SLT SECURITIES**LENDING**TIMES

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Investors devalue the importance of prime brokers

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A survey has found that less than a fifth of investors believe that prime brokers are the most important hedge fund service provider.

Due diligence firm Corgentum Consulting's survey revealed that 17 percent of respondents felt this way.

"After the Lehman Brothers disaster, many investors placed significant importance on the role of prime brokerages," said Corgentum Consulting managing partner Jason Scharfman.

"The survey data indicates a potentially dangerous shift in the opposite direction signifying that investors have reverted to their old ways and are devaluing the role of prime brokers."

The survey also found that the biggest concerns that investors have about hedge fund service providers are capital loss (35 percent) and reputational risks (32 percent).

Investors were found to be increasingly reliant on administrators to perform asset verification (48 percent) and are still concerned with valuation (24 percent), while continuing to minimise the importance of administrator functions, such as cash management (14 percent) and fund governance (7 percent).

"This highlights a surprising disconnect between the operational realities of hedge fund investing versus investors' beliefs because administrators are hired and compensated by hedge funds and not investors," Scharfman added.

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Clearstream's June 2012 figures show increase

Post-trading services provider Clearstream of the Deutsche Börse Group has released its June 2012 figures, revealing that the monthly average outstanding for global securities financing services reached €598.3 billion.

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J.P. Morgan integrates teams ahead of regulatory reform

J.P. Morgan has integrated the teams responsible for brokering client derivatives and securities trades with those that look after the back office aspects of those trades in response to regulatory reforms.

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Clearstream's June 2012 figures show increase

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The combined services, which include triparty repo, securities lending and collateral management, collectively rose 6 percent above the June 2011 figure of €565.1 billion.

Investors devalue the importance of prime brokers

Continued from page 1

The survey respondents represented a variety of hedge fund investors, ranging from ultra-high net worth individuals and family offices to fund of hedge funds, pensions and endowments.

Changes in the hedge fund/prime broker relationship were also examined by a Celent study in 2011, which argued that the shifting relationship should warrant an evolution of the IT infrastructure of the prime broker.

"The multi-prime broker model that was slowly being adopted before 2007 has gained momentum and is now considered best practice within the industry," said a statement from the firm.

Axel Pierron, senior vice president at Celent and author of the 2011 report, stated that the market is still dominated by single asset solutions, but the movement is clearly toward a multi-asset prime brokerage platform supporting clients' expansion into new asset classes.

"Complete cross-product post-trade processing is where the industry needs to go to. Prime brokers' customers are expecting them to carry real time processing and statuses, intraday business controls, and real time settlement and position status. This is obviously challenging in a multi-asset and multi-market environment."

Pierron added that additional tools are needed in the risk management context to accurately compute a portfolio's exposure and other risk measures, so the platform should not be limited to providing a consolidated view of positions and integrated reporting.

"The concern about counterparty risk has not disappeared, but the leading prime brokers seem to be recovering market share due to superior balance sheet and level of sophistication. The drive that benefited the mini-prime providers has clearly slowed down. However, the positions are not set in stone. With fierce competition among providers in this space, there is a clear window of opportunity for financial institutions."

J.P. Morgan integrates teams ahead of regulatory reform

Continued from page 1

The consolidation became effective at the end of June.

As early as the end of 2012, the US Dodd-Frank Act could push many OTC transactions into clearinghouses, while Basel III capital rules, which will be implemented at the beginning of 2013, could force firms to begin posting margin upfront on trades.

Before the consolidation, J.P. Morgan Worldwide Securities Services handled securities clearing, but some OTC derivatives or swaps clearing took place within the investment bank, which was already acting as broker on cleared futures and options that were traded on exchanges.

J.P. Morgan's brokerage services for customer trading are now combined with the group

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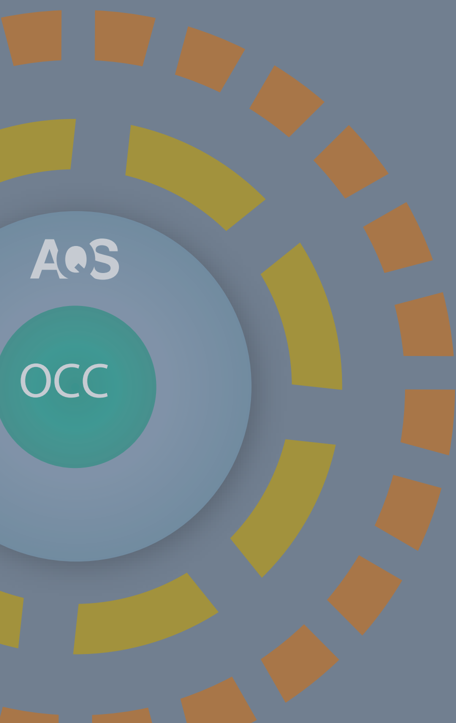

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that helps clients to source and manage assets that are required to fortify trades under the new rules.

It believes that combining three business lines into one will make it more efficient to trade under the new rules. This will benefit existing clients and attract new ones.

Emily Portney, who is already the global head of futures and options within J.P. Morgan's investment bank, will lead the consolidated business lines in an expanded role that also has her overseeing clearing and collateral management.

Iowa brokerage Peregrine files for bankruptcy

Peregrine Financial Group in Iowa (PFG) has had its accounts frozen after the National Futures Association (NFA) accused the brokerage of misrepresenting bank statements.

The NFA said that it suspected PFG had only $5 million of customer funds in a deposit account, rather than the $225 million that it had previously claimed.

PFG has now filed for Chapter 7 bankruptcy. The filing showed that on 3 July PGE founder Wasendorf gave power of attorney to his son, Russell Wasendorf Jr.

Finadium surveys asset managers

Securities and investment research firm Finadium has released a report that identifies current concerns and future trends across custody, securities lending and collateral management.

The report is based on a survey of asset managers in North America and Europe. Finadium interviewed asset management executives who are focused on the custody, securities lending and collateral management markets.

The survey results are quantitative, including data on fee splits and collateral management fees, and qualitative, focusing on how managers evaluate the success of their asset servicing and securities finance activities.

In the report, Finadium looks at securities lending and evaluates the importance of indemnification to asset managers and the effect that it may have on revenues and programme participation.

It also looks at the value of CCPs in securities lending, the importance of cash versus non-cash collateral and perspectives on using a custodian versus a third-party agent lender.

Finadium also examines changes in the collateral management space, including the importance of collateralising previously uncollateralised OTC derivative contracts such as FX forwards, the effects of money market fund reform and diminished supply in repo markets.

The survey found that asset managers feel the effects of regulatory change "whether it is targeted towards their industry directly or whether it comes indirectly through bank regulation".

"Basel III, Dodd-Frank and Solvency II are the headlines that impact the asset management business, but within these large new categories are a host of small rules that continue to undergo adjustment by national regulators and central banks."

"The uncertainty of the specifics, including US funds registering as a Commodity Pool Operator or how taxation will affect securities lending demand, leads to a wait and see approach for decision making until decisions need to be made with great speed."

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Tullett Prebon to offer anonymous trading with prime brokers

Inter-dealer broker Tullett Prebon has a beta release of tpSPOTDEAL, a spot FX platform.

The company has used Integral Development Corp, which supplies FX trading solutions and services, as its chosen technology provider.

tpSPOTDEAL is designed to offer simple, straight forward, reliable execution and will offer anonymous trading with a prime broker as central counterparty for all trades.

The platform will have 10 liquidity providers that will make a two-way price resulting in liquidity on the bid and offer regardless of the market conditions.

James Potter, managing director of treasury at Tullett Prebon, said: "[The platform] has been specifically designed to enhance our existing spot FX business model for our existing clients conducting wholesale transactions. Importantly, access to the platform will be free for the end user."

Harpal Sandhu, the CEO of Integral Development Corp, said that tpSPOTDEAL will be a significant platform in the wholesale FX market, due to it meeting the needs of the customers, and its current availability.

Short selling has implications for SEB and EMCF

The European cash equities clearing company EMCF published a letter to clients on short selling.

"We would like to bring the implementation of the EU regulation on short selling to your attention. The parts relevant to our services relate to the implementation of a daily fail fee regime and to comply with a pre-described buy-in procedure.

"All details of these components are described within article 15 and 16 of mention regulation and needs to be effective as per 1 November 2012."

The EMCF is a central counterparty (CCP) for trades done at Nasdaq OMX and Burgundy in Denmark, Finland, Norway and Sweden.

SEB commented: "As EMCF usually follows the incumbent CCP deadlines when it comes down to buy-in rules for the variety of market segments we are servicing, we have changed our regulation buy-ins for the IE, UK and IDR segment in accordance with the publication from LCH.Clearnet last month.

"This new regulation buy-in comes into force as of 30 July 2012. Since EMCF is the incumbent CCP for the Nasdaq OMX markets in Denmark, Finland and Sweden, we will set out proposals following discussions with respective markets and securities dealer associations. We expect to be able to share more details with you and on the new fail fees, by the end of August."

Goldman Sachs cuts back prime brokerage in Japan

Goldman Sachs is paring down its Japanese prime brokerage business after the planned exit of unit head Toru Okabe.

Okabe will leave the bank by the end of the month, after working in Goldman Sachs's prime brokerage section since 2000. He joined Goldman Sachs in 1997 from Nomura Securities, and was appointed managing director of the global securities service section of Goldman Sachs Japan in 2004.

An unspecified number of staff and operations will be shifted to Hong Kong, as the bank focuses its prime brokerage efforts there. Goldman Sachs also moved its Japanese stock lending desk from Tokyo to Hong Kong in May, and plans to move its annual Asian hedge fund conference from Tokyo to Singapore.

The shift away from Japan is thought to be due to continued deflation in the economy, as well as a drop in the local stock market. Goldman Sachs has been reported as Japan's largest prime broker, with 17 mandates and $2.7 billion in assets.

Maple Financial selects SunGard's Apex

Financial services provider Maple Financial Group has chosen SunGard's Apex securities finance solution for its operations in Frankfurt, London, Toronto and New Jersey.

Toronto-based Maple Financial has been a SunGard customer since 1995. Its principal operating subsidiary is Frankfurt-based Maple Bank. The bank has a branch in Toronto, and owns regulated broker dealers in London, New Jersey and Toronto.

Maple Financial is engaged in customer business, carry and proprietary trading, securities finance and treasury activities.

The migration to Apex supports Maple Financial's plans to combine its global equity and fixed income securities lending/borrowing and repo business, according to SunGard.

Maple Financial selected Apex because of its consolidated position management functionality and its ability to support securities lending activities across the enterprise.

James Leach, the COO of Maple Financial, said: "We have had a strong relationship with SunGard since we implemented its Global One solution 16 years ago. Apex provides the enterprise securities finance platform that we require to expand our business as well as supporting a cost effective implementation within our tight schedule."

"The securities finance business is constantly evolving, and SunGard's more than 25 years of experience in this area is helping financial institutions effectively manage their securities finance operations across geographies and assets," added Craig Costigan, executive vice president and general manager in SunGard's capital markets business.

"Apex gives Maple Financial Group and other customers the real-time, global control and flexibility that they need to expand their business."

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Clearstream gains traction in the Middle East

Abu Dhabi Commercial Bank (ADCB) has joined Clearstream's triparty repo service as a new cash provider.

The first trade was executed in Q2 2012 with Commerzbank Dubai. ADCB accepts Middle Eastern securities as collateral for these trades.

The National Bank of Abu Dhabi has also settled the first loan transaction through Clearstream's Automated Securities Lending (ASL) offering.

Stefan Lepp, a member of the executive board and the head of global securities financing at Clearstream, said: "The Middle East continues to be one of the most dynamic regions in the global economy and Clearstream is committed to support its evolution. At the same time, our triparty repo offering is gaining traction and we welcome ADCB as a cash provider."

Kevin Taylor, treasurer at ADCB, said: "Triparty repo is gaining traction in the Middle East and ADCB is keen to be an active participant and contributor to this trend. Our first Middle Eastern triparty trades are another example of how ADCB manages its liquidity by using all available and best in class techniques."

"We continue to strengthen our relationship with Clearstream and have successfully tested the securities lending offering," added Paul Voce, the global head of repo at the National Bank of Abu Dhabi. "Securities lending is an integral part of any liquid repo market and we are leading the way to further facilitate these markets in the Middle East."

BoE: synthetic ETFs are opaque

Synthetic exchange-traded funds (ETFs) are "opaque", according to the Bank of England's June report on financial stability.

The BoE's report is produced twice a year. It provides an assessment of the stability of the financial system, and advises on policy actions to reduce and mitigate risks to stability.

The report said that—on top of synthetic ETFs—collateral swaps, structured notes and bilateral term repos also "appear to be particularly opaque".

It added: "These opaque instruments may amplify stress within the financial system, by acting as drains on collateral or liquidity."

"The risks due to opacity are higher for instruments that have complex structures and where little meaningful information is available. The most complex funding structures include those where credit risk assessment requires models and counterparty stress testing, liquidity risk assessment requires behavioural modelling and risk assessments are blurred by many layers of interconnections."

"The funding structures with the least meaningful information include those where disclosure is poor, third-party scrutiny is unavailable or partial and historical experience is limited."

Wolfson brothers agree to $14.5 million settlement

Brothers Jeffrey and Robert Wolfson, who were accused of naked short selling by the US SEC, agreed to pay $14.5 million to settle the case against them.

An investigation found that the options traders failed to locate shares that were involved in short sales, and failed to close out the resulting failures to deliver.

"The [Wolfson brothers] attempted to game short-selling restrictions in order to win millions of dollars in illegal profits. This settlement deprives them of those profits and more," said Andrew Calamari, the acting director of the US SEC's New York regional office.

The Wolfson brothers made approximately $9.5 million in illegal profits from their naked short selling transactions, it is alleged. Reports from the US SEC confirmed that Jeffrey Wolfson, 59, conducted naked short sales while working as a broker-dealer, and later as the principal trader at a Chicago-based brokerage firm no longer in business.

Robert Wolfson, 57, made his illegal sales while trading in an account at New York-based broker-dealer Golden Anchor Trading II, which also was charged by the US SEC and agreed to the settlement. Jeffrey Wolfson generated approximately $8.8 million in net illicit trading profits, and Robert Wolfson and Golden Anchor made $700,000.

Jeffrey Wolfson is required to pay $13.4 million, which includes a $2.5 million penalty. Robert Wolfson and Golden Anchor are required to collectively pay $1.1 million, and settled the US SEC's administrative proceedings without admitting or denying the findings.

Jeffrey Wolfson is also suspended from working in the securities industry for 12 months, and Robert Wolfson is suspended for four months. Golden Anchor has been censured, and along with the Wolfson brothers, is subject to a cease and desist order from committing or causing violations of the short sale rules that they violated.

BlackRock's Q2 2012 revenue dips

BlackRock's Q2 2012 revenue of $2.2 billion decreased $118 million from $2.3 billion in Q2 2011, partly due to its investment advisory, administration fees and securities lending revenue of $2 billion decreasing from the Q2 2011 figure of $2.1 billion.

"Higher revenues from fixed income products, predominantly iShares, were more than offset by lower fees from equity products due to market-driven reduction in average equity AUM," said the firm in its financial statement.

Securities lending fees were on their own worth $157 million in Q2 2012, a leap from $134 million in Q2 2011.

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A risk of no return

SLT talks to Jemma Finglas of BNP Paribas Securities Services about client demands, alternative routes to market and the importance of risk and return

MARK DUGDALE REPORTS

How are the securities lending and repo markets looking in the different regions?

In Europe, the potential threat of tax harmonisation is becoming more tangible due to changes in withholding tax. This is shifting the focus from the more traditional countries to Eastern European, Latin American and Asian markets. Access to these markets often requires the use of alternative products.

Changes to collateral acceptability policies for various funds have also had an impact on revenue-generating efficiency, which has led to a squeeze in supply.

A wider pool of supply is of paramount importance, as is the need to be able to generate revenue via various product types, such as stock loan, repo or equity swaps.

On the repo side, regulations in general (but especially Basel III), plus high usage of collateralised derivative products, have fuelled activity in the European repo markets. The core countries, such as France, Germany and the Netherlands, are experiencing substantially higher returns, while generally speaking, the peripheral countries are seeing special interest on specific issues only.

Currently, there are many contradictions in the cash market. As the European Central Bank reduced its deposit facility to zero, there has been a significant reduction in bank borrowing of short-term cash from money market funds due to the zero or even negative yields. As a direct result, we see that on the stock lending market many borrowers are very willing to optimise their cash by using it as collateral.

The Asian fixed income market looks to be gaining ground in terms of interest and volume, but the story there is not regulatory driven, so interest is general collateral-based, but volumes are increasing locally.

While both markets (equity and fixed income) have been affected by reduced demand on the borrow side, lenders with strong balance sheets and ratings are the players capturing the majority of the activity taking place.

How are client demands changing the solutions that you offer?

From the borrowers perspective, we see increased interest in financing term trades via central counterparties in order to free up the balance sheet for other business.

Term trades are generating lucrative returns, but there are many beneficial owners who do not want to be directly exposed to the collateral downgrade risk from their perspective, so they want to lend via a principal programme that absorbs the risk on their behalf.

Again on the client side, we are seeing a symbiotic relationship emerging where we can both finance otherwise idle assets and generate alpha on the high quality liquid assets of their portfolios via our various programmes. Clients are certainly more proactive in coming forward or being open to alternative trading ideas to meet their internal requirements.

Across the board, we are also experiencing an increased adherence to and focus on corporate governance. Risk and operational processes and procedures are being reviewed in detail and tightened where possible. This is having a direct impact on the way in which relationship management now interacts with clients on a regular basis—operational and trading performance is of equal importance. Increased regulatory requirements on reporting are putting pressure on providers to make specific IT enhancements to ensure adherence.

We are seeing a lot of interest from all market participants in alternative routes to market from a product and programme perspective. In the interest of generating quality returns, clients need to partner with institutions that can offer a wide variety of products including stock loan—term/open, repo and equity swaps.

We have been trading evergreen, bullet and extendable trades for a number of years, but they are becoming more and more popular as regulatory changes come into force.

How popular are equity swaps proving with your clients?

Our clients are opening up to generating additional returns through new structures and markets such as Latin America, Eastern Europe and Asia.

Having the ability to meet this request in the form of the various products and routes to market that we offer is proving beneficial. Clients want to partner with a provider that can generate additional return via these solutions, but not necessarily be exposed to them directly.

Equity swaps are one of the tools that can be used to facilitate this need. The evolving complexity of our markets in general has meant that we have had to expand our product range within those programmes over the past three to four years. As far as we can see, this is set to continue.

As solutions and products change, how are you working to keep returns at attractive levels for clients?

We have increased and reinforced the communication that we have with clients about new regulation and the effects that it is having on the market in terms of revenue-generating capability. In our experience, clients respond well to increased transparency about various types of trades, which can be utilised to ensure that returns remain attractive to them. As long as clients are aware of the risk return profile of a trade, the more inclined they are to participate.

Principal and agency routes to market allow clients to diversify portfolio, counterparty and trade-type risk by utilising all programme and product options that are available to them.

By maintaining a flexible and varied product offering, we can offer attractive and sustainable returns.

How are regulatory reforms affecting your clients and the demands that they place on you?

Regulatory reforms are extensive and fast moving. To this end, it is important that we stay ahead of the game on behalf of our clients as well as ourselves. Interpreting the constant flow of papers is an important role that we play for our clients and they certainly expect us to provide guidance in this arena.

Restrictions with regards to what is lent, how it is lent, and what is accepted as collateral, plus additional reporting requirements, are only some of the elements that need to be reviewed and understood correctly by all market participants.

Having a broad range of institutional types that form part of our programmes means there are numerous clients that are exposed, or will be exposed, to many changes over the coming months.

It is in our interest, and that of our clients, to ensure that we remain focused and ahead of the game in terms of interpreting and preparing for any of these changes. Our clients need to know that the environment in which they lend is fully understood by the agent lending on their behalf or the direct borrower of their assets.

What is proving more important at the moment—returns or risk—or is it possible to have both?

It is clear clients want to be assured that their assets are being traded in a low risk environment and that their parameters with regards to collateral and counterparty exposure are being respected.

Nevertheless, in a difficult environment, generation of returns remains at the top of the agenda globally, so in effect, both are as important as ever.

The safety and protection of client assets is at the heart of our lending programmes, but we also realise that they expect quality revenue generation and innovation in terms of how this can be done. This is something we can ensure, as we structure trades around a number of variables at our disposal, so it is possible to have both, but not in the traditional ways in which businesses were run in the past. **SLT**

Jemma Finglas
Head of business development—equity finance and repo
BNP Paribas Securities Services

Having the ability to meet this request in the form of the various products and routes to market that we offer is proving beneficial. Clients want to partner with a provider that can generate additional return via these solutions, but not necessarily be exposed to them directly

Safe and sound in South Korea

An export slump has hit South Korea's economy, but the country is hopeful that focusing on stability will get it back on track, as SLT finds out

MARK DUGDALE REPORTS

The economies of Asia are not immune to the financial problems facing Europe and the US. The Bank of Korea cut South Korea's interest rate by 25 basis points—from 3.25 percent to 3 percent—on 12 July in response to the country's economic growth weakening "more than originally anticipated, with the rates of growth in exports and domestic demand remaining at low levels."

In a statement, the Bank of Korea added: "[We anticipate] that the domestic economy will sustain a negative output gap for a considerable time going forward, due mostly to the increase in euro area risks and the sluggish economies of its major trading partners."

Many Asian countries have export-orientated economies that rely on the business of trading partners such as the US and countries in the EU. With those economies struggling, and growth in emerging markets continuing to slow, "mostly on sluggish exports", the Bank of Korea decided to act to ensure stable economic growth.

Name of the game

Ensuring sound economic growth is something that is reflected in the country's attitude to securities borrowing and lending (SBL). The Korea Securities Finance Corporation (KSFC) was founded in 1955 on the basis of what is now known as the Capital Market Act. This organisation was created so that it could contribute to the stable development of the South Korean capital market "by supplying funds and securities", says TJ Hong, who is in charge of the SBL operating business at KSFC.

"Now we are playing a distinct role in the SBL market not only as a intermediary institution but also as a big player—KSFC usually lends some hard names from margin finance to the market."

Similarly, the Korean Securities Depository (KSD) was established when the South Korean securities market developed rapidly in the 1970s with a surge in the number of listed companies and in trading volumes. This created a need for "efficient and safe securities settlement transactions", says Emily Kim, an assistant manager in the SBL team at KSD.

"To meet the market needs for a secure deposit system, Korea Securities Settlement Corporation was established in 1974 under the Securities and Exchange Act the [Capital Market Act]."

KSD is first and foremost a central securities depository (CSD). Kim says that it aims to be as competitive as leading international CSDs. It wants to "work with them as partners, based on international-level expertise and reliability accumulated through its role as the core infrastructure of domestic financial markets".

"[A]s a CSD with global standard services, KSD envisions itself as a hub linking Asia and the world and a partner rivaling global financial market participants," explains Kim. "In this respect, KSD is committed to provide competitive SLB intermediary services to our participants with global standards."

As an SBL intermediary, KSD provides a range of services. It acts as an intermediary and broker in transactions, it executes them, delivers and returns securities, manages the rights arising from loaning securities and manages collateral relating to transactions.

KSD finds lenders and borrowers and matches them to transactions, says Kim, and it manages collateral by "conducting mark-to-market on daily basis". She adds: "KSD manages rights arising from loaned securities, including right issues and payment of dividends, and bond interests as well."

There has been opposition to CSDs having the ability to carry out commercial SBL activities. Industry bodies and market participants have argued that CSDs should not be able to carry out SBL activities because it would be anti-competitive, as CSDs have a market-wide view that could allow them to identify long/short positions to their advantage.

But Kim says that KSD is the first intermediary institution to introduce SBL intermediary services to South Korea, so, "in that sense, KSD's history in SBL transactions is [South] Korea's history in SBL".

"KSD has an extensive network of lenders and borrowers so KSD can minimise the time and costs involved in searching for the securities fit for transactions. Also, by performing mark-to-market, margin call and periodically evaluating participants' credit status, KSD maintains secure SBL transactions and reduces risks."

Lenders and borrowers often use KSD's services because it guarantees transaction settlement. Kim says: "Upon occurrence of the non-performance of obligation, KSD is responsible to perform to the lender on behalf of the borrower who failed to perform its obligation—except for customised transactions. KSD may dispose of the provided collateral and purchase from the market the securities equivalent to the type and volume of the SBL securities."

"Then, KSD shall deliver or pay them to the lender. In the case where the collateral cannot be disposed of or where cash proceeds after the collateral disposal is insufficient, KSD shall take measures at its cost."

Keeping transactions secure is of the utmost importance to KSD. Its regulations specify the types of collateral that can be used. As of July, KOSPI 200 stocks, Korea treasury bonds, monetary stablisation bonds, corporate bonds, exchange-traded funds, certificates of deposit and cash can be used as collateral in SBL transactions.

Kim says: "Participants have requested for a wider range of collateral and KSD is planning to expand the range of eligible collateral to meet the rising market demand." **SLT**

Sec lending in Asia: conference preview

Bryan Camoens of IQPC talks to Martin Chen of ChinaTrust in advance of Collateral Management Asia 2012

ASIAN COLLATERAL

Martin Chen, vice president of ChinaTrust, will be evaluating growth in the Asian securities lending market and the effects of regulations at Collateral Management Asia 2012 in October. Bryan Camoens of IQPC and Chen provide SLT with a preview of the key topics.

The securities borrowing and lending environment in Asia Pacific is highly competitive, according to Chen. Touching on key regulatory changes, he observes that Basel III will encourage banks to consider central counterparties (CCPs) for OTC derivatives as a viable way of enhancing collateral management. He also identifies that, unlike Europe and the US, securities lending in the Asia Pacific region has great growth potential, particularly as trading volumes of OTC derivatives have been growing.

Bryan Camoens: The highly competitive nature of securities borrowing and lending means businesses in Asia have to constantly reassess their strategies in order to remain competitive. Why is this is the case and how do the best collateral management firms get this done?

Martin Chen: There are many challenges existing in Asian securities lending and collateral markets, although Asia is considered to be the fastest growing region in these areas. Markets in Asia are quite fragmented, and different markets have different regulations and practices. For example, in Taiwan, there is a competitive auction scheme in which the Taiwan Stock Exchange (TWSE) acts as the CCP, while there is a negotiated scheme (bilateral transactions) that is similar to international practice. Before entering a new market, borrowers and lenders need to do due diligence so that they can have a good understanding of the market. They also need to monitor a market very closely as regulations may suddenly be changed due to market volatility and have immediate impacts on both borrowers and lenders.

Camoens: What are the key developments in the securities lending markets in Asia?

Chen: Some countries in Asia have been more cautious about short-selling activities. For example, TWSE announced in November 2011 that the daily limit of total quantity sold per line of borrowed shares is amended from “3 percent of total outstanding shares” to “20 percent of the average trading volume of the previous 30 business days”. That significantly reduces the number of shares that can be borrowed for short selling, and so it has impact on market liquidity. Currently, borrowers of Taiwan equities can short sell borrowed shares one day before the shares are actually received. But TWSE may impose stricter controls and allow borrowers to short sell borrowed shares only on receipt.

In Hong Kong, market participants are required to report short positions to the Securities and Futures Commission (SFC) under the Securities and Futures Rules, which became effective on 18 June 2012. The new rules allow SFC to monitor short selling activities more closely.

I think that it is a good thing for regulators to improve market transparency. But regulators should think twice before implementing a policy to restrict or prohibit short sales, as it often harms market liquidities and cannot really solve the problem.

In addition, we are happy to see some markets, such as China, India and Malaysia, developing their securities lending markets. Especially, we can pay more attention to the development of a securities lending market in China. China launched its pilot programme for margin financing and securities lending in March 2010. Given the success of the pilot programme, it became standard in October 2011. The balance of securities lending reached RMB1.28 billion at the end of May 2012. On top of this, China Securities Finance Company was established in October 2011. It is the sole institution in China that can supply securities to lending brokers. We also heard that the regulator in China is studying the possibility of allowing Qualified Foreign Institutional Investors to participate in the securities lending market. **SLT**

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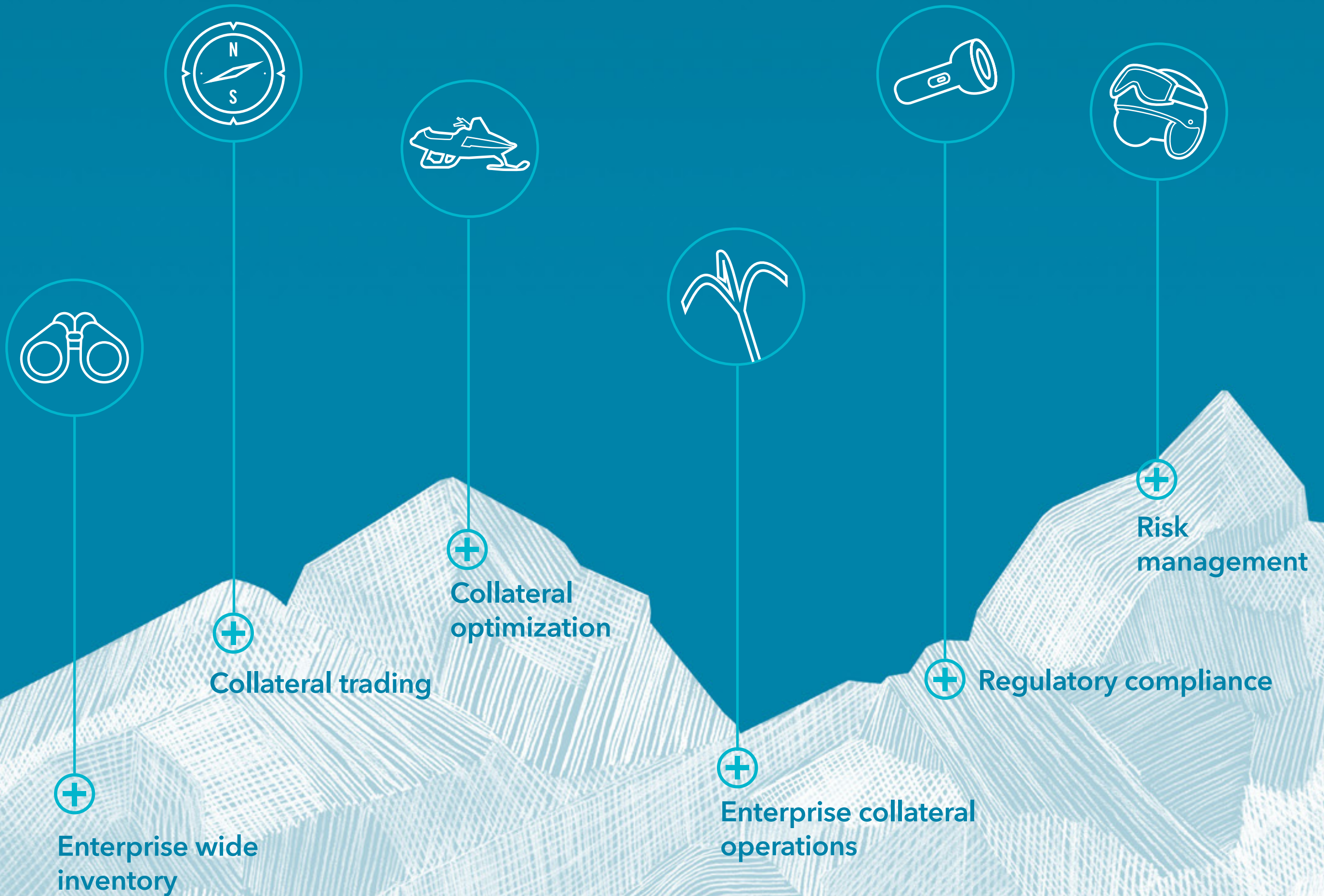

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Investors bearish on France

Short interest in France is up by more than a third year-to-date and there is further bearish sentiment in the ETF market, as Simon Colvin of Markit Securities Finance discovers

FRENCH EQUITIES

The last six months have been eventful for French investors. A hotly contested election set the tone for how France will address its structural fiscal problems against a backdrop of the regional currency crisis.

Investors have reasons to be skittish. Short interest in the reference CAC Index has jumped 43 percent year to date; exchange-traded fund (ETF) investors have also been showing equally bearish signs.

Divided sentiment

The CAC Index has relinquished all of the 10 percent gain that it experienced in the first three months of the year and currently only trades up 0.4 percent for the year. Short interest had stayed roughly flat in the first three months, only to pick up in March. The CAC constituents have an average of 4.8 percent of their shares out on loan in the wake of the dividend season.

Long-only funds have had a differing opinion of the French market, increasing their holdings year-to-date. Holdings of institutional investors who lend their funds have increased in CAC shares by 18 percent in the last seven months to 17.7 percent of the total shares in the index.

ETFs

French-focused ETFs have also seen some volatility. Looking at CAC-focused ETFs, which account for more than 95 percent of French-focused equity ETFs, the Markit ETF analytics team highlights a 4 percent fall in assets under management in euro terms.

However, funds that track the MSCI France index have fared better, experiencing a 19 percent growth in assets under management despite a 10 percent fall in the reference index.

Bond investors have also had a rough ride in the last few months. This came to a head when France's national debt was downgraded from "AAA" by Standard & Poor's. French Bond ETFs make up only €56.6 million of the more than €4.2 billion in ETF assets, a number that has fallen by more than 50 percent in the last seven months.

Perhaps most telling in investor sentiment towards France are the large inflows that have been seen by bearish funds that look to replicate inverse returns to those of the underlying index, therefore profiting from any price declines. So-called bear, short and ultra short funds have seen their assets under management jump by 19 percent to €317 million with the largest fund, Lyxor's XBear CAC 40, making up 60 percent of the total.

No squeeze risk

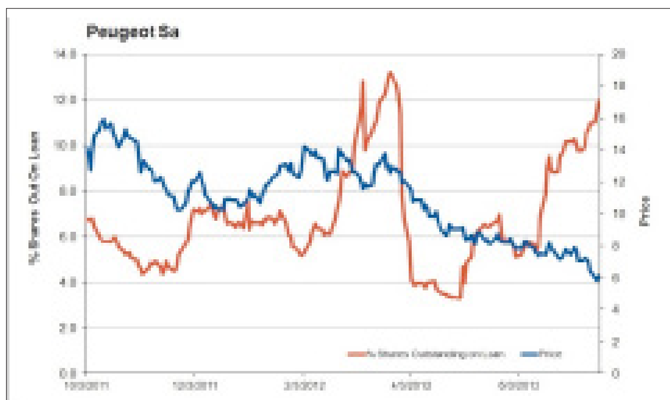
While all of the short ETFs achieve their CAC exposure through swaps, according to Markit, one would expect market participants to cover their exposure by taking positions in the physical market. Fees that are charged by lenders do not pose too much of an issue for market participants looking to hedge their positions as all 40 of the CACs constituents have the lowest possible cost to borrow score of one in the securities finance scale of one to 10.

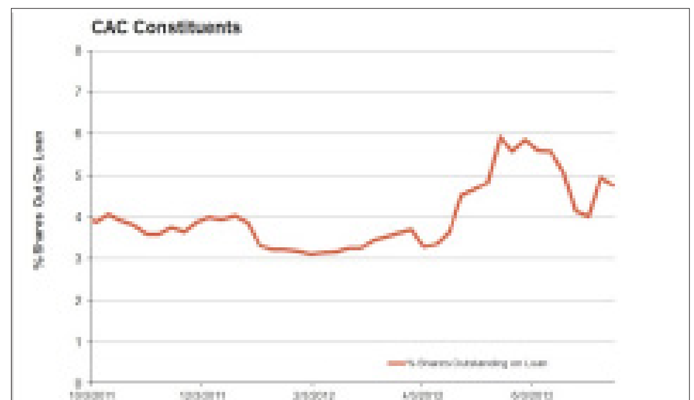
Limited demand to borrow

CAC shares are also readily available in the securities lending market with an aggregate utilisation of 11 percent. Looking at the most in demand names, however, and supply is starting to get tight for troubled carmaker Peugeot, which has seen its short interest jump by 87 percent in 2012. Utilisation stands at 71 percent of the 13.3 percent of Peugeot shares that sit in lending programmes.

On the supply side, Credit Agricole sees relatively low availability with only 5.5 percent of its shares sitting in lending programmes, making it the second least-widely held name—behind utility Electricite De France, which has only 3 percent of its shares available to lend.

Media agency Publicis is the most shorted name with 21.5 percent of its total shares on loan. The company recently acquired advertising agency BBH and is busy streamlining its portfolio by merging New York-based agencies. Demand to borrow is high at 55 percent of the available supply, with short interest having risen by more than a fifth in the last month. **SLT**





2012

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13th Annual Collateral Management

Location: London
Date: 20-21 Sep 2012
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Learn about the latest developments with regards to central counterparty clearing and its impact on collateral management, benefit from best practice to optimise your collateral management process. Hear the industry initiatives being undertaken by both funds and banks to ensure efficient collateral management, understand what the standardised CSA means for collateral managers and much more.

17th Annual European Beneficial Owners' Securities Lending Conference

Location: London
Date: 20-21 September 2012
www.imn.org

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6th Annual Collateral Managment

Location: Amsterdam
Date: 9-10 October 2012
www.finance.flemingeurope.com

Bringing together top experts from both the buy side and the sell side, this two-day conference will help banks, asset managers, insurance companies and collateral players to manage and optimise their collateral in this new market environment, mitigate risks, as well as embrace the technology that is required by increased complexities.

2nd Annual Collateral Management Asia

Location: Singapore
Date: 15-16 October 2012
www.collateralmanagementasia.com

As the financial world looks to improve transparency and reducing risk, collateral management is becoming an increasingly regulated entity. Custodians and clients alike scramble to align their business affairs with the new regulatory requirements. Through carefully planned presentations, panels and roundtable sessions, the conference will explore how industry players can optimise, protect and manage collateral.

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Industry appointments

Philippe Lopategui has resigned from his position as managing director and the head of equity prime services Europe in RBS's global banking and markets division.

He left the position on 5 July, after nearly four years with the investment bank.

Lopategui joined from Morgan Stanley, where he spent 21 years working within equity derivatives and equity finance.

Tammy Phillips has left Barclays Capital to join Athena Equity Finance as managing director.

Phillips joined Barclays Capital in September 2009 as a director in equity finance responsible for supply side relationship management.

Before that, Phillips held positions at Macquarie Bank and Morgan Stanley.

Cantor Fitzgerald & Co, a financial services firm, has recruited former Morgan Stanley employee **Saurav Chatterjee** as managing director in the equity capital markets division.

Based in Hong Kong, Chatterjee is responsible for leading the cash equity sales team and expanding the firm's equities trading business in Japan. He reports to Jarred Kessler, global head of equities for Cantor Fitzgerald.

Chatterjee served as executive director of client facilitation at Morgan Stanley, responsible for risk pricing and managing client portfolios, and as executive director and head of international sales and trading. Previously, he was associate director at Macquarie Securities in international sales and trading.

Cantor Fitzgerald is a capital markets investment bank serving the middle market with investment and merchant banking services, prime brokerage, and commercial real estate financing.

Brian Crowe, a non-executive director of Lombard Risk Management, has stood down after a career change.

Crowe joined the board in 2004 at the time of its IPO on AIM. He was the chief executive of global banking and markets at RBS until October 2008. Prior to joining RBS, he was head of derivatives at Chase Manhattan Bank in London.

Chairman Philip Crawford announced the departure: "Crowe, who has been a non-executive director of the company and has played a valuable role on the board since its IPO in 2004, has informed us of his wish to stand down as a director shortly after an appropriate successor can be found. He has had a major career change since joining the board and the board has accepted this wish."

Crawford also asserted that the group has made an "encouraging start to the financial year", adding that the trend towards more regulation was of obvious benefit.

"The company has had an encouraging start to the financial year with seven further contracts signed so far for the European Banking Authority's COREP programme in addition to the four signed at the very end of March."

Peter Herrlin will be the new head of the SEB's prime brokerage division in London.

Herrlin, who joined SEB in 2010, succeeds Atilla Olesen, who has transferred to Denmark to take up a position as head of Enskilda Equities, the Nordic investment bank division of SEB.

Prior to joining SEB, Herrlin established and developed the hedge fund sales function at Danske Bank's London branch. Before that, Herrlin spent eight years within equity sales and fixed income trading at, among others, Schroder Salomon Smith Barney and ABN Amro/Alfred Berg.

Catalyst Development has added **Steve Clements** as a managing consultant to its operations practice.

Clements previously worked as an independent consultant. He is a senior specialist in operations, treasury and liquidity, and cash and collateral management.

Deutsche Bank's global transaction banking (GTB) division has made several key appointments in its trust and securities services and cash management for financial institutions (TSS/CMFI) business.

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There will be four new TSS/CMFI region heads; **Gary Vaughan** will be the head for the Americas, **Mrugank Paranjape** for Asia, **Jose Sicilia** for Western Europe, and **Sriram Iyer** for Central Eastern Europe, the Middle East and Africa.

Mike Hughes has been appointed to the newly created role of global head of funds services, **Edwin Reyes** will be responsible for the newly combined depositary receipts and transferable custody receipts offering, and **Daire McCormack** has been appointed to the newly created role of global head of escrow solutions.

Federico Gregorio Ortega Gilly has become the head of securities lending at brokerage firm Vector Casa de Bolsa in Mexico.

He was previously the managing director of securities lending at Grupo Financiero Interacciones. **SLT**

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