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# Volatility dampens M&A success

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Though global M&A has been on an upward swing this year, volatility in equity markets, coupled with uncertain economies and sovereign debt problems, are dampening confidence and slowing the pace of transaction activity, according to Clifford Chance.

Transactions totalled $1.7 trillion in first three quarters of this year, which is 21.5 per cent ahead on last year and the strongest three quarters since 2008. But a downward trend is prevalent during 2011 and most experts expect to see a continued reduction heading into the end of the year.

Meanwhile, financial institutions, particularly in Europe and the US, have been forced to reassess their strategic priorities as a result of ongoing and anticipated regulatory changes. The law firm expects to see increasing numbers of institutions divesting assets, divisions and teams in anticipation of increased regulatory costs.

DealReporter Europe reinforces this observation of a trend towards strategic deals tempered by shareholder vigilance, highlighting Unicredit as an example of the challenging M&A environment in Europe, as banks such as Goldman Sachs and Morgan Stanley become increasingly uncomfortable over their roles on any rights issue.

But the big story until June next year will be the EBA's term sheet and final recommendations for convertible bonds to be issued by end November, says Lucinda Guthrie, editor at dealReporter Europe.

The issue of eligibility for convertible bonds is of crucial importance to banks in Italy and Spain. Billions of euros of previously compliant hybrids have been issued out of these countries over the past three years as Tier 1 securities, as a way for institutions to meet rising demands for regulatory capital, explains dealReporter.

In late October, the EBA signalled that only new convertibles adhering to strict criteria and those existing securities that are converted into common equity before October 2012 can be considered Core Tier 1 for the purpose of the latest capital raising exercise to cover sovereign shortfalls and meet a new nine per cent standard by next June.

## NEWS**IN**BRIEF

### UAE releases draft short selling regulation

The UAE securities regulator has announced draft regulations for market making, securities lending, short selling and other liquidity providers.

The Securities and Commodities Authority has provided a comment period until 17 November.

It may be a further move towards MSCI emerging market status for the region as an active securities lending market is part of the criteria.

### UBS settles at $8 million for RegSHO violation

US regulator, the Securities and Exchange Commission (SEC), has announced it has charged UBS Securities for inaccurate recording practices when providing and recording locates to customers seeking to execute short sales.

UBS settled the enforcement action by agreeing to pay an $8 million penalty and retain an independent consultant to conduct a comprehensive review of the UBS securities lending desk's policies, procedures and practices with respect to granting locate requests.

According to the SEC's order instituting settled administrative proceedings, UBS employees routinely recorded the name of a lender's employee even when no one at UBS had actually contacted the employee to confirm availability.

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## UBS settles at $8mn for RegSHO violation

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The SEC's investigation found that UBS employees sourced thousands of locates to lender employees who were out of the office and could not have provided any information to UBS on those days.

Without admitting or denying the SEC's findings, UBS consented to the order which found the firm had violated the Exchange Act and RegSHO.

This settlement follows a $12 million fine imposed by FINRA in late October for similar violations. Since 2005, RegSHO, a regulation aimed at curbing naked short selling, requires a broker-dealer to have reasonable grounds to believe that the security could be borrowed and available for delivery before accepting or effecting a short sale order and requires a broker-dealer to mark sales of equity securities as long or short.

## UK pension fund to vote on changing collateral

Merseyside Pension Fund (MPF) is proposing to change its criteria for collateral in a bid to boost revenue, according to Professional Pensions.

MPF hopes the move will generate an additional income of between £113,000 and £150,000 a year on top of the £754,000 it currently gets – a potential 20 per cent boost in revenue.

Currently, MPF allows its custodian, State Street, to hold high quality government debt as collateral but the change would make international equities and cash eligible if approved by the pension fund's administering authority.

Though there is debate over the use of equities as collateral, research has shown that the practice can lower correlation risk between lending and collateral portfolios, particularly when markets are volatile.

## European Parliament votes naked CDS ban into law

The European Parliament has voted into law a regulation to curb short selling and trading in CDS to make speculation on a country's default more difficult.

Parliament obtained a ban on naked CDS trading which targets the purchase of default insurance contracts without ownership of the related bonds. Purchasing Italian CDS, for example, will now be possible only if the buyer already owns Italian government bonds or a stake in a sector highly dependent on the performance of these bonds, such as an Italian bank.

National authorities can lift the ban in certain cases if their sovereign debt markets are no longer functioning properly. However, a negative opinion from the European Securities and Markets Authority (ESMA) would have political weight on any such moves to lift the ban.

Rapporteur Pascal Canfin (Greens, FR) said, "These rules prove that the EU can act against speculation when the political will is there. This rule will make it impossible to buy CDS for the sole purpose of speculating on a country's default."

Other rules were watered down. The "locate and reserve rule" which would have mandated that traders obtain a guarantee of being able to borrow shares was changed to a rule of reasonable expectation.

However, EU financial markets watchdog, ESMA, will determine measures for judging what may be deemed a "reasonable expectation".

"The new powers for ESMA will allow better co-ordination at EU level in times of crisis", Canfin said, adding however that, "it would have been better had ESMA had similar powers over decisions relating to sovereign debt, but the member states refused".

The regulation must be formally approved by the European Council in the coming weeks and will enter into force in November 2012.

## Korea lifts short selling ban on non-financials

The Korean financial regulator has lifted a three-month ban on short selling of nonfinancial stocks while maintaining the ban on financial stocks “for a while”.

The Financial Services Commission (FSC) said that the easing of restrictions was because stock market volatility has been considerably subdued since market turmoil in the summer.

However, given that potential eurozone risks still remain such as a possibility of Greek default, growing concerns about Italy’s debt crisis, and upcoming maturity dates of sovereign debt for Portugal, Ireland, Italy, Greece and Spain, the short-selling ban on financial stocks will remain, the FSC noted.

In August, Greece, Italy, France, Spain and Belgium also banned short sales; however, Greece is the only country that banned short selling of all listed stocks as Korea did. The remaining four countries imposed short-selling bans on a few number of financial stocks.


## State Street adds securities lending to Lufthansa mandate

State Street has announced it will now be providing securities lending services to Lufthansa German Airlines group.

“We chose to extend our relationship with State Street as we have been extremely pleased with the multi-location service capabilities and the continued service excellence provided across all parts of the business since our relationship commenced,” said Axel Tilmann, senior vice president Group Finance, Deutsche Lufthansa.

State Street was appointed by Lufthansa in 1998 to provide custody and accounting for the German KAG Spezialfonds - which are a type of fund with a single investor. Since then, the firm has gone on to provide a range of services to Lufthansa in multiple domiciles such as investment compliance, performance analytics and risk analysis.

“We are delighted that Lufthansa has expanded their relationship with State Street. We are committed to fulfilling the complete servicing needs of Lufthansa and their confidence in State Street’s ability to do this is evident through the development of our partnership,” said Stefan Gmuer, executive vice president and head of State Street’s Global Services business in Continental Europe.

## Groupon debut leads to short selling frenzy

Groupon’s eagerly anticipated IPO was the subject of much academic debate, now short sellers have turned the speculation into an all out share grab at a hefty premium, says SunGard.

When shorting became available to the market on 9 November, there was no rush at first, at least according to the securities lending market.

“The lending market was eerily quiet in the morning, with brokers only borrowing 95,000 shares,” says Andrew Shinn, research director at Sungard Astec Analytics business unit. “Our first thought was that Groupon had successfully defended itself against short sellers by only issuing five per cent of its shares. As we later learned, however, brokers were simply filling short selling demand through internal supply.”

By that day’s afternoon, brokers began borrowing en masse and the wholesale borrowing cost was pushed to 8,000 basis points; total shares borrowed on 9 November was 2.4 million. Short selling demand continued to increase over the next day, with another 300,000 net shares borrowed, and the wholesale borrowing cost rose to 9,000 bps, according to SunGard research.

Groupon’s valuation has been a hotly debated topic as the coupon provider continues to see profits shrink in the face of increasing competition. Moreover, some businesses have come out with angry complaints over the company’s management of its coupon programme, claiming that rather than attracting new business, they had to operate at a substantial loss.

On 4 November, Groupon IPOd with an issuance of 35 million shares at $20 each and the

share price has seen some measure of volatility though no more so than is common with the social media sector.


## France and Italy extend short selling bans

The French financial regulator has announced the extension of a short selling ban in 10 financial sector securities because of unsatisfactory market conditions.

Currently France, Italy, Greece, Spain and Belgium have short-selling curbs in place. Consob, the Italian financial regulator, has extended the Italian short selling ban until 15 January 2012. It has also extended the Italian short position disclosure regime indefinitely and will be introducing a ban on the naked short selling of Italian shares with effect from 1 December 2011.

The limits in Belgium, Spain and Greece are effective indefinitely until local regulators feel markets have stabilised.

Italian and Greek leadership has been at the centre of the eurozone crisis storm. Both Silvio Berlusconi, Italy's prime minister and George Papandreou, Greece's prime minister have been ousted.

## More short interest in traditional telecoms - Data Explorers

Short interest is significantly higher among traditional telecoms providers compared to their racy wireless counterparts, writes Data Explorers.

By analysing securities lending flow data, Data Explorers concluded that competition is rife among telecoms as the industry continues to adapt to new technologies, particularly in the wireless communications space, while the companies also relentlessly invest in their networks.

"Although there are some heavily shorted stocks amongst the wireless providers, investors on the long side of the market remain heavily invested in these stocks and the broader sector," the data analytics firm noted.

Mobile payment trends are on the upswing as T-Mobile and Orange announce plans for NFC-enabled phones - which essentially allows contactless mobile payments among other functions - in the first or second quarter next year. Meanwhile, there is unprecedented growth in data hungry apps relying on the high-speed mobile internet. All in all, short sellers are mulling over what these game changers might mean for trading strategies.

Although the telecom sector is not seeing high levels of short interest as a whole, at 3.9 per cent and 1.8 per cent of total shares in the US and Europe respectively, there are a number of heavily shorted names led by by US and Canadian stocks which account for all the top 10 most shorted global telecom stocks.

At the top is Alaska Communication Systems Group, which saw its share price collapse on the back of disappointing earnings and a warning that dividend yields would get cut. Since the start of the year, short interest rallied from eight to 25 per cent of total shares outstanding. Supply has been scarce over the last quarter since most of the lendable supply is out on loan.

## Citi introduces operating model for "maturing" hedge fund industry

Citi Prime Finance has launched its new operating model for hedge funds which it says will allow managers to run an operation with smaller teams and less IT bulk .

The concept details an outsourcing and partnership framework across business, knowledge, professional and employee process outsourcing as well as cloud technologies to reduce IT costs.

"The Hedge Fund 3.0 concept reflects the emergence of specialty providers who focus on the hedge fund industry, enabling fund managers to concentrate on key aspects of investment management while reducing their base of fixed

costs," said Alan Pace, head of Prime Finance in the Americas at Citi. "These experts have a keen understanding of the complexities of hedge fund management and can lift the burden of building and maintaining the infrastructure needed to handle complex trading strategies, as well as extensive regulatory and reporting demands."

The offering comes at a time when hedge funds have evolved past initial developmental stages, says Citi, moving from a niche business relying upon a single prime broker to increasingly complicated, global strategies across multiple asset classes, in turn, requiring multiple prime brokers for support. Meanwhile, as the hedge fund industry grew rapidly, more infrastructure and IT support was required leading to a high fixed cost base and organisations continue to face challenges posed by proprietary built technology systems.

"While the Hedge Fund 3.0 model will benefit firms that are about to launch or are in the early stages of their development, the model is also useful for funds with established infrastructure and resources," said Sandy Kaul, US head of Business Advisory. "These firms can think strategically about the use of outsourced partners, especially when facing trigger events, such as, expansion to larger office space, replacing end-of-life equipment, moving to multi-currency operations, or launching a new investment strategy. Over time, many funds will move to a hybrid approach that combines in-house and outsourced resources."

## News cycle and securities lending data boost returns

By analysing "abnormal levels" of news coverage and short selling data on stocks, asset managers can increase returns, particularly during times of fragile investor confidence, said Data Explorers.

Research shows that enhanced annualised excess returns of 25 to 30 per cent can be obtained by using news flow and short selling signals in combination. The hybrid strategy calls for using media sentiment to identify areas of the market exhibiting "herd-like" behaviour and then following short selling trading trends.

As a case in point, Knightsbridge Asset Management has used news data from aggregator, RavenPack News Analytics alongside US equities short selling data from Data Explorers to assess behavioral trends and market neutrality.

"Knightsbridge designed strategies to take advantage of out-of-favour and in-favour segments of the market by isolating stocks experiencing abnormal levels of media coverage (both negative and positive) and short selling (heavy or light). The portfolios were dynamically rebalanced in order to emphasise positions at extreme ends of the news sentiment and short interest spectra," explains Data Explorers.

## GlobeOp Index shows net inflows

GlobeOp's index for November shows hedge fund inflows of 2.1 per cent.

"Subscriptions this month are consistent with this year's average, while the positive net flow primarily reflects low redemptions for November," said Hans Hufschmid, CEO, GlobeOp Financial Services. "November outflows measured 0.72 per cent, the lowest for November year-on-year since Index records began in 2006."

Cumulatively, the GlobeOp Index for November stands at 139.5 points, an advance of 14.35 points over a year's period.

## Hong Kong forum looks at Asian role in securities finance

Delegates at Data Explorers second Hong Kong forum debated Asia's role in securities finance as investment continues to move to regions where growth is anticipated.

The forum, which ran 16 to 17 November, covered topics such as ETFs, hedge funds and posed some questions about Asia's incubation period as it opens up to short selling.

On a positive note, Asia is "the least worst place to be" noted David O'Rear, chief economist of the Hong Kong General Chamber of Commerce. The island is like a broker, taking commission on trade regardless of the global economy and thus is set to weather economic storms while mainland China is still reliant on European and US growth.

On a more cautionary note, a participant in a panel debate noted that it takes time for new markets, such as China, to fully open up to short selling. He said that bankers coming to Asia from the West looking for easy pickings would be heading for a fall because markets are more complex to trade in, people work harder and get paid less.

On the subject of ETFs, Data Explorers said that if there were leveraged products, retail take up would be greater in Asia. "While this is not exactly what the panelists said, it is an extension of their view that Asian investors like to take risk and like volatility," Data Explorers commented.

"Asian Hedge Funds are not as hungry to borrow and short ETFs as their American peers due to the bespoke service they get from their prime brokers who create tailored swaps products in lieu. This product is in its infancy but SSGA, iShares, HSBC and others are off and running to build it up...Given their experience of how well it works in the US and the challenges being thrown at ETFs in Europe, they have the experience and skill to get it on its feet 'within two years'," the analytics firm wrote.

## Danish ruling changes securities lending practices

Following a new ruling, Danish tax authorities have published a notice that transfers of shares with termination agreements, even without maximum lending periods, are securities lending transactions.

Before the decision, explains law firm Kromann Reumert, the lending of securities traded on a regulated market had not been considered a "sale and disposal of shares" transaction for Danish tax purposes, provided that a number of conditions were met, including a maximum lending period of six months.

However, in the recent case, a taxpayer requested a binding tax ruling on a securities lending transaction entered into for short-selling purposes. Under the terms of the transaction, the lender was entitled to terminate the loan with three days' notice while the borrower could do the same by one day's notice. No maximum lending period was fixed under the terms of the transaction.

This ruling impacts any transactions with similar terms backdated to 11 October this year.


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# Mutual benefits

## A new study has investigated the strategies of mutual funds when it comes to securities lending

ANNA REITMAN REPORTS

A new academic study has been delving into securities lending programmes and the various factors that influence returns.

The study, *Affiliated agents, boards of directors and mutual fund securities lending returns*, presents some noteworthy conclusions about the kind of good governance framework likely to increase returns in the best interests of investors.

It focused on indexed mutual funds exclusively in order to control for some of the complicated variables associated with best execution in the active lending strategy universe. Some of the key findings fall into the realm of common sense while others are pretty surprising.

On the common sense side, securities lending income is attractive to institutional investors because it offsets fees which in turn drives significant levels of alpha. But the study gathered contrasting data on two broadly defined categories of lending practices: value and volume.

The value approach, known as intrinsic lending, seeks returns from the loan itself while remaining conservative on the cash collateral reinvestment side, while the volume approach seeks to lend out a larger proportion of the portfolio seeking to reinvest collateral in more risky investment vehicles.

The findings show that lending less, carefully, is strongly correlated with higher returns in a sample set of indexed mutual funds (which included over 1,250 fund-year observations covering the period between 2003 and 2009). Though the majority of funds studied use a custodian to implement a security lending programme, a large number, at 44 per cent, elect to be their own lending agent while only five per cent employ an independent lending agent or broker to handle all of their securities lending.

Funds that use a custodian lend out about 11 per cent of fund assets, earning about 30 basis points (bps) per year, while funds that act as their own lending agent only lend about 2.8 per cent of fund assets and earn a return that is about three times higher – at 93 bps.

Most of the top 20 performers in terms of securities lending returns in the sample are Vanguard funds.

**Specials, risk and reward**

John Hollyer, a principal at Vanguard, as well as the lead of the risk management and strategy analysis group for the firm, says that top performance has to do with an overarching philosophy stemming from the US company's unique client-owned structure.

"We are running a securities lending programme for the benefit of the clients in the fund and, net of any specific implementation costs, the proceeds of securities lending are returned entirely into the client's portfolio," he says.

Hollyer has been with Vanguard since 1989 and, as part of his current role, focuses on investment risk issues for the Vanguard fixed income and quantitative equity groups.

Vanguard applies a risk versus reward approach, looking closely at the "scarcity premium" of lending securities that are in demand, also known as specials. The company's threshold for lending out securities is an annualised rebate of several hundred basis points and maybe higher, primarily in the equity, small cap and emerging market stock indices.

But more importantly, he points out, is that this premium on scarcity is not correlated with conventional risk factors which are already embedded in the underlying asset base.

"In the equity market, you see growth and value in sectors rotate and move at different times in terms of their relative returns, the securities lending scarcity premium is uncorrelated with those kinds of risk factors... it is adding return without exposing the fund to additional risk," Hollyer explains.

On the other side of the market is cash collateral reinvestment. Vanguard reinvests cash in a money market fund run by the money market portfolio management and credit team on a more conservative basis than the firm's already very conservative money market funds.

"The primary risk factor exposures that are used to raise reinvestment returns are credit risk, interest rate risk and liquidity risk and from my perspective those three risk factors are either present in the base asset portfolio that you have or they are highly correlated with risks in that portfolio…we want to avoid levering up those exposures," says Hollyer of the strategy.

This approach is proven not just by the figures and praised by the study, but also boosted by a risk-averse environment in the wake of the Lehman collapse and subsequent AIG bailout. Although many beneficial owners have been playing catch up to understand their securities lending programmes, for Vanguard, little has changed since the market upheaval.

"It is basically a reaffirmation that we think we are in the right place on this. We are not complacent and are constantly reviewing our programme, our credit team maintains vigilant surveillance over the credit worthiness of our counterparties…In terms of board governance, our directors are independent of Vanguard and we have stressed the importance of that independence while also appreciating a diverse set of inputs," he says.

**Academic case**

Along with co-authors, Sattar Mansi at Virginia Tech and Takeshi Nishikawa at University of Colorado, Denver, John Adams from the University of Texas Arlington conducted the study which examined whether affiliated lending agents and mutual fund boards affect security lending returns.

He is immediately up-front with a disclosure at the beginning of our interview: the perspective he is bringing to the table is not as such from a securities lending industry angle but rather an examination of the issues from the perspective of the mutual fund investor.

"What I was most surprised by is that after we control for the types of assets that are being lent, indexed mutual funds, there is still a large amount of variability in returns," Adams says. "That this discrepancy is so large is really the big finding."

At the bottom of the pile, spreads on securities being loaned out averaged 16 bps, while in the top quartile, Adams was looking at some 140 bps.

"I know that has to do with the types of securities being lent, but that tells us there is something else going on, other than just funds getting some market determined rate, for example the fee split, which we cannot observe because it is not disclosed," he adds.

In particular, lower returns were reported from lending agents, which are affiliated with the fund sponsor or in some form of corporate relationship despite the fact that they also tend to lend more.

"Some of our findings seem to indicate that funds sometimes lend more to benefit the affiliated lending agent or the corporate parent and the fund sponsor rather than the actual fund investor," Adams says.

When applying the sample average annual return on lend securities of 1.8 per cent, the results show that affiliated lending agents are, on average, associated with a 70 per cent reduction in lending returns.

For example, a poorly performing fund from the sample set which uses its affiliated custodian shows average annual lending returns of 0.23 per cent over the course of the period studied with an average of 11 per cent loaned out. The fund expense ratio is about 27 bps and would have been 30 bps without lending.

Compare this to a higher performing fund, which had annual returns averaging about 4.4 per cent while lending, also on average, only four per cent of its portfolio. The audited expense ratio was about 18 bps and without the security lending programme would have been around 31 bps.

"There is no doubt going to be economies of scale, for smaller funds it may be optimal to use their affiliate custodian as a lending agent...but boards need to be asking these questions... Why aren't we doing this in-house? Why are we using the agent or agents that we are using? Boards just did not delve into it too deeply and it was one of the main conclusions of the Securities and Exchange Commission in 2004 that boards did not really appear to be monitoring securities lending very well," Adams says.

This is especially true of cash collateral reinvestment. The failure of AIG helped deliver the discussion of securities lending risks to the board room after the insurer posted some $20 billion in losses when credit markets froze during the housing downturn in 2008.

But there are lesser-known lenders which were caught out, such as Calamos Investment. Its Advisors Growth Fund posted $8.6 million in losses from collateral reinvestment when a benign sounding vehicle such as "Bank of New York Cash Reserve Fund Series B" turned out to be comprised of Lehman Brothers holdings.

"The interesting thing is that the BNY Cash reserve fund was an unregistered investment vehicle so investors had no way of knowing just how risky Calamos' reinvestment policies were," Adams notes. "But there are numerous examples, this is just one of the big ones."

Boards are responsible for approvals and oversight (such as disclosure of fund policies like security lending programmes) as highlighted by a US Supreme Court decision in Janus Capital v First Derivatives Traders in June 2011. In a decision on responsibility over misleading statements inside a prospectus, the court found that only the Janus Fund, not the parent company, misled investors and that it is the board of trustees of the Fund itself which has "ultimate authority" over the content of such statements.

And, as financial organisations come under increased scrutiny and effective board governance takes centre stage for regulators, shareholders and investors, the study makes some important empirical observations on best practices alongside the business case.

**Board governance**

In the study's findings, board size and excess director compensation are negatively associated with security lending returns, while board independence and director fund ownership are just the opposite. This, the study notes, suggests that conflicts of interest in the mutual fund industry are an important consideration in the lending of securities.

In terms of due diligence, one of the things that boards can immediately start doing is consider rolling back directors' salaries or possibly hold the line if they are on the high side, says Adams.

This might seem like anathema to the investment management industry, but with global protests rattling nerves all over the world and religious leaders chiming in on the financial transaction tax, the time may be right to give the strategy a proper hearing.

"One strategy might be to align directors' incentives with shareholders' via compensation structures that include shares in the funds they oversee...Also, boards need to make sure that they are as diverse as possible by including people who are not afraid to ask questions. I don't think that a board needs to be comprised only of people with substantial investment industry experience," Adams says.

For example, recruitment strategies could target general business executives and researchers in addition to directors with substantial investment management experience. But one of the more surprising findings was that board gender is also positively associated with lending returns, along with board independence and director fund ownership.

"We find compelling evidence that supports [arguments] showing that gender-diverse boards allocate more effort to monitoring...board gender diversity, measured as the proportion of female directors on a board, is associated with significantly higher (at the one percent level) lending returns," the report says.

At the same time, this has merely added securities lending to the growing body of evidence that there is a business case for board gender diversity.

In the UK, some of the most powerful institutional investors from investment groups with stock market assets of more than £1 trillion ($1.6trn) are banding together to press FTSE companies to put more women on boards.

Whether or not these or other initiatives succeed in generating greater revenues while minimising risk remains to be seen. But the terrible bite in investment returns of a low-interest rate environment, stalled economic growth, risk aversion and ever-greater awareness of counterparty risks means that this study certainly delivers insightful observations of the conversations beneficial owners are having at the board level. **SLT**

## From the sample set

### Sample fund A

Administers its own lending programme
Value approach
Averaged 4.4 per cent annual return
Loaned out four per cent of its portfolio
Fund expense ratio – 18 bps
Fund expense ratio before SL income – 31 bps
88 per cent of directors are outsiders
One-quarter of the directors are female
Directors have substantial ownership in the funds they oversee
Directory pay is relatively modest to the number of funds and assets they oversee

### Sample fund B

Uses an affiliated lending agent
Volume
Averaged 0.23 per cent annual return
Loaned out 11 per cent of its portfolio
Fund expense ratio – 27 bps
Fund expense ratio before SL income – 30 bps
1/6 of the directors are female
Directors have substantial ownership in the funds they oversee in most years
Director pay is high relative to the number of funds and assets they oversee

## Size Matters

Probability of lending increases with fund and sponsor size and with increased institutional ownership

About 47 per cent of the smallest funds have security lending income while 97 per cent of the largest funds have some security lending income

The largest sized funds have a greater incidence of security lending than do the smallest

100 per cent of the largest fund sponsors are lending while only about 36 per cent of the smallest fund sponsors lend

Security lending is more prevalent in funds with low expense ratios - whereas 82 per cent of funds with the lowest expense ratio have a security lending programme, only 50 per cent of funds with high expense ratios choose to lend.


# Germany

## Fears of a recession have securities lending market participants taking a close look at their involvement

ANNA REITMAN REPORTS

Germany's economic outlook has deteriorated noticeably on the back of increasing expectations of a eurozone recession. But the country is still expected to outperform most others in the region albeit at a lower rate of growth than earlier forecast.

At first sight, a strong third quarter showing for German industrial production does not seem to fit with recession concerns, noted Commerzbank in a recent economic summary. But the strong rise is largely due to a special effect: In view of full order books, many companies – particularly in the automotive sector – cancelled their factory shutdowns, thereby boosting production on a seasonally adjusted basis very significantly. This is likely to be corrected in the fourth quarter, say Commerzbank economists, on top of fewer orders being taken both from within and outside of the eurozone countries.

"The poor order figures retrospectively confirm the decline in sentiment indicators, frustrating the hopes of those who believed that this was essentially caused by the turmoil in financial markets. The German economy has become accustomed to success, but its prospects have deteriorated considerably and it is expected to achieve at best low growth in the winter half-year."

Commerzbank expects GDP to grow three per cent in 2011 and just 0.8 per cent in 2012 adding that Germany should just about manage to avoid a recession, unlike the rest of the eurozone.

Still, the forecast carries unusually high risks. Uncertainty has risen "massively" owing to the further deepening of the sovereign debt crisis. "This is poison not just for the financial markets but also for the economy...The increasingly fraught discussions about the default of a euro country and the massive consequences this could have for the real economy are bound to leave their mark on businesses and private households. The longer the uncertainty goes on, the stronger is the negative effect."

In addition, as the eurozone slowly slips into a new recession, pressure is sure to mount on politicians across the currency union to maintain government spending. This makes promised reforms from Greece and Italy less likely to lessen the impact of any slowdown in economic growth, according to Robert Smith, manager of the German Growth Trust at Barings Asset Management, who reinforces the view that Germany may yet avoid a recession

He adds that at some point, Germany will have to accept that the UK and US quantitative easing solution to inflate away the debt problem may be the only way out. Meanwhile, the US recovery continues slowly and a soft landing in Asia as a consequence of falling inflation rates in China could be bringing some loosening in monetary policy in the region closer.

"Exporters to the wider world will continue to remain as one of the investments of choice for European equity investors looking for both inflation protection and growth opportunities, and the best representation of this type of company can be found within Germany," Smith says. "Indeed, this in itself means any slowdown in Germany is likely to be much milder than elsewhere in the eurozone. With German employment at record levels, and consumer confidence holding firmly in positive territory, we believe that Europe's largest economy may yet avoid a technical recession."

How any given scenario plays out and how that might translate into an impact on German companies earnings or dividends remains to be seen.

According to Data Explorers, the value of German equities on loan is at $25.2 billion against a lendable supply of $202.2 billion, putting the LongShort ratio at 8.03. This is a sharp fall of some 25 per cent from its five year peak in mid-July this year, when longs outnumbered shorts by almost 11 times.

However, looking further back at pre-Lehman days, value of stock on loan trended at double today's level while the value of lendable supply had collapsed post-Lehman and been recovering until April this year. Since then, the value of inventory has fallen back to levels seen in May 2010.

So far the equities markets have held up well and, in terms of securities lending, have maintained fairly even balances, notes Andreas Richter, local head of the agency securities lending team at Deutsche Bank in Frankfurt.

"The equities market from a lending point of view has been performing as it did before," says Richter. "The biggest impact on lending returns we saw was really on the fixed income side and on collateral costs. There may be a consequence with respect to returns from equity lending transactions next year or the year after if, due to the eurozone crisis, earnings potential of German companies start to lower."

In general, the securities lending market in Germany reflects much of what is going on in the rest of Europe, Richter notes. In the equity markets, the challenges stem from fears over a recession.

"People are looking even closer at the lending market, they are thinking very carefully for how and to whom they want to make securities available for lending. In Germany, investors tend to be more reserved and if anything the discussion on when and how to lend has become longer. " he adds.

Meanwhile, from a fixed income point of view, the industry in Europe is struggling to adjust to a "two-tier model" for collateral, particularly as new regulations will push derivatives onto exchanges and through clearing houses, requiring high quality collateral.

It is all about realising demand for highly desired sovereign bonds from countries like Germany, Finland, the Netherlands and France, he notes.

## Regulatory landscape

Though impacted by such far-reaching global regulations such as Basel III, at the same time, Richter is paying far closer attention to the impacts of a national regulation, the Investmentgesetz (InvG), which provides oversight for so-called KAG funds.

The German lending market can be divided into roughly two categories, the interbank lending and the KAG markets. The KAG market, with some €1.5 trillion in managed assets, is comprised of mutual funds and "Spezialfonds", which have similar structures except that the latter is backed by a single investor. KAG funds are a unique feature of Germany and as such also an important part of the securities lending market.

Deutsche Bank operates one of the largest agency securities lending programmes with a particular expertise in non-custody lending. The programme interoperates with over 30 custodians worldwide in order to facilitate lending business for clients irrespective of the location of the assets and is able to combine agency with a principal lending structure for clients for both domestic or international markets.

Unlike the Austrian market, which is limited to lending out 30 per cent of any KAG fund portfolio, German law allows asset managers to lend out up to 100 per cent of any portfolio, but mandates a cap at 10 per cent per individual borrower. Austria by contrast can lend the entire portion to any single borrower. Guidelines for Spezialfonds technically have the ability to adjust the 10 per cent limit in Germany but this requires a change in fund guidelines and the uptake has been very limited , says Richter.

Within the InvG, which regulates the asset management activities for German funds, there are specific clauses which address securities lending activities. Recently the InvG was subject to some revisions and changes. "Rather than doing some major changes, there has only been a fine tuning, which will not really pay off for the beneficial owners of the funds from a revenue point of view," he says, adding that regulators may have understandably been reluctant to amend the rules in the wake of the financial crisis.

As a case in point, due to Basel III compliance, term cash trades have become a hot item that come with an attractive premium. The InvG does not allow term transactions for KAG funds which in turn excludes funds from capturing this revenue opportunity offered by three, six or twelve months term trades.

"The rationale of the law is to ensure there is always liquidity for the funds but this issue could have been resolved by having the right of substitution," says Richter.

Another example is limits on cash collateral reinvestment. In the wake of AIG as well as the freezing of parts of money markets during the financial crisis, regulators have been closely scrutinising the practice. Most recently, the Financial Stability Board announced that it will be taking a closer look at this particular component of the securities lending market and, in general, there is a global move away from "volume" style of securities lending – when firms extract revenue opportunities from the cash collateral reinvestment over the intrinsic value of the loan itself.

There is no doubt that scrutiny over this practice is warranted, but in Germany, the reverse repo market is largely off limits for reinvestments of KAG funds. Instead, clients can choose between blocked cash accounts earning only a meagre return in the current low interest rate environment and money market instruments in general which potentially offer less protection as they are not collateralised as reverse repo transactions.

"Choosing a reverse repo or triparty repo instead, the transaction is collateralised, is marked-to-market on a daily basis, so the counterpart risk can be considerably lower than other money market instruments." he says.

Meanwhile, there are new developments on the horizon which are also part of a European trend - the introduction of CCPs to the market. Richter notes that for his own clients there is little to no demand for cleared trades since it would add another layer of cost with little additional security. From the point of view of a new market offering and player, however, he says it remains to be seen what the product will look like and whether it will attract clients but that the competition is welcomed.

## CCP – no margin?

Among other offerings in Europe and the US, Eurex Clearing is developing a service to cover bilaterally negotiated OTC securities lending transactions . After a two year consultation with market participants, including traditional agent lenders and borrowers, as well as comprehensive simulation testing, Eurex Clearing is set to start in Germany and Switzerland with a technical launch in November this year offering clients the opportunity for intensive testing of the service and process flows. Pirum Systems will act as a flow provider for the transactions.

"Our model is the first to really incorporate the beneficial owner and agent lender relationship in a CCP service for securities lending," says Gerard Denham, clearing business development executive at Eurex Clearing. "The agent lender can carry on in their current role as lending agent for the beneficial owner clients. The agent lender does not have to become a clearing member…and we are introducing a special lending license for beneficial owners that will allow them to remain principal in the securities lending transaction."

This special lending license has important implications for one of the most contentious issues in the CCP securities lending models being developed – margin. Something beneficial owners are not accustomed to posting.

"We don't think it is necessary from a risk perspective to charge the lending participant any margin on that transaction… in order for Eurex clearing to get comfortable with bringing in those participants and meeting their requests to not to pay margin, we have found a solution that enables the use of non-cash collateral at a triparty agent and construct the pledge basis for this transaction," Denham says.

The two ICSDs – Clearstream and Euroclear – will be acting as triparty agents in the first phase of the rollout.

The clearing service will not incorporate cash reinvestment services, these services will continue to operate as they are now being carried out by market participants. Simply put, Eurex Clearing intends to complement the existing agent lender and broker dealer relationship by offering a clearing service as market participants show a growing interest in the likelihood that CCPs will be used to mitigate counterparty risks.

"We feel that we have got the product right from a consultation point of view, it is based on the requirements of the major market participants today and they have helped create that service in partnership with us," Denham says.

"It will evolve over the course of next year with phased releases, also being able to incorporate processing of voluntary corporate actions.

"This is a key feature for a CCP service for securities lending because participants request that the loan is kept open particularly over corporate action events. Mandatory Corporate Action processing is available now and we will have the capability to include Voluntary Corporate Actions next year."

Denham explains that the different corporate action types can be handled by a single approach whereby even complex combination of choices, for example, sale and exercise of rights due to entitlements or take-over offers, are covered without impacting existing market deadlines.

Over the course of next year, the phased rollout will target other European markets including France, Belgium, Netherlands and the UK as well as the connection to the SecLend market of Eurex Repo. **SLT**

# If you think Treasury isn't sexy, look at these numbers.

| HazelTree Treasury Suite: Selected Hedge Fund Profiles | | | | | |
|---|---|---|---|---|---|
| Fund Size | $500m | $1b | $1.5b | $3b | $6b |
| Long Exposure | 90% | 100% | 100% | 95% | 110% |
| Short Exposure | 80% | 75% | 110% | 100% | 85% |
| Avg. Credit Cash Balance | 15% | 10% | 10% | 10% | 5% |
| Avg. Debit Cash Balance | 10% | 5% | 15% | 15% | 12% |
| % Longs Hard to Borrow | 10% | 5% | 7% | 7% | 5% |
| % Shorts Hard to Borrow | 30% | 30% | 25% | 20% | 15% |
| Typical Treasury Impact on a Fund | | | | | |
| Cash Management | $125,000 | $125,000 | $375,000 | $750,000 | $750,000 |
| Stock Loan Management | $900,000 | $1,000,000 | $2,100,000 | $3,990,000 | $19,800,000 |
| Stock Borrow Management | $1,180,000 | $2,212,500 | $4,331,250 | $6,900,000 | $8,415,000 |
| Total Performance Increase | $2,205,000 | $3,337,500 | $6,806,250 | $11,640,000 | $28,965,000 |
| Impact in Basis Points | 44.10 | 33.38 | 45.38 | 38.80 | 48.28 |



(*Hubba hubba!*)

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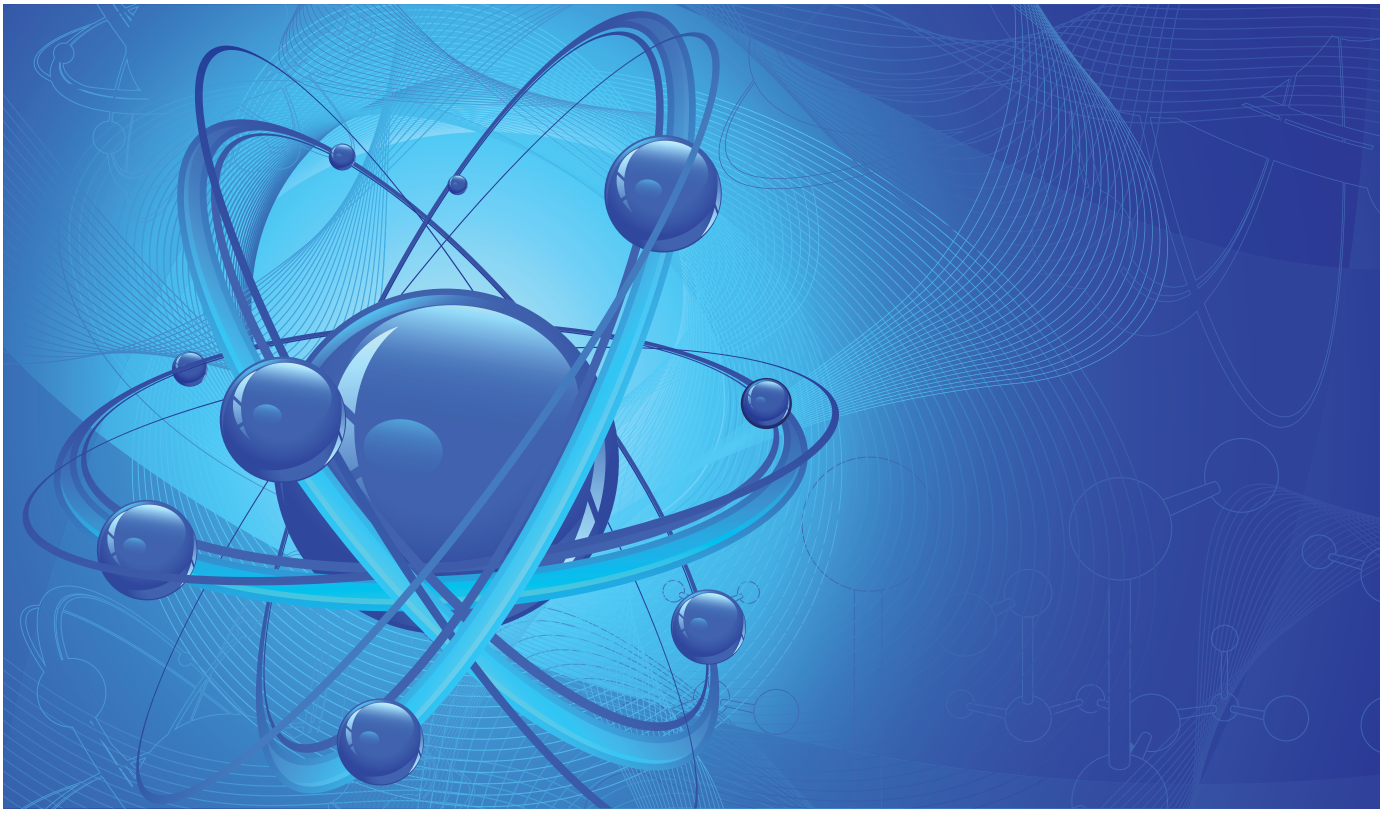


# Cold Fusion-IO

## Andrew Shinn, VP, sales and development, SunGard Astec Analytics takes a close look at the IPO success story of the year - Fusion-IO

MARKET PERSPECTIVE

While the media has mostly focused on LinkedIn and Groupon, investors have also flocked to a lesser-known IPO this year: Fusion-IO (NYSE:FIO). Fusion-IO debuted this summer at $19 per share and now trades at $38, making it one of the best-performing IPOs of 2011. Nevertheless, short sellers have targeted the stock ever since its IPO. Fusion-IO's technology helps companies such as Facebook access data more quickly and efficiently, which in turn helps Facebook users interact with the site more easily.

It seems that investors are not only euphoric about social media companies but also about companies that sell products to social media companies. However, while Fusion-IO has a potentially disruptive business model vis-à-vis the incumbent data storage providers, its lofty valuation may not be sustainable.

There are a number of issues over the next year that may knock the stock back down to $19. First, Fusion-IO claims that it has invented a new way to quickly store and access data through its PCIe solid-state drive (SSD) accelerator cards and virtualisation software. The company believes that current data centres do not process data fast enough because data storage infrastructure has not kept pace with increases in processing performance. In addition, they say, the traditional ways of increasing performance, through adding more storage or networks, or even utilising cloud computing, are not effective. They say it's also inefficient to transport data back and forth between a data processor and centralised storage. Fusion-IO places data storage right next to data processors. This approach is analogous to just-in-time inventory management, in which factories (ie, data processors) are more highly utilised because they are provided a steady flow of raw materials (ie, data).

> It seems that investors are not only euphoric about social media companies but also about companies that sell products to social media companies

Andrew Shinn

As a result, the company claims that its solutions decrease inefficiencies and cooling costs and raise utilisation rates and performance. Steve Wozniak, co-founder of Apple and now chief scientist at Fusion-IO, said that he joined the firm because he admired the way its founders took an intuitive approach to solving the data supply problem.

Indeed, the company sold over $70 million worth of its hardware and software to Facebook this year (representing 36 per cent of yearly revenue); in addition, Apple purchased $47 million from Fusion-IO in fiscal year 2011 (24 per cent of yearly revenue). Fusion-IO also sells through large original equipment manufacturers such as IBM, HP and Dell. The enterprise solid-state drive market generates $1 billion per year in revenue, and the PCIe slice makes up $263 million of that, which means that Fusion-IO controls nearly three-quarters of the PCIe slice.

Fusion-IO has led the way in the PCIe market, but the more relevant question is whether it can continue to increase its revenues and earnings to justify its stock price. Many short sellers do not believe that the stock warrants such a high valuation. On June 4, 2011, three days after its IPO and the first day that short sellers were able to short the stock, short sellers borrowed and shorted half a million shares. Since then, short sellers have borrowed another 4.5 million shares, according to SunGard's Lending Pit. Fusion-IO's P/E ratio is currently 194, and its EV/EBITDA (next fiscal year projected) multiple is 79. Its EV/last twelve month's sales is 22, and EV to next fiscal year projected sales is almost 10. It's possible that Fusion-IO could be acquired, but even current valuation levels are too high compared to similar acquisitions this year at 4-9 times EV/TTM sales.

There are a number of risks to long investors in Fusion-IO. As mentioned before, 60 per cent of revenue came from two customers last year

There are a number of risks to long investors in Fusion-IO. As mentioned before, 60 per cent of revenue came from two customers last year. Moreover, Fusion-IO does not plan on generating nearly as much ongoing revenue from its relationship with Facebook and Apple, so new revenue must come from additional client implementations.

Also, almost all of Fusion-IO's revenue comes from a single line of products. And while the PCIe solid-state server market is growing rapidly, it has its shortcomings as well, including relatively higher prices, more limited data recovery and lower performance for some data queries.

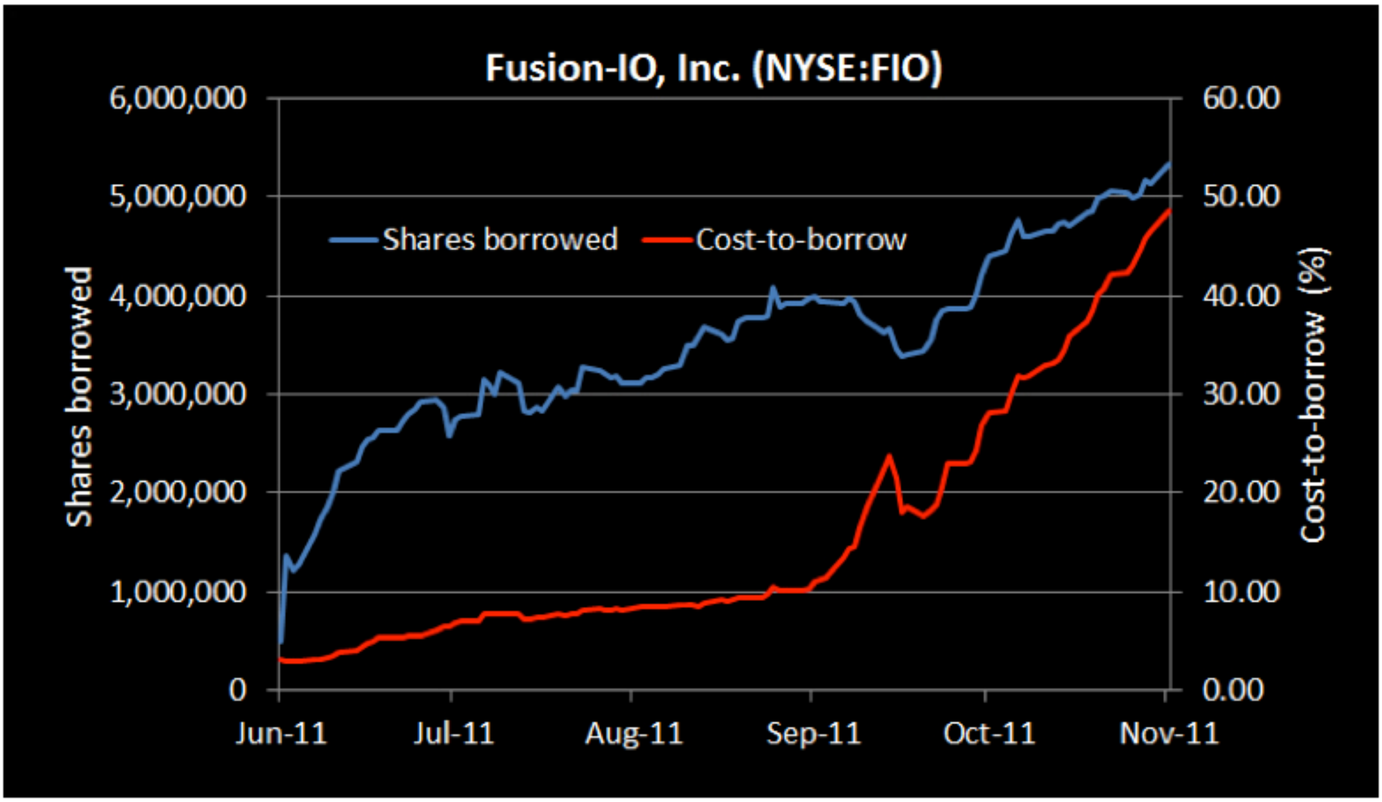
Most importantly, Fusion-IO states that its operating results may fluctuate significantly. Consensus estimates are projecting $312 million in revenue in fiscal year 2012 and $436 million in fiscal year 2013. However, these are high growth rates compared to revenue of $197 million in 2011 and $36 million in 2010. If Fusion-IO is not able to find sell more solutions to Facebook and Apple or replace them with new accounts, revenue and earnings may miss targets and the share price could decline significantly. Indeed, one of Fusion's competitors, STEC (NASDAQ:STEC), lost 40 per cent of its market value in one day after it issued guidance below analysts' estimates on July 28, 2011.

Another challenge is that while Fusion-IO currently controls the vast majority of the PCIe solid-state market, competitors are rushing in and Fusion-IO's margins will most likely decrease. EMC, the heavyweight in the enterprise data storage industry, is rolling out a PCIe product that will compete with Fusion-IO at a fraction of the price. Fusion-IO touts its software as adding value to its overall solution, but EMC also offers a comparable data storage tiering software. EMC also can leverage its existing customer base and ensure that if customers want the new PCIe solution, they choose EMC to implement it. Other companies, such as STEC and OCZ Technology Group (NASDAQ:OCZ), are also coming out with PCIe solutions at lower prices.

Given the lower valuation of STEC after it revised its earnings guidance, a long position in STEC may effectively hedge a short position in Fusion-IO. STEC, which sells its enterprise solid-state drives to customers such as EMC, has a much more reasonable valuation at EV/projected sales of 1 and a high-quality enterprise solid-state product.

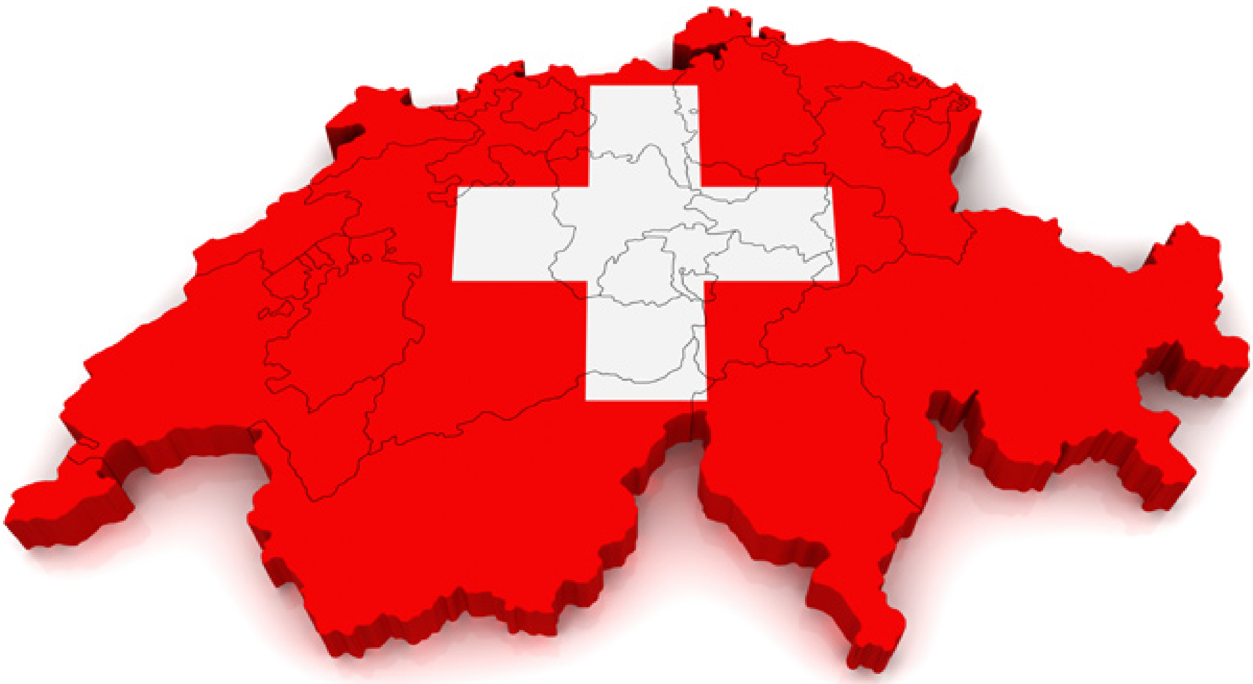
However, one risk with STEC is that the company, as well as its CEO and COO, was notified in February 2011 that the Securities and Exchange Commission was conducting a formal investigation into trading in STEC securities and possible violations of the anti-fraud and reporting provisions of the federal securities laws. The investigation is still ongoing, although STEC received a Wells Notice in July. A Wells Notice alerts people or companies that the SEC is planning to bring action against them.

Other potential long candidates are LSI Corp. (NYSE:LSI), OCZ and EMC. Fusion-IO has demonstrated that the PCIe solution for enterprise SSDs will continue to grow, but the company could easily lose its majority share of the market, and as other firms increase their market share, the discrepancy between Fusion-IO's share price and its competitors should decrease. **SLT**



Zürcher Kantonalbank

CREDIT SUISSE



# Swiss point of view

## SLT seeks opinions on the Swiss securities lending market from Ueli von Burg, head of prime finance trading at Zürcher Kantonalbank and the Managed Lending divison of Credit Suisse

**SLT: How would you describe the securities lending and repo markets in Switzerland over the past 18 months?**

**Ueli von Burg:** On the equity side we had a good year with strong demand on seasonal transactions. Siemens paid 61 per cent more dividend than last year, and Daimler came back on the board. We have also seen a strong demand for Scandinavian equities.

On the fixed income side - which is more our strategic focus - we had an excellent year. Due to the ongoing crisis, we've had good demand on the flow side, and a lot of interest in specials.

There have also been lots of regulation-driven transactions where we've seen increased levels for longer term transactions. The reason for that was the changed behavior on the liquidity management of banks, including ours, in the aftermath of the financial crisis and more specifically due to new liquidity regulations.

Until the regulations changed, most banks funded themselves short term with an insufficient counterparty diversification in the interbank market and therefore had no structural protection. But this has changed. Funding is now for longer terms with a diversified cash investor basis more outside the banking sector. This has led banks to change their liquidity management from a more risky business model which was rather profit driven to a safer model which has led to higher funding costs.

**Credit Suisse:** From a securities lending and borrowing (SLB) perspective the Swiss market has witnessed few changes over the past 18 months. This may be not only a reflection of the relative stability of the Swiss Banks but also the financial centre as a whole. Overall there continues to be a lot of supply to meet little and selective demand. Hence, securities by and large generate low SLB fees.

**SLT: Has the Swiss market benefitted from being outside the eurozone as investors seek a flight to quality?**

**Credit Suisse:** In the aftermath of the Lehman insolvency in 2008 we witnessed a universal 'flight to quality'. In the intervening period and especially in light of the current uncertainty in Europe, investors have continually been on the look out for havens of stability. Switzerland has been able to benefit from these heightened safety concerns and is viewed by many as an anchor of strength.

**von Burg:** Of course, we are still attracting new clients on to our programme, but they are not approaching us because of problems in the eurozone.

**SLT: Where have you seen signs of growth?**

**Credit Suisse:** Private banks have become increasingly interested in SLB solutions. The benefit of generating incremental revenues for lending securities has attracted new participants to the market. Also institutional investors continue to embrace this product in order to exploit this revenue source to reduce the cost burden and improve overall performance.

**von Burg:** We have seen further growth of securities lending and financing term trades.

On the liquidity side banks that have paid up for term funding after the 2008 crisis, are going through to eurozone crisis in a more relaxed way than banks that have not paid up for term funding in the last two years.

This fact and further regulatory impacts have been driving the demand for good quality assets in general. The AAA space is getting smaller, whereas the AAA demand is getting bigger due to risk aversion.

## SLT: Is securities lending still generally carried out as part of the custodian relationship, or are more firms looking to have separate contracts for the business?

**von Burg:** Yes securities lending is still generally carried out as part of the custodian relationship. We are acting as principal to our clients and have a separate contract with each of our client in the custody programme.

**Credit Suisse:** In Switzerland the vast majority of the SLB business is carried out as part of the custodial relationship. Third-party solutions are being evaluated by some of the more sophisticated beneficial owners but overall the unbundling of SLB and custody services in Switzerland has yet to take place.

## SLT: How much is regulation having an impact on your business?

**von Burg:** We just went through a regulation (FINMA Circular 10/2) in Switzerland that was focusing on a better protection and education of the rather smaller (in asset volumes) beneficial owners.

Before the regulation it was possible to have access to assets from smaller clients, borrow them on an unsecured basis and for example generate liquidity. The reservation of the regulator was a potential default of the principal lender. FINMA, the Swiss regulator, decreed that clients with assets below a certain threshold have to be collateralised.

Furthermore the new liquidity ratios required by Basel III will lead to a change in our wholesale funding structure and terms.

We're also keeping a close eye on the impact of EMIR - in particular the increased collateral demand to support our OTC derivatives clearing activities.

**Credit Suisse:** The introduction of the FINMA circular 10/2 on Repo/SLB had a relatively large impact on the SLB business in Switzerland. Whilst the importance of SLB & Repo was acknowledged by the regulator they also set clear rules on how SLB has to be performed vis-à-vis investors. To a certain extent there was a harmonisation within the regulatory framework which led to the creation of a set of clearly defined rules for our product.

## SLT: With SIX and other operators gearing up to increase their offering to securities lending providers, what is your view on the ongoing clearing and CCP debate?

**Credit Suisse:** Ultimately we agree that this will be 'the way to go'. We see value in a repo or cash collateral context (where no re-invest exists), however, at present, the margin problem is an issue until such time as all players are forced (by regulation perhaps) on the same level field as too many opportunities would exist for those not using the CCP to under-cut those that are.

**von Burg:** In general I believe CCPs are a good thing. However it will not be easy to implement it within the securities lending market.

A lot will depend on the regulatory developments regarding CCP's and what the business case of lenders and borrowers look like. Thereby regulatory capital savings have to be compared to the clearing cost, including the funding cost of the collateral to be delivered to the clearing house.

We have talked to CCP providers but at the moment we think it is too early to use them with our existing business model. I think in the future part of the business will be done using a CCP but it will never be even close to 100 per cent.

## SLT: What do you see happening in the next 12-18 months?

**Credit Suisse:** Beneficial owners will continue to be stricter in terms of acceptable collateral with the aim of striking the right balance between risk and reward. Alternative means of managing collateral (triparty, CCPs, etc.) as a consequence may become more attractive if the costs can be reduced. Stricter rules and regulations also mean that the costs for managing the business will increase. Hence, consolidation within the industry may become reality.

**von Burg:** On the demand side, high quality collateral is going to see ongoing demand and with that comes a big question for me - where is all the high quality collateral going to come from?

Due to current challenges with cash collateral re-investment (lack of risk appetite and low interest rates), we have seen a shift from cash-collateral to non-cash collateral. Because of this and the higher capital cost of securities lending we expect higher securities lending levels in the GC market.

Furthermore trade efficiency will have to get better. I like the idea of lending platforms as they increase our efficiency and give the traders more room to take care of more complex trading structures and be even closer in the market, to our clients and to our counterparties.

Another big change will be the ongoing transparency in connection with our beneficial owners, especially on the collateral side. We have to provide our clients with an even more detailed risk reporting. That said I think that client retention is even more critical going forward. **SLT**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# 2012

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## 16th Global Securities Financing Summit

Location: Luxembourg
Date: 18-19 January 2012
www.clearstream.com

As previous years, we will organise the Eurex Repo Bar as a prelude of the summit on Tuesday 17 January 2012 and the selected venue for this year is the Chateau de Septfontaines (Villeroy & Boch).

## The 18th Annual International Beneficial Owners' Securities Lending Summit

Location: Phoenix, AZ
Date: 29-31 January 2012
www.imn.org

The 18th Annual International Beneficial Owners' Securities Lending Summit details to follow

## ITAS 2012 International Transfer Agency Summit

Location: Luxembourg
Date:29 February - 1 March 2012
www.informaglobalevents.com

Last year, the 10th Anniversary of ITAS saw 250+ attendees at the event. The positive feedback led all involved to declare it a resounding success in terms of catching up with business partners, listening to and debating with some of the leading figures in this industry, and having great fun at the evening functions. Already there is great anticipation in the market for coming along to ITAS 2012.

## 9th Annual PASLA RMA Conference on Asian Securities Lending

Location: Taiwan
Date: 6-8 March 2012
www.informaglobalevents.com

Keynote Speaker - Robert A. Jaeger, senior investment strategist, BNY Mellon Asset Management, Author of "All About Hedge Funds: The Easy Way to Get Started"

# Training and Education

| | | | |
|---|---|---|---|
| 23-25 Nov 2011 | London | **Global Master Agreements for Repo and Securities Lending Workshop**<br><br>The International Capital Market Association (ICMA) and the International Securities Lending Association (ISLA) will be holding a workshop on the Global Master Repurchase Agreement (GMRA) and the Global Master Securities Lending Agreement (GMSLA). | ICMA and ISLA |
| 27-28 Feb 2012 | Paris | **Repo & Securities Lending**<br><br>The growing importance of repo and securities lending transactions has made them impossible to ignore for anyone involved in the financial markets. Both of these markets are measured in the trillions of dollars. Indeed, despite difficult market conditions the international repo and securities lending markets continue to develop rapidly in variety and complexity. Repo continues to offer an inexpensive and efficient way to improve liquidity in the secondary markets and provide investors with better returns on their underlying collateral. The securities lending market provides borrowers with ready access to key equity and debt securities and provides lenders with a ready source of fee income. | Euromoney Training |
| 1-2 Mar 2012 | Hong Kong | **Foreign Account Tax Compliance Act (FATCA)**<br><br>No piece of legislation has ever sparked more controversy for financial institutions around the globe than FATCA – The United States Foreign Account Tax Compliance Act, passed in 2010 as part of the HIRE Act. Every financial institution located outside the United States needs to be aware of the implications of FATCA and what they are required to do to comply with this legislation. | Marcus Evans |
| 11-13 Apr 2012 | Singapore | **Dodd-Frank Act for Non-US Banks**<br><br>The training course is aimed at helping banking, foreign corporations and professional practices understand the stakes involved and in this sense, offers an extremely valuable and unique perspective on how the Dodd-Frank may be interpreted for business, finance and the law. | Euromoney Training |
| 28-29 Jun 2012 | Hong Kong | **Repos and Securities Lending**<br><br>Repos and Securities Lending provides a comprehensive and practical programme explaining the legal, regulatory and documentary issues involved in repo and securities lending transactions. | Euromoney Training |

# Industry appointments

**Mark Carney**, governor of the Bank of Canada, has been appointed chairman of the Financial Stability Board (FSB). He succeeds Mario Draghi after the former governor of the Bank of Italy took over as president of the ECB.

In addition, **Philipp Hildebrand** was appointed vice-chairman at the FSB and is currently chairman of the governing board of the Swiss National Bank.

The announcement came as G20 leaders were meeting at Cannes focusing on eurozone crisis resolution. Another meeting before the end of the year has been proposed as key elements of any deal on Greece are heavily disputed.

The International Swaps and Derivatives Association has appointed **Robert Pickel** as chief executive officer, effective January 1, 2012. Pickel returns to the post after serving as the Association's executive vice chairman for the past two years.

**Conrad Voldstad**, ISDA CEO since November 2009, will continue to work with ISDA as a special adviser at the request of the board. Voldstad, who has been a leader in the swaps and capital markets for three decades, will assist on strategic initiatives.

"Connie Voldstad is an industry pioneer, and the board and I are grateful for his tremendous contributions to ISDA and the OTC derivatives markets," said Stephen O'Connor, ISDA chairman and managing director, Morgan Stanley. "The board looks forward to working with Bob Pickel as ISDA's CEO. Bob's appointment, together with George Handjinicolaou's recent selection as head of Europe and deputy CEO, and Connie's role as special adviser, provide ISDA with a very strong management team. ISDA is well positioned to navigate the challenges of the next few years as we work to foster safe and efficient derivatives markets for all users of derivative products and move forward through a period of unprecedented regulatory reform," he said.

"ISDA has a terrific history of working on behalf of the OTC derivatives markets and its contributions are unequalled among trade associations globally," said Mr Voldstad. "I have been delighted to partner with Bob Pickel to address the key issues facing our markets. We have clearly made important strides and I am certain that Bob is the right person to lead the Association forward as it makes further progress toward its key goals."

"Connie has been an ideal leader of ISDA. I have enjoyed working with him and I look forward to his continued contributions," said Pickel. "ISDA faces a number of opportunities and challenges ahead. Our focus is on addressing these issues and fulfilling our mandate by supporting derivatives markets across asset classes, geographies, and trading and clearing environments. To do this, we will continue to reach out to all types of market participants around the world."

Several redundancies have been reported at Bank of America Merrill Lynch's (BAML) prime brokerage division as part of an overall review.

SLT has confirmed media reports that among those let go was **Dom Addeo**, director, Americas head of Prime Brokerage Client Integration. In addition, directors **Andrew Neese**, **Paul Morelli**, **Bob McDonough** and **Steve Doran**; **Tony Rosasco**, vice president; and **Paul Bacanovic**.

A source familiar with the situation said the shake up is not targeted at its prime brokerage division and the firm will continue to ensure that the business is aligned with client needs. No particular regional considerations were made in the "small numbers" of redundancies announced.

BAML has made a number of strategic hires at the prime brokerage division, including Stu Hendel as the global head, Peter Klein as global head of FX prime brokerage and Charlotte Burkeman as co-head of EMEA brokerage, among others. **SLT**

SLT
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