SLT SecuritiesLendingTimes

ISSUE159
30.08.2016 TUESDAY
securitieslendingtimes.com

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Agent lenders have a $1 trillion stake in securities borrowing and lending

The US Office of Financial Research (OFR) has taken another step towards achieving its goal of better quantifying the securities lending market with the publication its 2015 pilot industry survey results.

Seven agent lenders reported approximately $1 trillion in outstanding daily loans over 9 October, 10 November and 31 December, revealing their stake in global securities lending to be 11 percent of the total $9.4 trillion business.

They voluntarily submitted a snapshot of their securities lending activity from the three separate days of trading, including three sets of data relating to: inventory of securities available for lending; transaction-level detail for outstanding securities loans; and collateral information.

According to the OFR: “Benchmarked against available market size data, securities lending activity facilitated by agents participating in this pilot represent a significant share of the total activity.” The survey did not register bilateral activity.

The results revealed that investment firms were the largest lenders with nearly $3 trillion in securities available to lend. Pension funds and endowments followed with $2.5 trillion in available securities. Sovereign wealth funds, insurers, banks and broker-dealers made up the remainder.

On the other side of the transaction, broker-dealers were, unsurprisingly, the biggest borrowers, with a daily average of $869 million in securities being borrowed by these participants.

Banks and credit unions were the second largest borrower demographic with a borrowing appetite valued at $142 million. State pension funds and hedge funds were also highlighted as notable borrowers.

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Northern Trust opens securities lending desk in Sydney, Australia

Northern Trust has established a securities lending trading desk in Australia.

The new desk, based in Sydney, will be manned by Bun Eng, senior trader and client executive for the securities lending business in Australia and New Zealand.

Eng was most recently based in Northern Trust’s Hong Kong office and will continue to work closely with the global team providing clients with an extended trading window and local expertise.

“We are delighted to establish a capital markets presence in Australia,” said Dane Fannin, head of capital markets for the Asia Pacific at Northern Trust.

“Growing Northern Trust’s geographic footprint in the region maximises trading capabilities and service for our clients.”

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Hong Kong regulator slaps Morgan Stanley with $2.4 million fine

Morgan Stanley has been fined HKD 18.5 million (USD 2.4 million) by the Hong Kong Securities and Futures Commission (SFC) for “internal control failures”, including inadequate disclosure of short selling orders.

The SFC has charged the Hong Kong branch of the bank with failing to correctly disclose roughly 29,000 short selling orders between January and November 2014, as well as breaching the daily position limit for one stock option contracts by more than 300 contracts in February 2015.

Morgan Stanley also breached the daily position limit for one stock option contracts by more than 300 contracts in February 2015, according to the SFC.

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NEXT GENERATION TRADING

Agent lenders have a $1 trillion stake

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US equities were the most in demand during the OFR's snapshot period and stocks made up an average $315 billion of the securities loaned. US treasuries and government agency securities made up roughly $302 billion.

Collateral from borrowers was split almost equally between cash and non-cash.

In a blog post, OFR director Richard Berner stressed the need to "shine a light into the dark corners of the financial system by filling gaps in financial data".

Berner described the pilot programme as a another milestone reached on the road to better understanding the wider securities finance market.

The securities lending pilot survey was initiated on the heels of a similar OFR project to collect data related to bilateral repo activity.

The OFR noted in its report on the the survey that the Financial Stability Oversight Council recommended the need for "permanent data collections for bilateral repos and securities lending" in its 2016 annual report and reiterated its committed to "carrying out those recommendations quickly".

Northern Trust opens securities lending desk in Sydney, Australia

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The new securities lending desk in Sydney follows Northern Trust's acquisition of institutional equity brokerage business Aviate Global.

Northern Trust also has an office in Melbourne.

Northern Trust's Sydney office will also be home to Kia Oboudiyat, who has moved to Australia from Chicago to be senior sales representative for foreign exchange.

In his new role in Sydney, Oboudiyat will be responsible for providing client services support and exploring sales opportunities across the Asia Pacific region.

"Asia Pacific is the fastest growing region for Northern Trust and Australia is an important part of that growth," said Madeleine Senior, head of Australia and New Zealand at Northern Trust.

"Our Australian clients are institutional investors with sophisticated requirements and expanding our capital markets business ensures we are best placed to continue to support them, directly from our offices in Australia," she added.

Hong Kong regulator slaps Morgan Stanley with $2.4 million fine

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The investigation into the bank's conduct also revealed instances of undisclosed conflict of interest and neglecting to follow the instructions of an asset manager to report large open positions.

The SFC noted that Morgan Stanley had cooperated with the regulator during the investigation and had no prior record of misconduct related to these failings.

Morgan Stanley also agreed to consult with an independent reviewer to improve its internal controls to ensure future compliance Hong Kong's financial regulatory requirements.

Eurex Clearing offers respite from capital costs with new model

Eurex Clearing is preparing to offer a new hybrid membership model that combines elements of a direct clearing membership and traditional client clearing.

ISA Direct will allow for certain obligations, such as contributions to the default fund and default management, that direct members

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of Eurex Clearing's central counterparty (CCP) must commit to, to be taken over by clearing agents.

Matthias Graulich, member of the executive board of Eurex Clearing, said: "Our regular clearing members will continue to act as a clearing agent, providing a variety of mandatory and optional service functions, but the client becomes a direct member of the clearinghouse."

Graulich also highlighted the potential benefits that ISA Direct will bring to the European repo market, as it will offer banks an opportunity to tackle the significant balance sheet costs associated with repo transactions.

Eurex Clearing confirmed that it is in intensive talks with several large buy-side clients and clearing brokers interested in the new model.

First transactions in over-the-counter interest rate swaps are expected to be completed in Q4, first repo transactions are expected latest for Q1 2017.

According to Graulich, the expected take-up of the new membership model will depend in part on the conclusion of the latest discussions on further details of the Basel III leverage ratio.

Specifically, the answer to the question of whether collateral can be used to offset derivatives exposure will "define the difference between the product being very attractive or super attractive".

ECB proposes shadow banking tax as it investigates alternative financing

The European Central Bank (ECB) has proposed the introduction of a tax on 'shadow banking' profits in order to check the growth of the controversial alternative financing industry.

In a 25 August working paper, ECB analysts concluded that the unrestricted growth of the

shadow banking industry posed a systemic risk to the European financial system.

They emphasised that the tax would serve as a deterrent to potential future entrants to the market and not a means to eliminate the sector altogether.

Therefore, the rate would float at an optimal level that "reduces the equilibrium size of the shadow banking sector to the highest level that is compatible with financial stability", as opposed to a fixed rate which might prove fatal for the alternative market, according to the working paper.

Primarily, the ECB suggested that shadow banking activity neutralises the effectiveness of a central bank's ability to offer quantitative easing (QE) in the case of an asset fire sale. "We find that such an intervention [QE] is indeed effective when the size of the shadow banking sector is taken as given."

"However, the expectation of such asset purchases fuels further growth of the shadow banking sector in a manner that offsets the positive effects of the policy," the ECB analysts explained.

"We find that during periods of stability such as the Great Moderation, the shadow banking sector grows to a size that makes it systemically important. A collapse of the shadow banking sector then triggers a firesale that leaves traditional banks vulnerable to self-fulfilling bank runs," they continued.

CFTC accuses Deutsche Bank

Deutsche Bank is facing charges of swaps data reporting violations after the US

Commodity Futures Trading Commission (CFTC) accused the bank of reporting late and incorrect swaps data for multiple asset classes over a five-day period.

The CFTC is pursuing a civil monetary penalty and a permanent injunction against the bank for what it considers to be persistent violations of its data reporting requirements.

The civil complaint was filed in the US District Court for the Southern District of New York.

It claimed that the bank failed to submit any swaps data for some transactions.

The complaint also accused the bank of having an "inadequate" business continuity and disaster recovery plan.

The commission also raised allegations that Deutsche Bank is in violation of a CFTC order from September 2015 relating to previous failures by the bank to report swaps data due to a faulty reporting infrastructure.

According to the CTFC, Deutsche Bank's swaps data reporting system experienced an outage that prevented it from reporting any swaps data for five days.

The CTFC added that the bank's attempts to resolve the issue "repeatedly exacerbated existing reporting problems and often led to the discovery or creation of new reporting problems".

The civil complaint highlighted multiple data errors with the legal entity identifiers submitted by the bank for its swaps transactions and suggested that Deutsche Bank has an ongoing problem that is "affecting market data that is made available to the public, as well as data that is used by the CFTC to evaluate systemic risk throughout the swaps markets".

Swaps dealers are required to report multiple data fields relating to their business including submitting real time swaps transaction and pricing data, swaps creation data and swaps continuation data, all of which is made available to the public.

Aitan Goelman, director of enforcement at the CFTC, said: "Deutsche Bank's repeated violations warrant the intervention of a court-appointed monitor. Deutsche Bank has shown over the last year its inability to comply with its swaps reporting responsibilities under the Commodity Exchange Act and CFTC regulations."

"The CFTC treats these failures seriously and will take appropriate steps to ensure compliance," Goelman added.

The commission and Deutsche Bank have filed a joint motion seeking the appointment of a monitor to ensure Deutsche Bank's compliance with its reporting responsibilities under the Commodity Exchange Act and CFTC regulations.

The CFTC stated it recognised Deutsche Bank's cooperation on this matter.

Deutsche Bank spokesperson commented: "We understand the concerns raised by the CFTC and have agreed on steps to resolve this matter. We continue to work on enhancing our reporting systems, and we are committed to meeting all regulatory requirements."

trueEX adds Brazilian real to IRS

trueEX has expanded its interest rate swaps (IRS) offering by adding Brazilian real (BRL) to its roster of available currencies.

According to trueEX, BRL swaps can be cleared and retrieved directly at CME Group without any middleware in the same way as its established interest rate swaps offered on the trueEX platform.

The addition of BRL comes shortly after trueEX launched a Mexican peso (MXN) IRS in January and brings the total number of currencies its offers through IRS to 19.

"We are excited to expand our important relationship with CME Group so that the benefits of execution, processing and clearing are available in this new, vibrant market," said Sunil Hirani, CEO of trueEX.

"Brazilian real interest rate swaps are one of the fastest growing currencies for the swap market; so it makes sense to work with CME Group to offer the optimal execution, processing and clearing services for this important market."

CME Clearing is the only global clearinghouse to offer clearing in 19 IRS currencies including MXN, BRL and US dollar Swaptions.

"Latin American markets have experienced substantial growth over the past year, and our clients have increased their voluntary clearing of MXN and BRL interest rate swaps." said Sunil Cutinho, president of CME Clearing.

China approves new Stock Connect

China has approved the Shenzhen-Hong Kong Stock Connect programme, paving the way for a better-regulated stock market.

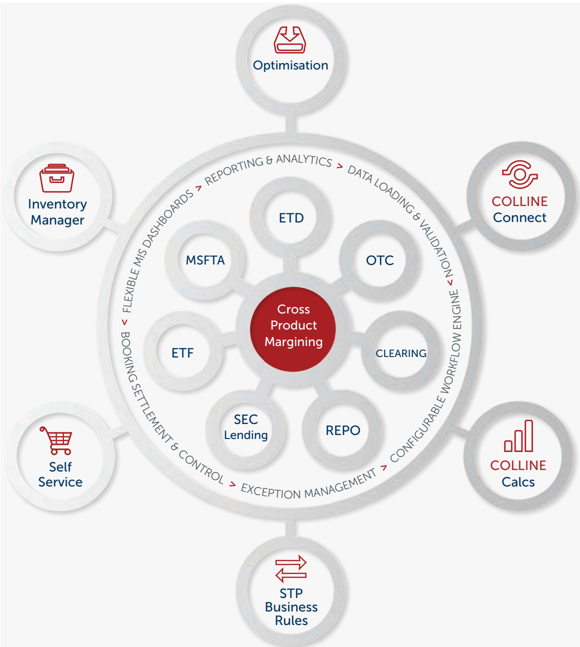
Premier Li Keqiang made the announcement during a State Council executive meeting on 16 August.

"The preparation for the launch of Shenzhen-Hong Kong Stock Connect has been basically completed, and the State Council has approved its implementation plan," he said.

Greater China chief executive for HSBC, Helen Wong, welcomed the decision, saying: "China's decision to launch Shenzhen-Hong Kong Stock Connect demonstrates the country's continuing commitment to liberalising its financial sector and opening up its capital markets to global investors."

"This link should provide investors around the world with a convenient way to access China's new generation of private sector

COLLINE



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companies listed in Shenzhen, including an array of innovative internet and technology players based in the Pearl River Delta."

China's approval of the link between Shenzhen and Hong Kong follows the success of the Shanghai-Hong Kong Stock Connect.

Since its pilot at the end of 2014, the Shanghai-Hong Kong Stock Connect has withstood its market test, with steady and orderly overall performance, according to Chinese state media.

The programme has achieved its expected targets, earning positive feedback from all related parties, Premier Li added.

It's unclear when the Shenzhen-Hong Kong Stock Connect programme will launch, with Premier Li previously saying it would do so at an "appropriate time".

Fintech is the future for financial services, says Bank of Japan

Blockchain and artificial intelligence (AI) are likely to play a large part in financial services in the future, according to the governor of the Bank of Japan.

Speaking at the central bank's Fintech Forum, Haruhiko Kuroda suggested that much of financial services is essentially information processes, and therefore is closely linked to information technology in general.

He said: "Payments, settlements, investment judgement and risk management, which constitute the core of financial activities, can be regarded as information processing. Therefore, progress in information technology and AI can be expected to significantly influence them."

Kuroda added that blockchain, or distributed ledger, technologies "challenge the conventional concepts of ledgers kept by a trusted third party in a centralised manner".

He said that, historically, development of financial services has been supported by a basic ledger-based infrastructure, adding: "The dramatic changes in how ledgers are kept may have the potential of significantly changing the structure of financial services."

Kuroda also drew attention to the importance of considering information security amid the innovative landscape, saying the development of technology has "simultaneously refined the tactics of hackers and cyber attacks".

He said: "For the sound development of fintech, information security is a key."

Although more openness of networks allows for better access to financial services and improves services for customers, it also means that "potential target points for cyber attacks tend to increase".

However, Kuroda also noted that fintech development can, and should, actually contribute to the security of financial transactions.

"It is critical ... to use technological innovation for enhancing security in financial transactions," he explained.

"Fintech will thrive and grow when users associate it not only with convenience but also with safety and trust."

Singapore sees short selling slide

Demand to borrow Singapore's STI index listed shares has fallen by 27 percent after a spike in average shorting interest in February, according to IHS Markit.

The STI index has 1.6 percent of free float shorted on average, as of 18 August, with all of the top 10 most shorted firms in February seeing borrow interest fall.

Gaming operator Genting and Singapore Press Holdings were highlighted by IHS


we lead
the way

Markit as the index's previously most shorted companies that had seen interest fall most.

In contrast, IHS Markit noted that there were some notable exceptions to this index trend, citing examples such as Sembcorp Marine, a Singaporean engineering firm, which saw a 60 percent growth in short interest in recent weeks.

By sector, real estate was also shown to be immune to the wider trend of cooling short interest. IHS Markit noted the sector's falling asset prices and mounting debt piles the pillars propping up short interest.

IHS Markit pointed to Singapore's City Development and Ascendas, which have both witnessed short interest in their shares soar by 119 percent and 68 percent respectively, in the six months since short interest hit its peak across the STI index.

Short sellers find new target in Europe, says Astec Analytics

Short sellers continued to press their latest target LivaNova, while old favourites Tesla Motors and IMAX China Holdings held their top positions in the FIS Astec Analytics hot stocks list for the week beginning 8 August.

London-based medical device manufacturer LivaNova has topped the Astec Analytics hot stocks list for Europe for the second time as short sellers doubled down on borrowing interest last week despite positive share price growth.

Short sellers initially grew their position in LivaNova by 21 percent ahead to earnings results, and then added another 21 percent shortly after their publication, despite the company's share price actually rising 12 percent following the publication, closing at $61.02, according to Astec Analytics.

Tesla Motors, after a near constant presence in the Astec Analytics hot stocks list, borrowing interest had fallen by a net 20 percent by 12 August, although as a proportion of the number of shares available, it has only fallen 9 percent.

Astec Analytics noted that Tesla's shares remain net down some $35 from the 12-month high of more than $260 after a number of controversies, including the takeover of SolarCity, which was also regularly featured in Astec Analytics hot stocks.

In the Asia Pacific, media juggernaut IMAX China Holding jumped from fifth to take the top spot in this week's hot stock list after on-loan volume hit a new high of 65 percent of available shares.

Short interest increased by 6.5 percent last week despite the IMAX share price recovering 30 percent from a 12-month low of HKD 36.25 (USD 4.67) in June to close at HKD 47.10 (USD 6.07) by 12 August.

ICE Clear Credit surpasses CDS milestone of $100 billion

Intercontinental Exchange's ICE Clear Credit has surpassed $100 billion in gross notional cleared for client accounts for single name credit default swaps (CDS).

More than $100 billion notional in single name CDS has been cleared at ICE Clear Credit so far this year, compared with $33.3 billion for 2015, an increase of 200 percent.

ICE Clear Credit launched client clearing for single name CDS in June 2013.

Since launch, the number of clients actively clearing these instruments has grown consistently and is now over 100, with 90 percent of client volume occurring since the start of 2015.

"This is an important milestone for both ICE Clear Credit and the market as a whole," said Peter Borstelmann, head of corporate development at ICE Clear Credit.

"We have achieved this growth by working with customers to ensure we have the right products and clearing processes in place to create liquidity, transparency and restore trust in the single name CDS market."

The growth in client clearing at ICE Clear Credit has occurred in the absence of a regulatory single name CDS clearing mandate for clients, according to ICE, which claims to have reduced counterparty risk exposure by clearing $80 trillion in gross notional for CDS instruments across its clearinghouses, with resulting open interest of approximately $1.4 trillion.

Ritesh Shah, COO for global credit at Citadel, an ICE Clear Credit client, added: "Citadel strongly supports the shift to central clearing of single name CDS, which will strengthen the market by increasing participation, fostering liquidity, and addressing counterparty credit risk concerns."

The Philippines is planning reforms

The Philippines is working on legislative reforms to introduce a repo market, according to reports.

The Central Bank of the Philippines, along with the country's Treasury and Securities and Exchange Commission, are still working on the reforms.

They hope reforms will boost liquidity locally.

They are also finalising guidelines for an overnight index swap system, said the reports. It's unclear when the reforms will be implemented, but the Philippines already boasts an active securities borrowing and lending market, which has been in place since 2006.

The market is bilateral or can be conducted via an intermediary, although it is known to suffer from limited supply.

OCC reaffirms leverage ratio issues

The leverage ratio's current exposure method could move liquidity away from the listed and centrally cleared markets back to the opaque bilateral over-the-counter markets, according to Options Clearing Corporation's (OCC) financial risk management chief.

John Fennell reaffirmed OCC's objections to the proposed current exposure method in a blog post on 11 August.

The central clearer added its signature to a letter, backed by another 30 market participants, that was sent to the Basel Committee on Banking Supervision (BCBS) last month, which strongly opposed the proposed leverage ratio framework.

The currently proposed CEM "neglects to recognise the risk limiting effects associated with being long and short options of different strikes on the same underlying instrument", Fennell wrote.

"Hedging option risk using other options is the most effective and relied upon way option market makers mitigate the risks assumed as they fulfil their vital role of providing committed liquidity to the cleared markets."

"The leverage ratio creates the real potential to move liquidity away from the listed and centrally cleared markets and ultimately back to the opaque bilateral over-the-counter markets."

"This is counter to the global mandate by regulators to bring more OTC volume into centrally cleared solutions mitigating systemic risk," Fennell said.

OCC and its co-signatories want the BCBS to adopt the standardised approach for counterparty credit risk (SA-CCR) method is within the leverage ratio."

"Otherwise," Fennell wrote, "market makers, who serve to provide deep liquidity to the listed options market, will be significantly diminished".

The BCBS's proposed final leverage ratio framework is due by the end of 2016.

Clearstream's GSF saw fall in July

Clearstream's global securities finance service experienced a 10 percent drop in volume outstanding between July 2015 and 2016.

Volume outstanding in July this year reached €539.81 billion, which was down from 2015's €600.81 billion.

June's €520.77 billion in volume outstanding was also disappointing.

It represented a drop from June 2015's €609.28 billion.

The value of assets under custody at Clearstream remains healthy, with €13.03 trillion registered in July, only slightly lower than the same month in 2015.

Global equities boost pensions, says RBC Investor & Treasury Services

Recoveries in global equities in Q2 of 2016 have brought Canadian pension plans into positive territory, according to the $650 billion RBC Investor & Treasury Services All Plan Universe.

Returns in Q2 hit 2.9 percent compared to negative returns of 0.03 percent in Q1 2016, the report said.

Global equities also saw a gain of 1.6 percent in Q2 2016, compared to a loss of 6.2 percent in Q1. Market volatility continued over the course of Q2, amid uncertainty surrounding the UK's vote to leave the EU in June.

Canadian equities also remained in positive territory, with a gain of 4 percent for the median Canadian pension plan.

This was down slightly, however, on Q1, which saw gains of 4.6 percent.

James Rausch, head of client coverage and banks brokers and exchanges at RBC said, "Canadian pension plan returns posted notably stronger results this past quarter, thanks largely to both global and Canadian equity holdings."

He added: "The Canadian material and energy sectors outperformed in Q2 2016, largely offsetting a quarter of sustained market volatility and economic uncertainty globally."

Rausch said: "Global investors will be searching for clarity regarding the UK's exit process from the EU, which may contribute to sustained volatility over the foreseeable future."

Nordea and DNB plan new bank

Nordea and DNB are set to combine their operations in Estonia, Latvia and Lithuania in a bid to create a new bank in the Baltics with strong Nordic roots.

According to the two banks, Nordea and DNB will each complement the other in the region, as Nordea has a presence with corporates and DNB works with a large portion of the small and medium-sized enterprise segment. The combination could also allow them to create a larger and more competitive retail business, they said.

Under the agreement, Nordea and DNB will have equal voting rights over the new bank, but ownership will reflect the relative equity value of their contributions at the time the deal is closed, expected to be in Q2 2017.

The two banks will continue to operate independently until all necessary approvals have been received.

Inga Skisaker, head of banking for the Baltic countries at Nordea, said: "Combining knowledge of the Baltic market, close cooperation with our customers and developments in digital banking, Nordea has over the years built a solid and successful bank in the Baltic region with a strong position as number three in the Baltics."

"Now it is time to take the next step and build for the future. Together we will have the scale, stronger geographic presence and broader product offering, enabling us to become the main bank for customers in the Baltics."

Mats Wermelin, head of the Baltic division at DNB, added: "With over 70 branches in the Baltics, DNB has created a dynamic and customer-centric operation."

"Scale is key in banking today, with larger banks having more efficient use of resources."

"The new bank will be better equipped to counter increasing competition in the region and capitalise on scale in order to become the main bank for more businesses, customers and partners in the Baltics."

Aus administrator acquires hedge fund business in New York

Australian fund administrator MainstreamBPO is set to acquire New York-based hedge fund administrator Fundadministration.

Fundadministration works with both emerging and established hedge fund managers, registered investment advisors and traders, and has funds under administration of US $5 billion.

The acquisition adds to MainstreamBPO's operations in Hong Kong, Singapore and Sydney, and is expected to increase funds under administration to a total of AU $94 trillion (US $71.8 trillion).

Fundadministration CEO Denise DePaola will join the MainstreamBPO executive team as CEO of US operations.

All other existing staff at Fundadministration will also join MainstreamBPO.

According to MainstreamBPO, the move is part of a growth strategy of expanding into more key fund services markets.

New York was selected as a location from which to grow business in North America and the Caribbean—markets that account for $2.3 trillion in hedge fund manager assets.

The acquisition is also intended to help the group support its clients in establishing cross-border investment strategies in Asia and the US.

Byram Johnston, chair and managing director of MainstreamBPO, said: "We are pleased that Denise DePaola and her team will join us to grow and increase our hedge fund services. There are strong synergies and like-minded values between our businesses with each focused on delivering high client service levels to our clients."

DePaola said "I see this partnership as an opportunity for us to provide greater stability, growth and value-added services to our clients and our team."

"It is a real honour to join the MainstreamBPO family, together we will be able to accomplish amazing things."

New tax consultancy launches

A new consultancy focusing on tax advice for the securities finance industry has launched.

Ali Kazimi set up Hansuke Consulting in June, with John Whitehead as a senior advisor.

Hansuke Consulting specialises in securities lending, particularly the tax aspects of securities lending agency and custody agreements, as well as pension and asset pooling, entity classification, beneficial ownership, equity swaps and withholding taxes.

High standards

Jan Grunow of Swiss Life Asset Managers in Switzerland reveals how an insurance company makes light work of new margin requirements

Historically, how much collateralising has Swiss Life AM had to do?

Swiss Life Asset Managers (AM) has quite a long tradition of daily cash collateral exchange to level out valuation changes in over-the-counter (OTC) derivatives positions. The use of OTC derivatives is important for Swiss Life AM to hedge the assets of the insurance company Swiss Life Ltd and Swiss Life funds. We mainly use interest rate and currency derivatives and occasionally credit derivatives.

Until the financial crisis in 2008, Swiss Life AM was content with a weekly variation margin exchange process. Since then we have switched to daily valuation and collateral exchange. The value of the cash collateral exchanged daily can be massive, as was the case on 15 January 2015 when the Swiss National Bank announced it would discontinue the minimum exchange rate of CHF 1.20 against the euro. To a lesser degree, we also have experience in posting initial margins in connection with OTC currency derivatives. These margins were posted in the form of securities to the foreign exchange prime brokers but were adjusted at wider time intervals.

Is mandatory clearing for OTC derivatives a big culture shock for Swiss Life AM?

As Swiss Life AM was already familiar with the concept of central clearing for exchange-traded derivatives, the culture shock was not that big. As the Swiss insurance company holds a lot of eligible collateral on its balance sheet, the availability of initial margin is not the problem. Our biggest challenge is to find clearing solutions that meet our own risk management standards and are compliant with Swiss law and the regulations applicable to insurance companies. Swiss insurance regulation sets high standards regarding the posting

of initial margins from insurance assets. The initial margin is part of the policyholder's assets and must be ring-fenced at all times to cover any offsetting claims against the insurance company.

This requirement is not that easy to meet as most of the central counterparties (CCPs) and clearing brokers operate outside Switzerland under insolvency laws that are neither mutually accepted nor harmonised. We have intensively screened solutions over the past few years that would allow us to post the initial margin directly into a securities account at the CCP held at an independent Swiss custodian, such as the local central securities depository. However, it is only recently that a ray of hope has appeared on the horizon: some CCPs are working intensely on direct clearing or at least on full custodial segregation models.

With mandatory clearing for OTC derivatives coming in stages, how have you planned and prepared for implementation?

It was a very cumbersome process, as we started early with the conceptual work and quickly realised that the legislator, regulator and even the industry were not ready to let us make too much progress. We focused first on our own funds in Luxembourg and implemented a standard clearing model for them. Being ahead of the legal mandatory clearing deadline, we were able to work with our partners free of time pressure and share our initial experiences of the new process.

We are currently focusing on onboarding the Swiss insurance mandate by organising the new ISA direct clearing setup of Eurex Clearing. As a basic clearing member, we can post the required initial margin directly to the CCP and thus avoid any collateral transfer risk via a clearing broker. This also gives us the advantage of our OTC derivative positions not being part of the clearing broker's balance sheet and therefore not causing any capital costs from the clearing agent. The direct clearing model will provide us with a very robust and compliant option.

In terms of concept, clearing appears to be a good idea. But how confident are you that it will make markets safer in practice?

Swiss Life AM still has some mixed feelings about the clearing obligation for OTC derivatives. The fact that the clearinghouses have stable and proven risk management processes, which guarantee a smooth process in the event of counterparty defaults is a definite plus point. This is highly important for the stability of the financial markets and therefore in the interests of everyone. On the other hand, we may see a concentration process in the CCP and clearing broker market, which will potentially raise systemic risks again. The largest CCP attracts more and more business for liquidity reasons, whereas new CCPs in particular find it hard to get a larger stake of the overall clearing business. That is why the clearing brokers do not show huge interest in onboarding smaller clients and smaller CCPs.

This cannot be in the interests of the financial industry and its ambition to increase stability. We hope that the regulatory regime and industry adopt a pragmatic approach to their further development without losing the original goal of making the OTC markets more stable and secure.

How do you ensure that you manage collateral as efficiently as possible?

Most of our derivatives-intensive asset management mandates have sufficient eligible securities to be posted as initial margin for the CCPs. For the Swiss insurance company, we strive for a single securities account at our Swiss CSD SIX SIS, which holds eligible securities for different collateral purposes, such as repo or derivatives business.

The SIX SIS fully-automated triparty collateral management service selects the securities in our long-box and makes sure the instructed collateral value is covered at all times with eligible securities. This enables us to concentrate eligible security collateral in a single account and delegate the selection and transfer of the single securities from the accounts of the collateral taker to SIX SIS as our third-party collateral manager. In this model, we keep full responsibility for the valuation of derivatives and interaction with counterparties. We just optimise the selection and handling of the securities collateral. **SLT**

Jan Grunow
Head of risk, operations
and controlling
Swiss Life Asset Managers

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Short sellers fancy a flutter on casino operators

After years of stagnation, a string of high-end investments has reinvigorated Macau as China's gambling capital, but short sellers sense an opportunity. IHS Markit's Simon Colvin reports

The pace of Macau casino openings has kicked into overdrive recently with the opening of the $4.1 billion, 1,700-room Wynn Palace, which will be followed shortly by the $2.7 billion, 3,000-room Parisian Macau.

These ambitious openings defy the ongoing slump in gambling volumes, which are on track to fall by 10 percent year-on-year, further compounding last year's 34 percent decline as gamblers shy away due to China's ongoing corruption crackdown.

While the Macau gaming industry is trying to diversify away from its core revenue into the retail and entertainment space, recent statistics released by the region's tourism board have shown falling retail volumes and flat visitation numbers which underscores the challenge at hand. These numbers are echoed across the other key Asian gaming markets, which have also felt the pain of newly shy Chinese gamblers.

Short sellers, which are no strangers to taking a view on gambling stocks, have been busily adding to Macau operator short positions in the weeks leading up to the opening of the Wynn Palace, which has in turn taken the average shorting activity across the region's gaming sector back up from recent lows.

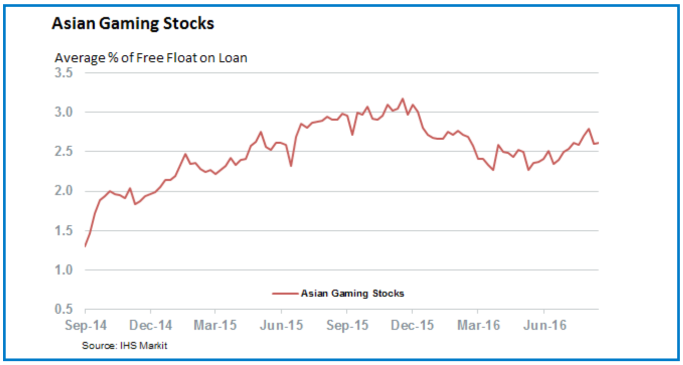
Current average short interest across the region now stands at 2.6 percent of free float on average, 10 percent higher than the lows set three months ago.

Shorting Macau

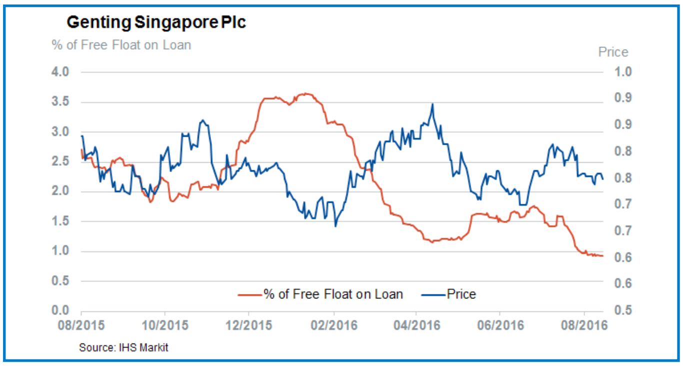
Wynn Macau and Sands China, which operates the Parisian and Palace properties, have been at the vanguard of the recent surge in shorting activity in the region. Wynn has been a favourite for Macau bears for quite some time and the 32-percent jump in shares shorted over the last month means that bearish sentiment in the stock now stands at a six-month high. Although the company's current short interest is still over a third lower than at the heights of last year's uncertainty, the resurgent short interest indicates that Wynn still has to placate its doubters. Sands China has also seen its fair share of shorting activity in recent weeks with short sellers adding 20 percent to their positions, meaning that just under 3 percent of its free float is now shorted.

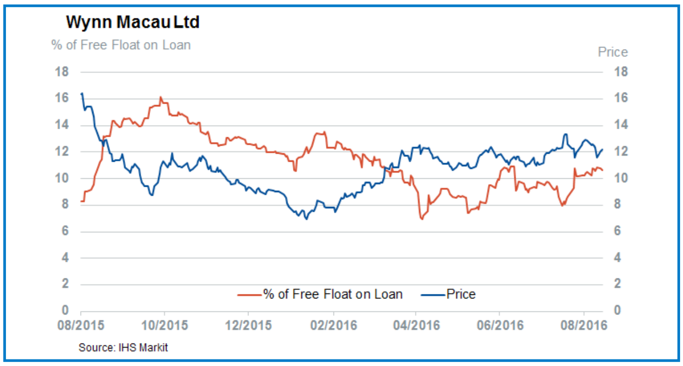
Melco international and Crown Resorts, which jointly operate the recently opened Studio City development, have also seen short sellers circle in recent weeks with demand to borrow shares of the later doubling in the last month.

The recent jump in bearish sentiment has been limited to Macau operators for now as demand to borrow shares in Kangwon Land and Genting Singapore, the two largest non-Macau operators by market share, has not jumped materially in recent weeks. This would seem to indicate that short sellers aren't expecting the new Macau capacity to have any impact on the region's other markets in the near term. In fact, Genting's current short interest is now the lowest it's been in over three years. **SLT**



Name	Ticker	Listing Country	Short Interest	Change over Month
Paradise Co Ltd	034230	South Korea	11.2	-2%
Wynn Macau Ltd	1128	Hong Kong	10.7	32%
Melco International Development Ltd	200	Hong Kong	6.3	5%
Mgm China Holdings Ltd	2282	Hong Kong	5.6	-21%
Donaco International Ltd	DNA	Australia	5.5	9%
Ainsworth Game Technology Ltd	AGI	Australia	4.7	-6%
China Lotsynergy Holdings Ltd	1371	Hong Kong	3.2	0%
Parpro Corp	4916	Taiwan	2.9	71%
Sands China Ltd	1928	Hong Kong	2.8	20%
Crown Resorts Ltd	CWN	Australia	2.4	97%





Industry **Events**

IMN European Beneficial Owners' Securities Lending Conference

Date: **22-23 September**
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.

10th Annual Collateral Management Forum

Date: **21 October**
Location: Amsterdam

The 10th edition of the annual Collateral Management Forum in Amsterdam is looking to offer an overview of the most crucial topics in the field today. In a shifting regulatory enivornment, with the margin requirements soon to come into play, the call for advanced tools of collateral management is as loud as ever.

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

Industry Recruitment

Senior sales executive

Recruiter: CloudMargin
Location: New York

CloudMargin is the world's first cloud-based collateral management platform. Our SaaS business offers an affordable, award-winning web service that is functionally rich, easy to set up and intuitive to use. Partnered with some of the worlds leading financial information and service providers, CloudMargin offers a competitive and cost effective platform for derivative users to manage their regulatory and commercial collateral obligations.

The senior sales executive will be responsible for direct sales of the CloudMargin solution across North America.

Senior international equity securities lending trader

Recruiter: Northern Trust
Location: London

The candidate will primarily be responsible for optimising revenue for Northern Trust's portfolio of client inventory by negotiating daily transactions with the borrowing community, executing broader trading strategies and capitalising on value enhancing opportunities.

In addition to this, the candidate will be responsible for supporting client, product and borrower strategic initiatives, combining relationship management, analytical and project management skills.

Visit www.securitieslendingtimes.com for more information about these roles, and to apply.

ISLA, SASLA, Citadel and Standard Chartered Bank all feature

Mark Hutchings has been appointed as the International Securities Lending Association's (ISLA) new COO following the promotion of Andrew Dyson to CEO.

Hutchings, who currently serves as development manager at Dulwich College, will be returning to the securities lending industry in September.

The new ISLA COO served as managing director of global securities lending at AIG from 1997 to 2010. He was also an ISLA board member during that time.

ISLA's members have also elected Zürcher Kantonalbank's Ueli von Burg and BNY Mellon's Simon Tomlinson to the association's board of directors, effective from 1 September.

Von Burg and Tomlinson will replace Casey Whymark of UBS and Duncan Wilson of J.P. Morgan, who stepped down from their positions.

Dyson, who served as ISLA COO for more than three years before taking on the CEO position vacated by Kevin McNulty in June, said: "We are delighted to have BNY Mellon on our board again as one of the largest supply side firms, and we're also very pleased to welcome Ueli von Burg as it maintains our very strong links with the Swiss market."

"We also welcome Mark Hutchings as COO."

"His experience and depth of knowledge of the industry over many years will be invaluable to the association going forward."

Standard Bank's Juanita Taylor has taken over as chair of the South African Securities Lending Association (SASLA).

Burgess stepped down following his departure from Macquarie Securities. He took over the SASLA chair role earlier this year, following the departure of Michael Wright of Nedbank.

Taylor is head of securities finance at Standard Bank, where she has worked for more than 10 years.

Before that, Taylor was a securities lending trader at Investec.

Ex-BlackRock head of securities lending Michael Weaver has resurfaced as COO of Citadel Surveyor Capital.

Weaver, who will continue to be based in New York, left BlackRock in December 2015 after three years of service.

According to Citadel, Surveyor Capital is a global equity, long/short multi-manager strategy.

Weaver was replaced at BlackRock by Roland Villacorta, who has been with the firm since 1994 in a variety of roles, including managing director of financial markets advisory and head of portfolio management and head of data, analytics and technology.

Standard Chartered Bank has appointed Sean Bunyan as its new head of financing sales for Asia.

Hong Kong-based Bunyan will help drive forward the repo and financing flow franchise for the region and report to Terence Gan, global head of rates sales at Standard Chartered Bank.

The new hire previously worked at Morgan Stanley in Hong Kong as head of financing sales for Asia.

Bunyan has also held roles at J.P. Morgan and Goldman Sachs.

"We are very pleased to welcome Sean Bunyan to Standard Chartered Bank" said Ed Donald, global head of repo.

"We are seeing an increasing focus from our clients on repo and collateral across Asian markets."

"Sean's considerable experience will enable us to further enhance the delivery of financing solutions to our client base across this key region," Donald explained.

Saurabh Seth has left the Barclays investment bank business, according to multiple sources.

It's understood that he has taken up a new role elsewhere but is yet to join.

Seth joined Barclays in 2013 from eSecLending, where he was co-head of securities finance.

Seth has also held roles at Mitsubishi UFJ, BNP Paribas and Citigroup.

Barclays did not immediately respond to a request for comment.

Lombard Risk Management has appointed Tracey Adams as regional head of Colline in the Asia Pacific.

Adams will oversee the development and implementation of Colline, the company's collateral management, clearing and inventory management solution, in the region.

Previously, Adams served as senior sales and account executive at FIS.

Alastair Brown, CEO at Lombard Risk, commented: "Lombard Risk sees great potential in the Asia Pacific region, where financial services firms are continuing to grow and open up to new markets."

"[This means] they need agile and efficient solutions to manage collateral margins across multiple jurisdictions and in complex organisations," Brown explained.

"Having a dedicated regional head for our Colline solution will help us drive forward our product development and sales strategy in the region." **SLT**

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Published by Black Knight Media Ltd