that can be run over month/quarter-ends as the risk of uninvested cash has significantly increased.

On the trading side, are there any emerging trends you've noted so far in 2016? How is European business faring?

Marshall: The year started very strongly with increased flow in European securities across our trading platform, driven primarily by activity in the UK as well as in fixed income—both corporate and sovereign bonds. March was a slightly slower month with a decrease in activity, but volumes bounced back in April, with the trend continuing upward.

Lawton: The continuing decline in demand for European equities during peak season has been the most notable impact. Based on aggregated industry data from Markit, peak loan balances from agent lenders in Europe fell 14.8 percent from the 2015 peak, and that number was down 18.9 percent from the 2014 peak. That's a 31 percent drop in peak European equity balances in two years.

While demand for European equities has fallen across the board in Q2, Germany has been the most impacted market by far. Aggregated data from Markit shows that peak loan balances in Germany have fallen 62.3 percent versus the peak of 2015 and 70.2 percent versus two years ago.

Despite this, State Street's European business is faring well. We have secured several new clients and upsells, many of them bringing new sources of revenue, which will not cannibalise existing business, and demand for sovereign debt remains strong, particularly on a term upgrade basis.

Wilson: Overall, while there have been some ups and some downs, European business across the industry has fared fairly well so far this year. Within equities trading, corporate events and rights trades, short coverage, and opportunities in financing structures such as bond floor and single-line term, have helped to partially offset the long predicted and expected decline in yield enhancement.

Within fixed income, while Germany has traded at a slight premium, most notably the 10-year maturities, the market has generally remained fairly even keeled, with solid demand for high-quality liquid assets (HQLAs). Demand for corporate bonds, notably in financial and commodity-based issues, has been very strong, especially in Q1. There has been a bit of a slowdown more recently due to the equity sell-off and dealers' being short of equity inventory, but the demand for collateral upgrade and capital- and balance sheet-effective trades has continued.

We have found our client base very open minded to these, especially investors with a longer term investment horizon, such as pension funds, insurance companies and sovereigns. We have also seen a material pick up in the demand for third-party, non-custody lending. This is driven by a change in the business models, approach and areas of focus by agent lenders, which has in turn meant that beneficial owners are looking to match agents to their risk/reward profile more than ever. We anticipate these trends and themes will continue throughout 2016.

Copin: The new regulatory framework drives participants to seek out new business ideas and set industry trends rolling. We note that there is an emerging trend seeking to optimise all the positions held. Furthermore, product customisation initiatives see the development of bespoke solutions for client, and counterparties alike.

Daswani: Borrowers are focusing more on complex term maturity structures, both for financing long positions and for maintaining adequate levels of HQLAs to satisfy regulatory-driven requirements.

While we maintain strong volumes in our open book of transactions, we have reacted to market change by terming assets in well-laddered maturity tenors—in both fixed bullet and evergreen structures—where sufficient risk reward is priced.

Our counterparty base continues to focus on collateral mobilisation, with lenders benefiting from the ability to better react to market evolution. Beneficial owners that can adopt a more flexible approach in their lending guidelines, both in terms of collateral type and maturity profiles, will be better positioned to take advantage of any trading opportunities.

Chiuch: There are probably fewer emerging trends these days as opposed to existing trends that are evolving. Many of the themes remain the same: regulation, central counterparties (CCPs), technological innovation, collateral optimisation and so on. I believe what's generally different for 2016 is the intensity of engagement around implementation schedules regarding looming deadlines or even, perhaps, in response to reactive competitive forces.

What impact do you think the UK leaving the EU might have on securities lending?

Daswani: A so-called 'Brexit' would likely speak uncertainty in capital markets over a number of areas. These would include the exchange rate of sterling, UK interest rates and the country's credit rating. In the short-term, there could also be concerns over the overall stability of the UK economy and financial system.

While the Bank of England is prepared to provide liquidity to calm potentially volatile markets, we would expect a downshift in yield curves and a flight to quality trade, further depressing yields in the highest quality issuers. However, demand for gilts is unlikely to see much change, while appetites for UK equities will continue to be mainly driven by microeconomic factors.

Most financial institutions have a significant presence in the UK as a gateway into the EU market. Depending on the final terms of an exit, we could see market participants opening new offices or transferring staff to EU jurisdictions. These changes will increase costs through reduced efficiencies that are currently gained by having a single trading location for the eurozone.

Lawton: The most significant direct impact is likely to be market volatility. However, it's difficult to predict whether that will be positive or negative. Understandably, a potential weakening of GBP could reduce UK returns for borrowers or lenders whose budgets are set in USD or EUR, but market volatility can create stronger directional interest in sectors or specific securities, which creates higher demand.

The most likely other direct impact is that certain banks or broker dealers decide to relocate out of the UK due to MiFID passporting requirements or some other less favourable treatment. Theoretically this is not a problem as the industry is very familiar with cross-border relationships and legal agreements, but it will depend on the regulatory framework established between the UK and the EU.

Marshall: I am concerned that a vote to leave will have a negative impact on financial services in Europe, particularly in the UK. Would it lead to firms relocating activities to a country within the EU to continue to enjoy the cross-border activity? If so, it is likely that the securities finance activity transacted from London will decline. The threat to the passport across Europe is a concern for us and something that we need to plan for if the UK were to leave the union.

European repo has been hammered in the past year. Is this a temporary feature during a period of industry adjustment to new regulations and low interest rates, or more permanent?

Daswani: Increased regulation, namely Basel III, has played a major part in reducing banks' balance sheets globally and the return required to justify the business is higher—which ultimately widens spreads. In addition, actions by central banks such as the introduction of negative rates, asset purchases and targeted long-term refinancing operations have contributed greatly to the sharp decline mentioned above. Although the environment is unlikely to change in the near future, the decline should ease over the longer-term. Banks are already conforming to Basel III and the outlook for more aggressive easing by the ECB, as we saw in March, is less likely.

Copin: It is impossible to tell at this stage as too much uncertainty remains with new regulations coming into force, compounded by the low interest rate situation. The market is still trying to adapt its strategy to this new situation.

The only thing the industry is sure of is that the situation cannot continue in a long run and will eventually have to change as it always has done in the past.

Chiuch: Low interest rates and new regulations have combined to challenge the euro fixed income repo market. Repo balances

> ***Collateral velocity, further standardisation as a basis for the growing importance of electronic trading/matching venues and more effective post-trade services such as clearing are still ongoing challenges***

Felix Oegerli, Head of trading, sales and capital markets, Zürcher Kantonalbank

The leverage ratio has been reducing repo activity for highly-rated securities, which are low margin and balance sheet-intensive

Paul Wilson, Global head of agent lending product and portfolio advisory, investor services, J.P. Morgan

have deteriorated and we have seen some borrowers generally exit the repo space, except for strategic funding trades, due to the heavy balance sheet costs. Part of this problem is in theory temporary, meaning eventual growth in the eurozone may lead to higher interest rates. That likely won't happen any time soon, though, especially as they have recently cut rates and expanded quantitative easing in response to poor growth. Regulation, however, is probably secular in nature with a full pending implementation list.

Lawton: The question is when and how will central banks' policy on negative rates and quantitative easing be reversed. Regulation is here to stay for the foreseeable future and that will continue to drive the need for HQLAs and term funding. Until this policy is reversed, it is likely to continue to limit short-end funding until such time as banks see balance sheets growing, but that does not appear to be imminent.

Wilson: Over the past few years, the repo market has been affected as banks adjust to meet the new regulatory framework. This has perhaps been most significantly felt through the impact of the leverage ratio, which has been reducing repo activity for highly-rated securities (such as government paper), which are low margin and balance sheet-intensive. The effects of these changes are likely to be largely permanent as their adoption, albeit with global implementation proceeding at varying paces and with some slight variation, will be a binding factor on bank activity, and will affect how they allocate limited balance sheet. However, these changes may also allow for increased scope for non-bank repo participants.

Additionally, the decision by the ECB to lower interest rates into negative territory, provide targeted longer-term refinancing operations and quantitative easing programmes, while signalling a willingness to do more if required, has left front-end rates compressed into negative territory for large segments of the curve for a prolonged period of time. This very cheap central bank funding, alongside wider repo market bid/ask spreads, and with market levels often trading close to the deposit rate, has meant the ECB has become both lender and borrower of first resort respectively to different segments of the market (cash seekers and cash holders).

While this central bank policy has softened the impact of market adjustments in the new post-crisis regulatory regime, the ECB balance sheet will eventually decline and central bank funding will be replaced by market funding. Consequently, there are some concerns about how the repo market would function without this ECB liquidity support to the market.

Looking forward, what topics do you see dominating the industry in Europe in the second half of this year?

Chiuch: On the surface, a number of themes will likely dominate the spotlight. These themes would include: CCPs and ongoing discussions on some remaining practical challenges of implementation; the EU

CCP clearing for securities lending is likely be an area of further development, as greater numbers of market participants engage with the industry and begin to see the benefits

Sunil Daswani, International head of securities lending and capital markets client servicing, Northern Trust

Financial Transaction Tax and the Securities Financing Transactions Regulation (SFTR); and evolving technological innovation with an emphasis on emerging digital ledger platforms (think Blockchain). To that end, I'm not certain one can single out a particular region these days. These are examples of global themes that will affect not only business transacted in Europe but, rather, European business, et al, done globally.

Copin: Regulation will remain a top priority, but we will see the emergence of alternative trading ideas which take into account the impacts of new regulation and the ongoing market volatility to generate new revenues. The onward march of automation will continue, but we don't see new tech taking over the industry in the near future. We are of the opinion that change brings opportunity, so we welcome any new developments.

Lawton: If the UK votes to leave the EU in the referendum on 23 June, so-called Brexit discussions will certainly dominate the industry for the near future.

From a technology perspective, the industry will continue to focus on EquiLend's NGT model and the improved interaction it will allow on fee negotiations, notably for specials which have historically been traded manually.

On the regulatory side, SFTR requirements will become a necessary topic as the detailed technical standards are confirmed later in 2016 and the industry is forced to agree on a consolidated solution.

Marshall: Clearly the SFTR will become an increasingly bigger focus industry-wide, with a consultation paper due in Q3 in advance of the draft technical standards being submitted to the commission. I also believe firms will place additional focus on market structure and identify their optimum solutions to support new models.

Daswani: Regulation will continue to dominate with efforts around SFTR, the Central Securities Depositories Regulation, and the Resolution Stay Protocol being key themes. At the same time, CCP clearing for securities lending is likely be an area of further development, as greater numbers of market participants engage with the industry and begin to see the benefits of the CCP model.

There has been a great deal of discussion around blockchain, an initiative created to provide a secure solution for the trading of assets, and how the industry can utilise the technology to its benefit. Market participants will be spending time investigating its potential uses and benefits, not just for this year but also for many to come.

Wilson: Macroeconomic issues will continue to dominate revenue generation both positively and negatively for the remainder of 2016. In terms of topics and themes, there are a number of things we consider will dominate, including: agent indemnification and the value it brings, the cost of it, and the depth and breadth of what it covers (or not), which will in my view lead to some inevitable changes taking place within the industry. Business models will be reviewed, reevaluated and repositioned including who each agent lends to and who they lend for. No longer are lenders, borrowers and collateral born equal and changes will start to take place to adapt to this. The overall cost of being in this business is not going down, so technology and investment in technology are critical to driving efficiencies/reducing costs, improving client experience and adapting to the changing industry and business landscape. **SLT**

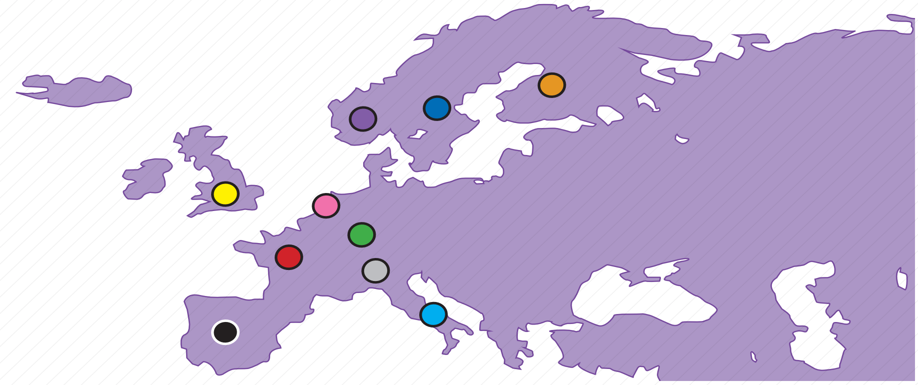
DATALEND | EUROPE

SECURITIES FINANCE 2016

ALL FIGURES ARE AVERAGES FROM JANUARY 1 TO MAY 31, 2016

$3.5 TRILLION LENDABLE | $495 BILLION ON LOAN

TOP 10 EUROPEAN COUNTRIES BY GROSS REVENUE (MILLIONS)



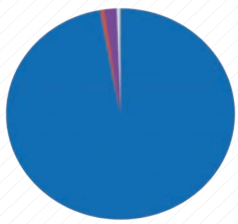
FRANCE	$282
SWEDEN	$246
UK	$164
GERMANY	$148
NORWAY	$84
FINLAND	$83
ITALY	$67
NETHERLANDS	$65
SWITZERLAND	$58
SPAIN	$41

EQUITIES

TOP MARKETS BY REVENUE

COUNTRY	SWEDEN	FRANCE	UK	GERMANY	NORWAY
TOTAL REVENUE	$245m	$244m	$116m	$98m	$84m
ON LOAN	$15bn	$32bn	$40bn	$23bn	$7bn
LENDABLE	$99bn	$273bn	$608bn	$293bn	$21bn

ON LOAN - ALL EUROPE



- COMMON SHARES $194bn
- DEPOSITORY RECEIPTS $3bn
- OTHER $1bn
- ETF/ETN $715m

TOP 5 HOTTEST SECTORS BY FEE

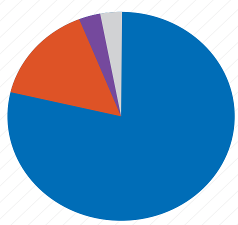
			Hottest industry
1	IT	267bps	TECHNOLOGY HARDWARE & EQUIPMENT
2	FINANCIALS	222bps	BANKS
3	ENERGY	177bps	OIL & GAS DRILLING MATERIALS
4	TELECOMMUNICATIONS	148bps	ALTERNATIVE CARRIERS
5	UTILITIES	133bps	GAS UTILITIES

FIXED INCOME

TOP MARKETS BY REVENUE

COUNTRY	GERMANY	UK	FRANCE	NETHERLANDS	SPAIN
TOTAL REVENUE	$50m	$48m	$38m	$12m	$4m
ON LOAN	$82bn	$67bn	$52bn	$20bn	$5bn
LENDABLE	$199bn	$227bn	$163bn	$77bn	$41bn

ON LOAN - ALL EUROPE



- SOVEREIGN DEBT $233bn
- CORPORATE $45bn
- AGENCY $9bn
- OTHER $9bn

Trade runner

Swaptimization, the new service from EquiLend, promises to make the total return swaps market more efficient. Tim Keenan and James Palmer explain

EquiLend has launched a new matching platform for total return swaps. Why have you gone down this avenue?

Tim Keenan: From our close ties to the securities finance industry, we were encouraged to look to provide a source of automation and efficiency for the total return swaps (TRS) market in a similar way that we have and are continuing to provide to the securities lending and repo markets. When EquiLend was created by our owner market participants 15 years ago, we saw the same need for an efficient technology solution for the securities finance market as we now see for the TRS financing market. Through leveraging our expertise, existing technology and deeply embedded client relationships, our aim is to replicate the success of the EquiLend and BondLend trading platform in this expanding market.

How attractive is the synthetics business to your current stable of clients? Is it a service that will attract a new kind of customer?

James Palmer: The markets have certainly seen a shift in dynamics as the banks face the changing regulatory landscape. Synthetic financing balances have risen as an off-balance sheet alternative to access funding and cover short positions.

Where firms are focused on attaching the cost of balance sheet to each trade across financing groups, the synthetics business is treated advantageously and is therefore often a cheaper alternative.

> *Our aim is to replicate the success of the EquiLend and BondLend trading platform in this expanding market*
>
> **Tim Keenan,** Global product owner, BondLend

This shift has caused ripples down the chain of the securities lending and repo market participants, with many traditional lenders looking to see how they can play a part in this new dynamic.

How does the TRS service work for counterparties, and what are the benefits?

Palmer: Swaptimization leverages our proprietary algorithm to create a centralised pool of liquidity to fund long inventory and cover synthetic shorts. Each participant is able to load a list of long inventory and/or short needs into a matching session that, taking into account credit limits, pairs the securities they have loaded with counterparties on the other side of the trade. Our new graphical user interface (GUI) then makes it easy to communicate and agree the matches with one's counterparties before producing a comprehensive term sheet once the trade has been finalised.

> *Swaptimization creates a centralised pool of liquidity to fund long inventory and cover synthetic shorts*
>
> **James Palmer,** Swaps product owner, EquiLend

Live trades are then reflected on the screens that support the full trade lifecycle, managing unwinds, substitutions, resets and expiries.

Our technological solution automates a trade that happens either bilaterally or manually via voice brokers today. By centralising market participants into a single venue, the available pool of liquidity is greater than that available in the broker market.

The GUI also makes the agreement of the TRS more efficient than existing processes—which, with additional plans to leverage existing connectivity to our client base to automate the trade booking and confirmation, adds scalability to this enhanced market access.

Is it a standalone service or added value?

Palmer: At EquiLend we view each individual service as value added. Swaptimization is tailored to the derivatives side of the trading market and as such sits as a standalone service to EquiLend's and BondLend's core suite of services.

What can you tell us about the service as it stands, in terms of who can use it and where? What about plans to expand?

Keenan: The Swaptimization sessions represent EquiLend's first move to add efficiency to the TRS financing market. In doing so, our client base has highlighted a number of additional areas in the lifecycle of the trade that we will be looking to focus on and further leverage our existing suite of services. As an industry-owned entity, our direction is led by the market participants themselves. We will continue to innovate where we are needed, be that in expanding into alternative TRS trade flows, aiding the middle-office risk teams, or collaborating with existing industry solutions. **SLT**

Synthetic finance gains traction

Expectations are that synthetic transactions will continue to grow to help offset regulatory pressures, says James Treseler of Societe Generale

Synthetic financing, including vehicles such as total return swaps, portfolio swaps and contracts for difference, is not a new tool but one that has gained momentum over the past three years. The barrage of regulation since the financial crisis has forced both buy- and sell-side firms to review their operations and look for more cost-effective solutions to ease the burden of the more onerous requirements.

This marks a contrast to the past when the tool was typically used by firms to gain access to markets where they did not have a local presence. The trend can be seen in a recent survey by consultancy Finadium, which showed that in 2015 synthetic financing revenues rose by 43 percent, relative to 2012 figures, to an estimated $7 billion across nine leading prime brokers. By contrast, revenues for its physical counterpart grew more slowly during that time period, climbing only 22 percent to around $3.9 billion, just 61 percent of synthetic revenues.

There are several legislative forces at work. For example, on the buy side, there has been an increasing number of funds registering under UCITS in order to better access retail and institutional flows. However, these types of funds are only permitted to short sell using synthetic financing types of transaction.

Another key driver is the capital regulations under Basel III, such as the liquidity coverage and net stable funding ratios. They dictate that swaps are more easily accounted for than physical securities financing loans. Previously, a bank would have been able to cover the position of clients that went short with others that were long. Today, the liquidity charge means that there is less opportunity for them to be cost efficient by internalising the trades. The result is that margins are being squeezed and balance sheets constrained.

The Financial Transaction Tax (FTT), often dubbed the Robin Hood and Tobin tax, may also provide an impetus for increased use of synthetic trades. The aim is to impose a sweeping levy and capture a wide range of transactions including securities, derivatives, repos and stock lending. Loans, spot foreign exchange transactions, spot commodities and new issues, as well as transactions with the European Central Bank, central counterparties and central securities depositories, are excluded.

However, to date, the FTT has only been implemented in Italy and France. Dissension in the ranks has stopped it being rolled out across the eurozone, causing several delays to implementation. The original start date of 1 January 2014 was pushed back to this January and then the summer, although it is unclear whether the latest deadline will be met. Currently, Germany, France, Italy, Austria, Belgium, Greece, Portugal, Slovakia and Spain are still supporters, but Estonia pulled out of the original 11-nation group, and Slovenia raised questions about whether the tax, as proposed, would raise enough revenue to make it worthwhile for smaller countries.

The European Commission and a technical working group are now reassessing how much revenue the levy could raise, depending on what kinds of assets would be made part of the tax base. If the tax is adopted, many financial institutions are expected to use synthetic financing because it will shift the responsibility of paying the taxes to the prime broker since the assets would not be physically bought and sold.

The other main advantages of synthetic finance are that swap transactions can be done off-balance sheet and hedges can be netted across multiple counterparties under Basel III. This is not the case with physical securities finance trades such as repos and stock loans, which can only be netted on a single counterparty basis from a balance sheet perspective. In addition, the netting means that synthetic trades also are more efficient when calculating a firm's leverage ratio.

As with any financing tool, there are also the negatives that investors should be aware of. The collapse of Lehman Brothers in 2008 underscores the dangers of counterparty risk and why it remains one of the key threats. Lessons have been learnt but investors still need to conduct rigorous due diligence into the financial health of an organisation as well as its ability to recruit and retain the skillsets needed to adapt to the changing market conditions.

> ***A synthetic desk cannot rely on using bank capital, but needs to create its own liquidity within the confines of a cost-constrained environment***
>
> **James Treseler,** Global head of cross-asset secured financing, Societe Generale

For example, a synthetic desk cannot rely on using bank capital, but needs to create its own liquidity within the confines of a cost-constrained environment. The team needs to be able to enhance netting opportunities and develop specialist collateral management capabilities. The latter has grown in importance as regulations such as the European Market Infrastructure Regulation (EMIR) take hold. The stricter margin regime will mean that many fund managers will have to post initial and variation margin for the first time.

Collateral management can be broken down into various components, including optimisation, or making the best use of the available assets across the entire firm to satisfy all collateral requirements. The focus is to manage the collateral supply and demand on a holistic basis in the most efficient manner possible. The other aspect is collateral transformation, whereby lower quality assets are upgraded into central clearinghouse-eligible collateral via the securities lending and repo markets.

It can be a more expensive proposition, but increasingly equities are being added to the mix because high-quality liquid assets such as corporate and sovereign bonds can also be utilised for other purposes.

Although physical trades will continue to be a significant part of the market, expectations are that synthetic transactions will continue to grow to help offset the pressures being imposed by the US Dodd-Frank Act, EMIR, Basel III and other global legislation.

They provide efficiencies from a balance sheet, liquidity and capital perspective, but investors are encouraged to do their homework and assess not only the financial soundness of the prime broker, but also its acumen and ability to develop the right solutions. **SLT**

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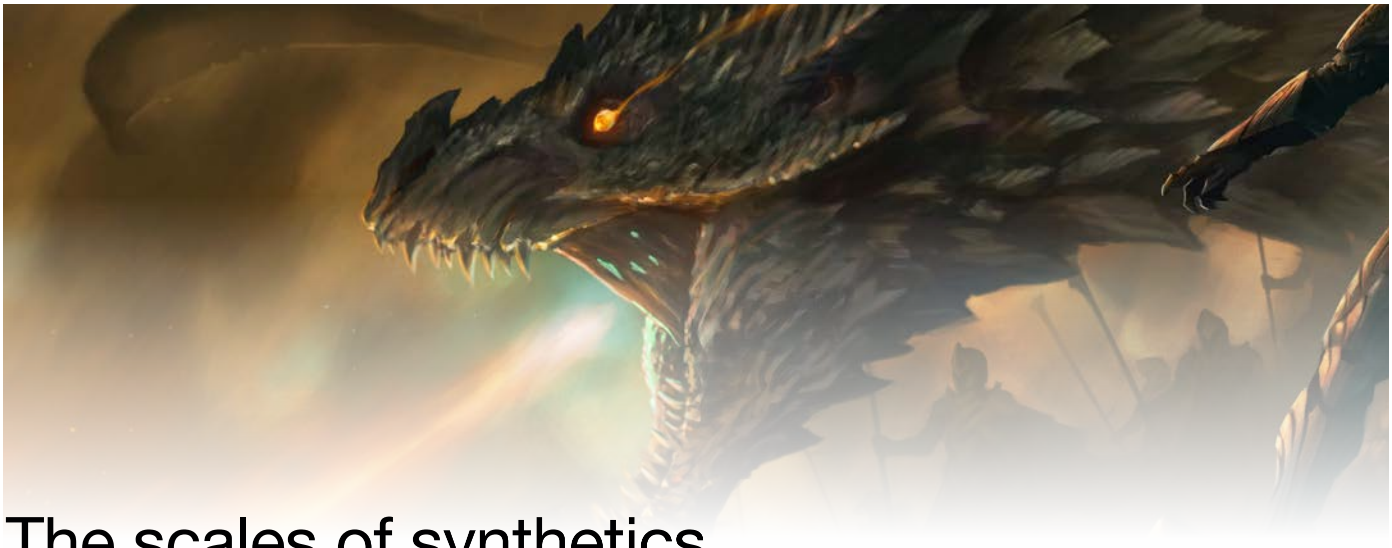

The scales of synthetics

Experts gather to debate the rise of synthetic financing in a world where the balance sheet is lord and master and must be obeyed

Can a synthetic financing business ever outgrow its physical counterpart and be run independently, and why?

James Treseler, global head of cross-asset secured financing, Societe Generale: Synthetics have a place in the secured finance country code, and have for some time. Historically, synthetics have allowed for market access for those whose arms were not long enough reach access markets. Where securities lending was not deemed an acceptable practice or where a local presence was required, synthetics seemed to be the natural alternative.

Physical financing, lending and borrowing and repo, is a cornerstone of finance and the capital markets as a whole, but increasingly they are becoming less than perfect mechanisms under the scrutiny of regulations dictating liquidity and scarce resource distribution.

Some data suggests synthetics have a greater presence in prime brokerage than traditional avenues. Revenues generated from physical prime brokerage, including activities surrounding futures, have been relatively flat since 2012, while synthetic prime brokerage has grown in consecutive years. It was reported there was a 22 percent increase in synthetic prime brokerage revenues from 2014 to 2015.

There are several reasons to believe that synthetics will overtake the market share of physical financing, including market access, future fiscal concerns, greater efficiencies and cost reductions, along with potential improved synergies surrounding liquidity and balance sheet.

However, there are significant attributes that need to be considered before jumping into a synthetic relationship, including increased counterparty risk or credit risk, forfeiting proxy voting, critical to activists, and for suppliers of synthetic prime brokerage, the need to be build out technology to support collateral transformation and optimisation.

Rob Lees, co-head of securities lending EMEA and global co-head of securities lending trading, Brown Brothers Harriman: The synthetic product has been traditionally rooted in its ability to provide market access and leverage. With global regulators creating additional cost pressures on the sell side, it is evident that synthetic trades can be used as a more efficient route to market from a balance sheet, liquidity and capital standpoint. That said, despite these positive conditions, the key challenges for synthetics are operational-, liquidity- and transparency-oriented. The 'physical set-up' has been well-established, scaled and battle-tested and the contractual, operational and regulatory component that underpins the physical world has been built for scale, cost and aggregation.

Separately, for many of our clients, the additional simplicity of legal set-up, collateralisation requirements and price discovery with wider market access has very clear benefits.

Ross Levin, managing principal, Primetech Management: As Basel III and its associated cost charges and leverage restrictions are being rolled out, the synthetic financing vehicle is going to become a more popular source for hedge fund financing.

The likely scenario is that a number of prime brokers will begin scaling back their hedge fund relationships, while some could start the process of completely getting rid of smaller hedge funds, as the short-term financing cost is going to be too high to maintain these relationships.

As a result, synthetic financing transactions that provide some balance sheets efficiency and potential capital reductions for prime brokers will become ever popular as hedge funds will still need a reliable financing source.

In my opinion, we could see synthetic financing outgrowing its physical counterpart, but, since the underlying basis for all synthetic trades are still physical transactions in a form of financing the hedging process, the physical side will not be undermined, but simply shifted over to a different side of a trade strategy.

Paul Wilson, global head of agent lending product and portfolio advisory, investor services, J.P. Morgan: The use of synthetics has grown and should continue to do so as market participants look to realise its balance sheet and capital benefits. Whether it will outgrow its physical counterpart remains to be seen.

This, however, is part of an ongoing change across the lending/financing industry as more capital, balance sheet and return-on-capital effective structures, transactions and business

models, including central counterparties, are evaluated in order accommodate business.

Many agents are pursuing strategies that help address costs as well as increased interest and demands from beneficial owners to participate in securities lending.

This calls for innovation and investment, and may ultimately lead to a divergence in agents' business models and capabilities.

Dane Fannin, head of capital markets, Asia Pacific, Northern Trust: This phenomenon is emerging already. The use of synthetic structures is increasing for a number of reasons that are unlikely to disappear anytime soon.

Firstly, in the wake of a new regulatory landscape, synthetic products tend to be more balance sheet-efficient than their physical counterparts given the ability to net down long and short hedged positions, thus reducing capital costs for the provider.

Secondly, synthetic routes to market are often preferred in jurisdictions where traditional access is both complex and restrictive.

Thirdly, investors may prefer a synthetic solution where the administrative requirements for physical access are cumbersome (for example, short sale reporting).

Fourthly, funds adopting a UCITS format are prohibited from short selling physically and so are required to exclusively deploy synthetic arrangements to pursue traditional long/short strategies.

Market providers are not looking at these products independently, but rather are aligning their physical and synthetic businesses to allow for a more holistic solution in deploying capital efficiently.

Martin Seagroatt, marketing director, sales and marketing, 4sight Financial Software: As a technology vendor in this space, we are certainly seeing an increase in demand for systems to support the swaps lifecycle, mainly due to the balance sheet efficiencies of these types of products.

It is debatable how much of the securities finance market could eventually move to synthetic routes to market. Polls at industry events have tended to place this figure at no more than 25 percent of total market volume and, most likely, it's a lot less.

Fran Garritt, director of securities lending and market risk, the Risk Management Association: For an equivalent economic exposure, market participants may seek the lowest-cost alternative. Since the economic crisis, the regulatory environment has created potential uneven cost structures between synthetic securities finance and physical securities finance transactions.

This is evident in the favourable treatment of synthetics versus physical with respect to risk-weighted Assets (RWA) under the standardised approach, although the new Basel proposal may bring them in line, and exposure under the single counterparty credit limits.

On the other hand, physical transactions utilising cash collateral have a negative treatment under the supplemental leverage, liquidity coverage, and net stable funding ratios. While there are some other potential opportunities to minimise these differences, we would expect some further transition into synthetic structures.

Anecdotal evidence indicates that there is increasing pressure to move in this direction. However, synthetic structures may require broker-dealers to hedge exposures, which would require continued physical transactions. Additionally, the liquidity in many synthetic trades and the limited ability to easily exit certain transactions will likely continue to keep many market participants preferring the physical alternative.

Overall, we expect a continued migration toward synthetic structures, but it is likely to be a long time, if ever, before they outgrow their physical counterparts.

William Donzeiser IV, founding member, the Opti Group: When looking at the single stock linear derivative space, in my opinion the answer is really yes and no.

A full service traditional cash prime provider typically has a complementary linear derivative offering. However, you can have a successful derivative-based business without ever becoming a full service cash prime broker.

This is an increasingly meaningful differentiator as banks focus on core competencies, pair back on non-core market offerings, and leverage synthetics for their own financial resource netting benefits.

While market access, bespoke structural characteristics, transaction taxes and legal considerations drive users to synthetics globally, which now trade seamlessly as direct market access or give-up in most markets, the structural hurdles of lack of equity ownership (ie, voting rights) and additional operational nuances will allow the cash prime balances to outpace synthetics for the foreseeable future.

One last note to add is that if you tally synthetic balances beyond the single stock base to include all asset classes traded as synthetic, while expanding the synthetic definition marginally to include high delta option pairs and single stock futures, that scale quickly begins to tip the other way.

Rory Zirpolo, managing director, Cantor Fitzgerald Securities Lending: Yes, provided these synthetic transactions are cleared through some central counterparty framework.

Take the example of interest rate swap rates, which have recently become cheaper than repo rates due to balance sheet costs and liquidity issues. This could easily happen in equity financing, too, as indemnification costs for lenders could put a strain on lendable supply in markets, which would drive spreads up relative to synthetic costs, making the synthetic option all the more attractive.

Glenn Horner, managing director, State Street: We expect the long-range trend to be significantly greater growth within the synthetic securities finance business than its physical counterpart. After a major contraction during the financial crisis, physical securities finance business growth has been less than robust.

Given the regulatory pressure on these transactions, especially ones collateralised with cash, we expect this trend to continue for the foreseeable future. Bank's balance sheets, heightened liquidity requirements, and increasingly more conservative risk-based capital (RBC) treatment, will likely limit any future growth of the physical securities finance business.

As such, we anticipate that future growth will naturally migrate to the synthetic securities finance business, which generally receives more favourable regulatory treatment under both Basel and local regulatory initiatives.

While this trend will persist into the future, we expect that the physical securities finance business will be the larger piece of the pie and the two businesses will be inextricably linked due to hedging requirements for the foreseeable future. **SLT**

Leave it to the buy side

Lyxor Asset Management senior cross-asset strategist Philippe Ferreira explains how hedge funds have fared so far this year

How have hedge funds performed in 2016?

The hedge fund industry has had a tough start to the year as traditional markets have seen risk assets tumble. There has been an improvement recently but, overall, performance has been under pressure. This year we have observed a challenging market environment, with sustained volatility in equities and an expensive fixed income market. In the big picture, times are tough but not all strategies have suffered equally.

Which strategies were hit hardest?

Long/short equity managers have had more pressure than other strategies as the result of the frequent market rotations. When the markets were first down earlier in the year, some managers that had backed directional products suffered, but as the market rotated value funds rebounded and hedge funds were forced to be more cautiously positioned.

Long-short equity managers were hit by the market downturn in early 2016 and didn't fully recover during the rebound because it happened in sectors that were most under stress, such as energy and materials, that a lot of managers weren't exposed to any more.

How did the downturn hit short strategies?

A lot of hedge funds actually took a hit on their shorts, which turned out to be quite costly because they were building large positions in sectors such as energy, which had been suffering for a while but then recovered rapidly in mid-February, without much warning. As a result of that loss, there has been a dramatic reduction in the use of single-stock shorts, which some managers have since partially replaced with indices shorts. The move to indices tracking shorts shows that participants are really unsure about which specific stocks are going to move next and so are having to cast a wider net to try and capture profits.

Everyone was starting to be concerned about a possible recession and then suddenly the market delivered 10 to 12 percent in only four weeks in the most heavily discounted sectors. The market continues to normalise at present, which has been good news for long-short equity managers.

The strong recovery confused a lot of short sellers and because they were posting losses they had to consider changing their strategies, which some did, but most held their convictions. At present, our data seems to show that those who shifted their strategy to minimise losses are actually now facing headwinds from other areas, while those who maintained their positions despite the recovery are likely to be rewarded later in the year.

On the positive side, commodity trading advisors (CTAs) have had a great Q1 and, more recently, the long-short credit funds in Europe enjoyed market relief on the back of the European Central Bank's (ECB) asset purchase programme.

Are managers largely optimistic for the future?

Yes, and we know this because we've seen managers adding risk to their portfolios, although only moderately. They are adding risk, while maintaining exposure to defensive sectors such as consumer staples, healthcare and telecommunications thanks to the fact that market conditions have stabilised over the past two months.

On the short side, there used to be a lot of equity strategies focused on energy and material sectors, but the rebound has caused some trouble for them and most participants have since reduced their positions in those areas.

How important is the use of algorithmic-based trading in the hedge fund space today? Is it widely used for short strategies?

In the industry today, you often see the managers that use algorithms most posting the best performance, so it's very important and gaining traction. CTAs use algorithms for their entire portfolio and it drives their asset allocation decisions in both their long and short books. It was CTAs' algorithms that led them to be aggressively short on the energy sectors in Q1 this year, but they often focus on futures trading, which are quite liquid, so they are able to remain quite flexible if the market shifts, which it did.

Was it a reliance on algorithms or a lack of liquidity that allowed managers to be caught by surprise when the energy market bounced back so quickly?

The rebound was caused, in part at least, by the US Federal Reserve adopting a dovish stance, along with the ECB's actions in Europe, which then gained momentum as the biggest managers reduced their short positions and drove the trend onwards. There are some managers that focus on short-term trends are therefore able to reverse position much quicker, but these participants are small and it's unlikely that they contributed to the rebound in any significant way. At the end of the day, it's always very difficult to quantify if the hedge funds are the ones driving the market and starting trends.

How much of an impact does the low interest rate environment have on hedge funds' performance?

It's having a positive impact for participants involved in credit arbitrage, but a low or even negative interest rate environment is also a hurdle for many other managers simply because most strategies involve keeping cash on the books for liquidity purposes, although that means it's suffering under low or negative rates.

Recently, we've seen managers turning to exchange-traded funds (ETFs) rather than futures contracts because the advantage of futures is that they are more economical as you don't have to post 100 percent of the capital. But if that capital is sitting on your books with negative interest rates then there is no advantage. This has given rise to a growth in the market of ETF lending that wasn't there before.

How was the market treated prime brokers during this period?

The main trend for prime brokers that we observe is a structural issue that leverage is more costly today. On the regulatory side, you need to post more capital in front of credit lines that fund the leverage of hedge funds, and that's put pressure on them. We see some managers struggling to get financing, or who are having to pay more, and this impacts on performance. **SLT**


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Clash of the assets

CCPs are able to bring together the demand and supply for collateral management and liquidity. Eurex Clearing's Gerard Denham explains

The financial markets are undergoing major changes. Liquidity and leverage are at the core of the regulatory challenges facing every market participant. The impact on both the sell side and the buy side is evident. Increases in margin and collateral requirements, together with higher capital charges, are forcing banks and market participants to embrace alternative solutions for trading in order to maintain an effective level of cost management—there are higher costs for doing business on a bilateral basis.

Eurex Clearing, Deutsche Börse's central counterparty (CCP) service provider, is uniquely positioned as the only CCP providing a fully integrated service across asset classes. An integrated CCP service delivers capital, collateral and operational efficiencies to its clients. This is achieved by utilising services for both listed instruments and business conducted on an over-the-counter (OTC) basis for derivatives and securities finance transactions. This results in:

- Netting across products and direct member models for buy-side participants, allowing for capital efficiency;
- Clients enhancing their collateral management processes to benefit from collateral efficiency by accommodating a wide eligibility of collateral and functionality to assist with collateral transformation; and
- Innovating and enhancing a portfolio risk management system across all asset classes and product types, providing margin efficiency.

Extensive capital requirements are in place for capital ratios, exposure and risk weight calculations. Additionally, there is the introduction of CVA VaR capital charges and the framework for the leverage ratio. The demand for collateral will increase, which will affect the supply and liquidity of the marketplace.

This is driven by margin requirements on OTC derivatives and haircut floors for securities finance transactions, the limited ability to reuse and rehypothecate collateral, and stricter standards on eligible collateral, all putting pressure on the market's ability to finance assets, in particular those classified as high-quality liquid assets.

Advanced CCP services can generate capital, collateral and margin efficiencies for market participants. Direct clearing models for derivative and securities finance transactions help to reduce risk-weighted asset and capital requirements. Eurex Clearing has already innovated in the securities lending market with its specific lender licence—this has also been replicated for cleared Eurex Repo/GC Pooling transactions utilising the Eurex Repo marketplace. Further enhancements to these models are essential for the market to reduce trade exposures.

The recently announced ISA Direct model combines elements of direct clearing membership and the traditional service relationship in client clearing, tailored specifically for the buy side. The principal client relationship moves from the existing clearing member directly to the CCP, with the clearing member acting as the clearing agent, which will provide mandatory core and optional service functions.

The service will initially be launched in this summer for OTC interest rate swaps, as well as repo transactions offered under the Select Finance service in cooperation with Eurex Repo as a trading venue. Listed derivatives and securities lending transactions are to follow.

Cross-product netting models help to reduce capital requirements and collateral demand. Eurex Clearing Prisma, a portfolio-based margin approach, creates efficiencies for margining, balance sheets and for default fund contributions. Integrated CCP collateral models across all business lines help to increase collateral availability, liquidity and fluidity. A CCP solution for collateral transformation assists the market with raising eligible collateral while also lowering financing costs due to reduced counterparty risks and exposures through a CCP.

The key focus of Eurex Clearing has been to integrate CCP solutions across all product lines by linking together derivatives and securities finance. By being able to link the flow of both cash and securities across products and platforms, the CCP is able to bring together the demand and the supply for collateral management and liquidity that is so crucial for the marketplace. This is achieved by the integration of our CCP cleared services for derivatives, securities lending, repo and GC Pooling.

One example of this integrated service is Eurex Clearing's CCP service for securities lending, the Lending CCP. It maintains existing trading relationships and maintains the choice and flexibility of collateral, while a fully integrated operational process has been incorporated to support the move to centrally cleared securities finance transactions. **SLT**

> ***Direct clearing models for derivative and securities finance transactions help to reduce risk-weighted asset and capital requirements***

Gerard Denham, Senior vice president, funding and financing markets

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Securities finance and technology: A strong case for an enterprise platform

Technology providers need to be more than one-trick ponies to service securities finance participants, as Etienne Ravex of Murex explains

Securities finance is at a turning point. The Basel Committee on Banking Supervision's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), the Dodd-Frank Act, European Market Infrastructure Regulation (EMIR), and uncleared margining are all examples of the complex regulations that have increased capital requirements, balance sheet consumption and the overall demand for collateral assets.

At the same time, an increase in the consumption of high-quality liquid assets (HQLAs) is significantly affecting the supply. Securities finance and treasury desks must act as business enablers to adapt to market conditions. To facilitate the access and the management of collateral assets across the enterprise, new operating models are being established. Financial institutions are realising the benefits associated with new business models and services, including lending programmes, collateral transformation and optimisation services. The rise of synthetic financing is also at the forefront of client service discussions. New market infrastructure solutions and the increasing focus on the central clearing of repos is being closely monitored. Regulation directly targeting the securities finance industry, namely the Securities Financing Transaction Regulation (SFTR), is also on the way.

This article explores how technology can help financial institutions adapt to changes in the securities finance industry. Moreover, it will illustrate how the correct technology can support value creation within a firm.

What are the drivers for securities finance and their impact on technology requirements?

Pressure on collateral supply

The possibility of liquidity or collateral scarcity is an undeniable challenge for actors in the capital markets. The Basel III LCR is a driving force behind this development. The LCR requires banks to hold a stock of unencumbered HQLAs to cover the net outflows for the next 30 days. Clearing obligations and uncleared margining rules, with the mandatory exchange of both initial and variation margins, are also key factors.

There have been a variety of market responses to the increasing demand for high-quality assets. Data reports surrounding securities lending confirm the correlation between a decline in the role of cash collateral and increased usage of non-cash collateral. This development highlights how new regulatory regimes are forcing borrowers to turn to alternative forms of collateral to access and borrow HQLAs. Reports also expose a strong move towards the term repo market and the rise of evergreen or extendible structures to ensure easy access to pools of available HQLAs.

The new regulatory regime is having an indirect impact on the repo market. Under the LCR and NSFR rules, banks are not permitted to offset market-to-market exposures. As a result, they are reluctant to accept high-quality government bonds as collateral for derivatives. In light of this, typical bank clients, such as pension funds whose holdings are mostly concentrated in high-yield assets rather than cash, might need to turn to the repo market to release the required cash. This puts more pressure on the repo market.

In addition to these immediate concerns surrounding liquidity, the possibility of further monetary policy evolution over the coming years has created concerns among key market players.

To facilitate quick access to security assets and optimise their usage, leaders in the industry, including lenders and borrowers from both the sell and buy sides, have started turning to centralised, bank-wide asset monitoring, which creates a single view of all asset classes and geographic markets, aggregating the pool of available securities with an equity and fixed income mix.

The rise of synthetic financing

Synthetic financing is seen as a valuable complement of client services. For example, total return swaps (TRS) or portfolio swaps are enabling buy-side institutions, such as pension funds, to access emerging markets and a wider range of assets, without the regulatory and operational constraints of physical financing. Synthetic financing has also been gaining momentum because of the lower capital costs involved. Similar to derivatives, synthetic financing falls under the umbrella of the upcoming standardised approach for measuring counterparty credit risk regulations. It offers more netting opportunities than repo and securities lending.

Developing this new type of business model requires the correct technology. In addition to supporting the operations of over-the-counter derivatives, the technology must also support repo and securities lending.

In particular, it requires advanced analytics measurement and dynamic hedging capabilities for a wide range of risk factors. Credit risk capabilities, to measure capital costs involved, are also becoming a key element.

The need for cross-asset efficient operations

As well as focusing on operational efficiency in the face of liquidity scarcity, institutions need to be prepared for increasing volumes following the introduction of the uncleared margining rules. Firms turning to synthetic financing need to process a large variety of products, such as TRS, portfolio swaps, contract for difference and dividend swaps. By investing in an enterprise-wide operations factory, financial institutions can support the business, control costs and reduce operational risk. The upcoming SFTR is increasing the need for data centralisation. Starting in 2018, this regulation will require firms to report a granular level of information on assets positions to an approved EU trade repository.

An enterprise solution that allows for the centralisation of transaction reporting across regulatory regimes can leverage similar reporting solutions for derivatives and ease the compliance process.

Accurate internal cost allocation

Costs related to capital, collateral and funding charges need to be reflected accurately in the performance measurement of the various business lines. Securities finance and collateral desks will play a central role in this internal process.

Taking this into consideration, firms need the right technology to integrate transfer pricing and capital cost consistently across business lines.

What are the possible technology strategies for securities finance players?

Many banks are relying on a disaggregated, multi-system infrastructure to support each business function. Individual legacy systems for the back office, collateral management, securities finance, liquidity and derivatives trading, with a regulatory reporting layer, are not uncommon.

Banks need to modernise these systems and rethink their business processes. The typical target model is a centralised inventory of assets, across activities and entities, with efficient integration with trade lifecycle management, corporate action automated execution, collateral transformation and liquidity optimisation engines.

This may require the complete overhaul of obsolete infrastructures and the implementation of new integration channels. Banks can regroup traditional trading silos in an effort to manage resources and risks effectively and centrally. Where synergies are identified, business areas can then be regrouped to improve efficiency.

Alternatively, banks can invest in a single technology platform. Enterprise platforms are gaining traction among the leaders in the capital markets. There is a growing realisation that the flexibility and the best-of-breed associated with a multi-system approach is outweighed by high integration and maintenance costs.

The enterprise platform bridges the gap between multiple silos, decreases the total cost of ownership and increases efficiencies at every step of the value chain.

With a single platform, operational processes are rationalised around a single data source. This ensures that unnecessary reconciliations between front office, back office and risk functions are avoided.

Financial institutions preparing for external capital markets challenges and internal technology challenges want to build long-lasting partnerships with technology vendors they can trust.

These partnerships will result in an effective technology strategy and the definition of an achievable roadmap for the future.

On top of providing a wide range of functionality for securities finance, collateral trading and treasury desks, technology vendors will increasingly be expected to leverage cross-asset, end-to-end processing, regulatory compliance and liquidity management capabilities in a single enterprise platform. **SLT**

The enterprise platform bridges the gap between multiple silos, decreases the total cost of ownership and increases efficiencies at every step of the value chain

Etienne Ravex, Product manager for securities finance and collateral management solutions, Murex


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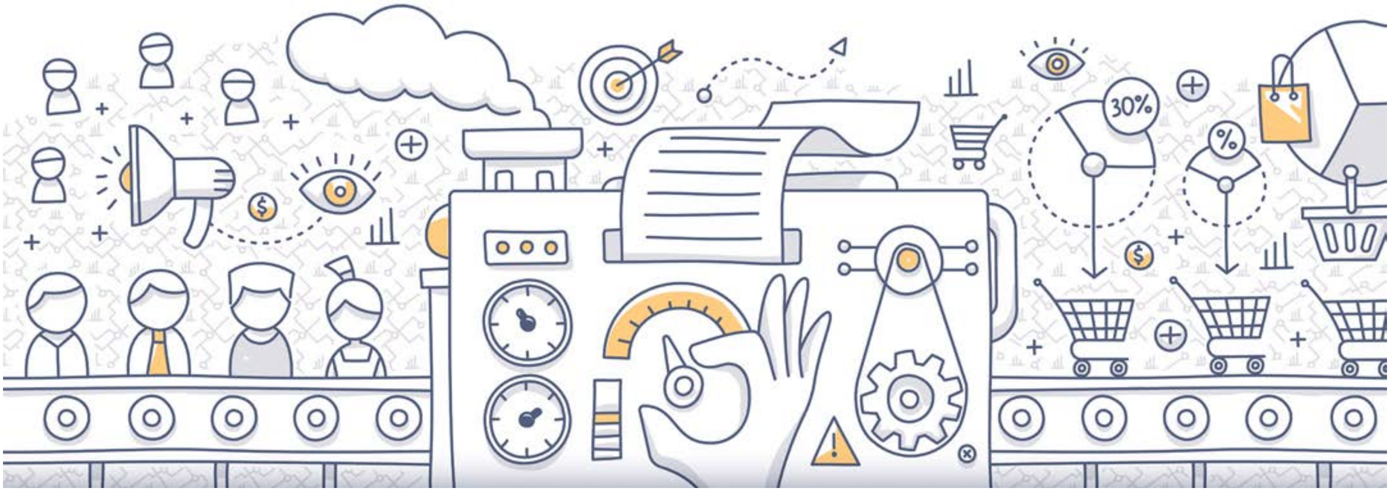

Catalyst converter

Dealreporter's Europe deputy editor, John West, gives an overview of how actionable market intelligence can flag corporate catalysts to feed into models, benefiting equity finance desks and their clients alike

The 25th ISLA conference takes place against the backdrop of Brexit risk—what impact is that having on the corporate event flow you've been tracking at Dealreporter?

As ever, we're delighted to be accompanying our subscribers at the International Securities Lending Association conference. There could not be a better time to host it—the 23 June UK referendum will mark an inflection point in Europe. Any number of positions have been taken on sterling, sovereign bonds, corporate stock and debt. We will have clarity one way or another on 24 June.

From a deals perspective, clearly some are on ice pending visibility on the UK's EU membership. But much of the corporate activity we have tracked to secure first mover advantage for our subscribers has taken place on another plane.

Brexit risk has not been an overwhelming factor in the deals landscape?

Exactly. Present in people's minds, but not defining. After all, Pfizer/Allergan collapsed on US Treasury tax changes. Terex/Konecranes's tie-up foundered because of outbound Chinese bid interest from Zoomlion. Bayer's run for Monsanto has faced pressure from shareholders, but not on macro jitters. On the positive side of the ledger, London Stock Exchange Group/Deutsche Börse announced in the full headwind of Brexit risk. We've published exclusives on all these situations.

As we move to an open access clearing structure, the London Stock Exchange Group/Deutsche Börse deal will probably have most relevance to conference attendees—not only are their clients taking positions on it, but it could represent a significant shift in the stock lending landscape.

Regulatory changes have been a headache for securities lenders in recent years. Does MiFID II herald more pain?

I don't think so. I remember some of the gloomier predictions about the implementation of Basel III at the 2013 International Securities Lending Association (ISLA) conference in Prague. Times have not been so easy, but here we are heading to Vienna. The roundtables on 21 June covering the Securities Financing Transaction Regulation (SFTR) and central clearing look compelling. The industry always finds a way and uncovers opportunities created by any new regulatory framework. While Basel III, the SFTR and the Markets in Financial Instruments Directive II modify capital, reporting and margin requirements, the latter's open access drive should significantly sweeten the pill in terms of cross margining.

We're well over the hump of the post-crisis regulatory push. Securities lenders, beneficial owners and hedge funds should all take heart from the visibility we now have. With rates stuck at rock bottom across all major developed territories, there are opportunities to be had from borrow plays around corporate events.

Amid the broad landscape of 'corporate events', what is your core coverage?

Dealreporter is first and foremost a market intelligence service for mergers and acquisitions risk arbitrage. This coverage is wide-ranging, covering shareholder stances, competition and other regulatory approvals, financing, management friction—any risk that could see a deal come apart, or that might be unexpectedly overcome to see a merger close successfully.

I mentioned the Terex/Konecranes deal that collapsed on 16 May. We'd flagged as early as 3 March that Konecranes was chiefly interested in Terex's Demag Cranes assets and could aim for a carve up. Rival Chinese bidder Zoomlion faced financing and regulatory hurdles, as we wrote. One source told us Zoomlion being able to line up a bid was "highly questionable". Konecranes renegotiated its deal, buying only Terex's material handling and ports operations, while Zoomlion walked away. Terex traded as high as $25 and fell closer to $20 earlier this month. Our subscribers saw all these moving parts and could plan accordingly.

If you think a rival bidder will walk, can that be very actionable?

That's right, but you need to put together the pieces of the puzzle. For instance, London Stock Exchange Group rose as high as £29 in March, when Intercontinental Exchange (ICE) was still considering buying the group. We looked at all the hurdles—a similar level of competition review risk as Deutsche Boerse and the tough political stance likely against a transatlantic tie-up. As early as 7 March, we reported ICE would need to come with a 20% premium to Deutsche Börse's offer. Our 12 April follow-up on the US Treasury's tax moves denting ICE's rationale for tabling a winning bid also revealed London Stock Exchange Group's board had offered only limited engagement with the US suitor. ICE walked away on 4 May, in part citing LSE's firm line, and the UK group's stock fell to £25.76. We subsequently exclusively revealed CME Group had made no approach.

Our subscribers need a detailed map of the investment landscape. Our market intelligence, and the data sets we create from this resource, are effective qualitative inputs for readers' risk models.

What sorts of other corporate actions fall under your microscope?

Dealreporter tracks any corporate action or shareholder exit situation likely to create price movements in stock or tradable debt. These include a host of special situations, including spin-offs, activism, equity capital markets (ECM) transactions, initial public offerings, rights issues, block trades and convertible bond issuance.

We are conscious of the value we add blending proprietary reporting with data from our in-house team of analysts. They crunch historical data, model outcomes and build pipelines for upcoming transactions. All this can be accessed by our subscribers.

How is this work actionable for a reader?

Here's an example. One of our analysts filtered rights issue data over eight years and saw shifts in issuance patterns, aligned with sector trends. In our 1Q Rights Issue Report, he flagged the steel sector as likely to see cash calls and pointed specifically to SSAB. The Swedish steel player announced a SEK 5 billion ($600.7 million) rights issue on 22 April. Amid feverish catching-up by local press, outlets reported the capital increase might need to be hiked. We followed up that company and investor interests aligned at SEK 5 billion and the cash call was not upsized, as we had expected.

We modelled ArcelorMittal's $3 billion rights issue on 3 March with a discount to the theoretical ex-rights price of 35.53 percent. It landed on 11 March at 35.3 percent. One of our key objectives is to flag dilutive events and chase the scale of that dilution.

How does a qualitative approach represent a route to yield in securities lending?

A purely quantitative approach will only get you so far. It's part of the toolbox, I agree. Wherever you are in the chain between lender and borrower, it's essential to map out inventory and have price data. The traders' panel on 22 June will likely touch on this area as it discusses revenue drivers in the securities lending universe.

What qualitative inputs offer is a map to what's coming next: whether a rights issue is coming, if an initial public offering in three months will improve the credit quality of the corporate, or if a stock will have the rug pulled from under it by a bidder walking away. There is more yield on the table if you know before others how prices could shift.

What's in your toolbox that allows you to secure forward-looking insight?

Dealreporter is a well-resourced market intelligence machine. We have regional headquarters in New York, London and Hong Kong, journalists in all global financial centres, teams of sector and transaction specialist reporters, and an army of analysts modelling the impact of our market intelligence.

Our output is wholly independent and we target the decision makers in any given corporate situation to make sure we know what is being planned. Analysis can be helpful, but at our core is a hunger for hard news, which is why we are called Dealreporter. We break news.

When you publish hard news, what market impact does that have?

Here's a very recent example. On 27 May, we exclusively revealed US-listed cloud-based marketing software group Marketo was in advanced talks to be bought out by Vista Equity Partners. No-one else had this. The stock climbed more than 20 percent in the next two sessions. Now before our scoop, the stock had already climbed 94 percent from lows in February. Reports in early May said the group was looking at strategic alternatives, but it went dead. It could have been a short. But then comes Vista, which confirmed its approach on 31 May.

Our subscribers saw the news before anyone else and could shift their stance accordingly. No-one wants to be on the wrong end of a short squeeze.

If that's the power of an article, how does reporting feed into your data offer?

Every time we report a potential deal, it gets logged. Our analysts have built a number of products presenting timetables and other catalysts in an actionable format. Take the Cross Border Regulatory Rundown—this shows when key competition events are expected in mergers and acquisitions situations, including proprietary estimates.

The European IPO Pipeline builds a valuation model from comparable companies suggested to us by sources, flagging how much a company might raise and the likely split between primary and secondary issuance. It's a key resource for those looking at new entrants or wanting to make a play on tradable debt.

Our Europe Rights Issue Universe database not only shows the current universe of cash call candidates, but also has a proprietary shadow tab flagging possible capital increases in major corporates.

Dealreporter's reporting and data together represent a high-value offer to those looking for an edge in the hunt for yield.


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Hedge fund hotels have plenty of room

Short sellers are shying away from crowded hotspots in favour of more peaceful surroundings. Markit analyst Simon Colvin reports

Hedge fund manager Steven Cohen recently accused his hedge fund colleagues of herding into a few crowded trades, which cuts the industry's returns and magnifies risks when trades fail to work out.

While these accusations may hold true on the long side as funds pile into 'hedge fund hotels', short positions do not exhibit the same crowding pattern, as those among the Russell 3000 Index have become more diverse in the fertile bear market seen over the last 24 months.

Two years ago, the 10 percent most shorted constituents contributed 44 percent of the index's average short interest.

That number has since fallen to 38 percent as of the latest count, which indicates that short sellers are spreading their bets away from a minority of heavily shorted constituents into the wider sector.

While this trend also coincided with a rise in average short interest, as seen by the fact that the average shorting activity across the index rose by more than a third in 2016, leading up to February's high water mark for short selling, the current dispersal among short positions has held up despite the fact that short sellers have covered in the last three months.

Previous periods of short covering have seen shorts retreat to their high conviction positions, but the short sellers seem willing to keep their current broad bets.

Another way to illustrate that phenomenon is by looking at firms that see meaningful shorting activity as defined by having more than 5 percent of shares out on loan. Two years ago, 21 percent of Russell 3000 constituents had short interest above that threshold, which has since climbed by a third to 28 percent of the sector's constituents seeing material levels of shorting activity.

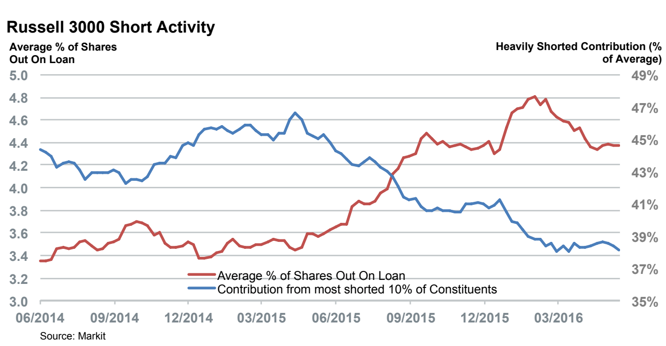
While that proportion is down from the 31 percent seen in February, the undeniable fact is that short sellers are much more active in the current market, which holds true.

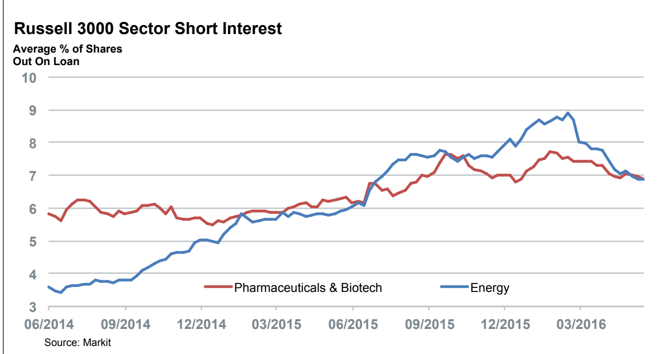
Short sellers have also been rearranging their positions among the index's sectors as energy has recently lost the title of most shorted sector to the pharmaceutical and biotechnology sector.

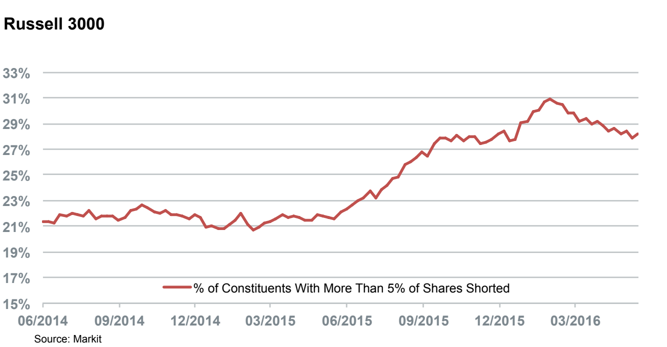
The sector had held on to that title for more than six months, but the recent rebound in oil prices has seen short sellers start to cover in earnest as energy shares do the same.

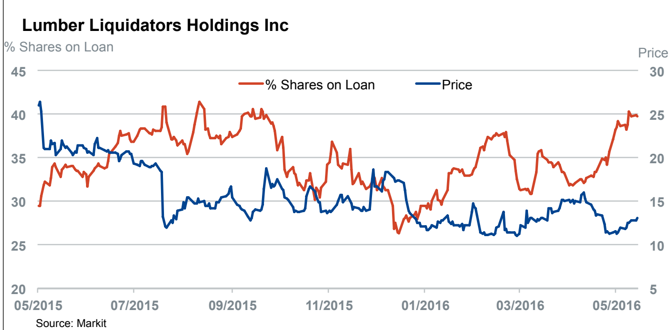
Short seller restlessness is also seen in the number of shares which claim the most shorted title. Four firms have had this honour so far this year, with Lumber Liquidator recently taking the title from Outerwall.

This marks a slight increase from last year when three firms passed the most shorted title between themselves in the opening six months. **SLT**









Comings and goings at Ceres, ISLA, Doran Jones and Pirum

Ray Hainsby and Mark Zacharia have joined Ceres Securities.

Hainsby was previously managing director and head of Europe, Middle East and Africa (EMEA) securities finance at Jefferies International.

Zacharia joins from HSBC in London, where he was director of equity finance and delta one sales.

Ceres Securities acts as introducing broker in all securities financing markets, sourcing hard-to-borrow securities.

Users of its service range from small stockbroking firms to global investment banks.

Hainsby and Zacharia previously worked together at London Global Securities and DLJ. They join the broking team at Ceres Securities in London.

Hainsby commented: “Ceres has a very simple model—focusing on sourcing hard-to-borrow securities. This involves spending time that under-resourced desks can ill afford, but being free of common corporate distractions means we can, providing value for our clients in the process.”

“The model, the positive environment and the team made our decision to join Ceres very easy.”

John Brimmer, director of Ceres Securities, added: “We are very pleased to have Ray Hainsby and Mark Zacharia join our growing team. They bring great energy and experience and typify the work ethic we value at Ceres.”

Markit has named Samantha MacRae Foerster as a director and equity sales specialist.

In her new role at Markit, MacRae Foerster will work with senior management, account management and product teams. She will be primarily focused on Markit’s equity sell-side customers.

She brings with her knowledge of the equity markets, including equity market structure, transaction cost analysis, best execution reporting, securities finance, commission management, exchange-trade fund and dividend data, and quantitative research signals.

Prior to her new role, she served as a senior sales director and territory manager at Bloomberg Financial Markets in both San Francisco and New York.

IT consultancy Doran Jones has appointed former eSecLending executive Susan Peters as its new CEO, with founder Matt Doran stepping up to president and chairman of the board.

Peters led eSecLending from its inception to eventual sale to a private equity buyer. She was also chairman of the board of Securities Finance Trust Company.

Peters has been on the advisory board of Doran Jones since its founding in 2010.

Doran commented: “Bringing Susan Peters into the company from the advisory board will further position Doran Jones as a leader in software development and testing in a broad range of areas, including financial services and healthcare.”

“Doran Jones is well positioned to grow through aligning its goals with those of its clients and providing a broad spectrum of bespoke solutions that meet and exceed client expectations.”

“Susan’s experience in securities finance will add value to its growing list of financial services clients,” Doran added.

“I am very excited to be working with the Doran Jones team,” commented Peters.

“The company has assembled a highly skilled and successful team providing technical solutions to practical problems posed by the ever changing need for systems enhancement.”

She added: "Moreover, the company's model of providing training and careers to veterans and people from under-served communities is particularly exciting to me."

Doran Jones provides business analysis, development and testing services to a broad range of companies such as financial services firms, hedge funds and banks.

It has domain experts in capital markets, securities finance, compliance and regulatory reporting and healthcare.

Pirum Systems has recruited Ben Challice as COO, giving him responsibility for the technology company's strategic product and market development.

Challice is a well established figure in the securities financing industry, with 16 years of experience including his most recent role as head of global prime services at Nomura.

Challice has also held senior positions at Lehman Brothers and Goldman Sachs.

/he said: "I am thrilled to be embarking on the next stage in my career at such a pivotal time for the industry."

"Technology-driven solutions which allow greater automation and efficiencies, leading to better returns, are being demanded by the market. Pirum is ideally placed to develop these solutions for its clients."

Rajen Sheth, CEO of Pirum Systems, added: "I am very excited to welcome Ben Challice to our team. His deep knowledge and experience of secured financing and the prime services business, products, processes and markets will be invaluable to our clients and the team."

"I look forward to working with Ben as Pirum continues to lead the evolution of the securities finance automation landscape."

Andrew Dyson has been confirmed as the new CEO of the International Securities Lending Association (ISLA), following the decision of current incumbent Kevin McNulty to step down after seven years in the post.

Dyson, who currently serves as ISLA's COO, will assume his new role when McNulty vacates the position following ISLA's annual conference this month.

Dyson commented: "I am delighted to have been given the opportunity to lead our industry association."

"The industry has many challenges that are changing the way we look at securities lending and I believe that it is more important than ever to have a vibrant and outward looking association."

"I look forward to building upon the work that I have done at ISLA over the past three years and I hope to make us more effective and relevant as we try and reflect the aims and objectives of our members."

In a letter to members, ISLA chair Andy Krangel said: "In many respects, Andy Dyson has been effectively acting as CEO for some months now and clearly understands the challenges that our market faces. One of his first tasks in the new role will be to work with the board to fill the now vacant COO post he currently holds and in doing so, bring further experience and skills to the ISLA team."

McNulty said: "It is with very mixed feelings that I have made this decision which is driven mainly by some personal challenges and my desire to spend more time with my family. I realise that this is a critical time for our market given the number of impending regulatory developments."

Citi has appointed Keith Lau to head up its global funds technology team and Patrick O'Brien to lead the Irish fund services team.

Lau takes on the title of global head of funds technology, effective 1 August. He joins from State Street, where he was senior vice president and global head of analysis, testing and deployment.

O'Brien will be responsible for driving business development in Ireland and Luxembourg, and will be based in Dublin. He joins from J.P. Morgan, where he was global head of client strategy for the fund services business. **SLT**

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