SLT
SECURITIESLENDINGTIMES
www.securitieslendingtimes.com
ISSUE034
13.09.2011 TUESDAY

IMA defends stock lending disclosures in UK

EUROPE 09.09.2011

The Investment Management Association has defended the current stock lending disclosure requirements following investor concerns over the practices.

"Stock lending by funds is a regulated activity," said Julie Patterson, director of authorised funds and tax at IMA. "In particular, there are requirements on disclosures of all charges and expenses, the risks involved, and the net return for the fund."

"Managers can enter into stock lending only if it appears to be appropriate to do so with a view to generating additional income for the fund with an acceptable degree of risk," she adds.

SCM Private, a UK-based retail investment specialist which recently conducted research on securities lending disclosures, found that present UK legislation does not require retail fund managers to disclose that they can lend less than 100 per cent of their assets in any marketing or investor communications, other than buried in the full prospectuses that are typically 100 pages.

"I am not against the practice of securities lending if it is done in a conservative fashion, is in everybody's interest and helps the return of the fund," said Alan Miller, founder and CIO of SCM Private. "But [investors] should be allowed to know the amount, who the people are that are borrowing their savings as well as what exactly is being deposited against those savings and, quite simply, an investor is not provided with that information."

The IMA says that there are detailed rules from the FSA on the UK stock lending market in order to mitigate any risks, such as approvals for terms, authorised counterparties and approval and treatment of collateral. "The IMA are happy with the level of disclosure required by the FSA," Patterson said.

readmore p3

NEWSINBRIEF

Lombard Risk updates reporting solution

Lombard Risk Management has announced a new version of its regulatory reporting solution - using web technology, with enhanced and many new features - as a key component of its integrated solution.

The increase in demand for regulatory compliance post financial crises is a major challenge for firms around the world. Lombard Risk's regulatory reporting solution meets those requirements, automating the process end-to-end from data collection to electronic output.

readmore p3

Broadridge acquires Paladyne Systems

Broadridge Financial Solutions has acquired Paladyne Systems for approximately $76.5 million.

Paladyne is a provider of a market-leading set of solutions to enable global, multi-asset class investment managers and service providers to work more effectively, minimise the challenges of managing multiple prime broker relationships, decrease the cost of integrating and running disparate solutions, and improve consistency in data and reporting.

"The acquisition of Paladyne will significantly expand Broadridge's position as a service provider to buy-side clients," stated Richard J. Daly, chief executive officer, Broadridge.

readmore p3

INSIDE SECURITIESLENDINGTIMES

IMA defends UK stock lending disclosures in UK

Continued from page 1

In response, Miller said that "the IMA continues to condone very poor transparency of charges, investments and risks by its members. The IMA does not seem to agree with Donald Kohn, external member of the Bank of England's [Interim] Financial Policy Committee, who has called for greater transparency among financial institutions, instruments, and markets, and for institutions to provide timely, up-to-date, and comprehensive information."

What prompted Miller to conduct the research, was increased regulatory scrutiny of exchange traded funds (ETFs), which have been in the spotlight as both the European Securities and Markets Authority (ESMA) and the Australian Securities Investment Commission (ASIC) have issued guidance which, among other things, recommends explicit disclosures of securities lending practices for those specific products.

But Miller claimed the FSA appears to take this seriously within just synthetic ETFs, having seemingly completely ignored the similar risks within physical ETFs, mutual funds, structured products and the financial spread betting industry.

"If the FSA is suddenly going to start regulating products on the basis of whether investors can understand them, one would have thought the FSA would take it very seriously that those funds should provide the information to investors so they can be aware of and able to analyse the risks involved," Miller added.

Another concern highlighted by the survey is the lack of transparency in how fees earned from securities lending business within the fund is split with investors.

"You would expect there to be some justification for the split of fees between company and investor, as the investor normally takes 100 per cent of the risk," Miller said. "The rules basically allow the majority of such fees to be kept by the stock lending agent and the fund manager and the minority of it passed on to the client. Why should there not be a prescribed minimum amount which is passed on to the fund investors?"

He noted, however, that there are good examples of fund managers engaging in securities lending, such as T. Rowe Price and Vanguard in the US, passing on the vast majority of the fees back to investors. SCM Private does not directly take part in stock lending, but through its investments in exchange traded funds is exposed to stock lending within some of these funds. However, Miller noted that this does not take place within the synthetic ETFs which it holds as the securities lending by the banks running these funds is normally outside the ETF.

Lombard Risk updates reporting solution

Continued from page 1

The Lombard Risk regulatory reporting solution is used by more than 250 firms around the world; over 40 per cent of the UK-based financial institutions use it to submit FSA and Bank of England returns; and last year Lombard Risk saw 30+ firms use its regulatory reporting, with LISA for liquidity scenario analysis, to meet the FSA's tough new liquidity regulations.

John Wisbey, CEO of Lombard Risk said: "We have listened very carefully to our 250+ large and small clients alike in various countries, and to other firms that are looking for a robust, multi-country reporting solution architecture to cope with all the regulatory change that is occurring. This enhanced, web-based version is driven by our own vision of modern regulatory reporting, and addresses the major business issues raised by the many firms we have talked to. Our aim is that no serious firm that is looking at regulatory reporting, whether in one country or across multiple jurisdictions, can leave us off their shopping list".

Nick Davies, CTO of Lombard Risk said: "Implementing our roadmap vision using industry tried and tested web-based workflow technologies, Lombard Risk has taken the best of what made STB-ReporterV4 one of the world's most installed regulatory platforms on a global basis, and has created its next-generation web platform that not only addresses new drivers but reduces total cost of ownership and significantly improves return on investment. The Lombard Risk solution will ensure that our clients have all the information they need to prevent submission issues with their regulators, regardless of the country, and that direct bottom line impact is reduced in an ever increasing complex regulatory landscape."

Lombard Risk's new web-based regulatory compliance solution, which was recently shown to 100 invited guests at the British Bankers' Association, provides regulatory reporting, stress testing and scenario analysis together with management / business information on a fast, flexible and fully-integrated web platform. The new solution has been developed in direct response to the increasing and changing demands of global regulators for transparency and insight into firms' operations at a detailed level - and will enable them to meet these requirements with confidence.

Broadridge acquires Paladyne

Continued from page 1

"Buy-side firms purchase nearly 40 per cent of capital markets technology and services and represent a segment of virtually untapped opportunity for Broadridge. Paladyne will serve as the foundation for the expansion of Broadridge's buy-side offering, enabling us to bring Paladyne's unique solutions to hedge funds, our existing prime brokerage clients, asset managers, hedge fund administrators and other asset servicers."

"Broadridge has exceptional client loyalty and an outstanding reputation for service, dependability, and cost effectiveness. Broadridge's extensive reach in the global financial services community and its global sales and distribution capabilities will enable Paladyne to expand significantly into new and existing market segments," said Sameer Shalaby, chief executive officer, Paladyne Systems. "Broadridge's proven sell-side solutions and client-focused services in combination with Paladyne's innovative buy-side technology creates one of the most comprehensive technology and services offerings within the financial services industry."

Charlie Marchesani, president, securities processing solutions, Broadridge, commented, "We believe that Broadridge is uniquely positioned to offer technology and outsourcing services to the hedge fund, asset management, fund administration, prime brokerage and custodial industry segments. The trust Broadridge has earned with our sell-side relationships and the neutral and independent role we hold in the industry will position us for success on the buy-side." He added, "We proudly welcome the talented, visionary team at Paladyne. Working with Paladyne, we look forward to continuing to provide innovative solutions to existing and future clients on both the buy- and sell-sides. Paladyne Systems will operate as a core business within Broadridge's Securities Processing Solutions division."

UK study warns on securities lending practices

Research from UK-based investment firm SCM Private reveals that the practice of stock lending is widespread within the UK retail fund management industry and warns that disclosures of those practices are inadequate.

Key findings from the study show that 19 out of the 20 UK retail fund managers surveyed can lend up to 100 per cent of their clients' funds and at least half of the total surveyed participate in stock lending. That represents £143 billion (€163.1 bn) in funds under management though not all those funds are necessarily involved in the practice.

Current UK legislation, notes SCM Private, does not require retail fund managers to disclose the risks of stock lending in their investor marketing materials or to lend less than 100 per cent of their assets. Nor are there any requirements to publish daily individual stock lending exposures, names of the largest borrowers or precise composition of the collateral backing loans.

"We believe that many investors will not be aware that certain retail funds are legally permitted to potentially risk 100 per cent of their savings through stock lending," said Gina Miller, co-founder of SCM Private. "In our opinion, the minimum levels of disclosure and protection for retail investors contained within UK legislation are totally inadequate."

Blue Cross sues Wells Fargo

Blue Cross and Blue Shield of Minnesota and other institutional investors launched a suit against Wells Fargo in Minnesota federal court, accusing the financial services company of grossly mismanaging their investments in its securities lending programme, according to Law360.

A spokeswoman for Wells Fargo released the following statement to SLT: "Wells Fargo categorically denies the allegations made in this lawsuit and will vigorously defend against them. The investments made by Wells Fargo on behalf of clients in the securities lending programme were in accordance with investment guidelines, and were highly rated and suitable at the time of purchase. As with all investments, the investors bear the risk of their investment losses. Wells Fargo continues to act with clients' best interests in mind and strives to provide exceptional customer service at all times."

A Blue Cross and Blue Shield of Minnesota spokeswoman said the organisation will not be issuing a statement, as it is their practice not to comment on litigation.

Plaintiffs are represented by Robins, Kaplan, Miller & Ciresi, according to Law360. The law firm could not be reached for comment.

Advent of CCPs "arouse a passion" in asset managers - Finadium

Emergence of CCPs is among the most controversial developments in the securities lending markets, according to the 2011 Finadium survey of Leading Asset Managers on Securities Lending, Collateral Management and Custody.

Central Credit Counterparties (CCPs) take what was once a bilateral trade and centralise the counterparty risk in one AAA-rated entity. CCPs do not, however, eliminate risk but rather mutualise it across a group of participating members, banks or broker-dealers.

"The topic of CCPs tends to arouse a passion in educated asset managers because of the change they represent, the level of control they take away from...decision-making and the potential impact on revenues," wrote Josh Galper, managing principal at Finadium and author of the report.

"The risk offset of mitigating counterparty default does not appear to make up for what could be lost; this is a change from last year when managers appeared to be more positive about the potential of CCPs," he added.

The survey found that most managers, at 57 per cent, prefer their current bilateral counterparties while 17 per cent are indifferent to whether they are exposed to bilateral or CCP credit risk. A minority of nine per cent prefers the CCP model while the last 17 per cent state they do not have enough information to express a clear desire either way.

CCPs are being boosted by a variety of global regulatory requirements coming into force to promote transparency. Basel III, for example, states that any transactions cleared via a CCP do not require any allocation of capital.

As it is early days, volumes in this space are still low. SecFinex, the first live centrally cleared multi-lateral trading facility (MTF) for the securities lending market in Asia, Europe and the US - estimates it has between $300 to 400 million on loan and $1.2 billion of liquidity on a daily basis. But the MTF, which works with LCH.Clearnet and Six-x clear for clearing services, is looking to treble or quadruple that over the next year as regulation drives trades onto exchanges.

In the Finadium survey, a North American securities lending manager commented: "Any time you introduce a new middleman there are more mouths to feed. While there is some risk mitigation with a CCP we prefer to manage that risk ourselves."

European short selling interest at year low

Short sellers in the European equity markets have been lying low since August's volatility, according to Data Explorers.

The value of stock on loan, used as a proxy for short selling activity, has fallen since mid-August, when global equity markets plummeted on eurozone debt woes and the US fiscal crisis.

It is approaching its lowest level in a year and the European equities long-short ratio is a whisker shy of an annual high at 11.4, which means longs outnumber shorts by over 11 times, writes Data Explorers.

German solar cell manufacturer, Q-Cells and global semiconductor industry supplier, Aixtron were identified as the most shorted stocks in Europe, according to the research firm's data.

The drop in short selling activities for European equities, at some one per cent of total shares, is in contrast to US equities, where average short interest passed above three per cent across the S&P500 in the last week of August, a level not seen since the end of November last year, writes Data Explorers.

"This should be viewed in context - demand to borrow and short sell has been subdued since the Lehman crash for a number of reasons: there are less hedge funds today and they are less leveraged, a prolonged bull market has meant it has been harder to pull off negative bets, regulatory uncertainty has sent many people to the sidelines, and short selling activity has tended to be confined to pockets of activity such as the solar sector and some low-end retailers," the research firm notes.

OneChicago announces volumes

One Chicago has announced that a total of 507,238 security futures contracts were traded in August this year.

Volumes at the equity finance exchange were up 25 per cent year-on-year and open interest stood at a whisker above 385,000 contracts in August.

Almost 100,000 August futures valued at more than $480 million were taken to delivery, emphasising the use of single stock futures as an equity finance product, the company writes.

In mid-August, after four European countries announced short selling bans, OneChicago listed MSCI futures on the ETFs covering Belgium, France, Italy and Spain in direct response but has not seen any business on the listings yet.

Market observers have commented that this kind of product, which replicates an index but without the banned stock, will be interesting to traders that typically use the Eurostoxx50 to go directionally short in the eurozone countries. The problem is whether liquidity will be there when a trader wants to exit the position.

"They meet a market demand and have piqued interest from a trading community that could really benefit from them," says Tom McCabe, COO at OneChicago. "But there is a need for firms to educate potential users on how these products work."

SBL on FSB radar

The Financial Stability Board (FSB) has approved recommendations by its Shadow Banking Task Force. Among them, the regulation of activities related to securities lending and repos, including possible measures on margins and haircuts.

The supranational regulator will dedicate a specific "workstream" to focus on the securities lending and repo market, which will begin developing preliminary work plans and is expected to make policy recommendations by the end of 2012.

The FSB defines the "shadow banking system", which some industry participants call market-based financing, as "credit intermediation involving entities and activities outside the regular banking system" and acknowledges that its advantages include the provision of an alternative source of funding and liquidity to market participants and corporates.

J.P. Morgan implements US tri-party repo reforms

J.P. Morgan has announced the successful achievement of two major tri-party repo reform milestones: the implementation of three-way trade matching for US tri-party repo dealers and cash investors and the move of the daily unwind as part of reforms mandated by a Task Force (TF) sponsored by the New York Fed.

In advance of the TF deadline on 3 October, three-way trade matching took effect to improve

market transparency for cash investors. Some 30 per cent of all the tri-party repos booked through J.P. Morgan on that day utilised its proprietary functionality, which gives cash investors greater control by actively affirming trade instructions. J.P. Morgan also accepts trade instructions via a variety of different messaging types, SWIFT, or other third-party vendor services.

And the daily unwind has shifted from early morning to 3:30pm, a directive from the TF to reduce the reliance on intraday credit extended by the two major clearing banks, J.P. Morgan and BNY Mellon. Volumes and business have not been affected since the switch on 22 August, writes J.P. Morgan.

During the financial crisis, the daily unwind was particularly problematic for the tri-party repo market when it became uncertain whether dealers would be able to obtain financing through additional cash investors, writes BNY Mellon in a report.

“This has been a period of rapid change for our clients,” said Kelly Mathieson, a global custody and clearance executive at J.P. Morgan Worldwide Securities Services. “When the daily unwind moved...we were able to cut our normal processing time for the unwind in half, returning cash to investors while allowing dealers to promptly reallocate their collateral.”

Cash lenders—primarily money market mutual funds, custodial banks investing cash collateral on behalf of their securities lending clients, and other asset managers— use tri-party repos as investments that offer liquidity maximisation, principal protection, and a small positive return, while cash borrowers rely on them as a major source of short-term funding.

The tri-party agent, which in the US market are government securities clearing banks like J.P. Morgan, facilitates transactions by providing operational services, such as custody of securities, settlement of cash and securities, valuation of collateral, and optimisation tools to allocate collateral efficiently.

SunGard buys securities lending software provider

SunGard has completed the acquisition of Finace, a provider of securities lending and collateral management software, from Swisscom IT Services.

Finace offers a combination of solutions and specialist knowledge in these niche fields as well as the potential to build SunGard’s business in European regional and private banks.

Led by Brian Traquair, Finace will operate within the securities finance business unit headed by Craig Costigan.

Brian Traquair, president of SunGard’s capital markets business, said, “Securities finance requires specialist expertise. The Finace team has a strong reputation in this area, and its skills and solutions will help us enhance our existing offering and create new, compelling propositions for our customers.”

NSE to begin securities lending

The Nigerian Stock Exchange (NSE) has “concluded arrangements” to begin securities lending and short selling activities, according to Nigerian media.

Oscar Onyema, NSE CEO, said the exchange is collaborating with industry participants to ensure a “smooth take off” of the proposed initiatives, writes The Moment.

Traders only make money in Nigerian market today when the market goes up, the on-line newspaper quotes Onyema as stating, but that participants should be able to make money whether the market is up or down if they begin short securities.

Onyema also promised that his management would encourage and support the introduction of hedge funds into the Nigerian capital market. The Moment also reported international investment interest from UBS Wealth Management amid a campaign to attract foreign participation in NSE.

Quadriserv launches b2b e-stock lending

Quadriserv has launched AQS Direct, a broker-to-broker electronic stock lending venue with central counterparty clearing.

“This expands the opportunities for automation, ETF activity, term trades, centralised financing and other stock loan endeavors,” Quadriserv president and CEO Bruce Turner said.

AQS Direct will run parallel to the established AQS, the first CCP-based marketplace in the US for automated securities lending trading.

“Broker dealers asked us for an additional venue exclusive to OCC clearing member firms to meet their specific needs, including high volume, large-ticket transactions on a platform that can provide for bilateral customised trading,” said Quadriserv vice chairman Pat Cestaro.

Greg DePetris

Securities Lending Times facilitated a discussion with Greg DePetris, co-founder of Quadriserv, to discuss the development of its AQS electronic-trading platform for securities lending

BEN WILKIE REPORTS

SLT: Your market is in its third year of development. How has it been going so far?

Greg DePetris: We're excited with where things stand right now. It was important for us to focus on the very unattractive foundations of infrastructure development and back-end integration with our member firms during these early days. That work is nearly complete now, and we're happy to have delivered on a commitment to bring dramatic trading efficiencies to the marketplace. Going forward, we're laser focused on solving the specific commercial needs of our membership. We have a continuously growing membership base to address, and the rate of expansion is increasing. Currently, we have about 30 clearing member firms, including three of the top five prime brokers by market share, that are members of AQS. We also have about 20 non-clearing member firms that are members as well.

From a transactional standpoint, growth has been adequate but nothing near what we expect over the near-and medium-term, though this year the average daily number of outstanding trades is up 19 per cent over last year at this time and new trades are up about 11 per cent.

Our stated goal has been to offer an accessible and transparent market with a central order book that provides opportunities for credit efficiencies, lower operational costs, a paper trail for regulatory compliance, optimisation from netting potential, mitigation of counterparty risk and exposure to more counterparties.

We've reached that goal, but the real challenge now is to use the platform to help our members meet their goals.

SLT: How are you expecting to achieve increased participation?

DePetris: The securities lending market has changed incredibly just in the time since we went live with the AQS platform. So our first effort was to build something based on what we thought we knew of the industry's past, in the midst of a very volatile present and in anticipation of an increasingly unpredictable future. We did a good job of working with many of the early adopters, in particular the proprietary trading firms and agent lenders, to the point where many of them are now exploring multiple clearing member sponsorship. But we needed to address the broker-dealer community better.

So we started a dialogue - multiple dialogues, actually - with the prime brokers. We listened and they helped provide the kind of direction that will make the AQS platform more valuable to all of our users.

Three specific enhancements emerged. First, we created AQS Direct, a new electronic trading venue enabling high-volume, large-ticket transactions exclusively between registered broker-dealers that are OCC members. Second, there is now the option for any participant to disclose the identity of a firm or trader during bilateral, electronic-trade negotiations. And third, there is the ability for any of our clearing member firms to become equity owners of the business through their active participation. All of these enhancements exist in addition to the current anonymous AQS order book and sponsored access trading environment.

SLT: When did AQS Direct launch and why did you develop this for prime brokers?

DePetris: We just finished testing, which went very well, and we've now opened it up for live trading with the first group of prime brokers.

One thing that became clear during our development was that not all customers were looking to solve the same problems, and not all solutions work for all customers. We built AQS Direct simply because a core constituent group articulated what they wanted very clearly, and it's incumbent on us as the market operator to meet those needs.

SLT: What specifically are market participants doing on these two platforms?

DePetris: We've seen surprising growth in the financing business that firms are doing, presumably due to the benefits of central counterparty exposure. We're also really encouraged by the number of firms moving toward complete API integration, which allows them to interact with AQS liquidity on a fully automated basis as well as to scale the size and diversity of business they're doing quickly. Lastly, Excel-based AQS access has improved our users' ability to incorporate AQS market data and trading functionality into their daily routines more seamlessly, so the adoption of the Excel add-in has been good to see.

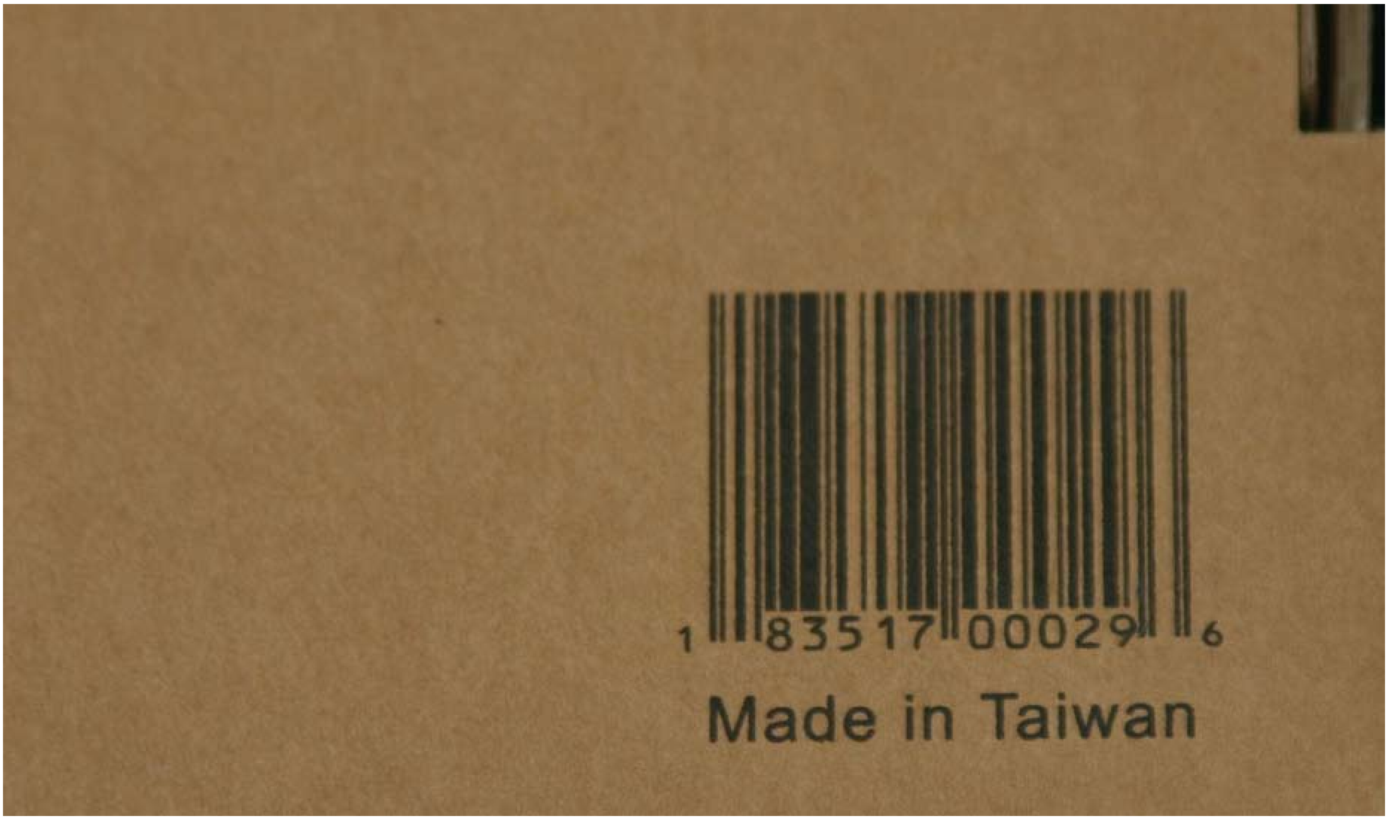
SLT: So what happens now?

DePetris: The AQS market has come to represent a big step forward in terms of industry innovation, but if we've learned to appreciate anything, it's that innovation for innovation's sake is rather pointless. We operate a CCP-based centralised electronic market with an open order book and nearly every conceivable form of price discovery and counterparty interaction known to financial markets. Most people would agree that the future of trading anything includes some or all of those features. But unless you understand why people will use them, you've missed the point.

What will happen next has largely already been dictated by our members in the sense that they have driven the functional enhancements to the market and made clear why they are useful. Our job will be to continue growing the membership base and supporting each participant as they become more and more familiar with the platform, with the goal of growing the overall market.

We're focusing on leveraging the infrastructure that we operate with our clearing, settlement and technology partners. Both AQS and our largest members think the notion of CCP-based secured funding is an incredibly important area of the market to service going forward, and over the coming months we'll look forward to talking about that space in a lot more detail. Again, it's a matter of understanding the challenges that our members face and creating the solutions and opportunities to make their businesses better. This is a great time to be running the business we run, and we're fortunate to have an amazing team making it all happen. **SLT**

Greg DePetris
Co-founder
Quadriserv



Taiwan

As Asia's economic growth continues to attract the world's attention, SLT looks at Taiwan – the most popular equity market for securities lending in the region

ANNA REITMAN REPORTS

Taiwan's economy is "like a lava cake – hot on the inside", writes Nomura analyst Jesse Wang. Despite global headwinds, the banking sector remains resilient, property prices will likely be sustained and though the technology sector is sure to hit a soft patch, the investment firm remains positive in the long-term. The economy is expected to grow a healthy 4.8 per cent this year, according to government figures.

Still, as global risk aversion weighs on markets, a short selling imbalance has been increasing in the last few weeks. That might have something to do with the fact that Taiwan's market is driven by the technology sector, indicating it will be this key export market that takes a hit as downside risks to the economy increase, says Wang.

There is currently $22.4 billion of Taiwanese equity lendable, according to Data Explorers, of which 13 per cent, worth $5.1 billion, is out on loan, making it the highest utilised Asian equity market.

Research from Data Explorers shows that the three most borrowed names are Gintech (solar cell manufacturer), MediaTek (semiconductor design and sales) and Macronix (semiconductor manufacturer) with between 3.7 and five per cent of their shares out on loan respectively.

Following the 2008 election, Taiwan has consistently improved the island's relationship with China

"The export sector, which is technology product driven, will be hit earlier as compared to other countries…but in terms of domestic demand, there are many policy tools for Taiwan to adopt to support the domestic economy," Wang says.

It helps that the country is debt averse - its debt to GDP ratio is at 34 per cent, while corporates are net cash. Meanwhile, as central banks in China and India struggle to put a lid on overheating economies, Taiwan's inflation remains below two per cent.

Some of those policy tools, with major implications, are directly related to the improvement of the cross-state relationship with China under the leadership of the Taiwanese government, the Kuomintang (KMT).

After the 2008 election, Taiwan has consistently improved the island's relationship with China and made notable advancement on trade. Opening the country's borders to China's tourists, for example, is a significant step for the economy, says Wang.

"If Taiwan chooses to further liberalise the economic relationship with China, there will be increasing peace dividends…just look at the tourism business, there are about 30 million [tourists] visiting Hong Kong, but…less than two million visiting Taiwan," he says.
Another significant achievement is the conclusion of the Economic Cooperation Framework Agreement (ECFA), which will see tariffs between the two countries drop from 10 per cent now to zero over the next 10 to 15 years.

"This will promote Taiwan as the official manufacturing sector for China, because all the products which are produced in Taiwan can be distributed or sold into China without any tariff charges," says Wang.

And it is the financial sector which has so far been most impacted by liberalisation policies, giving Taiwanese banks more flexibility to do business in China. Previously, explains Wang, Taiwanese banks could only set up a branch in China, now they can also set up wholly-owned subsidiaries and engage in merger and acquisitions activities.

"Essentially, there has been stable, continuous deregulation that allowed Taiwan to benefit from China's stronger growth," Wang says, adding that a risk factor to these policies could be the outcome of a presidential election scheduled for January 2012.

In terms of securities lending, Wang says that the more liberalised and the more the cross-state relationship develops, the more the securities lending market will expand. However, Nomura is not a major player in the securities lending market, though the firm has been in Taiwan for 16 years and remains among the top foreign firms in terms of market share.

Big brokers tend to have large inventory books because of proprietary trading positions, they have the inventory to utilise as the foundation of the securities lending business…[not having] inventory is essentially the barrier for any company that wants to lend in this space," he notes.

The Taiwan Stock Exchange (TWSE) launched a centralised Securities Borrowing and Lending (SBL) system in June 2003 to meet the needs of qualified institutional investors with the TWSE serving as an intermediary. Starting in 2007, qualified securities firms and securities finance companies were allowed to conduct SBL business acting as principal, providing investors with additional options.

Both lenders and borrowers are subject to Articles of the Taiwan Stock Exchange Corporation Securities and Borrowing Lending Regulations and are subject to regulation by the Securities and Futures Bureau as part of the Financial Services Commission – the country's financial regulator.

In an SLT panel debate in February, Zubair Nizami, then senior securities lending trader at Northern Trust but now at Robeco, described the country as having one of the most vibrant developing markets.

"Participation by both offshore and onshore lenders has grown over the past few years as a result of the gradual liberalisation of securities borrowing and lending regulations. As more lenders enter this market, overall liquidity in the Taiwanese SBL market is likely to increase," Nizami said on the panel debate.

Wayne Chang, assistant manager, clearing department at Taiwan Stock Exchange, says this stems from benefits such as multiple access to SBL transactions, demand for fund raising through convertible bonds or Global Depository Receipts (GDRs) and the relatively flexible framework for conducting SBL and short sales.

Participants can access the market through the fixed-rate and competitive bidding (3.5 per cent lending fee with initial and maintenance requirements at 140 and 120 per cent respectively), with the TWSE guaranteeing the trade by acting as a CCP, but in negotiated trades, the counterparties assume default risk and have full discretion to negotiate their collateral ratio. In addition, qualified securities firms can lend to borrowers with the same initial and maintenance requirements.

The SBL market is dominated by negotiated trades, says Chang, because counterparties can deal with each other not unlike they do in other developed markets. But some market participants point out that there are inefficiencies stemming from practice of matching and transfer of securities through brokers who have access to the exchange system for both the borrowers and lenders – a process that applies to every SBL transaction.

There are three ceilings adopted to monitor the volume of short selling borrowed shares over the whole market: the daily maximum for short selling of borrowed stocks cannot exceed three per cent of outstanding shares per lending stock, maximum for short selling of borrowed stocks cannot exceed 10 per cent of outstanding shares per lending stock. The total volume of short selling borrowed stocks and margin short sales cannot exceed 25 per cent of outstanding shares per stock.

TWSE discloses the maximum shares for SBL short sales on a daily basis on their website and monitor and disclose the remaining available shares for SBL short sales on a real-time basis.

"As [with] most emerging markets, the Taiwan stock market is vulnerable to sharp market disruption, so it makes sense to put a ceiling for total short [sales] and all short [sales] must be covered," Chang writes in an email.

"We leverage on the ID system, under which every investor is given an ID number, to monitor all short sell[ing] activity on a daily basis without bringing too much inconvenience to our market participants," he says, noting that whenever there is a market crash, SBL and short selling becomes a scapegoat.

"However, the Exchange, which operates the trading market and provides SBL platform at the same time, will strive to keep both markets open, fair and orderly," he writes.

FINIs dominate the SBL market, accounting for over 85 per cent of total trading value, while the largest lenders are domestic and foreign sovereign funds, insurance companies and asset managers. Foreign banks and prime brokers represent the largest borrowers.

On the competitive bidding side of the SBL market, Chang admits that the collateral ratios are criticised as being high when compared to 105 to 110 per cent in other markets, but in general does not see barriers to entry.

> Nuzami: Participation by both offshore and onshore lenders has grown over the past few years as a result of the gradual liberalisation of securities borrowing and lending regulations... liquidity in the SBL market is likely to increase

As a major participant in the custodian banking market, HSBC Taiwan processes upwards of an average 100 SBL trades per day on behalf of clients. Although the SBL transactions are predominantly for short selling, clients also arrange foreign overseas financing using Taiwan equities as collateral.

Eric Jai, senior vice president of HSBC sub-custody and clearing notes that China's overall economic growth will prompt more trading in the market. However, HSBC is working with regulators to review the SBL market structure in order to simplify the transfer of securities.

"The additional costs that result from the current SBL market structure represent barriers to participation - clients without a large inventory in the market may find it is not profitable due to the additional costs," says Jai.

"For the last three years, HSBC has been working with the government to upgrade the system. In other markets, there is a bulk transfer capability in the exchange system which allows custodian banks to act as intermediaries. This greatly simplifies the process," he adds. SLT

Next issue:
Canadian securities lending

European regulation

As a raft of regulation hits the securities lending industry, we gather some of the market's leading experts to discuss how the changes will affect the business

Ben Wilkie, editor

Sunil Daswani
Northern Trust
International head of client relations for securities lending

Jemma Finglas
BNP Paribas
Global head of business development equity finance & repo

Paul Wilson
J.P. Morgan - International head of relationship management and business development for securities lending

Alec Nelson
Rule Financial
Head of the securities finance solution group

SLT: What are your key priorities when it comes to securities lending at the moment?

Paul Wilson: Our priorities are twofold. Firstly, helping our clients navigate the challenging and difficult market conditions. Clients have appreciated the communication and our work around education and customisation of lending programmes. Clients have been relatively calm and made very few if any amendments to lending programmes.

Our second priority has been sourcing new ways to add revenue to our clients which are consistent with their overall lending objectives and risk framework. We are now actively lending in Brazil and have expanded the accepted range of collateral. Many clients are open to reviewing their lending parameters, including collateral and cash re-investment guidelines.

Jemma Finglas: The recent short selling bans are creating some uncertainty amongst the lending community and one of our priorities is to ensure that our clients remain informed and abreast of the changes as they occur.

In addition, the rapid changes in risk appetite and funding costs which have lead to changes in collateral preferences on both sides need to be managed efficiently. We note that our ability to accept a broad range of high quality collateral – cash and non cash, has meant our client portfolios remain attractive to the borrowing community without increasing their risk.

Sunil Daswani: With uncertainty continuing to be a consistent theme on global markets, client communication has been a key priority for us. From the recent short-selling bans in Europe to the US credit downgrade, our clients have been active in asking for opinion and analysis on market events, and on any potential impacts for their lending programmes.

> Wilson: Clients have appreciated the communication and our work around education and customisation of lending programmes. Clients have been relatively calm and made very few if any amendments to programmes

Recent months have therefore seen us working particularly closely with our clients and providing them with the information they need to make informed decisions. Having said that, the situation has largely been one of business-as-usual and we have continued to have success in generating risk-adjusted revenue streams for our clients.

Alec Nelson: We have three main focus areas that we are helping banks with:

- Supplying tools to effectively manage collateral (grading and optimising allocation of collateral); and integrating "inventory management" across business lines, so that securities lending and repo businesses can both utilise assets in the shared pool;
- Improving the verification, amendment and codification of legal agreements and credit support annexes – we've developed tools to remove a lot of the effort involved in reviewing and updating old documents and crucially, ensuring that the correct terms and constraints are coded into systems such as collateral eligibility checks;
- Infrastructure upgrades – many existing systems and operating models are not "fit for purpose" – so we're helping banks define new "target architectures" and evaluating and selecting the systems that will support their future needs.

SLT: How has the changing regulatory landscape affected your securities lending activities?

Nelson: We are seeing more efficient use of balance sheet (less trades with bigger profit margins and matching collateral against trades). There is also concern that certain equity-based financing trades may no longer be viable because assets raised cannot be counted towards tier-1 capital. A plus-point perhaps is that the regulatory attention is highlighting that securities lending businesses are far more sophisticated at managing and utilising collateral than other parts of the bank.

> Finglas: The aim of the EU & US regulatory change for asset managers and banks is to place risk management at the top of the agenda

Wilson: The supply side of the business is fairly healthy. We have seen decent increases in lendable and on-loan balances and a very healthy increase in new clients, be it custody or non-custody. But the demand side remains quiet due to impending regulation, subdued hedge fund activity and government liquidity and quantitative easing programmes.

Finglas: The aim of the EU & US regulatory change for asset managers and banks is to place risk management at the top of the agenda and protect investors. The degree and speed at which is has been implemented is unprecedented.

In general terms we are seeing the effect on both sides of the SLAB business. The structure of both the supply and demand arms of this activity are changing and uncertainty prevails.

On the supply side we see changes in investment strategy as asset classes bear different capital requirements. This we expect will create a shift in the make up of the lendable base, the extent of which is difficult to quantify currently but will become more apparent as regulations start to take hold.

Significant impact on returns and a reduction in profits as capital & counterparty risk calculation changes are hindering growth on the demand side of the business.

As a result growth in GC volume terms has risen less year on year than in previous periods.

This for the most part has been negated by the increase in i) demand for termed trades of fixed income assets; ii) need to cover OTC derivative positions and iii) the need for HQLA securities.

On the collateral side of the equation we note that collateral takers have increased their quality criteria substantially whilst collateral givers have tended to favour cash versus non-cash.

SLT: How big an issue are the recent temporary bans on short selling?

Finglas: In 2008 following the temporary bans on short selling of financial stocks the former chairman of the SEC stated "Knowing what we know now, I believe on balance the Commission would not do it again." as "the costs appear to outweigh the benefits…."

This quote was perceived by many optimists as the beginning of the end for a wide spread misunderstanding and knee jerk reactions in relation to short selling bans. There was a general feeling of hope as distinctions were made between short selling and naked short selling and the industry seemed to make progress in taking a measured approach to the subject. Political influence and pressure was seen to be decoupled from regulatory reaction.

Unfortunately, despite perceived progress made over the past few years a wide ranging ban on short selling has been reintroduced. There has been little differentiation made between naked short selling and short selling.

The effects (see below) will be far reaching in terms of market sentiment and eventually stock lending revenue streams.

1. Reduced liquidity and increased volatility as bid/ask spreads widen on the cash market

2. Fear or artificial price inflation & reduced price efficiency– as bears shut out of the market

3. Reduced demand as proprietary trading activity falters due to uncertainty

4. Lack of uniformity of restrictions across various markets & uncertainty with regards to how long they will be in situe, further compounds uncertainty

5. Reduced lendable base as uninformed and concerned market participants retreat from lending programmes

Nelson: I don't believe that the banning of short selling has had a major effect on driving the market down, this has occurred from other factors. The banning of short selling has never stopped the market being driven downwards; it just stops the opportunists trying to sell stock they don't own. The holders of securities will always sell if they see an opportunity to do so, this maybe because they see the security or the index as being overvalued, or they just want to take a profit. If there is a major sell off, the market will go down with or without a short selling ban.

Daswani: Despite the prominence it has received in the media, it is important to note that short-selling is only one aspect of securities borrowing and lending short-selling. However, the current situation – where the scope of bans varies hugely from country-to-country, and there is a perceived lack of guidance and explanation – is obviously far from ideal for the industry.

Our view is that properly-regulated short-selling has a legitimate role to play alongside other investment strategies, in promoting liquidity and price discovery and the mitigation of asset bubbles. The current bans are having a negative impact on new demand and the industry would welcome a more coherent and proportionate regulatory framework than the one that currently exists.

> Nelson: I don't believe that the banning of short selling has had a major effect on driving the market down, this has occurred from other factors

Wilson: Client response to the most recent market events, which include the temporary short selling bans, has been quite muted. However, short selling bans are an issue for the industry because it appears the regulators have not properly considered the impacts of these bans.

We believe these bans have not achieved their initial objective, because short selling is not the cause of market instability. The market declines in the US and Eurozone can be attributed to fundamentals and uncertainty in the market themselves rather than short selling as the percentage of shorts in these markets is minimal.

SLT: Do you welcome regulatory harmonisation across Europe? Do you have any concerns?

Nelson: Yes, having a regulatory standard reduces risk and encourages more people to enter the market place. Ultimately, harmonisation should also lead to more standard trading agreements and annexes, which in turn, should lead to more consistent setup of client-data in systems, helping to reduce booking errors, and workload on Operations. However, a concern would be that not all European countries are able to police the regulations.

Daswani: It is a broadly positive development. However, as the summer's activity has demonstrated, individual states within Europe face challenges that differ hugely from country-to-country and one can sympathise with the various home state regulators who are looking to ensure that a level of discretion can be applied in their own markets.

Allowing greater standardisation across Europe will be beneficial in aiding confidence and transparency in the region as a marketplace in which to do business, but a degree of local flexibility will also continue to be important in order for markets to function effectively.

Finglas: As mentioned previously, in theory the inevitable harmonisation of the regulatory systems across the board makes sense in the long term from an efficiency and transparency perspective.

However, what and how the decisions are made on which regulations are implemented is of course key.

Implementation of regulation will be an expensive burden on market players at a time when they are already stretched in terms of; resources, capital requirements, system and disclosure costs.

The primary concern is that any regulation which is being imposed is done so based on informed decisions and debate between the regulator and market participants.

Wilson: Regulatory harmonisation would be useful, as long as the regulations are sensible and practical. One of the challenges in the European legislative process is that the European Commission, European Parliament and the Member States in the Council have to reconcile their own versions of draft law into one final piece of legislation.

Currently, there are still a number of outstanding issues that need to be resolved and are a concern to the industry, such as the potential requirement to publicly disclose short positions or discussions around the 'soft versus hard locate' wording, which deals with the restrictions on short-selling of shares and government bonds as well as naked sovereign CDS.

SLT: Are there any issues you feel regulators are missing out on?

Wilson: No. Regulators have taken a very comprehensive approach and seem to be focused on all aspects of the financial markets. But it does seem sensible to implement regulations like Dodd Frank, European Market Infrastructure Regulation, Alternative Investment Fund Managers Directive and Basel III before considering further regulation as the cumulative impact of these is still not known.

Nelson: Whilst we welcome regulatory change, we worry about the enormous burden being placed on the financial industry to investigate and evaluate the implications of the proposed changes. Because of the sheer multitude and complexity of the changes, they probably won't all be "right first time", so there is likely to be a prolonged period of regulatory change for years to come.

SLT: Do you feel confident about the future of securities lending in Europe?

Daswani: Yes. Europe will continue to be a key securities lending market and there are reasons to be optimistic about the future. For instance, we have seen returns in the European securities lending industry nearly return to pre-crisis levels as the year has progressed. We have also continued to see our European supply return. More broadly, market providers' focus on supplying effective transparency, regulation and risk management are being well-received and many clients are re-engaging with the industry as a result.

Of course, challenges remain ahead – in particular, borrowers continue to experience various pressures, including balance sheet constraints, with the effect that demand has remained relatively subdued for much of the year. But on the whole there is much to be positive about.

> Daswani: Greater standardisation across Europe will be beneficial in aiding confidence and transparency

Finglas: Yes indeed we see many opportunities developing in the European SLAB and Repo markets for our lending clients over the coming months and years. The recent markets changes may alter slightly the manner in which the fees are generated but new chances and prospects are already developing.

Nelson: Yes I do. As Europe opens up we are seeing more countries allowing securities lending activities to take place. There is always going to be fail coverage, short sell opportunities, swaps and derivative activities. Whilst derivatives and synthetic finance may be heavily used by the buy side, the sell side will still have to hedge with physical shorts and borrows. The trend towards algo-trading is also likely to drive up the need for securities lending transactions – and being able to support high levels of trades is likely to be a key differentiator between the Prime Brokers.

Wilson: This year has been a bumpy year in the global markets. But from a securities lending perspective, as we predicted, it has been more positive than 2010. Our business has performed really well this year and we remain optimistic for 2012. SLT


I need to see credit limit breaches when I book a trade – I don't have truly real-time global position management – I have to provide locate authorization codes to my day traders – I have to maintain the correct level of debit/margin balance all the time – I am unable to benefit from hot stocks tied up in my margin/debit balances – Many of my operational activities are highly labor intensive - I only have time to sort out the large billing discrepancies
Managing multiple technology vendors takes too much of my time
– I am missing corporate actions that impact the profitability of a trade – I have to work very long hours to sort our billing discrepancies – I can't take risks when choosing the supplier for my mission critical solutions – I don't have truly real time global
SUNGARD®
SECURITIES FINANCE
For all your Securities Finance needs SunGard has a Solution
Rely on our Strength. Take Control
www.sungard.com/securitiesfinance
©2010 SunGard
Trademark Information: SunGard, the SunGard logo and the products listed in this document are trademarks or registered trademarks of SunGard Data Systems Inc. or its subsidiaries in the U.S. and other countries. All other trade names are trademarks or registered trademarks of their respective holders.

Enhancing returns

Adrian Morris argues that firms need to align their agency lending and principal businesses to maximise revenues

EXCLUSIVE

Generating additional revenue in the securities financing business has become much harder especially in a period when risk and compliance are now most often the primary questions in developing any piece of business. Discussions over big thematic changes to the industry either through legislation, the introduction of central counterparties or developments in securities lending in new countries are always important but for many businesses more immediate concerns are how to increase revenues in the short term in an environment where businesses demand more efficient use of limited budgets to deliver 'hard brass' results.

Looking inward businesses have some obvious opportunities to enhance returns through internal co-operation across trading desks, better utilising available assets to lend. Banks which have agent lending, principle equity finance and repo desks often miss opportunities to enhance overall bank wide returns by leveraging trading opportunities between themselves.

It is often the case that for historical and obvious P&L reasons each business sees the other as more akin to an external competitor than part of the same organisation and any trading which does occur between desks is often limited and rarely automated.

For instance when the repo desk and the principle equity finance desk are searching the market for supply, logically, their first port of call should be the bank's custodial agent lending desk which might have availability. Significant basis point savings from internal borrowing can quickly have a high level impact on revenues, why shouldn't the principle or repo business be one of the largest customers of the agent lending desk? Agency lenders who are utilising custodied assets are often long gilts, is the repo desk short covering these same gilt positions? Giving the repo and equity finance desks the ability to trade with each other on an automated basis also opens up opportunities to enhance liquidity within business units as well as put on collateral upgrade trades to each desks advantage.

In many cases each business has different vendor or proprietary legacy system architecture which means there is no obvious method or functional process in place to enable trades to process between trading businesses systems on an STP basis. Historically these businesses have generally developed their own management structures and systems often managed by separate IT departments within the same broader organisation. This separation in itself means getting such a project started can be a problem, who initiates and funds a project which delivers benefit across multiple business units? To this end organisations are now recognising this issue and are providing overarching programmes which fund projects which enhance revenues across the bank through cleverer use of internal assets.

This can help to present a more consistent and complete offering to clients giving credence to the oft used term in marketing of clients benefiting from organisations internal synergies. By leveraging internal assets it helps the bank to reduce trading costs and lowers risk.

MX Consulting has recently completed a project for a large tier one bank which enabled these three businesses to maximise cross-trading opportunities creating a new and material stream of income. **SLT**

SETTING BENCHMARKS, THE UNICREDIT WAY.

When it comes to financing and collateral solutions in Europe, we believe in making it easier for our clients. We leverage our strengths across asset classes, trading systems and settlement to create and optimise bespoke solutions.

A one-stop shop for benchmark results.

- **Multi asset class product capabilities: repo, securities lending, equity finance, money market and derivatives**
- **Individually designed solutions including fully automated B2C-processes**
- **Commitment through acting as a principal**

Fixed Income Repo & Collateral Trading:
Arne Theia
Head of Repo and Collateral Trading
Arne.Theia@unicreditgroup.de
+49 89 378 17655

Sven Weinhold
Repo and Collateral Trading
Sven.Weinhold@unicreditgroup.de
+49 89 378 14160

Equity Finance:
Carsten Wolfheimer
Head of Equity Finance
Carsten.Wolfheimer@unicreditgroup.eu
+44 207 826 6880

The Securities Lending Industry Awards 2010 GSL
Winner
Fixed Income Trading Capability
Single-location Borrower

The Securities Lending Industry Awards 2010 GSL
Highly Commended
Looking to the Future
Borrower

UniCredit
Corporate & Investment Banking

This advertisement has been issued by UniCredit Bank AG, a member of the UniCredit group of companies. UniCredit Bank AG is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

Big interview

Euroclear's head of product management discusses how the market has reacted to the crisis and the organisation's plans for the future

BEN WILKIE REPORTS

SLT: How do you see the securities finance market at the moment? Is the behaviour of participants markedly different to that seen five years ago? How important has risk management become to the industry?

Jo Van de Velde: Over the past few years we have seen a shift from a yield-driven to a risk-driven market. During earlier years, triparty collateral management was led by broker-dealers who were looking for an efficient and cheap way to finance securities. It's now equally driven by cash lenders who are looking for safe ways to lend money. We've seen steady growth in the number of money market funds and large corporates using triparty services to invest their cash in a secure manner. Central counterparties (CCPs) are also becoming active triparty users to manage their core margining processes.

In terms of volumes, we saw a drop at the start of the crisis, but our volumes are already beyond pre-crisis levels. This is clearly the result of the move from unsecured to secured cash lending activity. Some firms made the decision to move to a secured model in a very short timeframe, and were able to do so easily because of the availability of triparty services.

What we're also seeing is heightened risk awareness. Where there was a predominant focus on market risk, clients now increasingly focus on the types of collateral received, where it's received, their rights to liquidate collateral and at what price, the risk taken on the agent, the risk on the margins and so on. Being able to re-use collateral and gain access to central bank liquidity, especially during turbulent market conditions, is also vital.

These issues are now reflected in the quality of collateral being used in triparty as there has been a clear shift in demand for higher quality and more liquid securities. In the interbank market, collateral quality is very high, where nearly 80 per cent is government bonds. Lesser quality paper is being used as collateral with the European central banks, where only 10 per cent of the 2 trillion euros of collateral deposited with the central banks are govies.

SLT: What value can an ICSD provide when it comes to managing risk?

Van de Velde: We in-source all the operational work related to collateral management so that the banks can focus on risk management. We apply the haircuts, perform margins calls, automate collateral substitutions, and provide real-time reporting and more to keep banks informed of these activities. We understand the importance of being able to focus on risk management at times like now when the markets are volatile, and we value the reputation we have earned as a provider on which clients can depend to give them the freedom to manage these risks.

Clients don't want to wonder if their assets are marked-to-market everyday, or about their collateral concentration risks. We make sure everything happens according to plan. For example, when Lehman went bust, market participants needed to rely on providers they could trust; we were tested along with other providers and we proved a success.

It's only when you go through a crisis such as Lehmans that the model you employ for such situations can be improved. The test was not only on the triparty system specifically, but included all the actions we took to protect our clients. It was also a test for the industry - upon the declaration of a default, when could they start selling assets?

Counterparties were questioning what they needed to do. So, while our operational processes performed well, we have found areas to improve as a result of our Lehmans experience. We should point out that Euroclear Bank's default management system proved to function as planned, and in the aftermath of the Lehman default our settlement volumes rocketed.

SLT: How does the work of ICSDs dovetail with what CCPs do in managing risks?

Van de Velde: As a triparty collateral agent, we do not take on counterparty risks, whereas CCPs do.

As the clearing business continues to grow, so will the amount of collateral needed to be posted to CCPs. So, it's important that a CCP is supported by a strong collateral backbone. Euroclear adds value in this context by supporting CCP margin calls, managing defaults, and the like to make the system even stronger.

Of course, there remains a possibility that a CCP will go bust, so it's important that the margins are covered. If managed correctly and the CCP defaults, you'll be able to get your cash or securities collateral back. Yet, with the amount of collateral that will be posted to CCPs, it is understandable that some clearing members will raise questions about the safety of their collateral in case of such an event.

Today, our triparty services are able to efficiently segregate collateral. And, we can easily act as a third-party pledge holder for the pledgor and pledgee, ring fencing the collateral risk for both parties.

SLT: Is tri-party collateral management the way of the future? Does it work for all markets to underpin all transaction types?

Van de Velde: It is, most definitely. The beauty of a triparty service is that it allows you to centralise, standardise and optimise your collateral activities across markets and transaction types. The agent makes sure that collateral automatically moves in accordance with the underlying agreement governing collateral eligibility. It also allows both counterparties to keep control of the collateral management process without having to perform it – they can then focus on managing risks. And, the cost of collateral is reduced because asset allocations are optimised on a continuous basis.

SLT: Can you tell me more about the new term DBV service in the UK?

Van de Velde: Euroclear UK & Ireland has had a delivery-by-value (DBV) or triparty service for many years. But repos and the collateral posted had to roll over on a daily basis, which caused major liquidity swings every morning and required significant amounts of liquidity from the Bank of England and the settlement banks. This practice is not very efficient for the broker dealers that needed financing arrangements over a longer period. So, in June we launched a term DBV collateral system with an automated collateral substitution feature in the UK, which allows clients to post collateral for the life of the term transaction without having to roll it over everyday.

The duration of these transactions is, in theory, limitless - we're already managing a one-year term agreement. Following the launch of this service in the UK, we have scheduled similar service launches in November for France, Belgium and the Netherlands.

SLT: How much of an impact are the new regulatory requirements having on your business?

Van de Velde: There is a lot of new regulation coming up - Dodd Frank and Basel III are just some examples. The main ones affecting us are the regulatory obligations that seek to reduce the banking industry's dependence on short-term sources of funding. As our clients engage in longer maturity transactions, triparty collateral management will surely increase their operational efficiency.

More important is the clearing of derivatives transactions through CCPs, as we expect to see a huge need for collateral as a result. Most of the buy-side derivatives trades are directional. Apart from the initial margins that will have to be posted, the variation margins can also be significant. As buy-side firms are not necessarily sitting on cash or quality collateral, brokers will have to transform the buy-side's collateral into CCP-eligible collateral. In addition, CCPs will need to mark-to-market collateral positions on a daily basis, and with today's market volatility, possibly a few times each day.

Our triparty services already support intra-day margin calls and can facilitate the required collateral transformations. They can help clients implement new regulations without adding more operational risks and costs.

SLT: What trends are you witnessing in the securities lending segment?

Van de Velde: Beneficial owners have been increasing their awareness of risk and quite rightly demand more control when it comes to lending their assets. They are now questioning where their collateral is being held, even when working through an agent. We have seen how well the triparty system supports the beneficial owner's needs. Agents still make money by managing the beneficial owner's assets, but if they want to continue as an agent, they may expect some of the rules to change.

It's also becoming clearer that EU regulation on short selling will mean that market participants will want more than ever to settle their trades on settlement date. Therefore, we expect an increase in demand for settlement-integrated securities borrowings to avoid settlement fails. Our automated lending and borrowing programme, which generates loans for securities deliveries that would otherwise fail, is likely to grow.

SLT: What are the key issues you are focusing on for the future? What trends are you seeing when it comes to collateral management?

Van de Velde: One point for sure is that the need for collateral is going to accelerate. Regulations are going to be imposed and everyone wants more protection and security. We need to ensure high collateral mobility, unlock new sources of collateral, such as loans, and help clients manage their collateral in the most optimal way.

With 22 trillion euros of collateral in the Euroclear group, we will focus on helping our clients gain access to all of the assets they hold with us to be used as collateral, no matter the Euroclear entity. We will also provide triparty collateral management services in the domestic CSDs of the group so that we can increase collateral management efficiency for clients in their home markets as well as for cross-border transactions through a single relationship. **SLT**

Jo Van de Velde
Managing director, product management
Euroclear

Size matters

Data Explorers' Will Duff Gordon shows how institutional investors are supporting US large cap stocks

MARKET PERSPECTIVE

We have written how short sellers have reacted to the slump in equities prices in the US and have highlighted how this trend has not been witnessed in Europe, as the value on stock on loan remains close to annual lows. Today, we focus on holdings of institutional investors in US equities and show that this group have remained committed to US large cap stocks with their aggregate holdings having already surpassed the pre-August stock meltdown levels. We'll drill down to show that stocks in the technology sector have seen the greatest number of stocks where ownership has reached a new annual high since the beginning of August and at the other end of the scale, media and retails stocks have seen the greatest annual decline.

Stock held in the lending programmes of institutional investors accounts for just under 24 per cent of the S&P 500. The chart below shows that while this oscillated wildly after the S&P 500 Index collapsed at the end of July, this group of investors has steadily been buying into US large cap stocks at a faster rate than the index has recovered. What is interesting is the sustained sell off in July, just prior to plunge in global stock prices.

The movements in aggregate lendable inventory are a reliable proxy for holdings of institutional investor, although it is worth highlighting that the scope for movement is constrained because many of these funds are tied to holding an index, in recognition of their investment strategy – be it index tracker funds or index related ETF managers. Further, long only funds will all be measured against a benchmark that limits how far they can deviate from holding US large caps.

Technology stocks dominate the list of institutional investors' favorites - accounting for four out of the top 10 S&P 500 stocks ranked by the greatest percentage of total shares held in lending programmes. Those funds that lend own an impressive 47 per cent of the total shares of Teradyne Inc (TER) and 45 per cent of Novellus Systems (NVLS). The consumer facing sector is the next most popular amongst this type of investor and it is interesting to note that Gamestop appears at number three on the list, with institutional investors owning 44 per cent of the total shares. This stock also happens to be the most shorted in the Index – and clearly splits long and short investor sentiment.

Institutional buy-in

We have used our Toolkit to screen the S&P 500 Index to identify which sector has seen the greatest number of stocks reaching a fresh annual high in the percentage of total shares owned by institutional investors (having applied a minimum threshold of 15 per cent ownership). Again it's a sub-group of the technology sector which dominates, with 11 out of 33 software & services stocks having seen fresh highs in institutional ownership since the beginning of August. Names of interest include Salesforce.com, Intuit Inc, Electronic Arts and Teradata Inc, which have all seen institutional ownership pass above 30 per cent of total shares.

Name	Per cent of total share in lending programmes
VISA INC	19 per cent
EBAY INC	22 per cent
ACCENTURE PLC	23 per cent
SALESFORCE.COM	30 per cent
INTUIT INC	33 per cent
PAYCHEX INC	18 per cent
TERADATA CORP	32 per cent
FIDELITY NATIONA	18 per cent
ELECTRONIC ARTS	32 per cent
BMC SOFTWARE INC	32 per cent
TOTAL SYS SERVS	18 per cent

Institutional investors shy away from media and retail stocks

Two sectors stand out having applied our same screen (again capped at a minimum institutional ownership of 15 per cent of total shares) to identify where these investors have reduced their holdings since the beginning of August.

44 per cent of media stocks (or seven out the 16 stocks in the S&P 500) have seen institutional ownership fall to an annual low since the beginning of August. Having said that, ownership in all the names listed below, with the exception of Walt Disney co, is in line or above the average for the wider index implying that long only funds who lend have trimmed holdings in these names yet remain overweight when compared to the index. It is also interesting to note that News Corp (A) shares rank amongst this group seeing institutional ownership at annual lows, as the fall-out from the hacking scandal at News International rumbles on.

Retail Name	Per cent of total share in lending programmes
HOME DEPOT INC	19 per cent
PRICELINE.COM	31 per cent
TJX COS INC	30 per cent
LIMITED BRANDS	28 per cent
NORDSTROM INC	20 per cent
O'REILLY AUTOMOT	27 per cent
GENUINE PARTS CO	25 per cent
GAP INC/THE	18 per cent
FAMILY DOLLAR ST	20 per cent

In the retail sector, nine out the 30 stocks in the S&P 500 Index have seen institutional ownership fall to annual lows. Of the names listed below, this group of investors are underweight the Index average in Home Depot Inc, The Gap Inc, Nordstrom Inc and Family Dollar.

Media Name	Per cent of total share in lending programmes
WALT DISNEY CO	21 per cent
COMCAST CORP	29 per cent
NEWS CORP	23 per cent
TIME WARNER INC	25 per cent
DIRECTV	28 per cent
TIME WARNER CABL	25 per cent
OMNICOM GROUP	28 per cent

SLT

Will Duff Gordon
Research director
Data Explorers

Industry appointments

Mick Chadwick has become head of securities finance at Aviva Investors following Sarah Nicholson's decision to leave the company.

The promotion has been made with immediate effect, although Nicholson will remain with the organisation for the next couple of months to complete some existing projects - her final departure will be at some point in the fourth quarter of the year.

RBC Dexia has announced the appointment of **Paul Luff** in the role of director of portfolio solutions. He will join the Market Products and Services team in a client-facing role to provide bespoke offerings.

Blair McPherson, head of portfolio solutions at RBC Dexia and to whom Luff will report, commented: "As our suite of market products continues to develop, Paul will play a key role in ensuring clients receive a tailored service that meets their needs."

RBC Dexia's Market Products and Services team provides a range of solutions to clients including securities lending, securities finance, foreign exchange, credit and cash management.

Luff has nearly 30 years' experience in foreign exchange trading, sales and client relationship roles. He joins RBC Dexia from UBS Investment Bank, where he was most recently a senior relationship manager in its FX business. He is also on the governing committee of the ACI UK, the FX industry's professional body.

Beta Steiner will be the new head of securities lending at KAS Bank. Steiner has been working for Kas Bank for over 11 years as a senior trader in securities lending.

Steiner takes over from Mun Yoshihara, who earlier this month announced his intentions to pursue his career in Tokyo.

Deutsche Bank has announced the appointment of **Satvinder Singh** in the role of global head of Trust & Securities Services (TSS). Singh joins Deutsche Bank from Citibank where he was head of direct custody and clearing for EMEA.

Singh will become a member of Global Transaction Banking's executive committee and report to Werner Steinmueller, head of Global Transaction Banking (GTB) and member of the group executive committee. Singh joins Deutsche Bank in mid-November and will be based in London.

"Satvinder's track record in successfully running businesses, combined with his proven client skills, deep-rooted network and industry standing will be invaluable in accelerating the continued growth of our TSS franchise, further cementing Deutsche Bank's leading position in the securities services industry," Steinmueller said.

With 17 years experience in the securities business, Singh has held a variety of local, regional and global management positions within transaction banking across Asia and EMEA.

Citi has appointed **David Murphy** as managing director and head of Prime Finance in Asia. In this role, he will have regional oversight of all Prime Finances and Futures activity for the bank in the region.

Murphy will report to Nick Roe, global head of Prime Finance and Futures, based in London and Rodrigo Zorrilla, head of Markets in Asia Pacific, based in Singapore.

"Asia Pacific is one of the fastest growth regions in the world and we see strong growth opportunities across the Prime Finance and Futures areas for Citi. This key hires underlines our commitment to our clients," said Zorrilla.

Previously, Murphy was in a similar role for Deutsche Bank where he led a growth effort in Asia for the firm. He also has derivative and product management experience in all the major financial centres.

Northern Trust has announced the appointment of **Rohan Singh** as managing director in Australia and New Zealand. Singh was most recently head of asset servicing sales for Northern Trust in Asia Pacific, based in Singapore.

Singh replaces Paul Cutts, who will assume the role of Northern Trust country head for the Channel Islands, based in Guernsey.

BNY Mellon has announced that **Gerald Hassell**, BNY Mellon's president and a board member since 1998, has been appointed chair and CEO effective immediately. Hassell also continues as BNY Mellon's president.

Previous chair, CEO and director, Robert Kelly, has stepped down by mutual agreement with the board of directors, "due to differences in approach to managing the company".

"Gerald is ideally positioned to guide BNY Mellon through the next phase of its growth and to bring it to its full potential," said Wesley Schack, lead director of BNY Mellon. "Over the course of his more than three-decade tenure with BNY Mellon and its predecessor company, The Bank of New York, Gerald has led nearly every major division of the company, has been a key decision maker on every major business action, executive hire and promotion in the merged company, and has served on its board of directors.

Since joining The Bank of New York's (BNY) management development program more than three decades ago, Hassell has had direct management responsibility for the company's broad range of investment services businesses, including asset servicing and issuer, broker-dealer, treasury and clearing services. He also oversees client management across the company's global businesses, as well as operations and technology. He was named to BNY's executive committee in 1994.

SLT
SECURITIESLENDINGTIMES

Editor: Ben Wilkie
editor@securitieslendingtimes.com
Tel: +44 (0)20 3006 2710
Fax: +44 (0) 20 8711 5985

Journalist: Anna Reitman
annareitman@securitieslendingtimes.com
Tel: +44 (0) 20 3006 2888
Fax: +44 (0)20 8711 5985

Marketing director: Steven Lafferty
design@securitieslendingtimes.com
Tel: +44 (0)784 3811240
Fax: +44 (0)20 8711 5985

Publisher: Justin Lawson
justinlawson@securitieslendingtimes.com
Tel: +44 (0)20 8249 2615
Fax: +44 (0)20 8711 5985

Published by Black Knight Media Ltd
16 Bromley Road
Beckenham
Kent, BR3 5JE
UK

Company reg: 0719464

Citi has announced the appointment of **Gary Kuo** as a managing director and vice chairman of Asia Global Banking. He joins from Barclays Capital, where he was co-head of its investment banking business for Greater China.

"Gary brings extensive senior client relationships and a successful track record to the role. His experience will be highly valuable to our global banking franchise as we continue to execute on our Asia and Greater China growth strategies," said Farhan Faruqui, regional head of global banking, to whom Kuo will report.

Prior to BarCap, Kuo spent nearly 10 years at Morgan Stanley, joining initially as head of investment Banking in Taiwan in 2001. **SLT**

Alev Arnavut

In the latest of our series, "A coffee with..." Securities Lending Times meets Alev Arnavut, securities lending trader - Asia/US Coverage at Deutsche Bank's Global Prime Broker business

Tell us about your career to date?

It really has been all about Deutsche. From the age of 15 when my work experience was to work for Morgan Grenfell (acquired by DB), I have since figured out I was destined to be here... haha!

I have gone from a receptionist in 2002, to a PA in 2004, to an assistant in sales & marketing in 2006, to now trading since 2009.

How did you get into securities lending?

You could say I started from the very bottom. In 2002, I was given my first temporary contract as a receptionist for Deutsche Bank Venture Capital, which entailed emptying/loading the dishwasher, preparing lunches for meetings, cleaning out and preparing the coffee machines, doing the fruit basket and paper run as well as basic receptionist duties.

One and a half years later, the division I worked for spun-off and I decided that at this point, I wanted to do more, so I did not join them, but instead I applied to go to university. Between being accepted and starting my degree, a job as an administrative assistant for the trading floor at Deutsche Bank came up; I took it as it was temporary and a good gap filler for me. During the three months I worked there, I met many people across the floor, from PAs, to senior traders, managing directors and so forth. This opportunity was then offered to me as a permanent contract, but my heart was with starting university, so I declined the offer.

Before my second year at uni began, I ran out of cash, and decided that waitressing for my mum's restaurant just wasn't enough, so I got back in touch with my agent, who told me there was a job opportunity – again temporary, again on the trading floor at Deutsche Bank, but this time within Global Prime Finance. One of the PA's saw my CV and remembered me from before, so I guess I had a head start as she already knew me and I'd be working with her, as the PA for the securities lending desk. I got the job, and worked all throughout the summer holidays during my second year doing basic admin/database maintenance and general PA work. They then kept me on as a temp, whereby I'd be working two days a week at DB, and the other three days I'd be at uni. I did this throughout my second and third year of my degree, during these times I was getting to learn more about securities lending, especially the sales & marketing component, and was assisting with client on boarding/expansion.

Once I graduated, I stayed on at DB, and a year later was made permanent. Working within the sales & marketing department, I was coordinating exclusive bids, on boarding new accounts, working with credit/legal/tax to bring opportunities to the desk, and interacting with lenders. Roll on to 2008 when the industry crisis came, and it all feels like one big blur ... but the net result was that early 2009, I was moved off the sales & marketing desk, and onto the trading desk, where I still am.

Was it different to what you expected, if so how?

Coming from a sales & marketing background, the only aspect of it I didn't expect was the aggressiveness that comes with it, as the former role is a lot more softly approached than the current. That being said, I can now be a little feisty and know that it's all part in part of the role!

Has anyone helped or inspired you during your career?

When I read this question, the answers just came flooding out. Roy Zimmerhansl was my first boss, and always gave me tasks beyond my role description to challenge me. He would always give me material to take home and read. His etiquette of speaking was and still is admirable and I have a lot of respect for him.

Jane Hammond is like no other, she is a managing director, a working mother, and a very smart, approachable woman who often took time out of her schedule to sit down with me and go through all the questions I had. She has given me inspiration to believe that it is possible as a woman to have dreams and see them come true.

> She has given me inspiration to believe that it is possible as a woman in finance to have dreams and see them come true

Ben Sofoluwe had taken me onto the desk when the markets were volatile and although I was thrown in at the deep end, he was great in ensuring I had the right support and supervision around me at all times. He made sure I met everyone I needed to, which entailed a visit to our NY and Sydney office, and would then sit down with me to go through all that I have learnt. He would always recommend I make myself known to the industry, both internally and externally, hence I guess, this editorial!

Other colleagues who have helped or inspired me along the way include Shane Martin, who I consider my point person for all projects and escalation matters. He always recommends I get involved with various aspects of the business, guides me through every scenario, and puts me in touch with key people to enhance business opportunities/arrive at trade solutions. Kevin Soobadoo is my direct reporting line and the "eyes over my shoulder". He encourages me to get "out there", build relationships, and regularly sits down with me to go through trading strategies, helping me understand the underlying drivers behind demand. James Pugh, who heads up single stock swaps, I consider more as a mentor and a friend. He has also helped me build senior relationships across the floor, and is always there to help me when I need it. He echoes my belief that if you really want something and work hard enough for it, and if you are pleasant to deal with, then you are on the right path to success.

How did you find working through the industry's biggest ever crisis?

Turbulent is a good word to describe it. The volatility in the markets and lots of personnel changes, as well as changing the way we do business, was quite tough to deal with all at once. It was a time for raising margins/switching collateral profiles and trying to keep business as steady as possible.

The crisis for me, personally from a career perspective was a blessing in disguise

Deutsche Bank however, was an institution that came out strong through all of this, as funds took the flight to quality approach. It bought various desks within Global Prime Finance close together, working late nights, ensuring everything was in check, and forming a strong unit to tackle the challenges ahead. In one sense, the crisis for me, personally from a career perspective was a blessing in disguise, as this was when I was moved onto the trading desk. It became the stepping stone towards me reaching my goal. I felt, and still feel very lucky to a) still have a job and b) be working with a great team of people.

What are your ambitions?

I would like to see myself make the best use of my abilities/talents and knowledge to benefit myself and my organisation, by one day being able to manage a team of people within Global Prime Finance, all without hindering relationships and neglecting friends and family too much. On a more personal level, one day, I would like to settle down, get married and start a family of my own.

Outside of work what are your interest and pursuits?

I enjoy travelling, and like to explore a different country each year. I attend the gym at least three times a week, my favourite classes include yoga/body balance/and dance. I spend my weekends socialising with friends and family as much as possible as it's often difficult to fit them in during the week. I help out where I can for a charity that supports people with Ataxia Telangiectasia, a terminal illness which affects 3 in a million people, of which my cousin Ahmet is one of them. The current life expectancy is 18 and he is 14, so anything to help find a way to prolong their lifespan is time/money well spent.

If you were given an unexpected £10 million bonus tomorrow what would you do?

As many people who win the lottery usually end up losing it all, and that's how I see £10 million as winning the lottery... I would firstly lock myself in a room and scream, then, when that's over and done with, I would do the following;

- Hire a financial planner, and invest 60-70 per cent of the money in long term sound and diversified investments.
- Make sure my close family/friends are comfortable, especially my mother who would be bought her own café/restaurant and her own home
- Pay off my flat and buy myself a house with a nice big garden and a sexy sports car
- Splash out on both a girlie and family holiday
- Donate a significant amount to the Ataxia Telganiectasia Charity
- Donate a significant amount of money to Kings College Hospital to help in enhancing cures for Thalassemia, again another terminal illness my other cousin (Ahmet's sister) has

Bottom line however, is that I would not leave my job. I think that whatever motivation drives you to work hard enough to make it to director (or any other top-paying position) isn't going to just disappear after you've "made it" financially. I wouldn't be satisfied without achieving my ambition.

If you weren't working in securities lending what would you be doing?

I would be working for a fashion company in their PR/direct marketing department. **SLT**

Favourites

Food
Italian

Sport:
Tennis

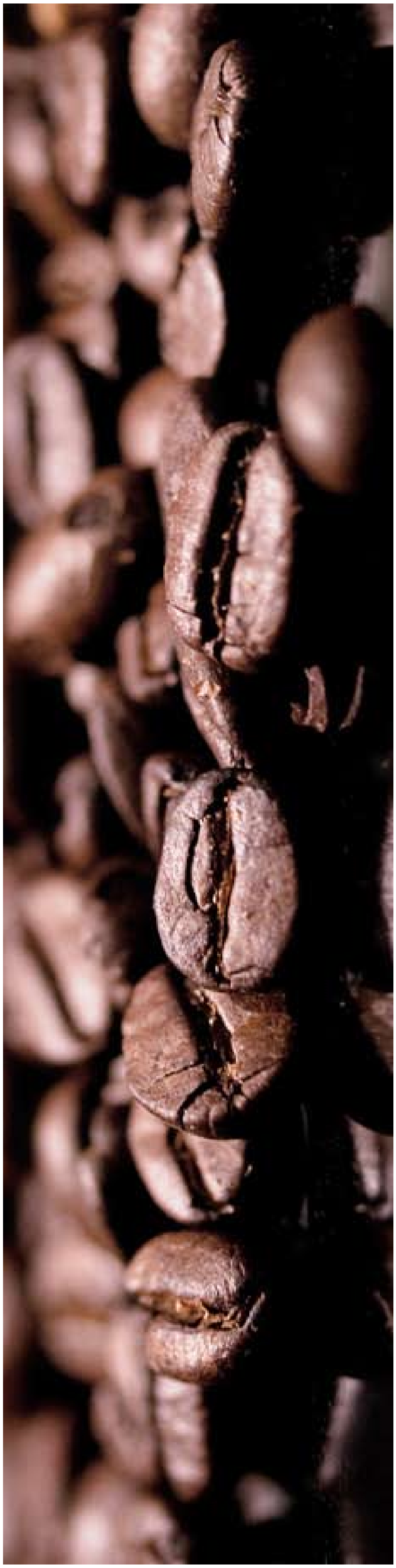
Music
RnB/Soul/Deep House

Movie
The Notebook

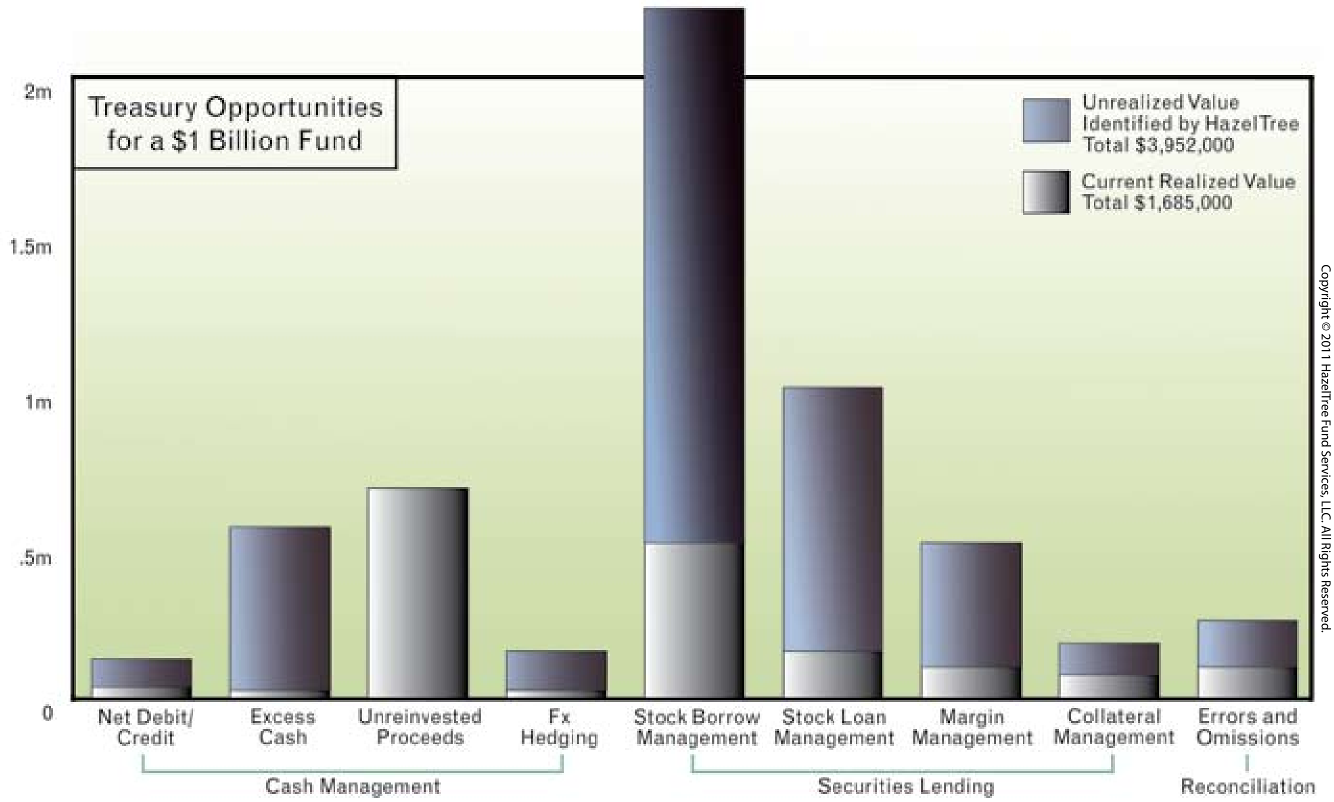
Book:
The Alchemist

Holiday:
Mauritius

Celebrity:
Beyonce



How much money are you leaving on the table?



(Oops!)

Few things are more important to a hedge fund than alpha generation. So it's no small irony that the typical fund manager is in the habit of leaving uncollected basis points strewn around as if they were last meeting's empty latte cups. Treasury Suite is our proprietary software designed to squeeze unrealized value from every fraction of a cent in your hedge fund by fully optimizing cash management, securities lending, and reconciliation. We call that trapped value "operational alpha." As you can see from the footprint of an actual—and by no means untypical—$1 billion fund above, it isn't exactly small change.

HazelTree
EVERY BASIS POINT COUNTS

Stephen Casner, CEO 646.837.9450

www.hazeltree.com