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Cowen buys hedge fund manager's securities lending business

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Financial services firm Cowen Group has agreed to purchase KDC Securities from Kellner Capital.

New York-based KDC Securities is the securities lending business and broke-dealer subsidiary of hedge fund manager Kellner Capital.

Formerly called Kellner DiLeo & Company, the hedge fund manager rebranded in May as Kellner Capital and launched a new event-driven investment fund with more than $50 million in assets.

Kellner Capital has now agreed to sell KDC Securities to Cowen Group, which provides alternative investment management, investment banking, research, and sales and trading services through two business segments.

Ramius and its affiliates make up its alternative investment management business, while Cowen and Company is its broker-dealer.

The broker-dealer offers industry-focused investment banking for growth-oriented companies, domain knowledge-driven research, and a sales and trading platform for institutional investors.

The purchase of KDC Securities, which is subject to regulatory approvals and customary closing conditions, will be completed in Q4 2012.

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Connecticut retirement fund sends out RFP

The Connecticut Retirement Plans and Trust Funds, which is made up of 14 retirement plans and trust funds, sent out an RFP for the provision of trust/custody and/or securities lending services.

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The financial details of the deal were not disclosed.

Once the deal is completed, KDC Securities will be rebranded as Cowen Equity Finance Group, but it will continue to be based in New York.

Rory Zirpolo, the head of securities lending at KDC Securities, will serve as managing director and head of the equity finance group. He will report to Cowen Group's co-heads of equities, Tom O'Mara and Dan Charney.

Joining Zirpolo at Cowen Group are Barry Skarbek, Jill Mandarino, Steven Grazioli and Richard DePaulis.

Jeff Solomon, CEO of Cowen and Company, said: "Kellner [Capital] and its securities lending team have built an impressive equity finance platform since the business was launched seven years ago. We believe the business is well positioned for future growth and is a strong complement to our existing sales and trading footprint."

Zirpolo previously worked as managing director of prime services at Credit Suisse, where he was responsible for a $50 billion supply side securities lending business, before joining what was then Kellner DiLeo & Company in late 2010.

As a part of his role at Kellner Capital, Zirpolo works as the portfolio manager of KDC Alpha, a matched book securities lending portfolio.

When Zirpolo joined the hedge fund manager, he was called "one of the most highly regarded professionals in the securities lending business".

ASIC threatens second short selling ban

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In a report on bans that were implemented in 2008 and 2009, ASIC assured that, despite increased compliance costs, reduced liquidity and increased price volatility, the benefits of the ban mostly outweighed the negatives.

"While these effects would normally run counter to our objectives, the review concludes that the exceptional circumstances at the time—a market that was under severe strain because of unprecedented global events—were justified in order to reduce the risk of greater market disorder," said ASIC deputy chairman, Belinda Gibson.

The report went on to note that the new regime banning naked shorting and improving disclosure was working well, but reserved the right to re-introduce a more far-reaching ban.

Connecticut retirement fund sends out RFP

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To become the securities lending provider, respondents must have at least $1 billion in total market capitalisation as of 31 December 2011, a minimum of five years' experience in providing securities lending on an agency, principal or blended basis, and at least $100 billion in securities lending lendable base for each of the last five years.

State treasurer Denise Nappier, who is the principal fiduciary of the $24.3 billion pension system, sent out the RFP, asking each candidate to submit proposals to her office by 12 October.

The RFP did not specify a timetable for selection.

Nigeria treads carefully with securities lending rollout

Nigeria is keeping things straightforward for now, by calling for no retail investor participation during the rollout period of the country's securities lending programme.

In a circular that was distributed on 17 September, Olufemi Shobanjo, head of broker-dealer regulation at the Nigerian Stock Exchange (NSE), said: "Following the introduction of securities lending, please be informed that dealing member firms may only participate in the programme via approved securities lending agents registered by the Securities and Exchange Commission (SEC). So far, the SEC has only registered Stanbic IBTC Bank and the United Bank of Africa as SLAs."

He stated that only securities owned by qualified institutional investors (QIIs) may be used for securities lending, adding that a subsequent phase of the programme will extend to other market participants, including retail investors, but did not indicate a timeline.

The NSE launched its market making programme on 18 September 2012.

According to the head of transformation and change at the NSE, Olumide Lala, market makers will play a key role in facilitating two-way quotes (comprising of buy and sell prices) for the securities that they are making markets on.

Leveraging the securities lending process, market makers will be able to borrow securities in order to settle 'buy order imbalances' from customers. A hybrid market will operate, allowing both market makers to provide two-way quotes and licensed broker-dealers of the exchange to submit orders.

On 11 September, the exchange held a market-wide workshop to familiarise market stakeholders with the rules and operational guidelines for the programme.

The NSE designated Stanbic IBTC, Renaissance Capital, Future View Securities, Vetiva Capital, ESS/DunnLoren Merrifield, WSTC, Capital Bancorp, FBN Securities, Greenwich-Securities, and CSL Stockbrokers as market makers in August.

Oscar Onyema, CEO of the exchange, said at the time of the designations: "This is a great milestone and a major step in the direction of turning the market round to have liquidity and depth back into the market. We will continue to move forward on this."

"The companies selected went through a very rigorous process and met the minimum net capital requirement of N570 million. We also examined their compliance history and looked into their operational capabilities including their technology and processes. The selected firms were taken through trainings, debated the appropriate market structure to be used and the exchange further went through the approval of the Securities and Exchange Commission in the selection process."

Investment bank Renaissance Capital, one of the 10 primary market makers (PMM) that were appointed by the NSE, has initiated services for clients.

Yvonne Ike, Renaissance Capital CEO in West Africa, said: "Renaissance Capital is delighted to bring its experience from other emerging markets to bear on this initiative, and we believe that this initiative will help to build a more buoyant and efficient stock market."

"This service will further drive interest from international investors to invest in Nigerian equities, and strengthen our commitment to attracting local investors to the Nigerian equities market."

As a PMM, Renaissance will be responsible for creating an orderly market, and supporting enhanced liquidity on the exchange, although PMMs are not expected to act as liquidity providers of last resort.

NSE market makers are required to provide bid and offer quotes within the daily circuit-breaker limit for stocks in which they make a market.

The determination of spread and quote sizes will be at the sole discretion of the PMMs. The circuit breaker for stocks in which the PMMs will commence making markets during the rollout period is 10 percent, while that for other stocks remains at 5 percent.

PMMs are permitted to start with one or two securities of their choice from the basket allocated to them for the first six months of the programme.

PMMs have the option to add more stocks from their baskets into the market-making programme over time. Once a stock is added, the circuit breaker automatically changes to 10 percent. The NSE will update the list with newly added stocks bi-weekly.

SunGard aids short selling regulation for Warsaw Stock Exchange

The Warsaw Stock Exchange (WSE) has chosen SunGard's Protegent compliance solution and Valdi electronic trading tools for real-time surveillance and monitoring of trading activity on the exchange.

A customer of SunGard's trading solutions for more than 10 years, the WSE will use SunGard's Protegent market abuse solution to help enhance its analysis of specific market conditions and trigger alerts in real time, helping the WSE to comply with the EU Market Abuse Directive and other regulations.

In addition, Valdi's "flashback" function will allow the WSE to analyse historical market situations by rebuilding the order book at any point in time, while its historical data will provide insight into trading patterns.

Adam Maciejewski, a member of the management board of the WSE, said: "Surveillance tools are an absolute requirement as stock exchanges around the world seek to ensure fair and orderly markets."

"The WSE selected SunGard's Protegent because it is an efficient, proven and system-agnostic solution that complements our existing arsenal of market protection capabilities. Valdi will help the WSE improve our ability to monitor exchange trading activity and give our surveillance team enhanced access to real-time data, helping them identify trading patterns that might reveal market abuse."

Fidessa changes up buy-side connectivity

Fidessa has transformed its connectivity service for the buy side.

The firm stated that it changed its service to cover all hosting, management and operational aspects of a firm's FIX and non-FIX based connectivity and infrastructure, after recognising that firms can no longer rely on the provision of FIX engines and networks alone.

Megan Costello, president of Fidessa's North American buy-side business, said: "Access to a broad range of multi-asset broker services, hubs, crossing engines and post-trade systems all around the world is now commonplace, but it brings with it the need to implement and run a highly complex technology infrastructure."

The new service allows firms to outsource their complete connectivity infrastructure to Fidessa, which will take over hosting, networking and operational management for its buy-side customers.

Asean Trading Link goes live

The Asean Exchanges Trading Link is now open.

The link, established to provide a single access point to make cross-border trading more accessible, went live on 18 September, connecting Bursa Malaysia and the Singapore Exchange.

Asean Exchanges is a collaboration of seven exchanges from Indonesia, Malaysia the Philippines, Singapore, Thailand and Vietnam. Asean Exchanges hopes to promote the Asean capital market by streamlining access to the Asean region, driving cross-border collaboration and implementing targeted promotional initiatives.

Dato' Tajuddin Atan, CEO of Bursa Malaysia, said: "The Asean Trading Link marks the first key milestone for Asean Exchanges towards breaking down the barriers to cross-border trade in Asean. The Asean Trading Link is an excellent conduit to tap the region's growth opportunities as it allows investors an easy access to a wider investment selection across the connected markets."

The Asean Trading Link allows brokers from participating exchanges to trade shares on other participating markets. Investors will now be able to buy and sell shares across the Asean connected markets of Malaysia and Singapore.

Thailand Stock Exchange is set to join the trading link soon.

"The three markets, Malaysia, Singapore and Thailand, serve as the foundation of the Asean Trading Link providing a single entry-point access to three of the largest stock markets of the Asean Exchanges collaboration. Jointly these three markets offer nearly 3000 listed companies with a market capitalisation of $1.4 trillion. Together they account for some 70 percent of the total market capitalisation of Asean," said Atan.

Thirty-one brokers from across Malaysia, Singapore and Thailand have already joined the Asean Trading Link, including CIMB and Maybank.

On the banks involvement, Atan said: "Importantly, we are pleased to have the commitment of two of Asean's leading investment banks, namely CIMB investment bank and Maybank investment bank, as this sends out a strong message that the large market players are certainly on board and view the Asean Trading Link as a veritable tool to grow their business across Asean and ultimately, bring greater liquidity in to the Asean capital market. Inevitably, our listed companies would also benefit from greater international exposure to regional investors and increased liquidity."

The Asean Trading Link uses SunGard's trading technology, which aims to reduce business costs and improve trading connectivity.

Managing director of SunGard's capital markets business for the Asia Pacific region, Nasser Khodri, said: "The Asean Trading Link will help address increasing demand for cross-border investment. SunGard's proven solutions and deep knowledge of the Asean region is helping both Asean and international investors to easily trade on the connected exchanges."

Scotiabank picks PrimeOne

Scotiabank is expanding its prime brokerage operations with PrimeOne Solutions's platform in a bid to attract more hedge fund business.

PrimeOne Solutions offers technology solutions to prime brokers, covering a spectrum of capabilities including transaction processing, position keeping swaps, equity finance, and margin for firms operating prime finance globally.

John Stracquadanio, global head of prime services for Scotiabank, said: "Expansion of the prime services business in the US is a critical strategic initiative for Scotiabank's global banking and markets division. We selected the PrimeOne platform because we were confident that it met our clients' current and emerging needs. We were quite satisfied to see the project completed and the platform enabled in the timeframe we required."

The project took eight months to complete and includes end-to-end prime finance capabilities, servicing Scotiabank's prime services clients in the US marketplace.

"We built the PrimeOne business with companies like Scotiabank in mind, delivering comprehensive and advanced capabilities in a more efficient manner within a quantifiable budget," said EJ Liotta, global head of PrimeOne Solutions.

"We're driven by delivering a continuous stream of innovative products and services to a marketplace that has traditionally had to build their own technology, at great expense, to service prime brokerage operations."

Monte Titoli helps out with collateral

Monte Titoli has launched X-COM, its tripary collateral management service that aims to al-

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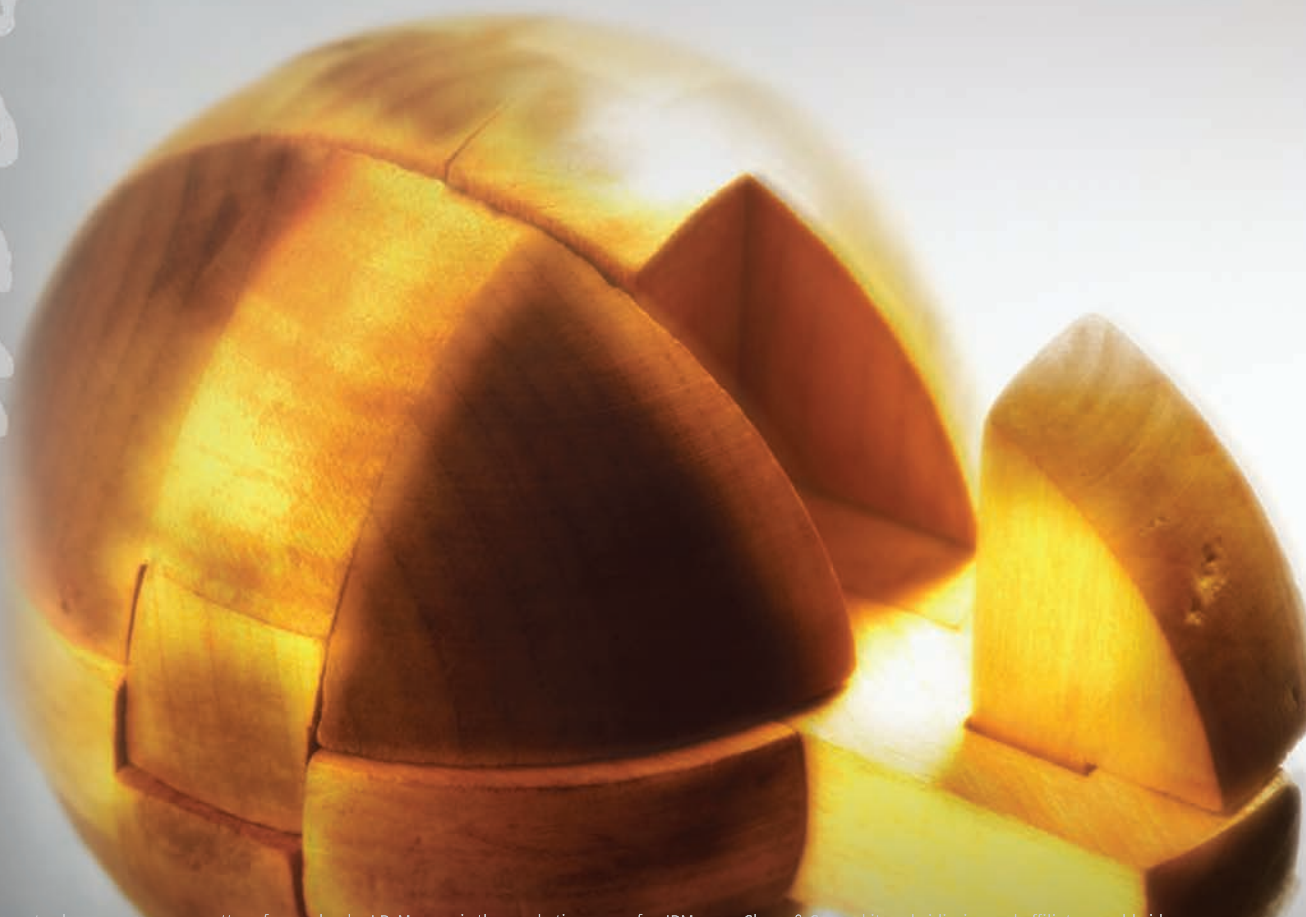


low banks' treasury departments and operations departments to manage their investment strategies and financing more efficiently.

The two parties that are involved in a transaction delegate the management of collateral to a third party, such as Monte Titoli. Monte Titoli acts as a 'neutral' agent and common custodian for the collateral that is held on behalf of both parties, with the aim of minimising parties' investment in back-office resources and IT.

During the initial implementation phase, X-COM will interact with Bank of Italy's pooling system to support eurosystem credit operations.

The second phase will see the service expand to further centralised activity of collateral management to support different business needs, such as financing, securities lending and margin management for operations with central counterparties.

Paolo Cittadini, CEO of Monte Titoli, said: "The new X-COM service responds to our customers' growing need for diversification of financing tools and efficiency on the markets, offering a collateral management service essential to every market participant."

"This project has a systemic relevance, not only for the entity and quantity of subjects involved but also to support the inter-bank market."

BNY Mellon releases AccessEdge upgrade

BNY Mellon has launched an upgrade to its collateral management portal, AccessEdge.

The advancement will provide broker-dealers and institutional investors with improved online access to the status of their transactions.

AccessEdge, BNY Mellon's web-based collateral management portal connects dealers with investors to conduct collateral transactions in a secure environment with respect to repo, securities lending, OTC and other central counterparty.

The latest upgrade to AccessEdge provides BNY Mellon clients with an interactive dashboard, enabling them to more easily view their collateralised status in real-time.

The dashboard displays a client's aggregate collateral exposure, including the number of unmatched, mismatched or instructions currently open.

James Malgieri, executive vice president, global collateral services at BNY Mellon, said: "The enhancements to our AccessEdge portal make viewing collateral positions simpler and clearer, increasing transparency for our clients and helping them to make optimal use of collateral and assets at their disposal."

"We have proven global capabilities when it comes to servicing our clients' collateral management needs and we continue to innovate and invest in the technology to support those capabilities. This latest evolution AccessEdge demonstrates our commitment to supporting our clients as the regulatory environment continues to develop."

Pershing expands in Canada

BNY Mellon subsidiary and prime broker Pershing has launched a Canadian affiliate, Pershing Securities Canada, and opened a new offiice in Toronto as it bids to increase its presence in the Canadian market.

Pershing Securities Canada has become a member of the Toronto Stock Exchange and will offer the same products, services, solutions and technology to Canadian advisors and broker-dealers as Pershing does to its US clients.

"Now with the launch of our Pershing Canada affiliate, we can provide a full array of custody, clearing and execution services to the Canadi-

an investment community," said Frank LaSalla, CEO of Pershing Securities Canada, and managing director at Pershing.

"This launch is a logical extension of our global strategy and affords us the opportunity to deepen the relationships we've already developed in the Canadian market."

Pershing Securities Canada has successfully completed its initial testing and will bring its first client, Pershing in the US, onto its platform in Q4 2012.

Once this is completed, it will begin adding Canadian institutional and retail firms that are regulated by the Investment Industry Regulatory Organization of Canada (IIROC) to its platform.

Its new Toronto office will service institutional and retail broker-dealers, as well as investment advisors, in Canada.

Citi enhances its collateral service

Citi has enhanced OpenCollateral to provide asset managers with automated collateral position reconciliation via SWIFT. This requires fewer collateral accounts and reduces the number of collateral instructions.

"Now our clients can rely on us to manage collateral directly from their existing custody accounts," said Rajen Shah, global head of collateral Management at Citi Transaction Services. "Receiving this data directly from the custodian avoids the need for asset managers to be involved in instructing every collateral movement."

"Our early-to-market solution provides better efficiency for investors by enabling them to concentrate all their unencumbered assets within their principal custody accounts."

Pirum provides real-time triparty RQV automation

Pirum has deployed the final component of its new triparty required value (RQV) service, which it has developed in partnership with J.P. Morgan.

The service allows users to automatically calculate, reconcile, agree and submit their RQVs across all counterparties.

A statement from Pirum said: "Pirum's RQV automation solution substantially improves the intraday visibility of proposed RQVs, facilitating straight forward and timely dispute resolution together with increased efficiency and reduced operational risk. The service enables customers to standardise their daily RQV operational processes using a single set of screens applicable to all counterparties and across multiple triparty agents."

Rupert Perry, chief executive of Pirum, said: "We are delighted to partner with J.P. Morgan to deliver this new and innovative service which enables our customers to significantly streamline their operational procedures surrounding their daily RQV processing. Our customers are very excited about bringing automation and standardisation to a process which has historically required significant manual effort and operational risk."

"Our clients have been requesting the ability to match, approve, and automate submission for collateral requirement values," added John Rivett, business executive for collateral management at J.P. Morgan. "We are happy to partner with Pirum to leverage their expertise in delivering this to our clients."

Pirum's service is already processing $10.3 billion, and it counts eSecLending and Citi's prime finance business as users.

"Having all Citi RQVs agreed in a consistent and real-time manner will bring efficiencies to the process and enable us to remain focused on delivering the best possible service to our clients," said a spokesperson from Citi prime finance.

David Jacobson, managing director and head of global operations at eSecLending, said: "The Pirum triparty RQV service supports eSecLending's efforts to continuously increase automation and transparency in our clients' securities lending programmes. The service delivers enhanced efficiencies by reducing the manual touch points involved in generating, agreeing and submitting RQV's in the triparty collateral process."

MXCorner

Welcome to the counterparty

The process of counterparty selection and assessment has changed dramatically over the last few years. When I first started in this industry, counterparties were almost selected on the basis that they were active and had demand or supply (okay, it was a while ago!). For many years, once the business drivers were identified a simple check of a counterparty's credit rating was sufficient. Approval was given based on a rating and a volume or revenue number, and once business began, a downgrade was often the only reason to re-assess. Some beneficial owners would not even go that far, preferring to just rely on their agents' indemnities—despite these ranging significantly in quality. Of course, now that is not an option.

In 2008, it became very apparent that credit ratings were fallible and now the counterparty selection process is more complex and robust. With balance sheet management taking centre stage, credit ratings are often just a first hurdle and lenders are implementing internal continuous analysis to ensure counterparties are financially sound. More dynamic measures, which have an element of immediate market sentiment, are being sought and used to monitor this. Many firms are using algorithms that take into account a number of different factors to manage counterparty credit and define the levels and types of business that they are able to undertake by counterparty, with overall limits, term availability, and haircut levels being defined for each individual firm. A one-size-fits-all approach, where all counterparties are treated the same, is becoming less common, and indemnities are viewed as only one factor.

Of course this introduces a level of uncertainty to the business, with the possibility that credit lines can be adjusted rapidly if the market sentiment changes, when the markets and banks need more stability and predictability in supply. Finding the middle ground is difficult but it is important to ensure that your counterparties understand your process and are engaged fully in it.

Establishing the appropriate factors that are relevant to individual firms or funds is key, but even once this is achieved, the challenges of constant monitoring and adjusting are many. Without focused resources, the only way to manage the process efficiently is with an element of automation, compiling data, calculating the factors and producing analysis for review. We have seen a number of clients, both agent lenders and beneficial owners, reviewing their processes and developing automated solutions in this area, which ultimately must be a positive development for the industry.

Sarah Nicholson, senior partner
MX Consulting Services

Speaking up when others don't

The Risk Management Association has a lot on its plate in the run up to its 29th securities lending conference, as SLT finds out

The Risk Management Association's (RMA's) mission in life is a pretty sound one. As a member-driven professional association, its purpose is to "advance sound risk principles in the financial services industry", says its mission statement. The statement adds that the RMA helps its members to use "sound risk principles to improve institutional performance and financial stability".

It is this last point that the RMA has its hands full with at the moment. In August, the RMA released the results of a survey that looked into how financial institutions are dealing with wrong way risk, which it conducted in conjunction with audit firm Deloitte.

Wrong way risk is defined as the risk that exposure is adversely correlated with the credit quality of a counterparty. The survey found that, while many financial institutions are making progress with managing wrong way risk, nearly a third of those that were surveyed are making no attempt to monitor it.

Speaking at the time, Deloitte capital markets partner Vishal Vedi said: "While many banks have made substantial progress improving their management and measurement of wrong way risk since the beginning of the financial crisis, the survey shows that this masks large differences across the industry. Those institutions that were quickest to react tended to be those who had advanced model approval for counterparty risk and were under pressure from regulators to make near-term improvements to their management and measurement of wrong way risk."

"A small number of institutions prioritised competing risk management and other pressing regulatory issues over wrong way risk remediation efforts. A substantial minority of surveyed institutions simply does not recognise it as a material risk to their operations, and have made no effort to develop their capability. This divergence of attitudes towards wrong way risk across the industry is symptomatic of the complex and institutional-specific nature of wrong way risk, which does not lend itself to a one-size-fits-all approach."

The RMA's associate director of securities lending and market risk, Fran Garritt, added: "The latest Basel III framework introduces a series of changes to better address wrong way risk. This includes a requirement to calculate future exposure under stressed market conditions, and a conservative measure of 'exposure at default' where specific wrong way risk has been identified. Against this backdrop of regulatory change, we expect a sharper focus in future on how banks measure, monitor and manage wrong way risk."

Three times a lady

While the RMA works to educate its members and keep its finger on the pulses of the many industries that its members work in, the association also works with the world's many regulators—across the US, Europe and the Asia Pacific region—to update them on what financial industries think about proposed rules and regulations.

Basel III is one regulation that the RMA's director of securities lending and market risk, Christopher Kunkle, is looking at on behalf of the association's agent lender members.

The US Federal Reserve is seeking comment on three notices of proposed rulemaking that would revise and replace current capital rules, bringing the US in line with Basel III and other regulations.

Basel III, which is being implemented over a six-year period from 2013, will require financial institutions to maintain capital equivalent to 7 percent of their risk-bearing assets. This level is significantly higher than what is currently required. Kunkle says that proposed rules under Basel III could affect risk weightings and capital charges on the securities lending business.

The comment period was originally due to end on 7 September, but the US Federal Reserve extended it to 22 October to "allow interested persons more time to understand, evaluate, and prepare comments on the proposals".

Kunkle says: "The comment period ends on 22 October. We've met with the US Federal Reserve in Washington, DC, to have a discussion. We also have a comment letter that we'll file before 22 October. This is to share our thoughts on what we see as appropriate capital levels and risk weightings for lenders. That is front and foremost right now in terms of timing."

Other regulatory initiatives on the RMA's radar include the Financial Stability Board Workstream on Securities Lending and Repos's policy recommendations to strengthen regulation of securities lending and repos within the context of the shadow banking system, and Section 165(e) of the US Dodd-Frank Act, which addresses counterparty concentration limits. The RMA has filed comment letters for both and is awaiting responses from regulators.

The level of regulatory upheaval will undoubtedly come up at the RMA's 29th conference on securities lending, which kicks off on 8 October.

> Even some bankers think that there are certain portions of Dodd-Frank that are good. There are some sensible rules in Dodd-Frank that help the investing public.
>
> **Chris Kunkle**
> **Risk Management Association**

Kunkle says that a triparty repo update will be popular, particularly as the US Federal Reserve will be participating. Otherwise: "I think if you look throughout the whole agenda—other than two trading panels—you've got regulation, regulation and more regulation, as well as the different attributes that are tied in to it."

Banking regulations are also on the minds' of US politicians who are preparing for the presidential election in November. Reports have suggested that if Republican presidential candidate Mitt Romney wins, he could repeal Dodd-Frank. But Kunkle disagrees.

He says: "If Romney gets elected, I don't think Dodd-Frank would be totally repealed because there are certain parts that are actually good. As Romney is a republican and a fiscal conservative, if he becomes president I think there will be a review of the regulation, because it is very broad, with 2000 pages of legislation, and it is perhaps becoming too ominous. Even some bankers think that there are certain portions of Dodd-Frank that are good. There are some sensible rules in Dodd-Frank that help the investing public." **SLT**

Digging for gold

Latin America is an important part of the world, but how are securities lending markets faring so far this year? SLT takes a look

MARK DUGDALE REPORTS

Latin America has long been hailed as a future destination of choice for investors, innovators and everyone in between. Markets such as Brazil and Mexico are often thought of as emerged, while their Latin American cousins, such as Chile, Argentina and Colombia, are on their way. But for securities lending, all in Latin America may not be as cozy as it once seemed.

According to a Markit Securities Finance's Long Short Ratio for Latin America, which tracks market sentiment, longs outnumber shorts by 42 times in a region where the value of stock on loan is $944 million against a lendable supply of $40 billion.

Judy Polzer, global head of securities lending product at J.P. Morgan, which executed and settled a securities lending transaction in the Brazilian market in May 2011 to become the first non-domestic agent lender to complete a loan transaction in Brazil, says that "securities lending throughout Latin America has been developing at a relatively slow pace".

She explains: "The Brazilian financial market has good liquidity and well-defined policies, procedures, and infrastructure. However, securities lending transactions are executed through the CBLC (Brazilian Clearing and Depository Corporation), which acts as a central counterparty (CCP). This CCP model has historically limited participation to onshore institutions only. Offshore lenders are slowly warming to the idea of accepting the CBLC model with certain modifications or concessions. Borrowers are generally averse to making such concessions, as their needs can often be satisfied locally through the CBLC."

"Mexico, which embraced securities lending years ago, is a specials market with few stocks that contribute significantly to revenue. Interest in other markets (eg, Chile) is limited (ie, one-off opportunities), making these lower priority markets for our due diligence reviews."

A friend in CBLC

The CBLC was created in 1997 and was charged with providing an integrated and national depository clearing, settlement, CCP and risk management solution for the Brazilian securities market.

Today, the CBLC is focused on its CCP role when it comes to securities lending. Clearing agents participating in securities lending must satisfy a minimum set of conditions—proving their operational and financial capacity—before they can trade.

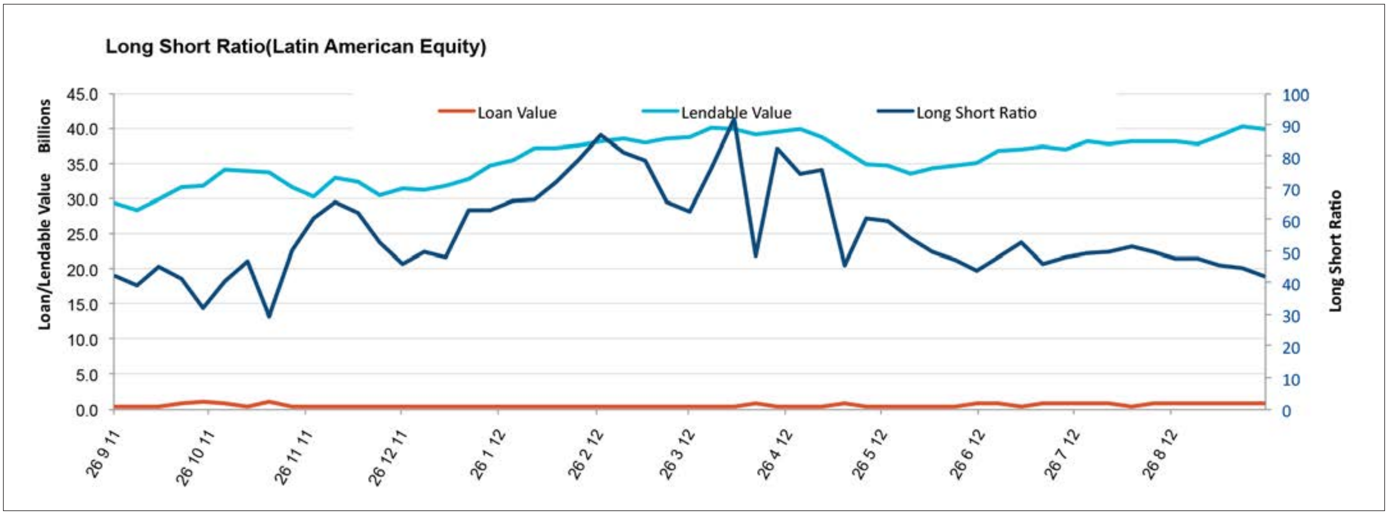
The CBLC marks to market daily the collateral that is required to cover investor liabilities in markets with either future settlement or securities lending. The CLBC uses OCC's Clearing Members-Theoretical Intermarket Margin System for this purpose.

This system calculates the collateral that must be posted with a 95 percent confidence level. Operational limits for each participant are defined according to the amount of collateral that has been posted, while clearing agents define limits for their clients. Broker-dealers can only operate within these limits, which are controlled in real time.

Polzer says: "As the CBLC clears all trading activity, not just securities lending, local market participants are comfortable with the system and consider it part of the normal course of dealing. An appropriate level of due diligence is necessary to make sure that the operating model is well understood and can be explained to clients in a comprehensive manner."

The possibility of this CCP model being adopted regionally or even internationally is difficult to judge, but Polzer does not think that Brazil's way of doing securities lending business is a sign of things to come.

She says: "The CBLC model, whereby all collateral is held by the exchange, is not a sustainable model for agent lenders to manage on a large scale. Brazil's market is currently a specials only market; consequently, reasonable re-



turns can be earned with relatively small on-loan balances. If this model were applied to markets with much higher utilisation, I think it would be difficult to manage. We have looked at other CCP models outside of Brazil and it is still not clear that there is a net economic benefit for the client."

Gregory Wagner, global head of prime services at Itaú BBA, says that it is true that the CCP securities lending model at the CBLC takes collateral out of the market.

"This effectively makes the collateral unavailable for reinvest strategies, which is an important part of the revenue for 'volume' lending activities. However, we should remember that it was the reinvest strategies themselves that caused significant problems over the years."

"As such, perhaps the argument can be made that the CCP lending model encourages 'value' lending strategies (which doesn't necessarily require a bolt on reinvest strategy). The question is whether this also encourages good trading behaviour, bringing focus back to simpler, less risky lending strategies."

Ones to watch

A successful securities lending market requires sufficient depth and breadth of liquidity in the primary financial markets, according to Polzer.

"In this regard, Brazil has been the most successful. Some countries such as Mexico have established securities lending models but lack sufficient primary liquidity to support much volume in lending. Other countries, such as Chile and Peru, continue to elicit interest, but require higher liquidity and market capitalisation levels to become viable."

"Securities lending will continue to develop slowly in other Latin American markets as participants seek further development of the current operating models, regulations and securities laws."

Paying for the location

SLT talks to Rob Sammons of Anetics about technical solutions to one of Europe's regulatory problems

JENNA JONES REPORTS

What is happening with short selling regulations in Europe?

Earlier this year, the European Parliament's regulation on short selling of securities and certain other instruments came into being. With a 1 November 2012 implementation date, this has the industry in a scramble as to what needs be done to meet requirements. The regulation provides that a person may not enter into a short sale of shares or sovereign debt unless that person has: (i) borrowed the shares or sovereign debt; (ii) has entered into an agreement to borrow the shares or sovereign debt; or (iii) has an arrangement with a third party confirming that the shares or sovereign debt have been located.

How has this interested your customers recently?

It is this third option, confirming that shares have been located, that has attracted the most interest as the easiest way to meet requirements in a high-volume trading environment. Anetics has a long history of providing technology for the short-sale locate process going back to the implementation of Regulation SHO in the US almost eight years ago. This technology has been extended to meet new requirements put forth by the European Securities and Markets Authority.

What does it mean to give a locate?

At its core, the process is quite simple. Firstly, a locating broker must have an accurate catalogue of securities that are known to be available to borrow from third-party lenders, or available from within the broker's own firm and eligible for re-hypothecation to cover a customer short sale. Then from this list, the broker applies certain factors, haircuts and filters to arrive at a quantity of shares that is believed to be readily available to settle any short selling. From that quantity, the broker may grant a locate to one or more customers.

What's different about doing a locate in Europe versus the US?

The challenge in Europe is that it is not enough just to know that one or more custodial banks or brokers have a certain quantity of shares available to lend, but one must also know where those shares are domiciled. For securities that trade in more than one country, there may be fees, taxes or restrictions that are associated with moving stock from one country to use for settlement in another.

Has there been any movement towards using an easy-borrow list in Europe to obviate the need for a locate?

As in the US, there is the concept of generating an official easy-borrow list for Europe. While still not 100 percent clear as to how one should go about generating and using such a list, we have a good idea. Firstly, we've ruled out that one can make a global list for all of Europe, but rather we intend to make country-specific lists. Requirements for easy-borrow status will include a variety of factors such as current trading pattern (derived from price and trading volume over a multi-day period), available shares that are offered for loan, from how many different sources, and the availability trend over a multi-day period.

What does Anetics offer in the way of product that can help with this?

The Anetics Argent platform has tools for managing all of the above. And most importantly, it generates the requisite audit trail documenting who received a locate, when they asked for it, when it was offered or granted, and why (documenting the expected source of supply or reason the locate was given).

How does this system work?

There are four ways a customer may interact with the system. The simple, easy way is through a web-based application, where the customer can enter new locate requests, have access to locates that are already given, see and copy easy-borrow lists, and the like.

To do a new locate request, the customer types (or pastes in) a list of one or more securities with quantity, and the country in which the customer intends to sell such quantity short, and the system will respond with an immediate indication of 'yes', 'no' or 'maybe'. The 'yes' and 'no' responses are tendered where the system can either do an automatic locate that is based on rules that have been configured for this particular customer, or where the system knows based on other general rules that the security will not be eligible for short selling. The 'maybe' response puts the request into a pending status, where the locate must actually be acted on by the firm's stock-loan desk personnel.

This same interaction is supported via three other methods, which are all machine-to-machine. The customer may use FTP (or any of its secure variants) to submit a file listing locate requests. The customer will get a file back with the response. The customer may use Simple Object Access Protocol web services to make locate requests and to check on the status of any pending responses. Or the customer may use Financial Information eXchange (FIX) messaging to submit locate requests, receiving a FIX message back immediately on action.

Since there has been a new trend where some customers must actually pay a fee to the broker to receive a locate, and some locates have pre-borrow requirements or a high cost of borrow necessitating customer approval, the platform supports the concept of a locate being offered, accepted, declined, and yes, even cancelled, including an automatic cancellation if an offered locate is not accepted within a certain period of time. All of this is because locates are offered or given from a limited pool of available supply, and if they are not to used by one customer, they can be reserved for another.

The Argent system is easy to implement. Anetics hosts the platform on behalf of its customers so there is no investment in technology infrastructure by the clearing broker (or broker that may be offering locates). It is available white-labelled so the broker may brand it with a proprietary application name and have it appear as a part of the broker's own internal tool kit. **SLT**

Rob Sammons
Managing partner
Anetics

Change is afoot

SLT talks to Robert Chiuch of BNY Mellon about the challenges facing the securities lending industry, regulation, Global Collateral Services and more

MARK DUGDALE REPORTS

What challenges have you faced in 2012?

I believe it's fair to suggest that our current business environment is challenging for most. Regulation, collateral flexibility and deal flow are likely at the top of most organisations' attention lists. The first two can't be done well without allocating significant resources in people, time and expense. The latter is a function of market forces, which are currently lackluster at best.

While we've all seen mark to market improvements on the back of rising indices, corporate activity that traditionally drives equity securities lending profitability is at some of its lowest levels in almost a decade. We haven't seen such poor M&A markets since 2003, with IPO levels off significantly as well. Crowding in specials is significant in many cases. Hedge fund AUM appears to slightly higher, though participation and leverage still seems somewhat flat by most accounts and placing cash remains a challenge in most currencies. I'd be remiss to also not briefly mention geopolitics that continue to affect our business, including the US election and the fiscal cliff, EU financial stability, Chinese economic stability, and social unrest in various parts of the world. As dark as this all sounds, it's not all bad, and opportunities often accompany challenges. Quality earnings growth, however, has to be the focus. We've seen growth though I would categorise it as half a smile until conditions improve.

What about regulation?

I can't speak for the industry on regulation. I do think some general observations we could likely all agree on are that the cost of doing business, including capital, compliance and administration, continue to rise. Given the conditions I mentioned above, it's relatively more challenging to grow quality businesses and, therefore, market confidence will continue to drift. The multi-dimensional and highly complex nature of compliance will favour only the largest and strongest market participants with significant resources to spare. The ability to adapt and reframe your business within this new world could make the difference between success and failure.

How did Global Collateral Services come about?

We recognised that there was an opportunity in reacting to the systemic challenges—in bringing together some of the key business units that could play a critical role in this kind of environment. It made a lot of sense to combine those operations because there were a lot of synergies with incremental complementarity.

Global regulations and changing market dynamics are mandating new and complex requirements for the use of collateral, which are forcing both sell-side and buy-side firms to reevaluate their need for and use of collateral. We have a compelling opportunity to build on our industry leading position in this space given the clear and growing client requirements for secure, efficient and reliable collateral services. BNY Mellon, I believe, is distinctively positioned to help clients in the current economic environment.

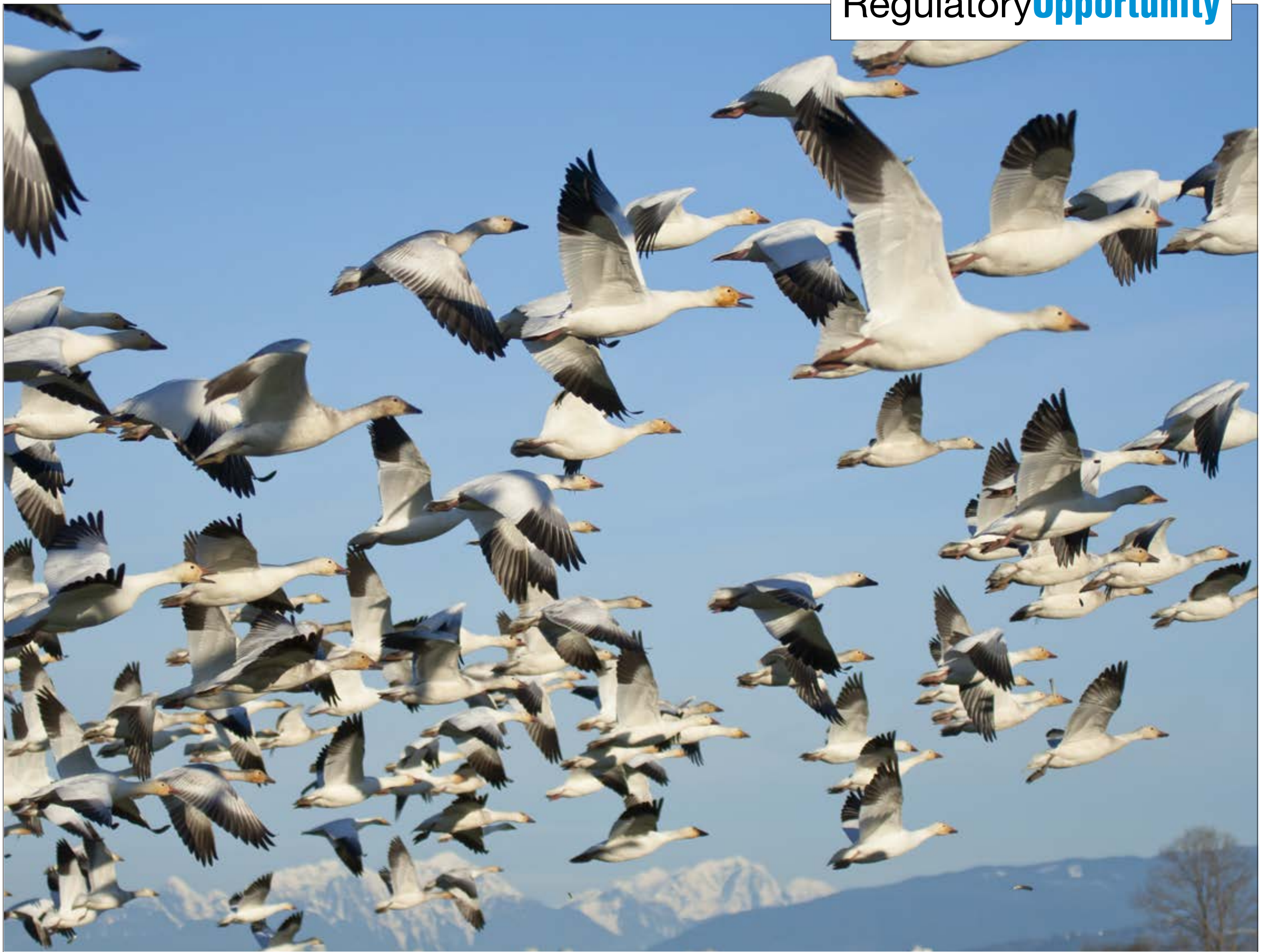
We operate a proprietary global collateral management technology platform that is designed to efficiently handle all asset types that are denominated in any currency. The platform processes a wide array of transaction types, including derivatives, tripartyrepurchase agreements, portfolio swaps, and collateralised loans, as well as a wide variety of margin management activities. Global Collateral Services addresses the growing need for our clients to manage their counterparty and market risk through the full range of innovative collateral management solutions that we offer. This move will accelerate our ongoing product development in an area where we already enjoy a significant competitive advantage.

Senior management has been very supportive of our business and they continue to invest in it. As a result, we have made a number of changes in our business and in human resources, we're investing in technology, we're building out the product base, we're revisiting our collateral profile and related businesses, and you can see this sort of change happening at the organisational level as it relates to Global Collateral Services. We're very well aligned globally.

Is there any truth in the rumours that you could be making changes in the Asia Pacific region?

Yes, change is under way in the Asia Pacific region. Simon Tomlinson has done a fabulous job in building out the region to the point that it requires certain investments to be made. I'm not quite ready to talk about it yet, but we will be ready to go into more detail soon. SLT

Robert Chiuch
Managing director and global head of equity securities lending
BNY Mellon



Pooling your collateral

Stefan Lepp of Clearstream Banking outlines the effect that T2S is having on market participants and where they should go next

For quite some time now, the post-trade securities services sector has been waiting to see whether the TARGET2-Securities (T2S) initiative really would fly. But the will-it-won't-it uncertainty is over: T2S is definitely on its way and it is time to make sure we are ready because the impact on the European post-trade sector will be tremendous.

So far, 23 central securities depositories (CSDs) have signed the T2S Framework Agreement and are now committed to joining the eurosystem-operated centralised platform, which is currently scheduled to go live some time in 2015. We all face a great deal of work now, but taking a look at the bigger picture shows just what there is to be gained through T2S.

The fact that all participating CSDs will be required to outsource their settlement activity will drive forward a much higher level of standardisation leading to long-awaited efficiencies and cost-effective processes T2S operations will be confined to settlement, but the effects will be felt way beyond just the settlement activity. In particular, T2S will give rise to a new European securities environment that will have a particularly important and beneficial impact on asset servicing and collateral management.

Collateral management is key

In the boom years before the 2008 banking crisis, banks seeking to access specific markets would need to find a securities services supplier and would be likely to choose a CSD, an international central securities depository (ICSD), such as Clearstream or Euroclear, and/or a custodian bank. One of the most important buying decision criteria at that time was the price of the services while, of course, buyers would also factor in more qualitative judgements such as the level of customer service and their working relationship with the supplier.

However, since the crisis, and since every market participant has become aware of the massive oncoming wave of new regulations, we have seen a significant change in buying behaviour. Nowadays, clients are much more concerned with ensuring that they have access to various value-added services and, above all, to collateral management. The reasons for this are clear.

Efficiency, cost-effectiveness and easier cross-border transactions were the main focus points for regulatory initiatives a decade or so ago. Indeed, T2S was designed to facilitate all three of these aims. But the crisis changed the horizon and regulators made risk management their greatest priority. As we all know, the result has been the formulation of a number of measures that will strengthen banking capital requirements and mandate a much greater collateralisation of exposures, especially in the derivatives space.

The financial industry is therefore challenged by some very difficult decisions on how it can manage increasingly scarce capital resources and limited liquidity capacity. In April 2012, The Quantitative Impact Study of the Basel Committee on Banking Supervision reported that banks in Europe faced an aggregate shortfall of stable funding of €2.78 trillion in fulfilling the additional liquidity requirements of Basel III.

Globally, the industry has an unprecedented need for collateral and sufficient levels of collateral management. A recent report from Moody's (Managed Funds: New OTC Regulations will Boost Demand for Eligible Collateral) looked at the effect of upcoming derivatives regulations on collateral and estimated that the global industry would need between $700 billion to $1.2 trillion more collateral to comply.

At Clearstream, we have a very privileged view of this particular challenge as we are a leading global collateral management supplier. Together with our customers and strategic partners across the globe, we have been able to design and implement a wide range of dedicated collateral and liquidity management services covering the individual needs of all types of industry participants in line with existing and upcoming challenges. Our mission is to support financial and non-financial institutions in the space of optimised collateral identification, consolidation and allocation without jeopardising existing or scheduled business opportunities or reciprocity arrangements. Or to keep it short: we have designed service models that support our customers in drastically reducing collateral fragmentation, which will lead to an immense cost-saving potential going forward.

In the meantime, most institutions have identified that their lack of an efficient and transparent collateral management set-up is resulting in significantly higher costs compared to the perennially and intensively negotiated 0.xx basis point custody fee reductions. Last year, a study undertaken by Clearstream with Accenture explored how banks managed their exposures and found that the majority did not have sufficient capability to optimise their collateral management. Accenture reported that between 10 and 15 percent of available collateral lay idle within the global institutions studied.

As described, the biggest challenge facing institutions is the fragmentation of their collateral, both internally within different business lines and departments across the bank's international activities, and externally across different custodians and platforms. Accenture showed that most institutions were not able to have a single overview of their available collateral with the result that they were unable to allocate, optimise and substitute collateral efficiently.

T2S encourages consolidated pools

This is where T2S will become extremely complementary towards Clearstream's wide range of collateral management services. The consolidation of securities settlement on the centralised T2S platform will enable a more efficient concentration of asset volumes into fewer locations that facilitate greater scope for collateral optimisation. And this is why institutions will need to choose the right access point to T2S as they will need a custodian that can deliver top quality collateral management. Selecting the right service provider will enable market players to pool their global collateral, make it work exactly when and where it is needed, and so reduce the high cost of over-collateralisation.

We have designed service models that support our customers in drastically reducing collateral fragmentation, which will lead to an immense cost-saving potential going forward

Again, Clearstream is in the fortunate position of being both the largest CSD participant (Clearstream functions as the CSD for the German domestic market) in T2S, accounting for around 40 percent of the expected volumes, and an ICSD. This means Clearstream customers will be able to benefit from pooling all assets across both T2S and international environments in order to create the best collateral optimisation opportunities. These opportunities will be further strengthened by the growing number of strategic partnership arrangements with infrastructure providers outside of Europe (so far in Brazil, Australia, Canada and South Africa) and agent banks/global custodians.

A changing environment for CSDs

Depending on the fee model introduced by individual CSDs, the T2S platform removes or at least reduces a key revenue stream (that is, settlement) for the CSDs joining T2S. At the same time, the T2S environment opens up all participating CSDs to wide competition for the first time and, as mentioned above, clients are increasingly demanding higher quality asset servicing and collateral management solutions in line with the significant wave of regulatory changes.

In this respect, Clearstream can support strategic partner CSDs entering the T2S world in building up their service range particularly in the key area of collateral management, so that they are ready for the post-T2S world. Within the Liquidity Hub GO (Global Outsourcing) service, the strategic partner CSD will be able to offer the full range of collateral management services (identification, optimisation, allocation, substitution, and so on) to its underlying customer. In the frame of this offering, Clearstream's solution is pioneering because it has designed the collateral management outsourcing facility to ensure that the partner CSD will not be required to transfer any securities (collateral in scope) into a Clearstream environment. Neither an internal nor an external transfer into Clearstream books is required and, as the service is white-labelled, Clearstream does not even appear in the market as a service provider to the customers of the partner CSD. This unique approach, which has gained wide approval among regulators, highlights Clearstream's willingness to work together with strategic partner CSDs and sends a strong signal in support of an approach that mutually strengthens the financial industry without weakening individual markets. Iberclear is the first European partner CSD following this new path and we are well on track with the project.

Creating value through partnership

In conclusion, it is clear that T2S is going to revolutionise the post-trade securities services landscape. Adapting to the changes will be easier for some than others and of course there will be costs involved. However, the challenges need to be weighed against an upside that will benefit the entire sector: centralisation will drive forward the standardisation and streamlining that the European industry so badly needs. Competition will drive up the level of services and collateral management will become more efficient and cost-effective as institutions are able to consolidate larger, deeper collateral pools. The final result will mean a stronger, more efficient and sustainable environment that can hold its own on the global stage. All of this will be achieved faster and more efficiently in an environment of smart partnership, where individual requirements and concerns of all parties that are involved are identified and taken into consideration. **SLT**

Stefan Lepp
CEO and head of global securities financing
Clearstream Banking

Up, up and here to stay

SLT talks to Francesco Squillacioti of State Street about beneficial owner interest in Asia and the continent's regulatory roadmap

MARK DUGDALE REPORTS

What stage are the securities lending markets at in Asia?

Asian markets have developed substantially over the past several years, creating a number of mature markets in the region, such as Australia and Japan. There are also opportunities in several markets where we are either not yet lending but exploring, or where there is still no lending framework. Part of our work as an agent lender is to determine exactly how those opportunities will come into play and how to make them work for our clients, but we think that they will be fertile fields. We have dedicated significant resources to client-facing staff and trading in Asia, with a team of about 30 people. Our approach is fairly bullish, representing how we feel regarding the type of activity that we see.

Also, we have had clients in the region for a long time now, and securities lending has remained an important source of incremental revenue. So, from the beneficial owner point of view, interest in securities lending remains high, and lendable assets continue to grow. However, the reality is that the market is more challenging than in years past, with increasing pressures on spreads. This pressure forces lending agents to try harder to find value in clients' portfolios and offer clients the flexibility they need to generate returns in line with client guidelines.

Clients are looking to have additional monitoring and checking—including for exposures, collateral restrictions and many other aspects of their securities lending programme. We see this as a healthy and constructive level of interest, and we are having many more meaningful discussions around this with our clients. Additionally, we are receiving many more requests for greater transparency from clients. This has created the need for more and more varied reporting into the different facets of the lending programme. We view this as positive, as we have always made transparency one of our hallmarks.

How does the securities lending market in Asia compare to those in the US and Europe?

In general, I would say that the markets look similar. It depends on the stage the particular Asian securities lending market is at, and whether that market allows for a particular strategy. In a broad sense, strategies can be applicable in Asia as they might in Europe or the US. Like Europe, Asia is not a single, homogeneous market, and regulation is varied from market to market, country by country. Differences in regulation or tax construct can create opportunities in that they may open the way for a particular type of lender (beneficial owner) to lend in that market. We need to continue our focus on viewing each market strategically and understanding the development and progression of these markets to translate any changes into opportunities for clients.

Another side of this question is to look at the beneficial owners in Asia that are involved in securities lending programmes. In a relative sense, lending is a newer construct for clients in Asia, though again it varies by market. Regardless, I feel as though clients in this region have covered a lot of ground quickly, and there are many points of intersection with clients in other parts of the world in terms of things such as collateral guidelines, lending limits, and so on.

How representative is China's move to develop its securities lending framework of Asia as a whole?

First, the development of a securities lending market in China is an area that generates quite a bit of interest. The Shanghai Stock Exchange, for example, is further implementing and broadening rules to permit Chinese brokerages to take advantage of margin lending and securities lending. As an offshore lender, we are interested to see how rules may develop for offshore participants, but I think that directionally, this is quite positive for the securities lending markets.

This does have some resemblance to what we see in other Asian markets. Because of the markets' different stages of implementing securities lending, it's important to understand the rules. The implicit understanding is that the way something would work in one market would probably be different to other markets in Asia. So, we have to look at developments through two lenses: how the securities lending market is going to operate in the context of how we function (or what modifications we may need to consider to lend in that market), and more importantly, if the way a market operates will work for beneficial owners.

When we look at entering a new market, we need to consider applicable regulations, including any tax-related rules or reporting regimes, as well other unique characteristics. For example, some markets, such as Taiwan, have more centralised trading activity, and nuances in a market such as South Korea may influence how we process things from the actual loan transaction, or even things like collateral considerations or corporate actions.

When we are exploring our ability to work with beneficial owners in a new market, we also have to consider whether there are established rules for lending, what they are and any relevant tax rules. Ultimately, both sides have to work in harmony: the structure has to be one that supports lending activity and at the same time, lending in a particular market needs to work for the beneficial owners.

How responsive do you find regulators in the various markets?

We have seen several cases where regulators have been very responsive and proactive in terms of getting feedback from the different players in the region, with Taiwan being one example. In general, the regulators are good at trying to understand how things work and what the participants in the market would like to see from an operational standpoint. That is not to say that the regulators would necessarily implement all of the market participants' suggestions, but I think that discussion and dialogue is important, and regulators in Asia demonstrate a willingness to listen.

We see it as a reciprocal relationship. We appreciate the fact that regulators must be comfortable with how securities lending will work in their respective markets. And, we are supportive of these rules being implemented in Asia as they promote clarity, which gives us a good chance of developing a workable product.

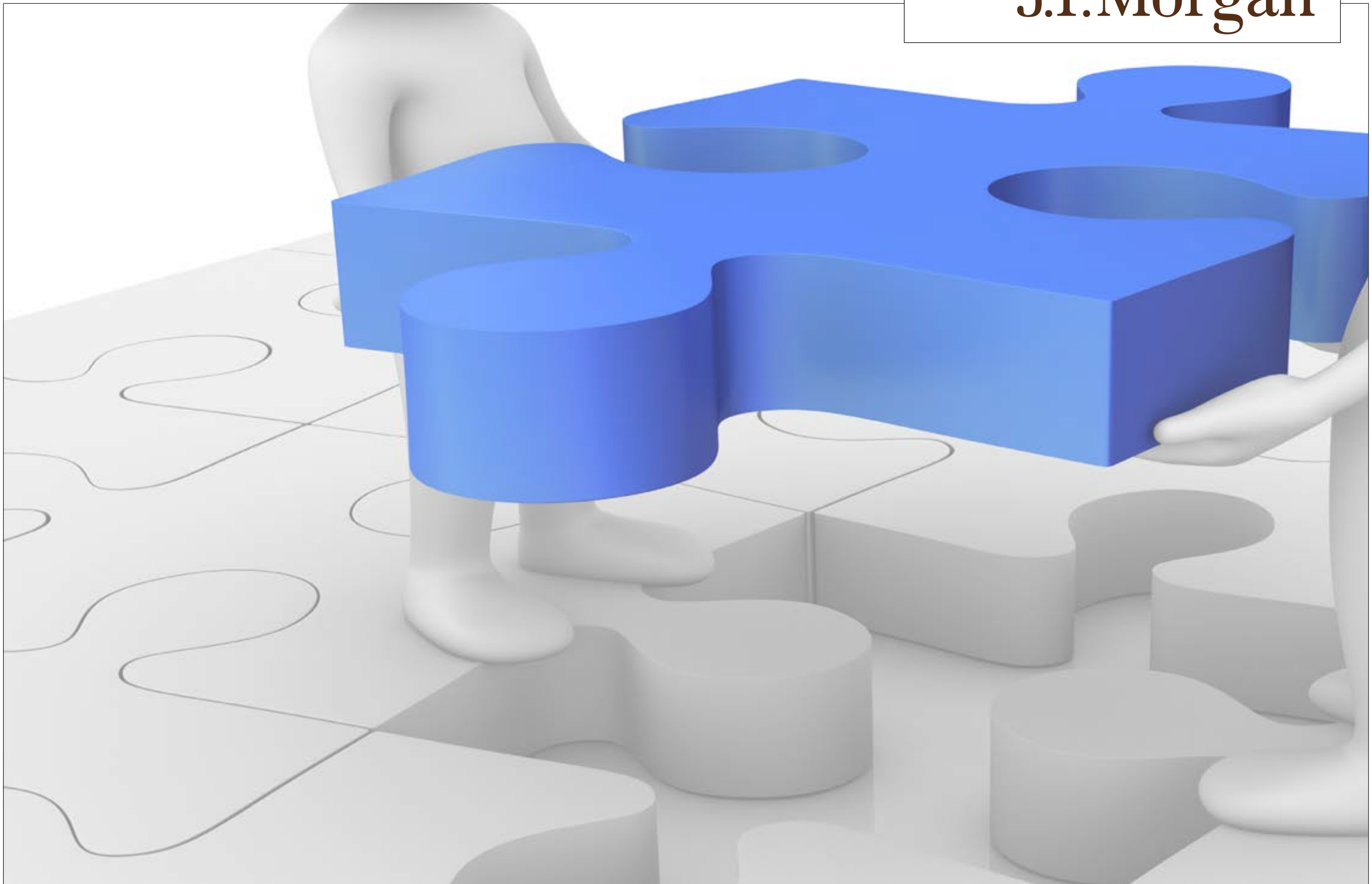
Do you see impacts in Asia from other global regulations?

As for the US Dodd-Frank Act, Basel III, and the others, I don't currently see a direct impact on the markets here. That is, there is no Asian version of Dodd-Frank, for example, that would have an impact on how lending works in a market. While we are waiting for further clarifications on some of the pending US and European regulations and what the implications could be for securities lending, I do think that there could be some impact in Asia. It is likely that global lending agents or other global market participants will need to comply with one or more of these rules, and that will most likely have an effect on how business is conducted by global firms in places such as Asia. There could be a lot of crossover, but it remains to be seen how the actual rules will play out.

Do you have any final thoughts?

Asset growth and developments in the Asian securities lending markets give us cause to be quite optimistic about the future of our business in this region. **SLT**

Francesco Squillacioti
Senior managing director and Asia Pacific
regional business director
State Street's securities finance division



Major milestones ahead

Mark Trivedi of J.P. Morgan Worldwide Securities Services provides an update on US triparty repo reforms

By year-end 2013, J.P. Morgan expects to complete the work that is needed to achieve the Phase Two Target End State as agreed with the Federal Reserve Bank of New York. To meet this aggressive target, the firm expects to hit three key milestones during Q4 2012, which are designed to eliminate a portion of the financing requirements that dealers and cash investors currently cope with on a daily basis.

1. Eliminate non-maturing triparty repos (TPRs) from the daily unwind. This step alone will remove 40 percent of the volume from the process each day and significantly reduce the amount of credit that is extended for 90 to 120 minutes each day. To achieve this first step toward the systemic reduction of intraday credit exposure, J.P. Morgan is making a series of technological and processing changes internally.

2. Enable dealers to re-optimise purchased securities without unwinding the transaction. This capability leverages J.P. Morgan's award-winning Auto Substitution capability, which allows securities-for-securities substitutions to keep the terms of the deal whole at all times. Systemic substitution enables appropriate collateralisation throughout the day, but the composition and allocation may shift, creating flexibility that meets the requirements of both parties.

3. Introduce intraday substitution for intrabank general collateral finance (GCF) in triparty repos, shifting the unwind for those securities to 3:30 pm in order to coincide with the broader process. This will significantly reduce the duration of the credit extension for GCF repo. Auto Substitution will support intraday delivery of GCF rehypothecated securities.

According to Michael Albanese, global head of clearance at J.P. Morgan, these changes represent a significant step toward fully eliminating credit risk, the prime objective of the Phase Two Target End State. "Following our guiding principle of minimising the impact of reforms on clients as much as possible, we expect the majority of this work to take place behind the scenes," he comments. "By the time these changes are introduced in the fourth quarter, we will have already provided our clients with the resources and tools they'll need."

Trivedi: During 2012, we expect to eliminate a significant portion of US triparty repo daily financing requirements

Even so, the effect should not be underestimated. There are significant benefits to clients stemming from the removal of non-maturing TPRs from the daily unwind: for example, dealers will see their credit reliance on the clearing

bank reduced, and the continuous allocation model will position the US markets more in line with the international tripartry repo model.

A measured pace

Another guiding principle for J.P. Morgan's approach to reforms is to avoid creating unexpected risk or consequences. Therefore, the firm is taking a measured pace and working collaboratively with clients to ensure that they are prepared in advance for any changes. Although the timeframes are aggressive, new processes are introduced gradually and sequentially so that market participants have a chance to understand them and gauge the impact of each event on their businesses.

Overall, J.P. Morgan doesn't want the introduction of reform-related changes to limit counterparties' financing activities. Specifically, the firm is steering clear of any wholesale exclusions of asset classes. "It's not for the clearing bank to determine asset eligibility," notes Albanese. "Those decisions will continue to be made bilaterally between the counterparties based on their risk tolerances and profiles."

As the firm plans ahead for 2013, Jason Paltrowitz, Americas markets executive for banks and broker-dealers at J.P. Morgan, expects that the draft term sheet for J.P. Morgan's new secured committed credit advance facility will be shared with clients near year-end. Although this will not go into effect until 2013, Paltrowitz says: "We want to share this early with our clients as it represents a significant shift from how credit is managed today. We want everyone to have sufficient time to absorb the implications of the changes that will come in 2013 and allow ample opportunity for productive conversations."

Reaching the goal

During 2013, J.P. Morgan expects to complete the final set of activities to meet the Phase Two Target End State. Market participants can expect significant change to the market model, including simultaneous exchange, a fully revised and integrated settlement process and the introduction of J.P. Morgan's secured committed clearance advance facility.

This ambitious set of activities requires a careful assessment of change, coordinated implementation, and taking the time to do it right to avoid unintended consequences.

Paltrowitz: These are important discussions and we want to allow enough time for everyone to prepare

Paltrowitz says that J.P. Morgan will take the same approach to future changes as it has to those in the past 24 months. "We've worked closely with our dealer and cash investor clients throughout this process and will continue that dialogue," he says.

Trivedi: During 2013, we'll introduce new innovations that streamline the process for counterparties to exchange cash and securities, helping them more easily manage their financing

Given the range of topics to be discussed—new tools and technology, systems and operational changes, possible revisions to agreements or procedures, testing and implementation—there will be no shortage of things to talk about. Paltrowitz notes: "The combination of our aggressive timeframes and careful approach has been the key to our success so far, and it's laid the foundation for reaching the target end state. It's a strategy we'll maintain until we reach our goal."

Albanese: Our goal is to minimise the impact of reforms on clients as much as possible

By year-end 2013, J.P. Morgan will have achieved that goal—credit risk to the firm as the clearing bank will be limited and, overall, risk will be more appropriately aligned between the counterparties—all without any major market disruption.

For the most up-to-date information on J.P. Morgan's approach to US triparty repo market reform, visit www.jpmorgan.com/visit/us_tpr_reforms. **SLT**

Seven milestones on J.P. Morgan's road to reform

According to Michael Albanese, global head of clearance, the following steps are needed to achieve the Phase Two Target End State:

1. Eliminate non-maturing trades from the daily unwind. Currently, these account for about 40 percent of each day's activity.
2. Change the operating model to accommodate a newly created settlement batch process that expedites the return of cash for maturing trades.
3. Allow algorithmic settlement with a clear and unambiguous process based on collateral type that is transparent to all market participants.
4. Streamline the optimisation and allocation algorithm to expedite the settlement process.
5. Allow for simultaneous exchange of cash and collateral in an "operational moment in time" that keeps transactions fully collateralised.
6. Adjust the unwind for general collateral finance collateral, postponing it to 3:30 pm to synch up with unwinding transactions.
7. Introduce J.P. Morgan's secure committed clearance advance facility as the final step of the target state to facilitate repo maturation on fully transparent terms.

Mark Trivedi
Managing director
J.P. Morgan Worldwide Securities Services

Asia-bound

Ahead of their presence in Hong Kong for the Markit Securities Finance and Equities Forum, Will Duff Gordon caught up with sponsors to hear their take on the current market and opportunities in Asia

BNP Paribas Securities Services is very focused on its European franchise, but plans are afoot to super-charge its business in Asia. As David Racaat, head of global markets for BNP Paribas Securities Services, puts it: "Asia has been a strong drive for us since 2006. We have 500 people in Sydney and 60 in Hong Kong and we have made a big investment in our settlement and custody services in the region. We are looking at locating a lending desk in Hong Kong at some point soon as part of our investment to serve Asia Pacific clients as well as those in the West who have Asian assets."

For BNY Mellon's James Slater, executive vice president, Global Collateral Services, it is a similar story. He explains: "Asia is different from other regions since it is growth not regulation that is the story there. The dealer community has become very focused on the markets they like and many of them are in Asia. We have doubled our securities lending presence in Asia in the last year with a new dealing room in Hong Kong."

Regulation everywhere

Regulation is driving behaviour and making fixed income lending the major game in town. BNP Paribas has set up a new crack team in light of regulation called STIR (short-term interest rates) to help custody clients manage in a world that has been changed by the European Market Infrastructure Regulation (EMIR), the US Dodd-Frank Act, Basel III and Solvency II.

"Is there enough collateral to go round? Well that is a very good question", says Raccat. "Those who may have been happy to lend their government securities may now need them themselves. This is quite likely to drive up rates." He gave the example of a UCITS fund needing to keep back sovereign debt for use as collateral in a CCP to hedge an interest rate swap.

Within its STIR group, BNP Paribas is working hard to develop collateral swaps for clients but "there is real expertise to this and we see this as a big part of the future of the business," says Raccat. "In case there is a squeeze on collateral over the next few years we are working to help our clients survive it."

As the world's largest custodian, Slater and his group are also very energised by regulation and market capacity issues. Slater says: "Regulation is dominating discussion, planning and thinking. Is there enough collateral? What do proposed single counterparty exposure limits mean? What is the impact of changes to indemnity rules?"

BNY Mellon and others are doing all they can to explain to regulators the unintended consequences of making indemnities so expensive that they disappear. One hopes that regulators are listening given how most beneficial owners rely on these protections.

On the plus side, "the buy side have never had to post collateral in the same way and this gives opportunities for us". Slater is also bullish about the collateral transformation and financing space and, as the largest consolidated source of government bonds, he is a happy man that "fixed income will continue to be more interesting" in years to come.

A final interesting thought is that BNY Mellon's trading desk is becoming a more thoughtful place at a time of rising costs for everyone. Slater explains: "Most general collateral trading is automated so our traders are focused on the value-add trades. We are looking at more non-cash trades, alternative types of collateral and more term lending so pricing is more dynamic. We do fewer manual trades per week but think about each one harder."

Slater and Raccat will both be appearing as panel speakers at the third Markit Securities Finance & Equities Forum in Hong Kong on 16 October. **SLT**

James Slater
Executive vice president, Global Collateral Services
BNY Mellon

David Racaat
Head of global markets
BNP Paribas Securities Services

Outlook uncertain

Tom McKay of dealReporter analyses key quarter statistics to judge how markets are reacting to financial events

Summer 2012 has seen most European equities escape relatively unscathed, despite expectations from some commentators that we might see similar trends to August 2011, when most stock markets saw a rapid decrease in value.

In Q3 2011, trading volumes picked up in the seven major regional indices in Europe, averaging 45 percent higher than the previous year—last year, four of these indices had the highest average volume seen in the last eight years. The FTSE 100 had the smallest increase with 8 percent. Yet in 2012, we have seen a much quieter summer with a reduction in trading in six of the indices; this has averaged a 27 percent decrease in all the indices. The only index to increase was the IBEX 35, which increased by 2 percent.

As the traditional holiday month, August is always a quiet time with fewer events to trade around. During the past eight years, for example, trading activity in August has decreased a lot in six of the years, with the only exceptions being 2008 and 2011. Moreover, in both of those cases trading then decreased in the following month.

Going into the summer, many onlookers were worried that 2012 would see similar events to those in August 2011. With this mentality, trades tended to be met with more caution than might have otherwise been the case, and this limited activity. Average monthly trading volumes ranged from down 61 percent to up 20 percent compared to the same months last year, although these changes are skewed with 18 out of 21 months that were tracked having negative changes. This has had a positive effect though, as six of the indices that we track show a higher average value than a year ago. The only two to show a lower average value are Italy and Spain, both of which have been bearing the brunt of the eurozone crisis during the last six months. The problems in the eurozone have created a marked difference between arguably healthier economies such as Germany and France, and the struggling countries on the periphery. FTSE 100, CAC 40, DAX, SMI and Pan European constituents tracking indices all showed an increase in average index price compared to Q3 2011. By contrast, FTSE MIB decreased by 10 percent and IBEX 35 decreased by 19 percent.

Dividend and prosper

Maintaining dividend yields has been an important factor to investors in recent years. Moreover, any dividend suspension has the potential to cause significant problems to those investors relying on healthy payouts from companies. Recent rumours about Nokia potentially suspending its dividend suggest a more pessimistic view than the one taken by Dividend Outlook, which is forecasting a 75 percent reduction in the dividend payout. Yet any reduction, even if it is not a complete cut, could have a significant impact on the Nokia share price, particularly if it meant that the company lost long-term investors that have previously benefited from its consistent annual payments.

Some companies that have performed poorly lately have had to sacrifice their retained earnings in order to continue funding dividend payments. Twenty-seven percent of companies are holding less cash than they did four years ago, and 49 percent are holding less than a year ago. In the next three years, more than 95 percent of companies are estimated to increase their cash holdings. Out of these, four are forecast to increase their cash by x10. The companies that we expect to increase their cash by the smallest amounts tend to be Italian and Spanish companies, which have large business presences in their respective home countries.

Many companies have started to recover earnings by implementing hasty cost-cutting measures, while revenue growth has been relatively stagnant

At present, there is a strong trend for companies that decreased their dividends last year to follow this by increasing their dividends significantly when they become healthier. We are seeing a mixed timeframe for this. Some companies are increasing their dividends in the first year after a dividend cut, while we expect others (such as financials) to start increasing dividends significantly in the third year after their dividend cuts.

On the one hand, large dividend increases are often coming from companies that have reduced their dividend in recent years, possibly in response to the difficult market conditions. On the other hand, with companies that have increased their dividends in recent years, we are seeing more modest growth in the dividend going forward. Many companies have started to recover earnings by implementing hasty cost-cutting measures, while revenue growth has been relatively stagnant or even negative. This means that earnings are tending to grow quicker than revenues.

Increase is the word

Looking at the largest increases in earnings for our universe, the top 40 companies have an average EPS increase of 68 percent, while revenue growth for these companies is estimated to be only 24 percent. By looking at how payout ratios have changed, over the past six years and how they look for the next three estimated years, we can see that in 2006 and 2007 companies on average paid 40 to 45 percent of their earnings out as dividends. In 2008, this increased to 90 percent, but it has been falling ever since. Two thousand and nine unsurprisingly showed a sharp drop, as this was when many companies started to suspend their dividends. Going forward, in our first estimated year (FY2012), we are expecting to see more companies reinstate their dividends. This should push up the average payout ratio to 63 percent compared to 45 percent the previous year.

In three years' time, we estimate that the most cash-rich companies will be Volkswagen and BP plc, both with over €50 billion in cash. There is then a drop of more than 30 percent to the third-placed company, GDF Suez. The figure for BP will be influenced significantly by what happens to TNK-BP. If that asset is sold, there will be various options for BP on if or how it spends the proceeds.

For these three companies, our estimates are based on the assumption that no acquisitions will be made apart from those that have already been announced. Despite the huge amounts of cash the companies hold, Volkswagen preference shares are estimated to yield 3.8 percent and BP plc to yield 5.3 percent. These yields and the large cash reserves could allow these companies to spend money on M&A or significant capital expenditure.

During the past five years, the outlook has kept changing. At the outbreak of the financial crisis, some commentators expected the global economy to struggle for years, while others forecast a quick recovery. Now, all of these views are converging on one conclusion: the outlook is uncertain. The unpredictability of the economy in the future has meant that companies are generally tending to be cautious and focusing on increasing efficiency in the hope of increasing earnings. Some companies are struggling to do this and there have been some in the past year that have seen share prices collapse in a very short period of time (Thomas Cook is a notable example).

In this uncertain environment, one constant is that companies are still trying to attract large institutional shareholders to buy into their companies in the hope of reducing volatility. In the current climate, the most effective way for companies to attract these types of investors is to offer dividends. Companies are suspending dividends or cutting dividends as an absolute last resort so that they avoid upsetting these shareholders. With share prices lower than they have been, companies are finding it cheaper to attract new investors with attractive yields, which is mainly helping companies that have recently suspended payments. It is also producing a market with very attractive yields. **SLT**

Tom McKay
Senior analyst
dealReporter

SEPTEMBER 2012

Dividend Outlook
A dealReporter product

MOST CASH RICH COMPANIES

Volkswagen AG (Preference)

€ 53,807 m

	Cash levels in 3rd est Year (Eur m)	Yield at Year 3 (using today's share price)
Volkswagen AG (Preference)	53,807.00	3.8%
BP Plc	53,513.81	5.3%
GDF Suez SA	38,804.11	8.4%
Royal Dutch Shell Plc	33,219.04	5.4%
Electricite de France SA	29,031.06	7.4%

BIGGEST DIVIDEND INCREASES

	3 Year Dividend Change
A2A SpA	246%
HeidelbergCement AG	229%
Buzzi Unicem SpA	220%
Lafarge S.A.	200%
Lufthansa AG	180%

A2A SpA

246%

CASH INCREASES BY INDEX AND SECTOR

	Cash Y+1	Cash Y+2	Cash Y+3
CAC 40	41%	21%	16%
DAX	77%	25%	20%
FTSE 100	78%	32%	30%
FTSE MIB	67%	21%	18%
IBEX 35	32%	22%	18%

	Cash Y+1	Cash Y+2	Cash Y+3
Automotive	28%	10%	12%
Chemicals and materials	62%	43%	30%
Computer services	109%	26%	124%
Computer software	58%	40%	30%
Construction	35%	18%	16%
Consumer: Foods	55%	26%	17%
Consumer: Other	47%	23%	18%
Consumer: Retail	59%	19%	19%
Defence	63%	23%	19%
Energy	62%	12%	10%
Industrial automation	112%	41%	30%
Industrial products and services	87%	32%	26%
Industrial: Electronics	19%	23%	20%
Leisure	97%	54%	39%
Media	32%	31%	25%
Medical	411%	45%	33%
Medical: Pharmaceuticals	73%	60%	43%
Mining	56%	21%	27%
Other	30%	6%	8%
Services (other)	81%	37%	28%
Telecommunications: Carriers	29%	30%	21%
Transportation	20%	13%	12%
Utilities (other)	42%	23%	14%

AVERAGE DIVIDEND GROWTH

	Average growth	Last reported growth	pp change
CAC 40	13%	11%	-2.72
DAX	11%	9%	-2.12
FTSE 100	10%	19%	9.16
FTSE MIB	16%	-4%	-20.13
IBEX 35	10%	4%	-6.06

	Average growth	Last reported growth	pp change
Automotive	22%	83%	61.02
Chemicals and materials	8%	18%	9.62
Computer services	11%	10%	-0.39
Computer software	14%	25%	11.34
Construction	15%	6%	-9.60
Consumer: Foods	7%	16%	9.35
Consumer: Other	10%	14%	4.18
Consumer: Retail	7%	-3%	-10.42
Defence	20%	46%	26.22
Energy	6%	16%	9.95
Financial Services	15%	0%	-15.13
Industrial automation	10%	13%	2.42
Industrial products and services	10%	12%	2.32
Industrial: Electronics	5%	12%	6.57
Leisure	8%	37%	29.49
Media	12%	-9%	-20.74
Medical	18%	9%	-9.21
Medical: Pharmaceuticals	10%	11%	0.28
Mining	8%	45%	36.56
Other	2%	0%	-2.08
Real Estate	3%	4%	1.02
Services (other)	8%	9%	0.63
Telecommunications: Carriers	6%	-7%	-13.17
Transportation	10%	-10%	-20.22
Utilities (other)	8%	-8%	-16.50

French car industry in for a two-horse race

David Lewis of SunGard's Astec Analytics looks at who's going to pip who to the post

Over the last few decades, many traditional manufacturing industries in the north of Europe have come under increasing pressure from foreign imports, benefitting from cheaper labour and lower cost materials. As a result, many industries have declined or even disappeared. For example, we do still make cars in the UK, but they are either very low-volume, high-priced toys (Morgan, Ariel) or foreign brands building cars here to sell in Europe (Nissan, Toyota). Even Jaguar, Land Rover and the iconic Mini are no longer British.

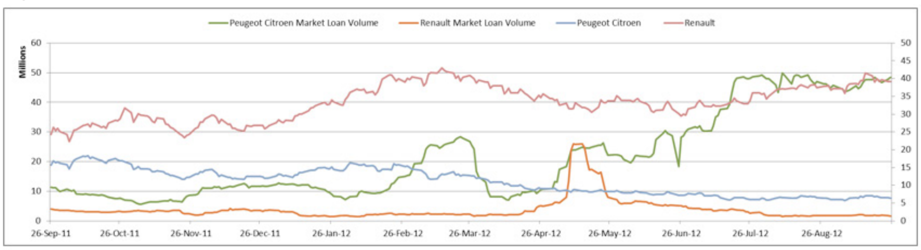
Looking across the Channel, are the big French manufacturers heading for the same fate, or is it 'vive la difference'? Peugeot Citroen and Renault are under increasing pressure from all sides—foreign competition, workers' strikes and arguably even their own government—are seemingly conspiring to bring these once great names down to their knees. Still, Renault seems to be climbing, while its long-time rival and countryman Peugeot Citroen is faltering.

Figure 1 shows the share price (right axis) and the volume of shares on loan (left axis) for both Renault and Peugeot Citroen.

For Renault, the balance on loan has been relatively benign, sticking below 5 percent for the most part with the notable exception of the large spike shown around dividend time at the start of May. Fee levels have also been unexciting, rarely straying above 20 basis points. Placed against other car makers, these are relatively positive numbers—yet compared with its nearest neighbour, they look very positive. Peugeot utilisation has been well above 75 percent for the majority of the last 12 months, and the fee levels being charged are currently well into the normal definition of a special stock.

So why the great divergence? Both companies design and build similar cars that are aimed at the mass market rather than the premium or budget sectors. Both face similar headwinds from their competition—German markers that are renowned for their premium quality products are venturing ever lower down the price range with more basic models, while South Korean makers such as Hyundai and Kia are biting into their cheaper models from underneath. Both suffer from significant over-capacity compared with demand (around 69 percent factory utilisation compared with 85 percent in Germany). Both are suffering from a stuttering European economy where car buyers are putting off replacing their cars until confidence returns. Both are also suffering from the cost of financing their operations as well as their customers—by contrast, German manufacturers can raise capital much more cheaply, passing those savings onto customers as cheap finance, making their products cheaper to buy.

Figure 1



The whole market is suffering of course when compared with previous years. Looking at European car sales (manufacturer registrations, to be specific), year-to-date 2012 we can see some very worrying numbers. The headline rate of decline at 7.1 percent hides both the highs and lows—South Korean manufacturers are soaring while domestic producers face debilitating reductions in demand.

Fiat is showing the worst performance so far in 2012 and some analysts argue that they have already thrown in the metaphorical towel, choosing not to take on the foreign importers but instead retreating into their comfort zones, strategically reversing out of markets where they can no longer make money.

By contrast, both French manufacturers are committing resources to robustly defending their positions and even taking on the competition at their own game. Peugeot, despite currently running huge cash flow deficits (reputed to be around €200 million per month, contributing to a first-half 2012 loss of €819 million), is launching no fewer than 40 new models at the 2012 Paris motor show. This is an enormous commitment by any standard; Renault is bringing a new version of its top selling Clio and two new budget vehicles under its Dacia brand—a more typical level of commitment to new models. By contrast, Fiat is not launching any new models in September.

Even with this mammoth effort, Peugeot finds itself at the wrong end of public, political and union ire as well as trying to fight

Manufacturer	Kia	Hyundai	VW	Daimler Benz	BMW	General Motors	Ford	Peugeot Citroen	Renault	Fiat	Whole Market
Change YTD %	23.1	10.1	-0.1	-2.7	-3.1	-11.9	-12.3	-13.5	-16.3	-17	-7.1

Figure 2

off the competition. The French government owns 15 percent of Renault and none of Peugeot, but this has not stopped France's president, François Hollande, from publicly criticising the company for closing a large plant near Paris, resulting in the loss of 6000 jobs. Unions, understandably, are fighting job losses as Peugeot struggles to support over-capacity and runaway costs—a planned protest at the Paris motor show will only serve to illustrate the poor industrial relations also dogging the company.

Despite many environmental similarities between the two manufacturers, the share prices continue to diverge and the securities lending data as a proxy for short selling points strongly at the expectation of more woe to come for Peugeot.

Searching for differences between the companies to understand this contrast in fortunes, we can see that Renault is better off financially—or at least the 'less worse'. Renault, like Peugeot, is vulnerable to the effects of the price slashing going on across Europe, owing to their relatively low margins, but Renault does have a degree of insulation from this when compared to Peugeot.

More developed overseas markets and lower cost manufacturing bases in Morocco and Romania are helping Renault to withstand the competitive forces a little better than Peugeot, and with the launch of more low-cost models that carry higher margins, they are looking to develop their businesess where they are already doing well.

Peugeot's strategy of launching so many new models is bold, and those who continue to back the brand hope it is not spreading its talent too thin. At present, Renault is certainly ahead of Peugeot, but in the longer term it will be fascinating to see whether Peugeot's brave fighting stance pays off. One thing that will be seen for sure is a great case study in how successful this industry's response is to stalling markets coupled with encroaching foreign competition. Looking at the securities lending and short selling data, bets on who might win this particular car race have been placed already. **SLT**

David Lewis
Senior vice president, Astec Analytics
SunGard Capital Markets

2012

09 September

M	T	W	T	F	S	S
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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 experts to manage and optimise their collateral.

10 October

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RMA's 29th Annual Conference on Securities Lending

Location: Miami
Date: 8–11 October 2012
www.rmahq.org/slconference

Join your peers in participating in timely industry discussions on the latest legal and regulatory requirements, including a triparty repo reform discussion.

11 November

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Securities Finance Forum

Location: Hong Kong
Date: 16 October 2012
www.dataexplorers.com/hongkong

The Securities Finance Forum is now hosted by Markit Securities Finance. The expert insight and lively discussion that you have come to expect from the Forum will be delivered for the fourth year running. With enhanced content from across the equity finance arena, network with your peers and prospects at this must-attend event. Register now for your ticket.

12 December

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31						

The Finadium 2012 Conference

Location: New York
Date: 30 October 2012
www.finadium.com

Now in its seventh year, the Finadium conference is about leading ideas in securities finance, collateral management and custody. Hear from asset managers, prime brokers, securities lending and collateral management professionals on best practices and emerging trends in the asset servicing markets.

euroclear

Post-trade made easy

Get on the Collateral Highway

Whatever your collateral destination

The right securities – at the right place – at the right time

Industry appointments

David Martocci has replaced Tim Douglas and will head up securities finance at Citi.

Martocci will be reporting to Neeraj Sahai, global head of securities and fund services.

Martocci joined Citi in 2010 as managing director and global product manager of third-party securities lending and business development within its securities and fund services unit.

Five senior executives have been hired for prime brokerage platform PrimeOne Solutions.

Brad Klaas has been made global head of business development, **Alistair Martin** has become deputy head of PrimeOne Solutions, and **James Hogan** will be the head of trading technology.

Andre Augustine has been made prime services business analyst, and **Jozef Spiska** has become head of reporting technology.

"With our rapidly growing client base and increasingly successful business model, the strategic next step was to expand our team to include highly respected professionals with an average of more than 20 years in prime brokerage, and whose pedigrees will enhance our product offerings and capabilities," said EJ Liotta, global head of PrimeOne Solutions.

PrimeOne Solutions offers technology solutions to prime brokers, covering a spectrum of capabilities including transaction processing, position keeping swaps, equity finance, and margin for firms operating prime finance globally.

Canadian bank Scotiabank has begun to use the PrimeOne platform as part of its larger effort to attract more hedge fund clients and expand services globally.

A Scotiabank spokesperson has confirmed that **Charlotte Harris** will be joining its prime finance business on the stock lending side.

She will be reporting to Mark Schilling, managing director of global prime finance at Scotiabank.

Harris previously worked as sales director of UK markets at ABN Amro.

Multi-asset brokerage firm Newedge has appointed **Ghislaine Mattlinger** as group CFO and member of the Newedge executive committee.

Based in Newedge's Paris office, Mattlinger will oversee the entire Newedge finance function, reporting to Francoise Guillaume, Newedge's COO and deputy CEO.

Guillaume said: "Ghislaine brings outstanding expertise and experience to further drive Newedge's finance function. Newedge remains well-positioned to meet the evolving needs of our clients and our business in today's challenging market environment."

Mattlinger, who previously served as CFO at Natixis, said: "I look forward to building on the strength of Newedge's financial platform and being part of a high calibre management team at one of the world's leading brokerage houses."

Sarah Young has left her role as vice president of account management at Markit Securities Finance, it has been confirmed.

Young follows Sally Smith out of Markit Securities Finance, who left her role as a director in August.

Charlotte Wall, who was managing director and head of sales at Markit Securities Finance, also left the company recently.

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

The Alternative Investment Management Association (AIMA), the global hedge fund industry association, has appointed **Kathleen Casey** as new non-executive chairman along with forming a new global governing council.

Casey, a former US SEC commissioner, replaces AIMA non-executive chairman Todd Groome following the expiry of his term. The period of Casey's appointment is for two years.

Casey will be joined on the new AIMA council, its board of directors, by Olwyn Alexander, partner, PricewaterhouseCoopers; Mark O'Sullivan, partner, Ernst & Young; Phil Schmitt, president, Summerwood Capital; and Henry Smith, global managing partner, Maples and Calder.

Those continuing their directorships at AIMA are Andrew Baker, CEO, AIMA; Andrew Bastow, general counsel, director of government and regulatory affairs, Winton Capital; James Dinan, founder, chairman and CEO, York Capital Management; Chris Pearce, Asia COO, Marshall Wace Asia; Paul Sater, partner, Ernst & Young; and Phil Tye, co-founder and managing director, DragonBack Capital. **SLT**

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