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BNP Paribas shows intent on prime brokerage growth

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BNP Paribas is pushing forward its global prime brokerage business with the appointment of ex-Nomura head Matt Pinnock, as well as James Scully and Ashish Patel.

James Scully joined in March as head of securities lending & synthetic sales trading in Asia ex-Japan, and Ashish Patel will join the bank at the beginning of April as head of prime brokerage client service.

Formerly co-head of prime services at Nomura, Pinnock left the Japanese bank over rumours of its detachment from cash prime brokerage in Europe. He is set to join BNP's London base at the beginning of May, as head of prime brokerage services for Europe and Asia.

On Benoit Savoret's appointment to Nomura in March 2011, the new joint head of global equities instigated a detailed review of the Japanese bank's equity division. After the review, at least five top members of its European prime brokerage team left the firm, part of a wider series of 25 to 30 redundancies. As well as Pinnock, the departures included Martin Beeche, European head of prime services origination, Stu Park, John Southgate and Marianne Scordel.

The deep cuts were thought to be due to severe competition in the European sector, and several news outlets reported that Nomura was closing its prime brokerage division in Europe.

However, a source close to Nomura stated: "It's a fallacy that Nomura has dropped out of European cash prime brokerage division; their doors are still open. I think it came to the recognition that the changing regulatory environment and a conviction that clients were looking for best of breed and differentiated products, meant it should focus on its natural strength in the Asian markets."

BNP Paribas spent 18 months preparing its prime brokerage division for entrance into the global arena. The company bought Bank of America's equity prime brokerage business in October 2008, using the first year to assimilate that business with its existing prime brokerage division in Europe.

NEWSINBRIEF

Euroclear Bank and NSD head into Russia

Euroclear Bank and National Settlement Depository (NSD) have announced plans to provide cross-border services for all classes of Russian domestic securities.

Pending regulatory approvals, settlement, custody and related services will be provided for stock exchange and OTC equity trades, government (OFZ) and corporate bond transactions.

More than 1,300 of the world's most active international trading firms with Euroclear Bank accounts will be able to settle bilateral trades at Euroclear Bank and with counterparties in Russia through the link with NSD. Russian domestic securities will also become eligible as collateral in Euroclear Bank's triparty services.

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Goldman Sachs accused of naked shorting

A former hedge fund owner has added to testimony against Goldman Sachs in a case claiming the firm had practised naked shorting.

Internet retailer Overstock.com is in the process of suing Merrill Lynch and Goldman Sachs, contending that the banks failed to borrow company shares that they or their clients sold short, essentially evading rules intended to prevent stock manipulations.

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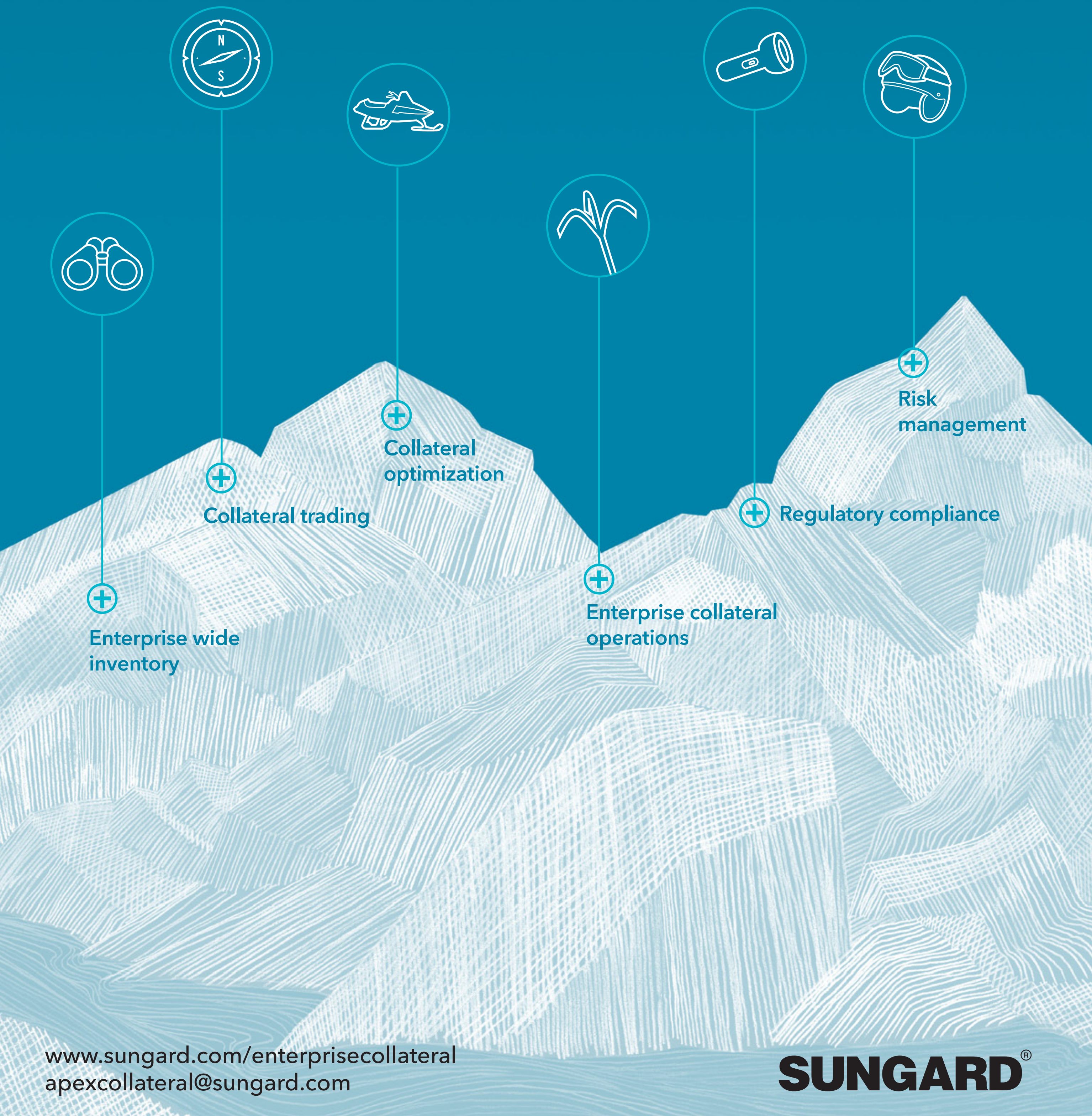

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Euroclear Bank and NSD head into Russia

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Eddie Astanin, chief executive officer of NSD said: "A new law in Russia will recognise NSD as Russia's central securities depository and allow NSD to open a 'foreign nominee account' for Euroclear Bank to develop the direct link. Partnering with Euroclear Bank clearly adds value to our clients and to the Russian economy by easing cross-border flows between the Russian and international investment communities. It helps advance the goal of creating a Russian financial centre."

Frederic Hannequart, chairman of Euroclear Bank added: "It is very important to create the type of service for Russian securities that will appeal to our sophisticated client base. Having an easy and convenient post-trade arrangement in place for cross-border trades will facilitate foreign investor flows to MICEX-RTS, as well as boost domestic liquidity for all Russian securities."

Goldman Sachs accused of naked shorting

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Former head of $1.5 billion hedge fund Copper River Marc Cohodes added to the testimony, claiming Goldman Sachs bore part of the responsibility for his company's failure.

Both of the firms sued by Overstock have denied the company's accusations, requesting that the judge overseeing the case seal all the documents generated in the discovery process. Mr. Cohodes's statements, however, are not subject to the seal, and the New York Times was present for his deposition.

According to Cohodes's testimony, Copper River paid Goldman to act as its primary brokerage firm, conducting trades for the company and locating costly short shares.

Cohodes, who is now a chicken farmer in North Carolina, came to believe that Goldman was buying the stocks that he was short ahead of him, driving up their prices and making Copper River's short-covering purchases even more costly.

Michael DuVally, a Goldman spokesman, said: "Mr. Cohodes is wrong. We met our obligations under applicable law."

"I view stock loan sort of as the Mafia," Cohodes said in his deposition. "It's a black box where you don't know people's inputs and costs, and it was sort of: 'Here's the rate. If you want to borrow it, this is the rate.' And it is what it is."

Though it would seem that Cohodes' deposition would help the Overstock case, there is no love lost between the two parties, with Overstock.com having sued Copper River in 2005 for stock manipulation. When asked in the deposition if he wanted to help Overstock, he replied: "Oh, absolutely not."

Copper River closed at the end of September 2008.

Collateral management service taken up by four major banks

Four additional investment banks - BoA Merrill Lynch, Barclays, Credit Suisse and Morgan Stanley - are in production on MarginSphere, AcadiaSoft's online community for margin automation in the OTC derivatives market.

The new participants joined previously announced dealers Deutsche Bank, Goldman Sachs, HSBC and J.P. Morgan.

MarginSphere is a central messaging service that provides electronic exchange of margin calls, substitutions and interest statements between counterparties engaged in collateral management, with the aim to reduce inefficiencies and manage risk in an automated fashion.

"These additions ensure that buy-side participants that join the community can now have the majority of their margin calls automated," said Craig Welch, co-founder and CEO of AcadiaSoft.

"With greater attention on collateral management due to heightened regulatory oversight, it is now essential for firms to create efficiencies and increase transparency through automation of their margin call and collateral management operations. By bringing such a large percentage of the OTC market on to MarginSphere, AcadiaSoft is offering a means to improve how clients manage these processes."

ETF investors talk shop

The counterparty risk of physical ETFs has been underestimated, and regulated and unregulated ETFs need to be differentiated more clearly, were just two of the findings from the European ETF survey.

The survey, which was commissioned by the EDHEC-Risk Institute asked 174 European ETF investors questions about their industry.

Their findings included:

• Industry communication on the risks of ETFs has led to the counterparty risk of physical ETFs being underestimated. As a result, investors think that full physical replication is less risky than synthetic replication in terms of counterparty risk. Even though almost all physical replication ETFs engage in securities lending, investors fail to appreciate the risk of this activity.

• Investors acknowledge that the current education on the differences between highly regulated ETFs and largely unregulated ETPs needs to improve in order to avoid confusion.

• There has been increasing demand for ETFs based on new forms of indices, from 29 per cent to 39 per cent over the past year, which indicates growing interest in alternative-weighted indices.

• ETFs remain very popular for passive investment. In terms of future use, a majority of respondents (63 per cent) indicate that they intend to increase their allocation to ETFs in the future.

Wells Fargo squares up to securities lending lawsuit

Institutional investors have filed a lawsuit against Wells Fargo, claiming that the bank miss-sold the safeness of its securities lending programme.

The lawsuit was filed by the City of Farmington Hills Employees Retirement System, a Michigan pension fund, on behalf of more than 100 other institutional investors.

It asserts that Wells Fargo 'touted' its securities lending programme: "as a highly-secure way for its institutional clients to maximise portfolio returns. Instead, Wells Fargo invested a substantial portion of the collateral in extremely risky securities."

The investors also claimed that Wells Fargo concealed investment performance from class members to prevent them from exiting the securities lending programme.

Spokeswoman for Wells Fargo Laura Fay said in an e-mail to Reuters: "Wells Fargo categorically denies the allegations made in this lawsuit and will vigorously defend."

Repo-to-maturity revamped by FASB, SEC

An overhaul of the accounting rules that led to the collapse of MF Global could take place this year, said officials at FASB and SEC.

"Moving forward with this project will involve a series of public education and decision-making meetings…we currently anticipate that any resulting amendments from this project could be issued in 2012" said FASB director Susan Cosper in prepared testimony.

In 2011, FINRA expressed doubts over whether it was right for MF Global to finance its European sovereign debt bets through repo-to-maturity transactions in order to move the exposure off of its balance sheet.

"That is a loophole so big you could drive a Mack Truck through it," Democratic Senator Kent Conrad told SEC chairman Mary Schapiro during a hearing in December. "If that's not closed down, we really got to ask ourselves what we're doing."

Discussions about repo-to-maturity accounting took place early this year between the FASB and SEC, whereby Cosper said that insight from other parties confirmed that users of financial statements broadly believe that disclosures for repurchase agreements should be improved.

Pakistani stock exchange law approved by parliament

The Stock Exchanges Law has finally been approved in a parliamentary session in Pakistan, after the bill was passed three years ago.

The law is part of the Securities Exchange Commission Pakistan's (SECP) efforts to bring about structural and regulatory changes through legal reforms in the non-banking financial market and the capital market.

The law provides a framework for the corporatization, demutualisation and integration of the stock exchanges.

Presently, the Pakistani stock exchanges operate under a mutualised structure, whereby members have ownership as well as trading rights, inherently creating a conflict of interest that the SECP hope to change.

Other draft laws awaiting approval include Securities Law, Futures Trading Law, SECP Law and Corporate Rehabilitation Law.

More short selling woes for Goldman Sachs

Two Silicon Valley entrepreneurs have joined recent claimants in suing Goldman Sachs over short selling.

Married couple Sehat Sutardja and Weili Dai, co-founders and executives of the semiconductor company Marvell Technologies, say the Wall Street firm mislabelled shares in the couple's brokerage account in order to be able to assist short-sellers who were betting against the company the couple founded.

"Goldman had no legal right to lend out shares that didn't belong to the firm," said Phil Gregory of Cotchett, Pitre & McCarthy, who is representing Sutardja and Dai. "This whole case is about Goldman trying to make Goldman look better, and my clients suffering for it."

The couple allege that in January 2008 Goldman removed Sutardja and Dai from the ownership records of 20,000,000 shares of Marvell stock the couple held in a Goldman brokerage account. The couple say they agreed to allow Goldman to add the firm's name to the stock ownership records, but that the shares were supposed to classified as held for the benefit of either Sutardja or Dai. Instead, the couple say their names were removed completely.

They state that by putting their shares in Goldman's name, the firm was able to lend those shares to short sellers, allowing them to increase their bets against Marvell.

"Goldman Sachs has consistently denied and continues to fight Dr. Sutardja and Ms. Dai's claims, which are currently in arbitration with FINRA," said a Goldman spokeswoman. "We have not seen any new claims."

In 2008, Marvell Technology paid a $10 million fine to settle allegations from the Securities and Exchange Commission that the company backdated the options it paid out to its executives. As part of the settlement, Dai paid a personal fine of $500,000 and was barred from being a director of a publicly traded company for five years.

Broadridge extends Gloss solution

Broadridge Financial Solutions will expand the range of multi-asset processing capabilities of Gloss, its multi-currency trade processing and settlement solution.

The newest function of the solution will be post-execution transaction processing for exchange-traded options, aiming to allow allow banks and brokers to focus operations of a wide variety of asset classes on a single platform.

Robin Kneale, head of strategy and product management for Securities Processing Solutions at Broadridge, said: "Derivatives are now fully integrated into the investment process and we see an increased focus for industry participants to extend coverage to their client base."

Gloss' functionality for exchange-traded options will be available for general release in April 2012.

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SunGard launches new collateral management solution

SunGard has added a cross-enterprise collateral management and optimisation solution to its collateral management suite.

Apex Collateral aims to help banks, broker dealers and asset managers improve risk management, make the best use of their collateral assets, and support the shift towards central clearing of OTC derivatives.

Rich Hochreutiner, global head of collateral trading and management at Swiss Reinsurance company, said: "SunGard's Apex Collateral solution helps us increase our effectiveness by providing a consolidated, big picture view of our collateral asset pool across OTC derivatives, reinsurance collateral, repo and securities lending. This transparency helps us mitigate counterparty risk while getting maximum value from our collateral assets."

BNP Paribas SS wins French mandate

BNP Paribas Securities Services has won a new mandate from Fédéris Gestion d'Actifs to provide a suite of collateral management services, supporting the manager's OTC derivatives activities.

Fédéris, the dedicated asset management company of major French insurance and pension group Malakoff Médéric, manages more than €23 billion in assets. The appointment is the latest development in a relationship that began in 2002, following the evolution of Fédéris' strategy to include increased use of both OTC and listed derivates.

Stéphane Carteau, director of operations at Fédéris, said: "As our business evolved with increased use of derivatives, so too did our requirements for a robust collateral management service that would help manage the credit risk associated with multiple counterparty OTC derivative transactions.

"We lacked the in-house expertise to manage this function effectively, so outsourcing this critical activity made a lot of financial sense."

GlobeOp produces new SEC guidance

Financial services company GlobeOp has offered insight on the US regulation Form PF ahead of its implementation deadline.

Form PF requires a private, confidential filing by SEC-registered investment advisers on a quarterly or annual basis. The first SEC filing deadlines for hedge funds becomes effective in less than 100 days.

"Broadly applicable lessons emerged as we coordinated practice filings with clients wanting to be well-prepared and confident when their reporting becomes mandatory at the end of June," said Vernon Barback, GlobeOp president and chief operating officer.

- Regulatory AUM (RAUM) calculations created confusion for some fund management companies who were under the impression that filing was driven by the fund's net asset value (NAV).
- The XML filing format requirements released by FINRA earlier this month have technology development implications for funds or service providers planning to prepare Form PF reports. The XML format is the most practical reporting option for large funds filing submissions on the IARD website.
- There is considerable room for interpretation in the way a fund management company completes Form PF. For many questions, there is no single answer.

Clearstream and CDS agree Canadian partnership

Clearstream and CDS Clearing and Depository Services have agreed to explore the possibility of a triparty collateral management service for Canada.

The service aims to enable Canadian market participants to meet demands for collateral.

CEO of Clearstream Jeffrey Tessler said: "Clearstream is committed to helping the customers of our strategic partners to better utilise their scarce collateral including access to our global liquidity pool which is building further links to a growing CCP network and enabling customers to gain from greater central bank money access on a global basis."

Ian Gilhooley, president and CEO of Canadian-based CDS, said: "Our end vision is that a Canadian participant will be able to efficiently and effectively meet any demand for collateral, using collateral that is held anywhere in the world. We believe that this will become a very powerful capability in the new environment that we see developing."

Top 10 most borrowed US shares

Data Explorers has released a list of the top 100 most borrowed shares in the US

The company found that equity securities lending income centres around a small number of heavily borrowed, large cap names, with 59 of the 100 most borrowed names having a market cap greater than $10 billion.

The top 10, as listed, are:

1. Apple
2. Express Scripts
3. Salesforce.Com
4. Ford Motor Co
5. Priceline.Com
6. Borgwarner
7. International Business Machines
8. At&T
9. Gamestop
10. Emc

Shadow banking and repo explored by ERC

ICMA's European Repo Council (ERC) has published the white paper: *'Shadow banking and repo'*, which explores concerns raised by regulators about shadow banking and its relation to the European repo market.

Written by Richard Comotto of the ICMA Centre, the paper makes four key points:

Point One: repo is not inherently a shadow banking tool, having been widely used by traditional banks in Europe for many years and has helped many of these to ride out the crisis by giving them continued access to a source of term funding when unsecured term markets have been closed to them.

Point Two: Regulators are concerned that collateralised instruments like repo facilitate or even encourage excessive leverage, which was a major factor in the recent crisis. In practice however, markets will not allow banks to keep borrowing, even against good collateral.

Point Three: Use of collateral does not make borrowing risk free but its prudent use is a source of stability for individual institutions and markets. There is a danger that the current discussion about collateralised lending paints collateral in a negative light. But collateralised lending is always preferable to unsecured funding. Regulators should therefore avoid action on repo that distorts the relative pricing advantage of secured over unsecured funding.

Point Four: There is a case for improving the transparency of the repo market, although a lot of data already exists and much is underexploited. Suggestions of a repo trade repository need to be carefully assessed. Trade repositories in instruments like derivatives have been proposed in order to address operational complexity, not just to collect market data.

Mutual funds a poor price for UK investors

UK investors can pay double the price that US investors do for mutual funds, with worse returns due to hidden fees of up to £18.5 billion a year.

Executives at Fidelity Worldwide Investment, Fundsmith LLP and SCM Private LLP told Bloomberg that complicated fee structures make it hard for potential customers to compare products, resulting in a lack of competition in the market.

Research conducted by Ajay Khorana of Citigroup, Henri Servaes of London Business School and Peter Tufano found that equity funds typically cost 2.48 per cent in annual charges in the UK, compared with 1.53 percent in the US.

"In the UK, people are less aware of what they are paying," said Servaes to Bloomberg. "The disclosures are not as strong as in the US."

UK and European Union regulators have taken notice of the disparity in fund returns, and have already moved to ban some commissions starting next year.

"In what is allegedly a competitive industry, the UK funds market, how is it that the average cost of funds has risen over the years rather than fallen?" said Peter Smith, head of investments policy at the FSA. "That's something we're going to be thinking about."

State Street to launch new Fund Insights product

State Street is to launch the Fund Insights Valuation Toolkit, the first in a set of solutions aimed at efficiently providing industry insights for fund managers.

The first product launched within Fund Insights is the Valuation Toolkit, which supplies multiple sources of prior-day prices and fair value levels for securities across multiple vendors.

"With growing awareness of the complexities and pitfalls in the valuation process, we recognized an opportunity to aggregate industry data and insights and deliver it to our clients in a value-added format," said Gunjan Kedia, executive vice president in State Street's Investment Services division.

With the Valuation Toolkit, asset managers and fund directors can benchmark prices, observe trends over time, understand factors that cause prices to diverge, and obtain data for board-level reporting.

Hartford Financial Services sells broker-dealer business

Hartford Financial Services group has shut down its annuity business, pursuing a sale or other options for its individual life insurance, retirement plan and broker-dealer businesses.

Following pressure to boost its stock price from the company's largest shareholder, hedge fund manager John Paulson, the company said it would get rid of most of its life insurance-related operations and focus on being a property insurance company.

One of three insurers to receive a government bailout during the financial crisis, stocks in Hartford have now climbed 6.4 per cent to $23.10.

Stifel Nicolaus analyst Meyer Shields estimated the company could end up with proceeds of about $1.5 billion from the asset sales, mostly from the life and broker-dealer businesses, while Barclays analyst Jay Gelb said the assets were likely to draw interest from the likes of AIG.

The Hartford chief executive Liam McGee said in an interview the plan was not a direct reaction to Paulson's fears, adding: "We take suggestions from all of our shareholders, not just Paulson, quite seriously. Clearly we evaluated a split but we were in the course of evaluating many options."

Broadridge launches FinancePro securities solution

Broadridge Financial Solutions has launched FinancePro, a global, multi-asset, multi-currency securities financing solution.

Broadridge says the offering will enhance funding activities of financial institutions, by efficiently scaling their repo, treasury and securities lending desks.

The solution enables comprehensive tracking and management of positions throughout the entire lifecycle of a financing transaction, with a 'Tri-party Allocation Simulator' allowing firms to optimize the collateral allocations within tri-party trades prior to submission to the clearing bank, hopefully reducing funding expenses.

"Given the rapidly changing regulatory and credit landscape, global financial institutions are expressing a greater need for sophisticated, high-quality solutions that will help them better manage and monitor their financing activity while reducing market, operational and counter-party risk," said Michael Hopkins, president of Broadridge.

BoE warns insurers on shadow banking

Creating a trade repository for recording transactions would ensure insurers do not act like shadow banks, said BofE's Paul Tucker.

Tucker, who acts as deputy governor for financial stability at the Bank of England, said there was a possibility of insurance firms building high-risk, in-house shadow banks through their securities lending businesses.

The BoE will become the main regulator for insurers like Aviva and Prudential from 2013 after the scrapping of the FSA, and looks to restructure the industry at an international level.

The FSA has already issued guidance on containing risks in these "liquidity swaps" but Tucker said this will not be sufficient. "Internationally, the authorities are going to have to go further, putting some structure around these markets," said Tucker in a speech to officials in the insurance industry.

"One issue is transparency. Maybe we should at least contemplate introducing a trade repository. If we are moving towards greater transparency in derivative markets, why not do so in a core financing market."

Tucker also added that the BoE was 'dismayed' by the costs insurers face in the wake of Solvency II, saying: "We are also concerned that ... it risks being too complicated in its desire to introduce a 'risk sensitive' regime."

$8 million stock fraud in California

A charge of defrauding $8 million from directors in an elaborate stock-lending scheme has been leveled at Argyll Investments by the SEC.

The SEC alleges that James Miceli and Douglas McClain, two senior executives at the California-based firm, have been acquiring publicly traded stock from corporate officers and directors at a discounted price from market value, separately selling the shares for full market value in order to fund the loan, and using the remaining proceeds from the sale of the collateral for their own personal benefit.

The entirety of Argyll Investments LLC has also been called into question, with the SEC contending that its claim to be a stock-collateralised loan business is merely a fraud. Miceli, McClain, and Argyll typically lied to borrowers by explicitly telling them that their collateral would not be sold unless a default occurred. However, since Argyll had no independent source of funds other than the borrowers' collateral, Argyll often sold the collateral prior to closing the loan and then used the proceeds to fund it.

"Miceli and McClain thought they had devised a foolproof way to make substantial risk-free profits, but their purported business model was nothing more than an illegal get-rich-quick scheme," said Scott Friestad, associate director of the SEC's division of enforcement.

Also charged in the SEC's complaint is the broker Jeffrey Spanier, through which Argyll attracted potential borrowers. The SEC contends Spanier, who owns AmeriFund Capital Finance LLC, violated the federal securities laws by brokering numerous transactions for Argyll while not registered with the SEC.

UK to train Nigerian stockbrokers

The Chartered Institute of Stockbrokers (CIS) will send some of its members from Nigeria to the UK for training on securities lending, in preparation for the opening of securities lending on the Nigerian Stock Exchange.

The scheme was created in 2011, after local training of stockbrokers proved insufficient to deal with the dense market. CIS president Mike Itegboje said last year: "We are concluding arrangements and by the November training will commence. Stockbrokers should not miss the training so that when the securities lending becomes operational in the market, they will be actively involved."

"The CIS has been training some of the brokers who showed interest in securities lending and it has been done in Nigeria. But now they will proceed for further training overseas, where we have markets that specialise in securities lending and have experience," a senior broker said.

CEO of the NSE Oscar Onyema expressed confidence that the Nigerian market would close on a positive note this year. "The reforms are still ongoing and with government support, we remain confident that by the year's end the market will be well on its way to recovering its vibrancy."

Quants, disclosure & ethics

Critical discussion proved worthwhile at this year's Securities Financing Forum in London, hosted by Data Explorers

GEORGINA LAVERS REPORTS

On the 20th of March 2012, London's Kings Place played host to paintings of men in flat-caps propping up bars by the artist Norman Cornish, as well as the more smartly dressed agent lenders, prime brokers, beneficial owners and academics that came for the Securities Financing Forum, hosted by Data Explorers.

Compered by Bloomberg TV's Maryam Nemazee and featuring Anthony Hamilton of the Evening Standard as keynote speaker, the conference addressed the reputation of securities lending in the media, as well as who in the chain really sets the agenda, and the ins and outs of quantitative research.

First to speak was David Mackie, head of Western European economic research at J.P. Morgan, who warned that whilst Europe was out of immediate danger, it had moved from an acute phase to a chronic phase; described as: "still able to kill you - but it will take a lot longer to do so." With that uneasy thought lingering in audience minds, a 'super-panel' were introduced: beneficial owners, agent lenders, prime brokers and hedge funds who considered how this industry can better cope with the current environment.

Almost 40 per cent of the audience said that beneficial owners hold all the cards in securities lending flow, yet Joyce Martindale, one such owner at RPMI Railpen, concluded: "If we're asked to put up collateral that we can't get access to, we'll just stop securities lending."

However, 70 per cent of the audience voters expected supply would remain the same or increase this year: an encouraging statistic. Chris Barrow, MD for prime services at HSBC, noted that collateral management services have been vital since smart hedge funds put their assets with custodians in the midst of the Lehman crisis, but Paul Wilson of J.P. Morgan poured cold water on talk of collateral upgrade trades, noting that: "Everyone is talking about it, but no-one is doing it."

One beneficial owner emphasised the need to be compensated for the risk they are asked to take in lending their safe Government assets, yet in an audience survey, 41 per cent thought it was beneficial owners who should most re-evaluate their approach.

Head of global quantitative research group at Macquarie Gurvinder Brar took us through the latest data on securities financing, noting that companies with higher shares on loan have typically experienced poor 12-month price momentum, with analysts downgrading EPS forecasts, and greater stock volatility and earnings uncertainty. 47 per cent surveyed said they rated the importance of short selling data as 'essential' in a multifactor quant model, while 37 per cent stated it was simply 'nice to have.'

Jean-Robert Avettand-Fenoel continued on the quant theme advertising Deutsche Bank's new quant strategy, which cross references data to judge market sentiment, and arguing that: "people are bored of value, momentum…these things make everyone act the same…short the same stocks."

Disclosure was the topic of the day for Professor Adam Reed, who thought that its positive - shining a light on bad behaviour – did not outweigh the negatives; citing the loss of a short seller's individual property, enabling short squeeze, the possibility of follow-on shorting destabilizing prices, and the discouraging of fundamental shorts as just some of the cons.

Bad behaviour was a little differently addressed by Anthony Hamilton, who nevertheless sympathised with the black umbrella under which shadow banking stands. On asking a regulator at G20 why hedge funds are so severely regulated, he recalled the answer as: "It's like when you see a guy you hate in a pub; loud, arrogant, rude. If a fight breaks out, you're going to take that opportunity to punch him in the face."

However, he stood firm on the idea that shadow banking inherently makes the system procyclical, concluding: "if it quacks like a bank, it's going to be regulated like a bank."

'How can hedge funds outperform in 2012?' was the next question posed to a panel, with Deborah Fuhr from ETF Global Insight and Dr. Andre Stern from OxFORD Asset Management on warring sides of the ETF debate. Stern certainly attracted murmurs when he claimed that: "ETF's provide no economic utility. The only reason they're selling so well is that it's in a lot of people's interests to sell them because of the money to be made from them."

The last panel again sought to increase revenue, but asked how they could do so from securities financing. James Slater from BNY Mellon stated that last year BNY saw double digit growth from traditional markets, and emphasised the importance of synthetic ETFs, while Guy d'Albrand of RBC Dexia saw a shift from open to fixed trades. On emerging markets, participants were divided, with d'Albrand stating: "We're in Taiwan and Korea already, but opening in a new market is very costly. Maybe I'm contrary, but I don't believe emerging markets are a trend."

Indeed, the mood of the day seemed to be one of amicable contrariness, with opposition on revenue, trends, strategy, and even the ethics of the industry. If one could take anything away from the day, it would probably be the realisation that nothing is certain when it comes to securities lending. SLT

Middle East

Is the region poised to become a securities lending force?

DAVID STEVENSON REPORTS

The Middle East has been suffering a torrid time of late. The Arab spring saw rulers forced from power in Tunisia, Egypt, Libya and Yemen while civil uprisings erupted in Bahrain and Syria. Prior to 2011, and despite a history of political strife, the Middle East & North Africa (MENA) has not traditionally been perceived by foreign investors as a region particularly prone to political risk.

The region is home to the world's largest supply of crude oil and as it becomes more financially sophisticated it is starting to realise its potential. Although short selling already takes place on the Abu Dhabi Securities Exchange (ADX) and the Dubai Financial Market (DFM) it is unregulated so there is a risk if contracts are broken, parties won't be able to sue. In fact, the Emirates Securities and Commodities Authority (ESCA) spoke out against short selling last year, saying "short-selling operations are inconsistent with the spirit of these [established] regulations".

Upcoming regulations

However, regulations concerning short selling and securities lending are imminent. The UAE Securities and Commodities Authority (SCA) published draft regulations at the end of last year stipulating that short selling of securities listed on the UAE markets will be permitted. However, as we head into the middle of 2012, it may seem strange that these regulations have yet to be ratified. David Lewis, senior vice president at Sungard, offers some explanation.

"Part of the delay to the regulations is because they are rightly fastidious about consulting. There has been lots of consultation with local stakeholders," he says.

There could be another reason for the delays, which concern how the market is currently working. One well-placed source in the Middle East thinks that the dominance of local investors in the market may be an issue.

"There has been an uptake in volumes with local investors coming into the market. It would be risky to introduce something that would deter local investors. Regulators in the market don't want to deter local investors. Anything that would put them off won't be supported by the market," he says.

Another possible reason for the perceived reticence in introducing the regulations could be Islamic finance and complying with Sharia law. "Islamic finance is part of [the reason for delay], you shouldn't be able to sell something you don't own. They are very nervous to introduce something were you gain from markets going down," said one player.

However, he said that an Islamic repo is being developed based on an underlying Sukuk that would negate any conflict with Sharia law. Others aren't convinced that there is such an issue with Islamic finance, rather a misunderstanding of the economics. "In line with some observers' incorrect view that short selling is potentially harmful to portfolio values, the activity falls foul of the principle banning "unjust deeds", as interpreted by some Islamic scholars. Short selling brings transparency and liquidity to the market. Multiple studies have shown statistically that short selling doesn't harm the market," says Lewis.

Richard Street, head of securities and fund services in Middle-East at Citi, believes the regulations are not simply about legitimising short selling but also building on existing improvements to the market.

"Stock lending regulations stop well short of endorsing short selling, they are designed to facilitate the failed management process, hence perfecting the recently introduced delivery versus payment (DVP) model," he says.

With these regulations in place the UAE and Qatar might finally earn their upgrade from frontier market to emerging market from MSCI. However, they failed to earn this upgrade in February.

MSCI Upgrade?

At the moment, the UAE and Qatar are classified as 'frontier markets'. Georges Elhedery, head of global markets in MENA at HSBC explains why the MSCI classification is important.

"It remains to be seen whether the UAE and Qatar will form part of the MSCI Emerging Markets Index this year. This certainly isn't a foregone conclusion - but if successful, this would lead to more international money coming into the region as global emerging markets funds will flow towards these important markets. At present, these markets are classified as 'frontier' and very little institutional money follows the MSCI Frontier indices," he says.

As two of the criteria MSCI use to classify markets includes securities lending and short selling, some view that the impetus behind the upcoming regulations is to secure the upgrade. "These countries aren't promoting sec lending and short selling because they necessarily believe it's a great idea, but they do understand that such infrastructural developments are required to achieve the upgrade. The much bigger picture is the upgrade, which opens up the market for investment," says Lewis.

Street agrees, saying that the regulations are being done on behalf of the market to secure the upgrade, although he doesn't think that an upgrade will immediately transform the market. "The MSCI upgrade might help to mature the market but gaining the emerging market status won't change the securities lending and borrowing rules overnight," he says.

MSCI also argues that markets in the Middle East haven't implemented the Delivery vs Payment (DvP) system effectively. The main problem concerns failed trades, where a forced sale of assets without the owner's consent is still possible. Street sees this as the major barrier to an MSCI upgrade.

"The regulations are being crafted to perfect the DvP model with a goal to secure the upgrade to emerging market status. MSCI wants a DvP environment; it is not demanding short selling," he says.

One other major sticking point concerning the possible upgrade is the issue of foreign ownership. The current limits on foreign ownership in markets such as Qatar, where the limit stands at 25 per cent, will have to be addressed before an upgrade is given.

Current market

All the markets in the Middle East use a beneficial ownership system, securities are held in the name of the ultimate investor and execution on exchange is undertaken by a member of the market - a local broker. Brokers can't take a proprietary position in the market.

The markets across the Middle East are dominated by local retail investors with Saudi Arabia being the largest market in the region. Currently Tadawal, the Saudi Securities market, is only directly accessible to Gulf Co-operation Council investors.

"Non GCC investors can only obtain Saudi exposure through swaps and other synthetic products. Saudi is currently reviewing this foreign investor rule. The region remains hopeful that the Saudi market will be opened for foreign investors to participate directly in the near future," says Street.

Recently there were suggestions of insider trading at the ADX because hours before an announcement that two of the emirate's biggest real estate developers would merge into a $15 billion property titan, the shares of Aldar Properties and Sorouh rose in tandem by 7.9 per cent to Dh1.22 (33 cents) each.

The CEO of Abu Dhabi Securities Exchange, Rashe Al Baloushi, stated that the ADX carries out daily routine checks on all share trading activities and can detect any instance of share-trading violations.

One industry insider says: "Custody is now regulated actively. Kuwait and the UAE will suspend stocks if there is failure to report." There is very solid management of the markets one motivation being to attract foreign investment.

Regulate it and they will come

The MSCI Emerging Market index is used as a benchmark by fund managers, and can result in billions of dollars worth of extra liquidity for markets that are reclassified. However, as Lewis points out, "all the usual suspects" are already in the Middle East and have large clients. He says that national players will look to become a regional presence and hope to eventually become an international force.

EFG Hermes are a dominant local broker in the region however, other domestic players may need assistance from established global names.

"Domestic players won't necessarily have the experience or infrastructure and will look to partner with global players. As securities lending starts you might find names becoming active that are familiar out there but not here [in London]," says Lewis.

According to Phil Gandier, head of transaction advisory services at Ernst & Young MENA, there are still regulatory issues that deter foreign investment in the region. "The regulations are a bit opaque," he says. "Governments could change laws quickly. You would have a broad kind of principle as a law, but detailed regulations weren't there. It was up to the employees working at the applicable regulatory body at the time to decide how they wanted to implement or interpret that law."

It seems that once the Middle East clarifies its regulations and eventually gains the MSCI upgrade, there are almost limitless possibilities for the region. If the area can have a prolonged period of political stability, securities lending will grow with an influx of international players. **SLT**

Tuning in

Data Explorers' Will Duff Gordon tracks the developments in the television manufacturing market

MARKET PERSPECTIVE

Manufacturers of televisions and peripheral services like set-top boxes have seen a rise in short interest as their products become commoditised and they struggle to stay relevant in the face of competition from streaming devices.

A new focus

Television is the new battleground in the race for global tech dominance as i-enthusiasts impatiently await Apple's foray into the market. Licking their wounds from the lukewarm reception and low take-up of 3D TVs, manufacturers are focusing on internet connected 'Smart TVs' that deliver streaming content and offer social media connectivity, all in a bid to escape the growing commoditisation which has plagued producers' margins in the last few years. Despite this, we see an uptick in short interest in some TV manufacturers as well as the companies which make set-top boxes and peripherals which risk being made obsolete by new technologies.

Producers

Television manufacturers are reeling after misjudging customer expectations and have been forced to aggressively discount prices in order to shift built up inventory. This has led to a spate of losses across the industry, most notably by Sony, which has reported losses in its TV business for seven years and Sharp Electronics booking a $2.6 billion net loss for last year.

According to a recent report by research firm iSuppli, TV shipments into the United States are bound to fall for the first time ever this year, further compounding the pain

We have seen several TV manufacturers see high short interest off the back of last year's dismal performance led by Japanese firm Pioneer. The firm has seen short interest surge this year from two per cent of total shares in January to 12.8 per cent (see chart) - nearing all time highs seen back in 2006.

Hong Kong based Skyworth Digital also sees high short interest with six per cent of its shares sold short, up 50 per cent since the start of the year, making it the second most shorted TV manufacturer. South Korean firm LG Electronics rounds out the list of highly shorted shares with 4.5 per cent of its shares shorted, over twice the level seen in January.

Manufacturers are now aiming to add smart features in order to entice customers to upgrade their sets. This should ensure long term revenue streams for successful companies as televisions become a storefront for the manufacturers to sell content long after the initial sale. Leading firms in the field include Samsung and Sony. Both these firms are heavily diversified and see low short interest at less than one per cent of shares out on loan.

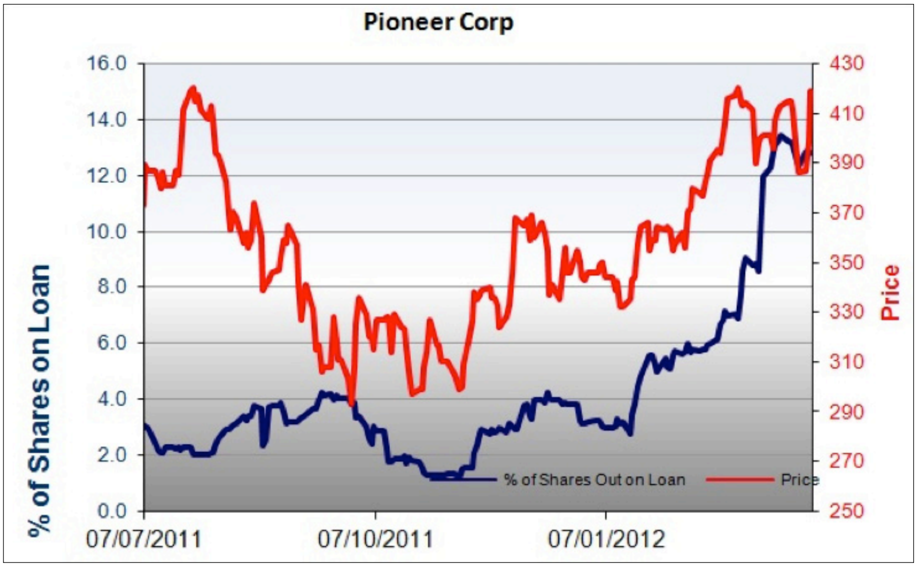
Firms missing out in this industry shift risk seeing their products become a shell to carry third party smart TV content from platforms such as Google TV and Apple TV.

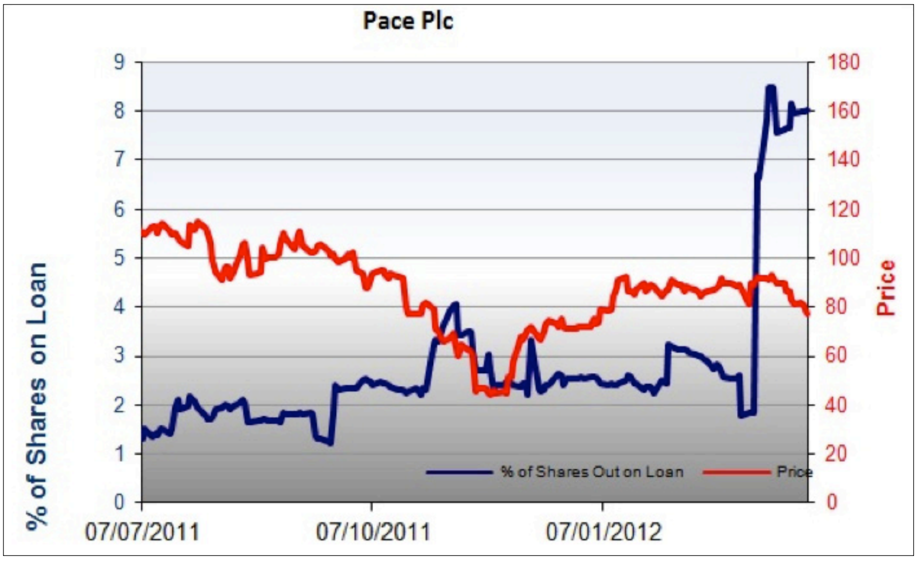
Other potential losers form this industry shift are digital video recorders (DVR) and set-top box manufacturers whose features are being embedded into new smart TV Systems. Short interest in Pace has quadrupled to eight per cent of shares in recent weeks as the shares have fallen 20 per cent (see chart).

We however see low short interest in EchoStar with less than half a per cent of shares outs on loan. Ubiquitous DVR firm Tivo has seen shorts cover in recent months, with short interest falling from 10 per cent of shares outstanding to 3.2 per cent.

The world of TV, like any tech sector is evolving towards a model in which hardware becomes increasingly commoditised with revenues and profits being drawn from high margin apps and streaming content purchased through a digital marketplace.

Short sellers are looking to target companies that fail to adapt to this shift. **SLT**





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2nd Annual CASLA Conference on Securities Lending

Location: Toronto
Date: 09 May 2012
www.canseclend.com

2nd Annual CASLA Conference on Securities Lending.

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Securities Financing Forum New York

Location: New York
Date: 22 May 2012
www.dataexplorers.com

Clearly the market has changed and the pace of change has increased substantially." This message resonated loud and clear during the 2011 Securities Financing Forum season.

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Collateral Management USA

Location: New York
Date: 05-06 June 2012
www.americanleaders.com

Collateral Management has become a hot topic with growing regulatory pressures to reduce counterparty risk, improve transparency in the markets while the the importance of centralized clearing and efficient collateralization process has never been greater. This meeting will look at how collateral management is evolving and discuss the current and evolving landscape and understanding the implications.

04 July

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ISLA 21st Annual International Securities Lending Conference 2012

Location: Madrid
Date: 19-21 June 2012
www.isla.co.uk

Organised exclusively by market participants, this conference is the only event of its kind in Europe attracting in excess of 500 attendees such as senior market participants from banks, broker dealers and asset managers, beneficial owners, hedge fund managers and securities regulators.

Industry appointments

Greg Wagner, global head of equity prime services has resigned from RBS to pursue a new opportunity.

Greg was with the bank for 16 years through the acquisition of ABN AMRO and held several roles at the bank throughout his career prior to taking the global role of head of prime in London in 2009, including regional head of equities for RBS Americas, and head of US securities finance (fixed income and equity product) for ABN's US broker dealer.

Claire Gliddon and **Valentina Crovato** have joined the securities lending team at BNP Paribas.

Gliddon has been appointed senior equity lending trader, joining from Citigroup, where she held a similar role. Crovato, who has been appointed senior fixed income trader, moves from LCH. Cleamet, where she was responsible for the RepoClear clients. She also has trading experience, from her time at Mitsubishi UFG.

The appointments are part of BNP Paribas' strategy of expanding the team, although one trader did leave the company last year. Both women will report directly to Phil Shepley, global head of trading for securities lending.

"I'm delighted to welcome both Claire and Valentina to the team," said John Arnesen, head of agency lending product at BNP Paribas Securities Services. "Both have a wealth of experience - Claire has over 10 years trading experience at both Citi and at ABN Amro Mellon, while Valentina brings a view of the other side of the market, which gives us a holistic view of the requirements of borrowers, something that is as important as the needs of our clients.

"The market is fragmented, and the requirements of one counterparty to the next can be very different, which means we need to respond accordingly. Our new hires will complement the service we can offer."

J.P. Morgan has announced **Lou Lebedin** as its global head of prime brokerage.

Lebedin had been acting as J.P. Morgan's interim co-head of the unit since 2008, when J.P. Morgan bought Bear Stearns. The 54-year-old previously ran Bear Stearns's prime brokerage unit, and has helped J.P. Morgan expand its prime brokerage business overseas.

Andrea Angelone, J.P. Morgan's other interim co-head, will take charge of equity treasury, with Lebedin reporting to John Horner, head of equity and fixed-income financing.

Deutsche Bank has lost two members of its group executive committee after rumours over the direction of the asset management business.

Asset management head **Kevin Parker** will step down from his role as a member of the bank's committee this spring. The change will come into effect on May 31, the date of Deutsche's annual general meeting.

Concerns have been raised internally over Deutsche Banks' talks with Guggenheim Partners regarding the sale of a part of its asset management business.

Parker joined Deutsche in 1997 and has led the asset management team since 2002. Also to step down from the committee is **Pierre de Weck**, head of private wealth management.

However, Deutsche is expanding the size of its executive committee to 18 members from the current 12. **Jürgen Fitschen** and **Anshu Jain**, co-chairmen of the management board and the group executive committee of Deutsche Bank, said: "By expanding the Group Executive Committee, we are bringing together a broad team of leaders from our businesses, regions and infrastructure functions at one shared table. This new generation of long-serving managers reflects the bank's growth and evolution over the past decade."

BTIG Ltd has hired **Matthew Cyzer**, formerly of Goldman Sachs, to head its equities sales and trading group. Cyzer will serve as president and head of European equities for BTIG's London offices.

At Goldman Sachs, which he joined in 2002, Cyzer was head of European equity sales and trading. Before his tenure at Goldman, he was Deutsche Bank's head of European equity sales and trading.

BNP Paribas Securities Services has opened new offices in Colombia and Chile, and acquired the relevant hires, as part of its expansion into Latin America.

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The strategic move into Latin America was announced by chief executive of BNP Paribas Securities Services Patrick Colle last year. Colle said in February 2011 that he hoped to develop services for global clients, adding this year: "Launching our services in Colombia and Chile is a key milestone in realising that ambition." Colle also commented that BNP Paribas' experience with multi-country exchanges such as Euronext gave it a head start in the Latin American region.

Claudia Calderón formerly of Cititrust Colombia, has been appointed head of BNP Paribas' Colombia office. **Emiliano Martínez**, joining from the BNP Paribas group's asset management division, will oversee the bank's business development efforts in Chile, reporting to Alvaro Camuñas, regional manager for Spain, Portugal and Latin America. **SLT**