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J.P. Morgan offers clients greater protection for collateral

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J.P. Morgan has extended its collateral management product to enhance the security and control that its clients have over excess collateral in response to the billion dollar trading losses that it announced in Q2 2012.

The bank made billion dollar losses on bad trades that came to light in its financial results. The losses led to more calls for regulators to reign in Wall Street and banks worldwide.

In July, it revealed a Q2 2012 net income of $5 billion, but there were "several significant items that affected the quarter's results—some positively; some negatively".

These included losses of $4.4 billion on the chief investment office's (CIO's) synthetic credit portfolio, as well as $1 billion worth of securities gains in CIO.

Speaking at the time, Jamie Dimon, chairman and CEO of J.P. Morgan Chase, said: "We have already completely overhauled CIO management and enhanced the governance standards within CIO. We believe these events to be isolated to CIO, but have taken the opportunity to apply lessons learned across the firm. The board of directors is independently overseeing and guiding the company's review, including any additional corrective actions. While our review continues, it is important to note that no client was impacted."

J.P. Morgan's additional collateral service will support its clients' listed derivative and OTC cleared activity, "allowing them to maintain excess collateral in a depository institution, J.P. Morgan Chase Bank NA, separate from their clearing broker, and have on-demand reporting and access to their account," said J.P. Morgan in a statement.

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JonesTrading partners with Conifer

The Conifer Group and JonesTrading Institutional Services have signed a partnership deal that will see Conifer Securities become a wholly owned subsidiary of JonesTrading.

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European repo market sidelined

The European Repo Council of the International Capital Market Association (ICMA) has released the results of its 23rd semi-annual survey of the European repo market.

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J.P. Morgan offers clients greater protection for collateral

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The bank said that the service will also allow clients to centralise the movement of collateral “as needed” to meet margin requirements across any clearing broker. This will reduce the time that is needed to reconcile accounts, giving clients greater operational efficiency.

“In addition to greater transparency and operational efficiency, this product enhancement is also designed to provide clients with increased confidence in how their collateral is managed,” said Emily Portney, head of agency clearing, collateral and execution (ACCE) at J.P. Morgan. “That peace of mind is important given recent events.”

ACCE is a part of J.P. Morgan’s corporate investment bank (CIB) and it includes teams from its worldwide securities services and investment bank businesses.

ACCE provides agency clearing, collateral management and execution for CIB clients. The business brings existing capabilities under one roof “in order to provide a holistic, end-to-end solution to J.P. Morgan clients across both the buy side and sell side,” said J.P Morgan.

The bank integrated the teams responsible for brokering client derivatives and securities trades with those that look after the back office aspects of those trades at the end of June.

Portney, who was already the global head of futures and options within J.P. Morgan’s investment bank, leads the consolidated teams in an expanded role that also has her overseeing clearing and collateral management.

JonesTrading partners with Conifer

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Los Angeles-based liquidity supplier JonesTrading provides institutions with block trading in securities and derivative products, capital markets services, independent research and commission management.

The Conifer Group, which is headquartered in San Francisco, provides middle- and back-office services to the asset management industry, including global fund administration, middle office, prime brokerage and trade execution.

The two companies have signed a letter of intent to seal the partnership. JonesTrading will acquire Conifer Securities and manage the business as a wholly owned subsidiary.

The Conifer Group will get an equity stake in JonesTrading and Jack McDonald, who is the Conifer Group’s president and CEO, will join JonesTrading’s board of directors. The deal will go through in Q4 2012.

The partnership is designed to provide clients of both Conifer Securities and JonesTrading with access to a broad set of capabilities. “JonesTrading will be able to offer prime brokerage services and the capabilities of JonesTrading’s growing advisor services business are immediately broadened,” said JonesTrading in a statement.

“The move furthers JonesTrading’s strategy to deliver a diverse range of quality high touch services to the growing hedge fund and investment advisor markets. The Conifer Group intends to leverage the strength of JonesTrading for its expanding fund administration and middle office services for hedge funds and investment managers.”

William Jones, chairman and CEO of JonesTrading, said: “As we looked at the landscape of growth opportunities for JonesTrading to serve our clients, we recognised the increased demand for a broader and deeper range of quality high touch services.”

“The businesses of JonesTrading and Conifer Securities are complementary and the arrangement between our firms will not only make our respective clients’ trading more effective but will add value to the entire investment cycle. Jack McDonald will bring to our board expertise, insight, and experience which are critical to effectively building our franchise through the capabilities we will now provide.”

“This partnership will provide a comprehensive and powerful set of tools that will enhance the superior trade execution services both firms currently provide,” said McDonald. “Separately Conifer will continue to grow its fund administration and middle office services through high quality service and leading technology, strengthening our market leading capabilities at an exciting time of industry expansion. I look forward to working with the JonesTrading team and contributing to the board’s continued business development initiatives.”

European repo market sidelined

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The survey, which measures the amount of repo business outstanding as of 13 June, sets the baseline figure for market size at €5,647 billion compared to the total figure of €6,204 billion that was reported in December 2011.

Based on a constant sample of banks, the market contracted over the last six months by 9.9 percent. This decline was in large part due to the effect of the European Central Bank’s three-year Long Term Refinancing Operations (LTRO), which took place after the December 2011 survey.

“Banks have reduced their reliance on funding from the repo market as a result of their access to generous LTRO financing,” said a statement from the IMCA. “The size of the market remains well above the level recorded in the December 2008 survey (€4,633 billion).”

The survey also found that the share of the market traded electronically reached a high of 33.1 percent of the sample, with a corresponding decline in the share of voice-brokered repo business.

The survey signified that risk aversion remains an important factor in the selection of collateral, but ICMA stated that this is no longer automatically reflected in increased use of government bonds.

“On the one hand, the share of German government bonds as collateral has dropped to 14.2 percent (from 15.4 percent) due to scarcity as a result of hoarding by investors seeking safe haven assets. On the other hand, credit concerns have driven a reduction in the use of Spanish government bonds as collateral. The search for safe havens may also be behind a continued increase in the use of UK collateral to 15 percent.”

The share of triparty repo in the survey fell to 10.9 percent, but data from triparty agents showed growth in this sector, “supporting anecdotal evidence that this business is growing

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amongst non-bank financial institutions that are not part of the ERC survey," said the statement.

The latest survey confirmed the trend of a significant lengthening of the maturity profile of European repo in anticipation of stricter regulatory liquidity requirements, with transactions with more than a year to maturity expanding to 13.3 percent of the survey.

Godfried De Vidts, chairman of ICMA's European Repo Council, said: "This latest repo survey gives a reliable picture of the current size and structure of the European repo market and clearly shows the impact of potential regulatory changes as anticipated by the market."

Fidelity Capital Markets launches a securities lending pricing tool

Fidelity Capital Markets's prime brokerage division, Fidelity Prime Services, has released PB Optimize, a securities lending pricing tool that displays, compares and ranks securities lending rates and performance from prime brokers.

Fidelity Prime Services handles securities lending, execution, financing, reporting, clearing and custody for institutional investment managers, including hedge funds, which primarily employ long and short equity trading strategies.

Its PB Optimize is the "first securities lending pricing tool of its kind" to be offered by a prime broker, said the company in a statement. It is available to Fidelity's hedge fund clients at no additional cost.

PB Optimize provides managers with three customised modules to help them to realise efficiencies and cost savings in the securities lending market.

A broker scorecard module "gives clients the ability to evaluate short balance allocations and prime brokers' stock loan performance". Region, sector, market capitalisation and how quickly rates change determine prime broker performance.

Hedge fund clients can also research and graph securities lending rates and lendable quantity information over user-defined time series, and a cost analysis module alerts clients to rate optimisation opportunities across prime brokers to find potential cost savings.

Markit is providing PB Optimize with independent securities lending data, including the quantity that is available to be borrowed and on loan.

"PB Optimize is the latest example of Fidelity's long-standing commitment to bringing transparency to the marketplace, including securities lending fees charged by different prime brokers," said Thomas Tesauro, executive vice president of Fidelity Prime Services. "By sharing Fidelity's lending rates alongside those of other prime brokers we are putting our clients and their investors first, empowering them to make more informed decisions. We expect this tool will ultimately drive market efficiency, benefiting hedge funds as well as investors."

"Using PB Optimize has improved the accuracy and efficiency of our rate discovery process," said Adam Nemser, head trader at Southpoint Capital. "Furthermore, it has enabled us to better analyse how our rates change over time across multiple prime brokers, improving our ability to compare the quantitative and qualitative aspects of these relationships."

Tesauro added: "Investors want to know that the firms with whom they're investing are making financing decisions on their behalf based on the best possible data and analysis. Any tool that

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drives transparency is good for investors and for the market as a whole."

Finadium: repo indices could be best hope for replacing LIBOR

Repo indices could be a viable alternative to LIBOR as a global financial benchmark, according to a research report from securities and investment research firm Finadium.

The report comes in the aftermath of the LIBOR scandal, which rocked British banking.

Financial institutions contribute rates that are used in the calculation of LIBOR and EURIBOR. The contributed rates are supposed to reflect each bank's assessment of the rates at which they can borrow unsecured interbank funds.

Futures, options, swaps, and other derivative financial instruments that are traded in OTC markets and on exchanges worldwide are settled based on LIBOR, and mortgages, credit cards, student loans and other consumer lending products often use LIBOR as a reference rate.

According to reports, certain Barclays traders requested that the Barclays LIBOR and EURIBOR submitters contribute rates that would benefit the financial positions that were held by those traders, and these requests were accommodated on numerous occasions when submitting the bank's contributions.

Barclays paid the US Department of Justice a $160 million penalty to resolve violations. The US Commodity Futures Trading Commission ordered it to pay $200 million and the UK Financial Services Authority fined Barclays £59.5 million for misconduct.

"The LIBOR scandal has been the tipping point for a change in short term interest rate benchmarks," said Finadium in a statement. "But false submissions are just the start: the weaknesses in LIBOR go far beyond the current scandal and extend to its vulnerability as a carrier of counterparty credit risk. Mixing credit and interest rate risk in an unpredictable way is asking for trouble, but weaning the LIBOR benchmark of off $800 trillion in derivatives, loans, and mortgages is a daunting task."

Finadium's report looks at the options for new financial benchmarks, including Fed Funds, derivative Overnight Index Swaps (OIS) and repo indices. "Each have strengths and weaknesses, but ultimately the markets will turn to the products with the greatest liquidity backed by secured deposits and (hopefully) untainted by credit risk," it said.

"Fed Funds and its derivative OIS are two options, but recent Federal Reserve and FDIC [Federal Deposit Insurance Corporation] changes have impacted Fed Funds liquidity."

It said that the alternative "with promise" is repo, particularly repo on 'safe assets' such as US treasuries, agencies and mortgage-backed securities.

Finadium's report examines the mechanics behind LIBOR and its alternatives to understand which existing benchmark "can be credible enough for the global marketplace". It said: "While our best hopes lie with repo indices, these too are not perfect."

"[T]he repo business has traditionally been opaque and not without its issues in the financial crisis. It is also part of the shadow banking investigations currently underway by the Financial Stability Board. New repo indices created by the DTCC go some way to address transparency issues, but indices alone will not create a new benchmark; a robust futures and derivatives market must also be part of the solution."

Morgan Stanley talks triparty on Capitol Hill

A committee on securities, insurance and investment met in Washington, DC, to conduct a hearing on challenges in the triparty repo market.

Thomas Wipf, managing director at Morgan Stanley responsible for secured funding, securities lending and counterparty portfolio management, discussed the markets for secured funding.

"As an active member participant in the work of the Tri-Party Reform Committee, Morgan Stanley remains committed to accomplishing the goals laid out by the Committee within a timeline that is ambitious and acceptable to all stakeholders. Morgan Stanley agrees with the Financial Stability Oversight Council that more needs to be done and the delay in soundly eliminating intra-day credit risks is unacceptable."

He added that secured funding is an important funding source, and a foundational component of Morgan Stanley's centralised liability management strategy.

"We are committed to and have taken significant steps to put all the recommendations into practice at our firm. We have heard clearly from the secured funding investor community that the collateral management services provided by the clearing banks are an important element of their collateral valuation and risk management process."

He also stated that it is clear that responsibility cannot be solely assigned to the two clearing banks. "We in the bank dealer community have to take the immediate and incremental steps available through our liability management practices to become a bigger part of the solution. There is no single operational solution or system development that can solve this issue completely."

"What is required is collaboration between the bank dealers and the two clearing banks to provide a set of strategic steps to begin a tactical but meaningful reduction of intraday credit extension in parallel to building operational and system enhancements. We believe that the status quo is unacceptable and by beginning this reduction through prudent liability management, we can reduce risk during the proposed build out by the clearing banks."

Lendable assets will top $11 trillion, says Celent

Estimated worldwide total lendable assets are expected to be more than $11.6 trillion, according to Celent's report, 'Top Trends in Securities

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Lending: The Road to Recovery and Evolution'. It also stated that actual lending market on loan globally is approximately $2.5 trillion.

The survey asserted that securities lending has significantly evolved, shifting from a back office, operational function that is handled by investment banks and broker-dealers to being a major front office investment management and trading discipline that lodges a marked position in many broker and custodian banks.

Results indicated that lenders are optimistic about the future of securities lending, while borrowers continue to be skeptical due to deleveraging and volatility. "Despite the limitation on demand, persistent lenders will find different avenues to proliferate their securities lending business models, such as expanding into new markets and diversifying collateral types they are willing to lend against," said the report.

Celent predicted that the central counterparty (CCP) venue is a viable option for securities lending, but maintained that an OTC market will also exist.

"Furthermore, in the event a CCP model is mandated and the market moves to full implementation, custodians will still play a major role in the securities lending space; it would be highly unlikely for beneficial owners to go directly into the marketplace."

"Not to mention that an exchange model would require significant operational and technological investments for all parties involved; borrower, lender, intermediaries, and CCP."

Indian regulator guides on securities lending

India's insurance regulator, the Insurance Regulatory and Development Authority (IRDA), has addressed repo, reverse repo, securities lending and borrowing, and credit default swaps in new guidelines.

The guidelines were issued on 3 August, and are intended to broaden the investment options of the country's insurance companies, both life and non-life.

The regulator encouraged insurance companies to lend out securities on the National Stock Exchange of India and the Bombay Stock Exchange, assuring that they would be allowed to lend up to 10 percent of their total equity holdings. IRDA also stated that the insurers' boards should amend their risk policies on securities lending and borrowing.

ISDA publishes 2012 FATCA protocol

The International Swaps and Derivatives Association (ISDA) has launched a protocol that allows market participants to efficiently amend the ISDA Master Agreement tax provisions to address the effects of the Foreign Account Tax Compliance Act (FATCA), which may impose a withholding tax on payments under derivatives transactions.

FATCA was enacted to help the US Inland Revenue Service to prevent US residents who hold investments in offshore account from committing tax evasion. FATCA imposes a 30 percent withholding tax on a list of payments to non-participating foreign financial institutions and others that are not compliant with the act.

The ISDA 2012 FATCA Protocol puts the FATCA withholding tax burden on the recipient of the payment. It eliminates the tax from the definition of "Indemnifiable Tax" in the ISDA Master Agreement.

ISDA said: "The rationale is that the recipient is the sole party that has the ability to avoid the withholding tax by complying with the FATCA rules; therefore, the recipient should be the party burdened with the FATCA withholding tax if it chooses to not comply."

The protocol became active on 15 August and it is open to ISDA members and non-members.

S&P reassesses the cost of Dodd-Frank

Standard & Poor's (S&P) has updated its estimates of the cost of the US Dodd-Frank Act.

S&P renewed its estimations of what the new regulations under the act may cost the eight largest and most complex banks in the US—Bank of America, Citigroup, Goldman Sachs, J.P. Morgan Chase, Morgan Stanley, PNC Financial Services, U.S. Bancorp, and Wells Fargo.

"Considering what we know now about rules and regulations that have yet to be implemented, and based on our current forecasts for banks' capital and earnings, we don't believe the financial impact of regulatory reform will, in itself, affect our ratings on the eight banks," said S&P's credit analyst Matthew Albrecht.

"However, proposed rules and regulations could change our assessments of banks' business or risk positions, which could ultimately lead to rating actions in isolated cases."

"We estimate that the act could reduce pretax earnings for the eight large, complex banks by a total of $22 billion to $34 billion annually—higher than our prior estimate of $19.5 billion to $26 billion," said Albrecht. The full impact of the regulations could mean a drop in pre-tax return on equity of 250 bps to 375 bps for the biggest banks.

"Most of the higher estimate reflects our view that regulators could take a more strict interpretation of the Volcker Rule than we previously expected. We expect most final rules to be in place and affecting results toward the end of 2013 or the beginning of 2014, as regulators implement the provisions."

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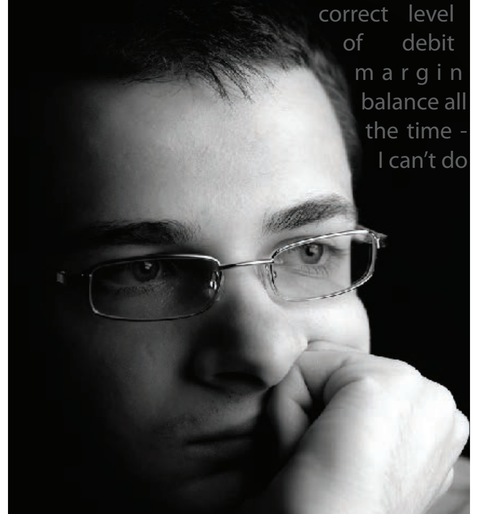

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Taxing conditions in France

The financial transaction tax is alive and well in France, but what about the country's securities lending industry? SLT finds out

MARK DUGDALE REPORTS

France introduced a new financial transaction tax after its parliament voted in favour of a 2012 finance bill in February. The tax became effective on 1 August.

The country's former president, Nicolas Sarkozy, said the tax would place a 0.1 percent levy on all share purchases involving France's biggest companies, but his successor, Francois Hollande, doubled it to 0.2 percent.

The tax applies to publically traded companies in France with capital of more than €1 billion and "transactions consisting of acquiring equity securities or similar securities of the French Monetary and Financial Code," according to PricewaterhouseCoopers. "This would also include instruments giving access to capital or to voting rights in the company and includes securities issued under foreign law."

Hollande beat the EU to the punch when he introduced the tax on financial transactions. The European Commission proposed a tax on stocks, bonds, derivatives and other transactions in 2011 that could reportedly raise more than €50 billion per year, but EU member states are divided on whether it will do more harm than good.

The UK's prime minister, David Cameron, recently said that a financial transaction tax would increase the cost of insurance and pensions, and could make Europe less competitive.

PricewaterhouseCoopers has said that France's tax will not apply to temporary transfers of securities, stock lending or stock borrowing or the lending or borrowing of other financial instruments, repo or reverse repurchase transactions, or buy-sell back or sell-buy back transactions.

David Lewis, senior vice president at Astec Analytics, a SunGard capital markets business, agrees. He says: "It is my understanding that the temporary transfer of securities, including lending and repo, are exempt from the financial transaction tax in France."

But the investment research firm Finadium's managing principle, Josh Galper, said in a recent blog post that the financial transaction tax could have an affect on securities lending and repo through its wider impact on French capital markets.

He said: "[T]his was a unilateral move by France's government; many other nations including the UK and Sweden (and presumably Ireland and Luxembourg) are not following their lead. This opens up a massive hole for regulatory arbitrage by every financial participant who can engage in it. Right now, a French stock traded on the NYSE [New York Stock Exchange] by a US citizen would not see the tax. The NYSE and French companies would have incentives to move their listing, although the French government will certainly impose a political cost on those who try. While some members of the European Commission would like to expand the reach of the tax to avoid just this type of regulatory arbitrage, it is very unlikely to happen."

"The difficulty for France … is that financial markets are diverse and global; a tax has to be made effective everywhere to work, otherwise it just hurts one economy or product in favour of another one. Markets take the path of least resistance. We don't see good things happening for French financial transactions here."

Regulatory woes

Sweeping regulatory changes in Europe are affecting securities lending business in EU member states. "Regulatory uncertainty and restrictions do create some inertia—what some have described as 'funds sitting on their hands'—while investors and portfolio managers wait for regulations to be clarified for fear of transgressing any new laws," says Lewis.

He explains that securities lending as an industry provides "useful, low risk returns", but "those returns are not massive and additional frictions or uncertainties chip away at what can be achieved".

"These costs can range from additional capital charges agents will need to take to support indemnification to systematic recording of 'locates' as detailed in the new ESMA SSRs [reforms]. We are working with several organisations at present who realise that the unique intraday data we provide will be vital for measuring whether a security is truly liquid or not, which directly impacts their procedures and reporting obligations."

Yield enhancement trading dominates lending in France, according to Lewis. "Specials, such as Peugeot-Citroen and Alcatel-Laurent, for example, and general collateral trading are also present but the vast majority of activity can be seen around the April/May/June dividend seasons," he says.

"France is one of the largest and most lucrative countries for yield enhancement activity, but there are actions based on the freedom of movement of capital—one of the 'Four Freedoms' of the EU—that are putting this activity under pressure."

The Hot Stocks list in SunGard's Astec Lending Pit shows two French securities that are attracting interest, partly due to financial difficulties facing companies in France.

Lewis says: "Shares on loan in Alcatel-Lucent have doubled in the last month largely due to the recent profit warnings and their plans to downsize, shedding 5000 jobs. Europe's second largest car maker, Peugeot Citroen, has also seen significant short selling activity. Shares on loan have tripled since April as short interest has built up against the car-maker whose sales are down 23 percent since 2007 and has just announced plans to lay off 8000 staff across France."

The securities lending industry in France—not to mention the country's other industries— has a lot to contend with, but in a market that is home to the likes of BNP Paribas, Natixis and Société Générale, as well as international player such as HSBC, business is continuing. Like anywhere else in Europe, it seems that market players are being forced to adapt to new conditions. **SLT**

In the prime of life

Prime brokerage is changing, but what are industry participants going to do about it? SLT takes a look

MARK DUGDALE REPORTS

The importance of a prime broker to borrowers such as hedge funds has been devalued recently. Due diligence firm Corgentum Consulting's survey found that less than a fifth of investors who responded believe that prime brokers are the most important hedge fund service provider.

Speaking at the time of the survey's release, Corgentum Consulting's managing partner Jason Scharfman said: "After the Lehman Brothers disaster, many investors placed significant importance on the role of prime brokerages. 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."

Financial consultant firm Celent released a study in 2011 that argued that the shifting relationship between prime brokers and their clients warrants an evolution of the IT infrastructure of the prime broker.

Axel Pierron, senior vice president at Celent and author of the 2011 report, said at the time that single asset solutions still dominate the market, but it is moving towards 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."

Fidelity Capital Markets's prime brokerage division, Fidelity Prime Services, is heading this way, with the recent release of PB Optimize, a securities lending pricing tool that displays, compares and ranks securities lending rates and performance from prime brokers.

Its PB Optimize is the "first securities lending pricing tool of its kind" to be offered by a prime broker, said the company in a statement.

Thomas Tesauro, executive vice president of Fidelity Prime Services, said in a statement: "By sharing Fidelity's lending rates alongside those of other prime brokers we are putting our clients and their investors first, empowering them to make more informed decisions. We expect this tool will ultimately drive market efficiency, benefiting hedge funds as well as investors."

Celenet's Pierron added in his statement 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."

One way of sidestepping fierce competition is to expand into new markets and find new sources of income.

Emerging markets such as Eastern Europe, Latin America and Asia could be of interest to prime brokers looking to expand their global footprint, while prime brokers that are already established in these markets could look at the US and European countries such as the UK and France. Gregory Wagner joined Brazilian bank Itaú BBA to internationalise its business with products such as securities finance and prime finance.

He says that prime brokerage both encourages and enables "the participation of a broader and more global audience" in emerging markets.

"Essentially, the prime can become a bridge between emerging market product and global clients. In this way, primes help emerging markets internationalise their securities lending and subsequent related trading platforms. More participants mean more market liquidity by enabling more hedging, market making and fail coverage. Clearly, more participants means competitive securities lending pricing."

"On the flip side, one could argue that prime brokers are bringing in 'hot money' by matching emerging market product with short term trading strategies, such as alternative investment fund strategies," he adds. "This could create the perception that trading, securities lending and overall money flow volatility will increase. However, international 'hot money' strategies can be curbed by the emerging market securities lending directives through participation limit setting, taxing, or other means."

He adds: "Over time, the benefits derived from broader participation in an emerging securities lending market via prime or another venue, will most certainly outweigh the benefits of maintaining a closed securities lending market."

Entering new markets does not always go to plan, particularly when the new market is an established one. In March 2011, the Japanese bank Nomura reportedly instigated a review of its equity division that resulted in a number of departures from its European prime brokerage team. Reports said that the departures were due to severe competition in Europe and that the bank was preparing to pull out of the European prime brokerage market, but this was denied.

A source close to Nomura said that the departures were due to a recognition of the changing regulatory environment in Europe and an understanding that clients were looking for quality and differentiated products, so the bank decided to focus on its natural strength in the Asian markets.

There is "no cookie cutter way" of formulating a single emerging market prime strategy, says Wagner. Setting up a prime or securities finance footprint in an emerging market "varies immensely depending on the region proximity, the political, regulatory and legal environments, and the maturity of financial markets," says Wagner.

He adds: "The one thing you can be certain of is entering an emerging market absolutely requires a local or near presence. Efficient execution/hedging (direct or via local intermediaries), understanding local customs, regulations, and clients are very hard to do without a local footprint. Creating a global emerging market prime strategy without including a local footprint is like a Chinese vase: beautiful, expensive and utterly unusable." **SLT**

Prime brokerage: finding the fulcrum

Anita Hill Sands of Intuition Financial Placement outlines why prime brokers may soon be able to redefine their roles

INDUSTRY INSIGHT

To understand and anticipate the needs of prime brokerage businesses, it is helpful to consider prime brokerage in context. The group of services that constitute prime brokerage developed largely as a consequence of the needs of hedge funds, which are prime brokers' primary clients. Hedge funds came about in the US in the late 1940s as a vehicle to decrease risk by identifying investment positions that counterbalance each other with respect to the effect of larger market forces. They have since evolved into private funds that constantly push the envelope of new investment instruments. The complexity of these instruments and the size of the industry created a need for a centralised way of managing cash and security positions of hedge funds and, in particular, facilitating the multiplying effect of leverage.

"Give me a lever long enough and a fulcrum on which to place it and I shall move the world."—Archimedes

Twenty-five centuries since Archimedes made this observation, leverage does indeed move the world. The decades leading up to the 1990s witnessed explosive hedge fund growth, which was fueled by the application of leverage in a multitude of new ways and managed by prime brokers. This, in turn, resulted in a need for creative, smart people with credentials ranging from MBAs to PhDs in particle physics.

The financial crises of 2008 radically changed the public's perception of leverage from positive to negative. While the financial industry has maintained a more nuanced perception of leverage, there remains a major decrease in the tolerance for risk. Thomas Mann observed that "a great truth is a truth whose opposite is also a great truth". This seems apt for leverage. As the prime movers of the levers of capital, the prime brokerage business has been very sensitive to this shift in perception while continuing to use leverage as an essential tool for profit making.

Even though the stock market is up just over 6 percent for 2012, the jobs report is generally disappointing, leaving investors with long continued uncertainty. This is compounded by concerns over European markets and monetary policy as set by multiple European central banks. For the reasons discussed above, there has been a shift towards lower tolerance of risk across a broad spectrum of the financial industry.

At the same time, there is the ever-present pressure to generate profits, which require risk taking out of necessity. Companies try to walk a fine line between limitation of loss and business growth. When normal attrition occurs, there is a reluctance to hire unless candidates are able to bring clients over to their new firms and provide immediate business growth. The other side of this trend is a decreased emphasis on hiring undeveloped talent. Additionally, companies are trying to cover lines of business that had been staffed discretely in the past with staff who can cross-cover multiple lines of business. Overall, these trends are gradually resulting in large but uneven areas of understaffing, which may be considered a 'talent deficit'.

As prime brokers fill positions in the present, they will need to know who has real, established relationships and who is able to hit the ground running, as well as who possesses proven flexibility in covering different areas. Matching skills and experience, providing in-depth knowledge of candidates work histories and verification of candidates' current business relationships are not easily accomplished in-house.

When the market improves in a sustained way, firms will look to fill their talent deficits. In doing so, there is likely to be relatively large increases in headcounts and this will provide a significant new opportunity for strategic hiring to redefine the role of prime brokers with respect to their current and future clients.

When market conditions improve, the deficits of talent that is accumulated in these lean years will offer an unprecedented opportunity for prime brokers to redefine their roles, their clients and the overall direction of their businesses. Hedge funds have been the fulcrum around which prime brokers act. Now is the time for prime brokers to plan where the fulcrum will be in the future. **SLT**

Anita Hill Sands
Managing partner
Intuition Financial Placement

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Slowdown hitting carmakers

European carmakers are faced with generational shifts in demand as cash strapped consumers start to rethink their relationships with cars, a trend which short sellers are aware of. Simon Colvin of Markit Securities Finance reports

SHORT DATA

Cars are feeling the pinch of the economic slowdown. Consumers are rethinking their purchasing habits, hanging on to cars for longer and putting off buying their first cars for longer. This is driven by a fall in disposable income stemming from the economic downturn, a downturn that is accelerating for European carmakers according to Markit Economics. Short interest in European carmakers is among the highest in the Stoxx 600, a number that has risen in recent months since the economic picture darkened.

Economic picture

The recent Markit Economics PMI survey for European automakers shows the PMI continuing the slide that it started in January with no sign of slowing. A deeper dive in the survey data shows a fall in new orders for the 13 months leading up to July, a fall in output that accelerated in July, even accounting for seasonal adjustments. Inventories have held steady owing to a fall in output, which has fallen in the last four months.

Perhaps fuelling the fall in demand has been an increasing propensity for younger consumers, who have been disproportionately represented in unemployment lines, to increasingly forgo buying a car, electing instead to spend their increasingly scarce disposable income on electronic gadgets. A recent article highlighted the falling numbers of North American young drivers, with the proportion of 20 to 24 year olds with no driving licence more than doubling in the last 20 years to nearly one in five people.

Short interest

Perhaps unsurprisingly, short interest in European automobile and component makers currently stands at more than 50 percent of the overall market average. The average percent of shares out on loan for the Stoxx 600 constituents is 4.1 percent, compared to 2.7 percent of shares out on loan across the whole index. The trend shows short interest rising in the last month with shares out on loan rising 4 percent for automakers as the index saw average short interest fall 4 percent.

Most shorted across the index is French company Peugeot, which has 14 percent of its shares out on loan, a number that has grown by more than 40 percent in the last month. This is more than any other Stoxx peer. This rise in short interest comes at the heels of disappointing earnings that have prompted the company to announce a spate of layoffs and its first French factory closure in 20 years.

Also seeing higher than average short interest is Italian carmaker Fiat, with 7 percent of shares out on loan. This is somewhat lower than what was seen at the start of the year as the company has been able to draw on its ownership of US firm Chrysler to isolate it from the worst of the European downturn.

Short sellers are not only focusing on carmakers, with the companies further up the car supply chain seeing higher than average short interest. Tyre makers Pirelli and Nokian Renkaat both see more short interest than their peers with 8 percent and 6 percent of their shares out on loan respectively.

Not all heavily shorted

Short sellers have so far steered clear of luxury carmakers. Porsche and BMW both see 1 percent of their shares out on loan as the companies have been able to draw on strong demand form overseas to escape the worst of the downturn.

Further up the supply chain, Continental sees low short interest with one percent of its shares out on loan. Short sellers may be steering clear of the company owing to the company's leading role in the infotainment space. These systems, which provide multimedia content in cars, are becoming increasingly popular features in cars, especially with younger consumers. SLT

Name	Ticker	% of Shares Out On Loan	1 Month % Change
Peugeot Sa	UG	13.6	41%
Pirelli & C Spa	PC	8.3	20%
Fiat Spa	F	6.9	-2%
Nokian Renkaat Oyj	NRE1V	5.9	10%
Daimler Ag	DAI	4.9	12%
Volkswagen Nv Prf	VOW3	3.7	9%
Compagnie Generale De	ML	2.3	-7%
Rheinmetall Ag	RHM	2.0	-28%
Renault Sa	RNO	1.5	-38%
Bayerische Motoren Wer	BMW	1.3	35%
Continental Ag	CON	1.3	-18%
Porsche Automobil Holdi	PAH3	1.2	-71%
Gkn Plc	GKN	0.1	-40%
Automobile and Average		4.1	3%
Stoxx 600 Average		2.7	-4%

2012

08 August

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10 October

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11 November

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Industry appointments

Markit Securities Finance's managing director and head of sales, **Charlotte Wall**, has left the financial information services company to join Olivetree Securities.

She is currently on gardening leave and will join the equities brokerage as managing director and global head of product sales in London and New York on 1 November.

Former Morgan Stanley executive Daryn Kutner established Olivetree in April 2009.

Wall spent more than 15 years at Morgan Stanley as the managing director responsible for running its equity financing business in Europe before joining Data Explorers, which is now a part of Markit, in October 2008.

Previous notable hires include leading hedge fund trading chief James Netherthorpe, who joined Olivetree in October 2010 as COO and head of distribution. He previously worked at hedge fund Marshall Wace.

Recently rebranded RBC Investor Services has appointed **Martin Anderson** as head of network management.

The appointment makes him a member of the global operations leadership team. He will report to Joanna Meager, global head of client operations and a member of the global executive committee at RBC Investor Services.

Based in Dublin, Ireland, Anderson will be responsible for managing all of the relationships with RBC Investor Services's network of sub-custodian banks, prime brokers and other bank providers worldwide. He will also be responsible for managing the operations teams in London, the UK, and Toronto, Canada, as well as Luxembourg and Singapore.

Anderson joined RBC Investor Services in July 2007 from Northern Trust, where he spent 12 years in senior positions, including managing director of Barings Financial Services Group's Irish subsidiary.

At RBC Investor Services, Anderson was originally the operations director responsible for custody, fund accounting and shareholder services in Ireland, and his most recent role was director of client solutions for several European locations.

Meager said: "We look forward to the contribution Anderson will make to network management as he brings a strategic vision for meeting the challenges of our growing business and the changing operating environment of our clients."

J.P. Morgan Treasury Services has appointed **Kiat Seng Lim** as head of financial institutions (FI) sales for the Asia Pacific region.

Lim will lead the firm's FI client and sales strategy in the bank and non-bank financial institution sectors for cash management and trade finance across 14 markets in the Asia Pacific region.

Before joining J.P. Morgan, Lim spent 12 years in global transaction banking with Deutsche Bank, most recently as co-head of cash management.

He has also held managerial roles spanning both cash management and trade finance in Singapore at banks including Banco do Brasil, Union Bank of California, Royal Bank of Canada and OCBC Bank. Lim will be based in Singapore, and will report to Margaret Yao, regional sales executive, J.P. Morgan Treasury Services.

Yao said: "We are delighted to welcome Lim to the team. Lim's client focus and proven ability is well recognised in the industry, and I am confident that he will lead our financial institutions franchise to new heights and bring the very best solutions to clients here in Asia Pacific."

Tom DuCharme, COO of the Asia Pacific region at J.P. Morgan Treasury & Securities Services, said: "We at J.P. Morgan collectively thank all of our financial institution clients for their ongoing support of the firm and their continued recognition of our leadership across the region. The financial institutions segment is highly valued and one we continue to invest in. I'm proud of these results, and we look forward to working even harder with Lim's leadership to remain at the front of the field."

It has been reported that **Martine Bond**, COO of foreign exchange and emerging markets at Morgan Stanley, has resigned and will join State Street.

Formerly of J.P. Morgan, Bond was nabbed by Morgan Stanley as its global head of FX prime brokerage in 2009, and promoted to COO last year. It has also been reported that Bond will be on gardening leave until she joins State Street. **SLT**

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