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Broadridge snaps up 4sight

Broadridge Financial Solutions has added another string to its securities finance bow with the acquisition of 4sight Financial Software.

4sight will be integrated into Broadridge's securities financing and collateral management solutions. In a statement on the acquisition, Broadridge highlighted synergies between 4sight's proven solutions and global client footprint and Broadridge's strong North American presence in the securities financing market as drivers behind the merger.

The specific terms of the deal were not disclosed.

The addition of 4sight also further strengthens Broadridge's recently-announced global post trade management solution and managed services capabilities for business process outsourcing. This latest purchase also comes only three months after Broadridge finalised its acquisition of Massachusetts-based tech firm Anetics.

"The greater demand for collateral driven by the regulatory agenda has raised the need for a global approach to the multi-asset securities financing lifecycle," commented Michael Hopkins, president of fixed income, financing and risk at Broadridge.

"We are delighted to welcome the talented 4sight team, who have built an exceptional solution," he added.

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Clearstream moves on China

Post-trade services provider Clearstream is looking to be first at the gate to take full advantage of the opening of the Chinese capital markets, according to its monthly report.

The Deutsche Börse subsidiary is "working on several initiatives to support" the development of Asia's largest financial market, including exploring options to provide access to onshore Chinese renminbi (RMB) products for its customers.

Significant progress has already been made in forging relationships between Europe and China, such as the International Monetary Fund's decision to include RMB in its special drawing rights reserve currency basket, with a weighting of 10.92 percent, the third highest weighting after the US dollar and euro, according to Clearstream.

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Russell 3000 not special anymore, finds Markit

A dramatic drop off in the short selling volume of Russell 3000 constituents is negatively affecting securities lending revenues, according to financial data provider Markit.

According to Markit, the average short interest among the index's constituents, which is responsible for over 95 percent of the US shorting activity by volume, has dropped by 10 percent from the highs seen in April.

Furthermore, as well as falling shorting volumes, the number of securities lending trades garnering a specials fee, seen by Markit as anything over 100 basis points. (bps), has also been declining.

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Broadridge snaps up 4sight

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Alastair Chisholm, founder of 4sight and vice president and general manager at Broadridge, said "For decades, Broadridge has been focused on helping companies transform their operating models to gain operational and cost efficiency by providing proven yet innovative, market-leading technology solutions. We are excited to join the Broadridge team and bring our capabilities to Broadridge Securities Financing and Collateral Management solutions."

"Through a holistic, global and multi-asset view of collateral and positions integrated across an enterprise, banks, broker-dealers, agent lenders and buy-side institutions can truly manage collateral and optimise financing decisions, while gaining a greater control of risk and improving balance sheet management," said Chisholm.

Clearstream moves on China

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The report suggested that central banks and other investors are expected to shift parts of their assets to China as a result of these developments.

The international central securities depository (ICSD) is also is currently in the process of developing a link to the Chinese interbank bond market (CIBM), the third biggest fixed income market in the world with over $7 trillion outstanding, according to Clearstream.

The initial stage of this linkage, which is set to go live later this year, will allow eligible international investors to benefit from a simple ICSD method to access sought-after onshore RMB-denominated fixed income assets.

Clearstream is currently the sole ICSD to offer settlement and custody services of China A-shares listed at Shanghai Stock Exchange via the Shanghai-Hong Kong Stock Connect scheme.

This service will be enhanced on 4 July to allow Clearstream customers to benefit from true delivery versus payment settlement via the linkage.

"This is also due to the high likelihood that RMB-denominated China A-shares will be included in the MSCI and FTSE benchmark indices," said Clearstream chair and member of the Deutsche Börse executive board Jeffrey Tessler.

Likewise, Chinese bonds are expected soon to join some global emerging market indices, added Clearstream.

"China has been a crucial part of Deutsche Börse's strategy for a long time now, and we have had a strong presence in Asia for many years," Tessler added.

"I think it's clear that we're currently in the midst of a rare convergence of both internal reform of the onshore Chinese market and international recognition of the importance of the RMB."

"From a domestic perspective, there's been a flurry of progress in liberalisation reforms over the last 12 months."

"This has been mirrored by moves internationally to increase the global role of the RMB."

Russell 3000 not special anymore

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Markit's data notes that over 10.2 percent of the Russell 3000 constituents traded special in April, but that has fallen to 8.7 percent of the index's current constituents now meeting the special criteria.

Energy sector firms, which regularly feature in hot stocks lists, are a prime example of this trend with the number of stocks earning special fees falling from 33 to 29 since the start of 2016.

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OCC comments on QCCP extension

Equity derivatives clearinghouse the Options Clearing Corporation (OCC) has praised the European Commission's decision to delay the deadline for US CCPs to become fully fledged qualifying central counterparties (QCCPs) in the EU.

The endorsement from OCC comes after the European Commission formally acknowledged US CCP regulation as equivalent to the EU's in March.

CCPs wishing to be recognised by the European Securities and Markets Authority (ESMA) were initially given until 15 June to complete the transition. Acknowledging that the changes are unlikely to be completed by June, the European Commission extended the deadline to 15 December.

In order to avoid disrupting international financial markets during the transitional period, all CCPs that institutions established in the EU clear with are temporarily considered as qualifying CCPs. Certain CCPs are also required to report the total amount of initial margin received from their clearing members.

According to OCC, the transition also means its EU-affiliate clearing members' risk-weighted asset exposures to OCC would increase from about $924 million to reach more than $75 billion, requiring them to maintain additional capital of about $5.25 billion.

OCC executive chairman Craig Donohue commented: "We commend the European Commission for its decision to extend the transitional period deadline for CCPs such as OCC to be recognised as QCCPs."

"This announcement provides some important breathing room for the listed options industry. We look forward to continuing to work with the European Commission, ESMA, and the US Securities and Exchange Commission (SEC) as they work to come to an agreement on a common approach for the regulation of cross-border QCCPs."

Donohue continued: "Recognition of US CCPs subject to the SEC's jurisdiction is important to OCC and market participants for several reasons, foremost among them that it would allow EU banks' and EU bank affiliates' exposure to those CCPs to be subject to a lower risk weight in calculating their regulatory capital."

Pershing adds hedge fund data platform to investment center

BNY Mellon subsidiary Pershing has added AltX, a hedge fund intelligence platform, to its Alternative Investment Center.

The Alternative Investment Center is accessed via NetX360 and provides advisors with educational resources, research and tools to help inform their alternative investment strategies.

Pershing said it aimed for the addition of AltX to help advisors evaluate hedge fund investment opportunities by providing them access to hedge fund market data, insights and analytics.

AltX analyses more than 300 private funds across 26 metrics such as strategy, assets under management, historical returns, and additional subscription, redemption and regulatory information, and provides the integrated data directly into NetX360.

The platform also delivers daily hedge fund-related news and printable fund reports to clients.

AltX joins existing service providers such as Morningstar and Blue Vault Partners on the platform, along with other educational resources such as comparison and screening tools, whitepapers and commentary from alternative investment managers.

Justin Fay, Pershing's director of financial solutions, alternative investments and exchange traded funds, commented: "We've seen continued demand from advisors serving high-net-worth investors to access hedge funds, with hedge fund and fund of fund assets making up over a quarter of the alternative investment assets on Pershing's platform."

He said: "We added AltX to address this demand and help serve our clients more effectively by providing them with the tools and education they need to make well informed decisions as they explore hedge fund opportunities for their suitable clients."

The Alternative Investment Center currently has more than 38,000 entitled users in NetX360 across more than 230 broker-dealers.

It also boasts more than 500 registered investment advisors, providing custody support for over 2,000 alternative investments.

CloudMargin and the CME Group team up for collateral management

CloudMargin and the CME Group are collaborating to offer clearing participants access to cloud-based software for automated and integrated collateral management.

CME Clearing and CME Clearing Europe customers will be able to access a consolidated view off their complete collateral inventory, including cleared and non-cleared derivatives transactions across all asset types and instruments.

The software includes a tool for handling complex collateral requirements involving multiple counterparties, and also offers automated connectivity for global custodians, banks, clearing brokers and clearing houses.

Sunil Cutinho, president of CME Clearing, commented: "The cloud-based collateral management service will be of particular relevance for market participants who want to fulfil all of their operational and regulatory requirements efficiently."

Cutinho added: "Our collaboration with CloudMargin will ensure that collateral management becomes even more accessible and robust."

CloudMargin CEO Steve Husk commented: "Our relationship with CME Group will immediately benefit all current and future members of the CloudMargin community."

He said: "Where, through regulation, activity is migrating away from non-cleared transactions to central clearing, our expanded functionality in both areas ensures we remain able to support all our clients' end-to-end collateral management requirements in our fully automated, light touch, cloud-based model."

Global swaps liquidity fragmentation persists

The aggressive overhaul of the US swaps market to align it closer to European standards continues to drive cross-border liquidity fragmentation, according to a Tabb Group report.

The report warned that disparity threatens to bring the worries held by market participants since the implementation of swaps execution facility (SEF) mandates in late 2013 into reality.

The report's data showed the largest activity shift was in the markets for euro-denominated swaps, with 91 percent of the global market for euro swaps captured by a exclusively European dealer liquidity pool, as of April.

US dealers represent less than 1 percent of the global euro swaps market compared to the average of more than 10 percent prior to SEFs going live.

In the report, TABB examined recent inter-dealer cleared trading activity data compiled by LCH SwapClear and published by the International Swaps and Derivatives Association (ISDA) to establish the new cross-border liquidity pool dynamics for swaps trading activity for interest rate swaps.

Colby Jenkins, a TABB analyst involved in the study, said: "We're still a few years away from implementing the Markets in the second Financial Instruments Directive and Regulation and the factors driving liquidity pools to fragment along geographic borders will likely persist until the dust settles around these mandates."

Jenkins added: "The lack of cohesion between US and European swaps trading landscapes and regional regulatory regimes is a problem still being addressed with distant goals."

"Issues such as clearing equivalency, certain cross-border application of rules, and implementing technology to comply with transaction level requirements for both regimes will be critical factors in determining the future of liquidity pools."

SocGen holds on to trustee mandate in South Africa

Nautilus Managed Account Platform has retained Societe Generale Securities Services to provide trustee services for its management company in South Africa.

The appointment follows the decision by the Financial Services Board (FSB) in South Africa to extend the scope of funds regulated by the Collective Investment Scheme Control Act (CISCA) to include hedge funds.

Societe Generale will continue to offer position-keeping of assets, daily control of liquidity flows and obligatory inspections and audits to the Nautilus Managed Account Platform, which has been a subsidiary of the Johannesburg Stock Exchange since 2011.

Nautilus cited Societe Generale's local presence combined with its established international reach, along with its recognised investment fund and global banking expertise, as reasons for renewing the mandate.

CISCA regulates qualified investor funds and retail hedge funds, both types of hedge funds, in South Africa. Management companies seeking to offer hedge funds to the public are required to register with the FSB and appoint a trustee, which now places the oversight and supervision of institutional and retail hedge funds under the jurisdiction of the FSB.

LSEG and Deutsche Börse publish merger documents

The London Stock Exchange Group (LSEG) and Deutsche Börse have published several shareholder documents for review ahead of the exchanges' respective shareholder meetings on 4 July.

The exchanges released the scheme and exchange offer documents, as well as the HoldCo prospectus to both exchanges'

shareholders. In a joint statement, the exchanges said the merger will benefit all of their clients and shareholders and will “enhance the global footprint and create a platform for future growth in Asia and North America”.

The merger will be implemented through a new holding company, UK TopCo, that has been incorporated in the UK for tax purposes, with a board of directors constituted in accordance with the UK corporate governance code.

The statement clarified that the outcome of the UK’s referendum on its membership of the EU, set for 23 June, is not a condition for the merger.

Under the terms of the merger, LSEG shareholders will be entitled to receive 0.4421 HoldCo shares in exchange for each LSEG share, while Deutsche Börse shareholders will be entitled to receive one HoldCo share in exchange for each Deutsche Börse share.

Deutsche Börse shareholders can tender their shares until 12 July 2016.

The documents outline several opportunities for growth and revenue synergies, along with cost saving possibilities.

ESMA invites comment on potential of blockchain

The European Securities and Markets Authority (ESMA) has issued a distribution paper and public consultation on the potential usefulness of distributed ledger, or blockchain, technology in securities markets.

The paper assessed the potential benefits and risks that broader use of blockchain could have on the industry, and highlighted potential regulations that could be applicable to uses of the technology, including the European Market Infrastructure Regulation, the Securities Finality Directive and the Central Securities Depository Regulation.

According to ESMA, the consultation is partly intended to help the authority assess challenges and benefits of the technology from a regulatory perspective, allowing them to consider whether a regulatory response is required.

In the report, ESMA stressed that firms starting to create distributed ledger technologies should remain mindful of the existing regulatory framework.

Benefits highlighted included the potential for improved security, compared to existing systems, although this has not yet been properly tested. Distributed ledger technology could also improve record-keeping, reporting and oversight, and could potentially lead to reduced counterparty risk.

ESMA also highlighted some legal and technical challenges, including the possibility that the perceived benefits of the technology may not be replicable on a larger scale—another point that has yet to be tested.

There is also concern around interoperability with other systems and networks, the lack of netting capabilities, and the adverse effect that the technology could have of market finance and short-selling, which relies on trading with assets financed externally.

The report identified the potential risks of cyber crime, fraud and money laundering, as well as operational risks and the threat of market volatility.

Finally, ESMA asked for feedback on potential problems around governance and privacy within blockchain technology, and questioned the capacity of the technology to fit into the existing regulatory framework.

The authority acknowledged that the technology is still in its early days, and that

no operating system in securities markets is currently using the technology on any significant scale. The means that currently, it is difficult to properly assess the effect that widespread use of blockchain would have on securities markets, market participants or infrastructures.

Responses to the discussion paper must be submitted by 2 September.

EquiLend enters the swaps business

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

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.

He said in an 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.

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.”

Convergex launches new stealth liquidity algorithm

Global broker Convergex has launched its new Small Cap algorithm to maximise liquidity in traditionally illiquid stocks.

According to Convergex, Small Cap rests completely hidden in over 15 alternative trading systems and is able to exit the market when it ‘senses’ that it is signalling its

presence in the market place. The algorithm will then return to the market when it determines that it is advisable to re-engage.

Meanwhile, block executions are continuously analysed for the potential execution of conditional orders.

The new offering brings unique features including the ‘Shot Clock’, which strategically takes liquidity from lit and dark markets, along with Convergex’s proprietary fair price model.

Convergex confirmed in a statement on the launch that traders can set the Shot Clock to take liquidity for each desired name at time intervals tailored to their specific preference.

“In essence, the Shot Clock feature allows traders to have full control to replicate the manual workflow they are currently using to trade small cap stocks.”

“In addition, executions are regulated by Convergex’s proprietary fair price model that enables traders to source as much liquidity as possible in less liquid names while minimising impact in the market place.”

“Finally, the Small Cap algo supports min-dark fill and can customise venues on a client-by-client preference.”

Eric Noll, CEO and president of Convergex, added: “Our new Small Cap algorithm was developed to complement our existing suite of algos and to fill a void in the small cap algo space.”

HSBC facilitates first CIBM access

HSBC has become the first bank to facilitate access to the Chinese interbank bond market for an overseas investor.

Through HSBC, UK asset manager Investment Insight was able to register with the Chinese regulator to invest in the CIBM.

This makes HSBC the first bank to facilitate access since the announcement in February that the CIBM would open up to foreign investors, through a registration process.

HSBC will now act as the settlement agent bank and custodian for Investment Insight.

Cian Burke, global head of securities services at HSBC, commented: “China’s continuous opening up of its domestic bond market to foreign investors underpins the country’s determination to push forward its financial reform.”

“The broader access and simplified process make it easier for overseas investors to tap into growth opportunities of the CIBM, which is already the world’s third largest fixed income market.”

Sophia Chung, HSBC’s head of securities services for China, added: “HSBC is pleased to facilitate the first registration under the relaxed rules, which further demonstrates our leadership and expertise in servicing overseas institutional clients.”

Custody processes improving at BNP Paribas Securities Services

BNP Paribas Securities Services is launching a new ‘Augmented Custody’ programme to improve custody and corporate actions processes for clients.

Using data management tools and digital technology, along with the bank’s presence in various local markets, the programme is intended to give clients better access to international markets and to help them manage their investments more efficiently, according to BNP Paribas.

Improvements include faster corporate actions and income notifications, with notifications released within six hours of market announcement for direct market access, and within 12 hours for global access.

All for a good cause

A collection of photographs from the charity golf day held in memory of Dave Williams, who sadly passed away last year. All proceeds will go to the NSPCC

On 17 June the industry came together at Westerham Golf Club for a charity golf day in memory of Dave Williams, who sadly passed away in 2015.

A charity that was very close to Dave Williams's heart, the NSPCC, was chosen and the opportunity to raise money for a worthwhile cause in his name was seen as an excellent way in which to remember him. With 76 players from the securities finance industry, three generous sponsors and some amazing prizes on the day for the golf, raffle and auction, all that was needed was the weather.

The event has already raised £18,000, a figure that will hopefully increase with company charity matching schemes. To donate for this fantastic cause, please contact:

Michele Baxter, Mid North and West Kent Fundraising Manager, London & South East Team, on 01622 693284, or by post at Pear Tree House, 68 West Street, Gillingham, Kent, ME7 1EF, UK.

Go fund yourself

The CASLA conference brought the securities lending industry together in Toronto to discuss local and global market trends

The 6th Annual Conference on Canadian Securities Lending, organised by the Canadian Securities Lending Association (CASLA), offered delegates an insight into the often unassuming North American market that is bucking global trends by posting positive growth figures while other regions stall.

Canada by numbers

The one-day event kicked off with a data-driven breakdown of Canada's securities lending industry compared to the rest of the world through the eyes of Tim Smith of FIS. "Canada is very

European in style when it comes to securities lending, or should I say Europe is very Canadian in style," Smith said when discussing the cash versus non-cash breakdown for the region.

Unsurprisingly, general collateral still takes up the lion's share of loan volumes for Canada.But the percentage of warm and hot loans is noticeably higher when compared to the global average between 2009 and 2016.

FIS considers general collateral trades as anything garnering a fee of 20 basis points (bps) or less, with warm and red hot 'specials' represented in tiers between 20 bps and 500 bps or more.

Global general collateral volume remained steady throughout these years, hovering around the 80 percent mark of total loan volumes. In Canada, on the other hand, FIS's Astec Analytics data painted a much more volatile picture, with general collateral-to-special ratios fluctuating between going as low as 50/50 to 75/25 in favour of general collateral over the seven year period (see Figure 1).

FIS's securities lending revenue data also highlighted Canada's divergence from global norms. Global loan revenue showed a complete reversal of volume figures with specials, especially those with fees valued at 500 bps or more, dominating revenue volumes between January 2010 and April 2016. Total revenue derived from fees from specials fluttered between 80 and 85 percent of annual market revenue during those years.

Compared with Canada-specific data, the difference isn't between general collateral and specials as Canada saw a fairly stable 80 to 90 percent of revenues coming from specials between April 2013 and April 2016. The differences reveal themselves when the specials data is broken down into loan revenue tiers, as FIS does (see Figure 2). The stability of Canada's specials revenue figures was noticeably calmer than the global average, which may in part been attributed to the relatively easy time of it the Canadian economy has had compared to other parts of the world.

No CCPs please, we're Canadian

The inevitable topic of central counterparties (CCPs) was posed to panellists, and again Canadian industry participants rebelled against wider market trends.

2016 marked a noticeable shift in industry opinion in favour of giving CCPs a chance to prove their worth. A number of leading industry entities on both the buy and sell side are now invested in upping their trade volumes through CCPs as the cost of capital begins to bite.

Figure 1: Relative loan volume of general collateral vs specials in Canada over time

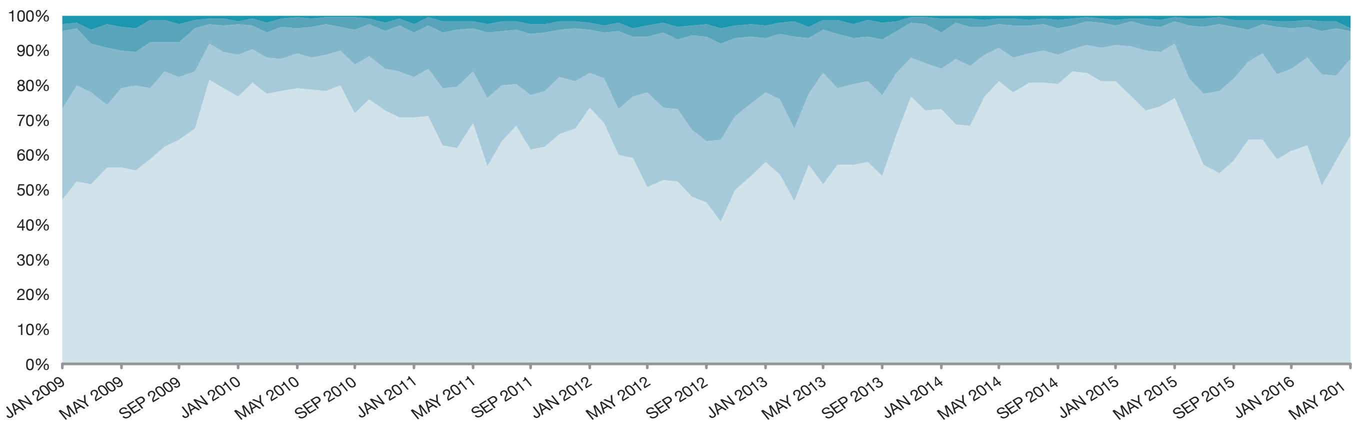
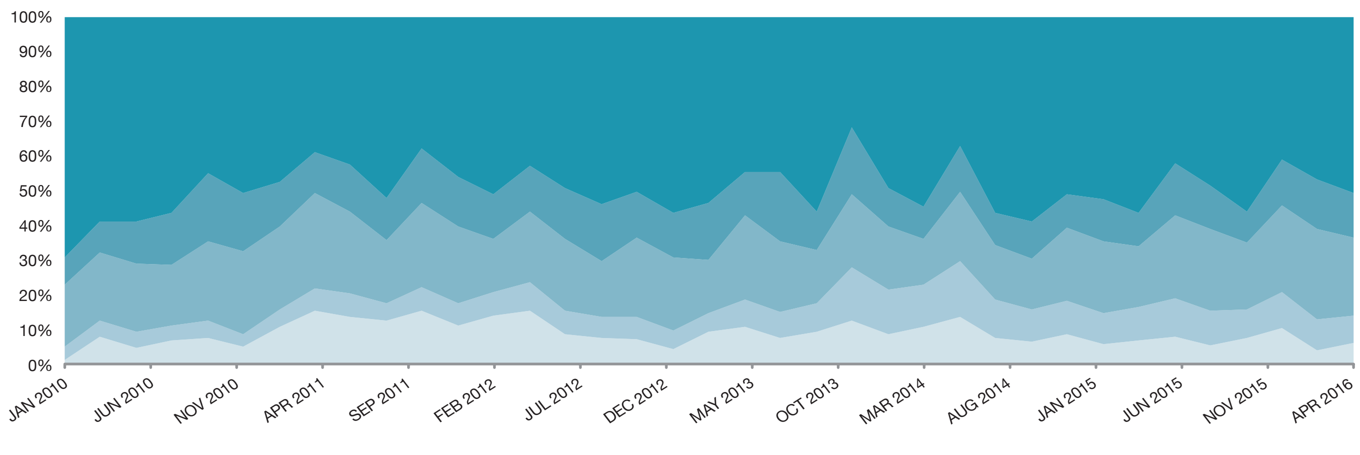


Figure 2: Relative loan revenue of general collateral vs specials in Canada over time



Fee <= 20 bp | 20 bp < Fee <= 50 bp | 50 bp < Fee <= 250 bp | 250 bp < Fee <= 500 bp | Fee > 500 bp

Source: FIS Astec Analytics

One custodian panellist, discussing the US market, described how increasing numbers of participants are "joining the CCP bandwagon every year".

The same cannot be said for Canada, however, as a panellist from a large Canadian bank highlighted that the limited number of industry participants means that "there really isn't any point [of introducing a Canadian CCP]".

The limited number of Canada's securities lending industry participants means that only unilateral action by all participants could spearhead the creation of an onshore CCP.
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 CCPs 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".

Canada in context

There are some global trends that the Canadian securities lending market cannot ignore. The reliance on technology and specifically automation to take on the brunt of general collateral trades is a well established market trend at this point, but conference delegates heard that traders are expanding the role of automation to take on "warm" lending trades as well. The aim is to allow traders to focus on intrinsic value lending and hunting down specials that, according to FIS, currently make up 90 percent of global lending revenues.

Additionally, industry participants that were in Arizona in February for IMN's Beneficial Owners' International Securities Lending Conference will remember the emphasis that panellists put on the need to review the current terms of indemnities offered to beneficial owners by agent lenders.

"The value of indemnification is being brought into question because agent lenders now have regulatory requirements that make it difficult to continue to offer it in the same way," explained one banking representative during the regulatory update panel in Toronto.

"Beneficial owners need to be willing to allow collateral more types and be flexible," added a agent lender panellist.

The word 'flexibility' in relation to beneficial owners' lending strategies was mentioned again and again by agent lenders in the panel and audience members as an essential component of maintaining liquidity.

As one buy-side representative put it: "If borrowers want specials you are at the mercy of your agent lender when it comes to collateral type." This may seem like an attractive power dynamic for beneficial owners, but when they look at the chasm that exists between the volume of available securities versus the on-loan volume the market is ripe for a beneficial owner to loosen the reins and let their securities fulfill their earning potential.

Canada: Key data

- $106.3 million earned in market revenue for Q1
- $52 billion of securities on loan
- Primarily non-cash collateral market
- Hot stock by sector: Healthcare, materials and financials

Source: DataLend

When it rains, it pours

Even in Canada, it seems, frustration exists about the practicality and necessity of the regulation coming into force for the global securities lending industry over the next few years.

"What is the regulator going to do with all the data, and what will be made public?" asked one exasperated Canadian panellist.

"How much of the 'shadow industry' is will it expose? The market is small and people may be able to find out a lot from public data and find out whose data is who's," the panellist added.

Another panellist agreed, stating: "Regulators should be careful what they wish for. They ask for all this information but it may not actually help them at all."

The entire panel agreed that associations such as CASLA must continue to be ready and willing to work with regulators to help educate and keep the industry's voice heard. **SLT**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South Africa finds its rhythm

South Africa's securities lending industry is on the verge of embracing a modern T+3 settlement cycle that could boost the country's market

The South African securities lending market is modest in size but can offer rich pickings to those willing to enter a market that might seem quite alien to institutional European or US market participants.

James Burgess, chair of the South African Securities Lending Association (SASLA), explains: "The South African market isn't as deep or sophisticated as we would like at the moment, but we are working hard to change that. To put it in context, for Europe and the US, general collateral runs at anything between 10 and 20 basis points (bps), but in South Africa it's 40 bps."

"From a European point of view, we look twice as lucrative, but if you look at the market and what's actually out on loan, it's not huge. SASLA members only make up about 10 lending desks, working with just under $10 billion of fixed income and equity," Burgess explains.

In terms of overall value of South Africa's securities lending market, FIS Astec Analytics's data shows the cyclical nature of the market's on-loan volumes month-to-month. This year marked a turning point in the market's trajectory with overall borrowing value dropping steadily from roughly US $3.8 billion in October 2015 to around $1.8 billion at the end of December.

The new year saw borrowers return to market, driving market value back up to around $5.4 billion in mid-April, before calming to bob between $2.8 and $3.1 billion throughout early June.

Re-joining the pack

The securities pool is shallower and the number of market participants is smaller than those of the EU and North America, but the biggest differentiator between South Africa and other regional markets is the perseverance of the T+5 settlement cycle—but that's is all about to change.

As of midday on 11 July, the Johannesburg Stock Exchange (JSE) will put years of preparation into practice and initiate a long overdue market overhaul to bring South Africa's market back into step with the US T+3 cycle (at least until Q3 2017 when the US shifts to match the EU's T+2 standard), which could prove a catalyst for future growth in the region by creating a more familiar market environment to outside investors that could diversify and expand markets such as securities lending.

South Africa is the last country still operating on a T+5 basis, including other emerging markets, and that needs to change if its financial markets are going to remain competitive.

The JSE's move to T+3, which is mandated by the Financial Stability Board, is primarily aimed at making the South African financial markets, including securities finance, more easily accessible and attractive to investors in the long-term, but there is also the immediate advantage of removing the last barrier holding back South Africa's global benchmarking.

South Africa is ranked 56 out of 144 countries on the World Economic Forum's Global Competitiveness Index 2014 to 2015, a slip of three places from its 2014 to 2013 rank, which was out of 148 countries. Furthermore, the T+5 settlement cycle is the final barrier holding back South Africa's standing on the FTSE requirements for an 'advanced emerging market'.

In a presentation given by the JSE on the initiative, the exchange cited increased liquidity through improved collateral velocity and rehypothecation and reuse options, along with allowing margin to be called earlier in the cycle, as key reasons to push ahead with the move.

Reducing the number of trades outstanding will also reduce settlement exposure and mitigate credit risk and systemic risk.

Given the combined weight of these reasons to make the transition to T+3, the JSE must have a significant counterpoint to delay such a move, and it does: fear of forcing more fails.

Brett Kotze, head of operations for clearing and settlement at the JSE, outlines the exchange's current commitment to minimising market fails, stating: "The JSE provides settlement assurance to all trades done on the central order book of the exchanges system subject to price discovery."

Kotze explains: "In T+5, we have a rolling contractual settlement methodology, which means each business day is a trade day and a settlement day. The contractual basis, is that a client trading on the JSE is contractually obliged to ensure settlement takes place. When moving to a T+3 settlement cycle, the same thing applies, except it is a shorter settlement cycle."

The main risk of shrinking participant's settlement window by two days is increased risk of market fails. Part of the solution to avoid this scenario, according to the JSE, is boosting the securities lending industry.

In the same presentation, the exchange highlighted the need to increase securities lending and borrowing in order to boost liquidity and ensure the conclusion of settlements.

Why now?

Burgess, commenting on the regulator's timing to improve South Africa's settlement cycle, said: "It is our understanding that they have made the conscious decision not to be the first mover, although not to be the last one either, when it comes to regulation. This method allows us as an industry to learn the lessons from Europe and the US before deciding upon our own framework."

"We are happy to be led by the G20's Financial Stability Board. We are a G20 signatory so we have to apply its rulings—but maybe not be first. Having said that, for our industry we feel that the European Securities and Markets Authority is the most vocal body and so naturally we are more inclined to look to Europe to get an idea of market trends and regulation than we are the US," he added.

In a few weeks, South Africa will leap forward to re-join the modern market after years of deliberations and testing and the country's securities lending industry has the chance to play a pivotal role in the modernisation of the wider financial market.

The JSE and SASLA, along with other financial institutions, have been doggedly working to coach the country's market participants to a point where they are ready for the shorter cycle. The exchange specifically has been engaged in an ongoing campaign over several years to educate its market on all essential areas necessary to make this move a success. Now, on the eve of one of the biggest market overhauls in recent years, the mood on the ground is one of confidence.

Kotze concluded: "The JSE firmly believes that the market is ready to move to T+3. All that remains is finalising the deployment of the T+3 code." **SLT**

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In, out, shake it all about

Short sellers appear to be closing out their positions ahead of one of the most uncertain referendums of recent times. David Lewis, senior vice president at FIS Astec Analytics, explains the situation ahead of 23 June

There are only a few days to go until we will all know the answer to the biggest question that the EU has faced for a very long time. Every person has an opinion on which side will win, but from the people I have spoken to about this, that opinion changes from one day to the next. The issue is, of course, whether the UK will leave or remain in the EU. Apparently, there is some kind of football tournament on as well.

It is hard to imagine a simpler question that carried so much weight and had the potential to create such an impact on so many people and countries at once. Whatever the answer is, one of the certainties is that this is the beginning and not the end of this issue. If the UK votes to remain a member, then that relationship will still have changed forever. There will be many further questions about how the EU will reform or change over the coming years, and what will happen as a result of the new members queuing up to join. If the vote is to leave, then the UK will be starting to walk down an exit path that no country has ever taken, where there will be many more questions to answer regarding how the future will look.

Many facts and figures have been quoted by both sides in the run-up to the vote, some arguably more accurate than others. What is certain for sure, is that markets hate uncertainty. Everything from government policy decisions to personal decisions about houses and jobs, have been put on hold until after the vote. This is not just happening in the UK, this is an issue affecting the whole EU as well as its trading partners, allies and enemies across the globe.

The financial markets have taken a beating too. The FTSE 100 share index is, at the time of writing, at 5,927, the fourth lowest point in the last 12 months. Since 1 June, the FSTE 100 has dropped 4.2 percent, compared with the peak this year it is down 13.4 percent, and compared to one year ago, it is down 11.6 percent. On the same measures, the CAC 40 is down 7.3, 14 and 20 percent. The DAX is similarly down 6.4, 18.6 and 13.6 percent.

Not all of this can be attributed to the so-called 'Brexit' question of course, especially not the longer term changes, but the uncertainty plaguing the market in the run-up is likely to be impacting the more recent changes. At the time of writing, the vote is much too close to call, which just fuels the market concerns about which way the vote will go, and into which direction the UK and EU will be plunged.

The short side of the market would, perhaps more so in less unique circumstances, revel in uncertainty. Uncertainty brings prices down as investors dial down risk and rush to reduce their exposure by buying into safe haven assets. The evidence of such behaviour was seen very recently as 10-year German government bond yields turned negative, indicating that investors value the creditworthiness of Germany so much that they are willing to pay to lend them money. On that basis, short sellers should be ramping up their positions and having a bonanza, shouldn't they?

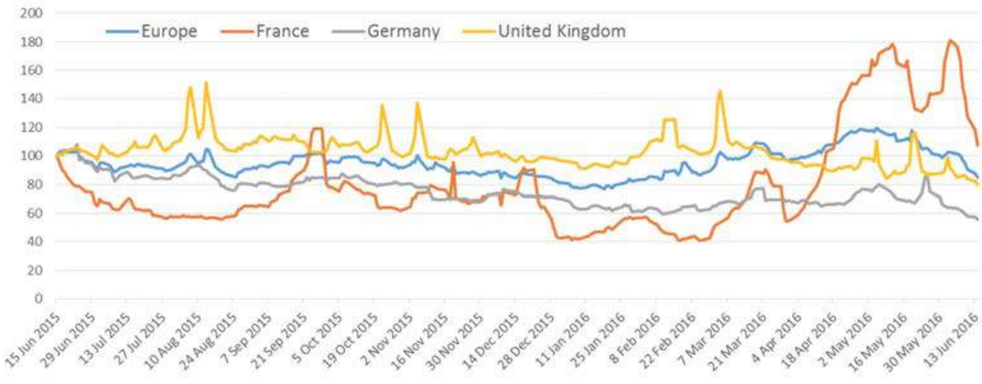
Apparently not. Figure 1 shows the value on loan for equities across Europe, Germany, France and the UK, indexed to 100 as of 15 June 2015. As can be seen clearly from the graph plots, lending in France remains dominated by yield enhancement trading and remains elevated as a result. Germany is, unsurprisingly, less affected this year. Looking across the full year, the value short interest in Germany has almost halved, yet the DAX, for comparative purposes, is only down 13.6 percent. Similarly, the UK short interest is down 20 percent, yet the FTSE 100 is only down 11 percent, suggesting only half that drop is due to asset values falling. Overall, Europe is showing down 15 percent although this is skewed a little by France.

Looking over more recent trends, the change is more striking. Taking 1 April as the index origin, the value of equity short interest in Germany is down 18.5 percent. In the UK it is down 16 percent. Over the same period the DAX has contracted just 2.6 percent, and the FTSE 3.5 percent.

Those campaigning for the UK to remain in the EU have been speaking of a 'remain dividend', bringing a boost to the UK economy and financial markets from renewing our commitment to Europe. Those that have argued we should leave have promised riches resulting from the unshackling of the UK from the restrictions of Europe. With both sides having promised rewards, if the UK suffers economically after the vote, whichever way it went, you can be sure the losing side will be accusing the winners of bringing the misery to our shores by staying in or having left.

As for short sellers, they appear to be closing out their positions ahead of one of the most uncertain referendums of recent times. This may simply be due to the lack of certainty, or perhaps they are expecting a market boost whatever the result. At least we will soon know, and when we do, hurray for the EU/the UK (*please delete as applicable). **SLT**

Figure One: Equity value on loan indexed over 12 months



Source: FIS Astec Analytics

Industry Events

ISLA's 25th Annual Securities Finance and Collateral Management Conference

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

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

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

IMN European Beneficial Owners Securities Lending Conference

Date: 22-23 September 2016
Location: London

The IMN European Beneficial Owners Securities Lending Conference will cover the 2017 macroeconomic outlook and implications for securities lending programmes; the economics of collateral optimisation; structuring and enhancing lending programmes to increase revenue; the business implications of regulation on lending and collateral management programmes; alternative routes to market; effective benchmarking and performance; sell and buy-side perspectives on doing business today; and perspectives on the future direction of the industry.

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

Industry **Recruitment**

Securities Lending Trading (Associate/Vice President)

Recruiter: BlackRock
Location: London

BlackRock is one of the world's preeminent asset management firms and a premier provider of global investment management, risk management and advisory services to institutional, intermediary and individual investors around the world. BlackRock offers a range of solutions—from rigorous fundamental and quantitative activemanagement approaches aimed at maximising outperformance to highly efficient indexing strategies designed to gain broad exposure to the world's capital markets.

Systems Analyst Role

Recruiter: EquiLend
Location: London

EquiLend is seeking a systems analyst for the London office to work closely with the EquiLend product owners and scrum team to execute projects from inception through production release.

Senior Software Engineer

Recruiter: EquiLend
Location: New York

EquiLend is seeking a senior software engineer to participate in all stages of development for several applications within the enterprise.

Business Analyst, Prime Finance

Recruiter: Citi
Location: Dublin

Investor services is a business line within markets and securities services, it includes products across prime finance, delta one, futures, OTC clearing, collateral management, global custody, fund administration, and agency lending.

Comings and goings at Daewoo, Cowen, Wells Fargo and Clearstream

Peter Volino and Richard Misiano have joined Daewoo Securities (America) to launch a global securities lending and repo business.

They join South Korea's largest financial services firm from Industrial and Commercial Bank of China Financial Services. Their new global securities lending and repo business will also engage in delta one trading.

Daewoo Securities (America) is a subsidiary of Mirae Asset Daewoo. The US firm's parent was recently acquired by Mirae Asset Financial Group of South Korea.

A sister company, Mirae Asset Global Investments, has been a pioneer in the Korean mutual and exchange-traded fund businesses and currently has approximately $83 billion in assets under management. The combined broker-dealer entity has $7 billion of capital.

The firm also has a significant Korean domestic private banking business and is now expanding that business to the US.

Peter Volino, global head of equities at Daewoo, commented: "In this environment of increasing balance sheet constraints for firms owned by bank holding companies, due to Basel III, having the support of a well-capitalised, non-bank holding company parent is crucial."

Misiano, who is the new head of global fixed income, added: "During phase one of our US growth plan, we will also be adding prime brokerage, clearing, agency execution, and corporate access to our suite of services."

Volino and Misiano have been joined at Daewoo by Robert Akeson, who takes on the role of COO.

Previously Akeson ran Neuberger Berman's prime brokerage, clearing and commission recapture businesses.

Akeson said: "We see a terrific opportunity to support small hedge funds that are increasingly being overlooked and underserved by the largest prime brokers. We also see synergies with other areas of our firm, especially, private banking."

Kevin LoPrimo has joined Cowen Prime Services as managing director and head of international prime brokerage.

LoPrimo has moved to Cowen after nearly five years at Global Prime Partners, where he served as managing director and head of fund services and equity finance.

According to Cowen, LoPrimo managed the creation of the first Europe-based boutique prime broker that provided full prime brokerage services to hedge funds with assets under management of less than $200 million.

Previously, LoPrimo worked at UBS and Merrill Lynch in various prime brokerage roles.

LoPrimo said: "Cowen Prime has built an impressive business dedicated to supporting a wide variety of investment managers, and has developed a strong reputation among its clients in the US for the breadth of its offering and the service level it provides."

"I look forward to working with the team and utilising my many years of experience in prime brokerage to introduce Cowen Prime's platform to the international markets and inform investment managers of the new solutions that will be available to them."

Mike Rosen, managing director and global co-head of prime brokerage services, said: "Cowen has been laying the groundwork for our entry into the prime brokerage and outsourced trading business in Europe for many months and we are pleased to welcome Kevin LoPrimo to our leadership team."

"We believe that his extensive international prime brokerage expertise will help accelerate the implementation of Cowen Prime's platform in Europe and Asia and the introduction of our comprehensive solutions to investment managers in those markets."

Wells Fargo Securities, the capital markets and investment banking business of Wells Fargo & Company, has appointed Alicia Reyes as head of Europe, the Middle East and Africa (EMEA).

Based in London, Reyes jointly reports to Walter Dolhare, head of markets, and Rob Engel, head of investment banking and capital markets.

Reyes has also been a board member of Wells Fargo Securities International since July 2015.

Prior to joining the company as head of the EMEA, Reyes was a founding partner of Olympo Capital, an independent merchant banking firm serving private equity and hedge funds in Europe.

Reyes also held senior positions at Barclays Capital, Bear Stearns and Deutsche Bank.

"We are pleased to have such an experienced leader join us to continue to serve our clients in this important region," said Dolhare. "Alicia Reyes's 20 years of industry experience with both issuers and investors coupled with her widely recognised leadership skills make her an excellent fit to lead our EMEA platform."

Engel added: "Alicia's extensive experience in investment banking, proven leadership and strong client relationships across EMEA will help us continue to grow our business across the region."

Clearstream has promoted Richard Glen from his role as vice president to senior vice president.

Glen was head of global securities financing for the UK, Ireland and the Americas, a role that will now be expanded to include the Asia Pacific region.

He was vice president for more than 10 years, and before this held roles as vice president at BGC Partners and assistant vice president and head of trade settlement services at Dresdner Bank. **SLT**

SecuritiesLendingTimes

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

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

Reporter: Drew Nicol
drewnicol@securitieslendingtimes.com
+44 (0)203 750 6018

Contributor: Becky Butcher

Marketing Director: Steven Lafferty
design@securitieslendingtimes.com
+44 (0)203 750 6021

Designer: James Hickman
jameshickman@blackknightmedialtd.com
+44 (0)203 750 6028

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

Recruitment Manager: Chris Lafferty
chris@assetservicingtimes.com
+44 (0)208 663 9624

Office Manager: Chelsea Bowles
accounts@securitieslendingtimes.com
+44 (0)203 750 6020

Office fax: +44 (0)20 8711 5985

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