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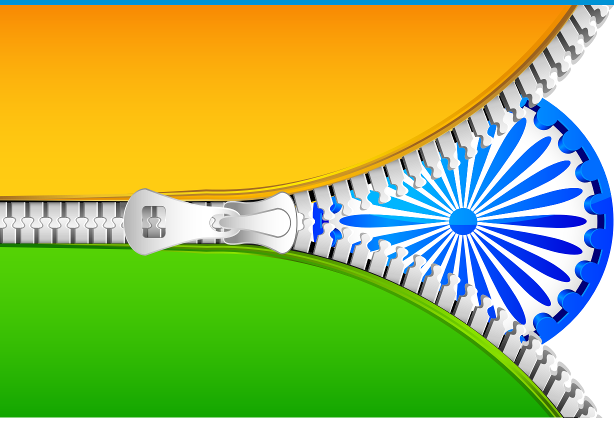

Citi launches securities lending service in India

MUMBAI 15.10.2012

Citi's Securities and Fund Services will be the first international custodian bank to offer securities lending services on the National Stock Exchange (NSE) in India.

The launch could reinforce Citi's dominance in the emerging markets, with its proprietary OpenLendSM platform now available in 72 markets globally.

"In a global securities lending environment dominated by over-the-counter trading, this service will allow both Citi's domestic Indian and offshore clients, for the first time, seamless market access to the anonymous exchange-traded central counterparty model prevalent in India," said a statement from the firm.

"We have been involved with the development of the Indian securities market since we first opened our doors in 1902. This landscape has seen remarkable transformation and in response to new market conditions, we have built on our experience and expertise to deliver a comprehensive exchange securities lending solution to our clients for the Indian market," said Debopama Sen, head of securities and fund services for Citi Transaction Services in India.

"This initiative complements our existing client offering for our domestic and international clients and reinforces Citi as a pioneer in the securities lending industry. It is through the combination of our deep on-the-ground expertise and global product capabilities that we are able to deliver such market-leading solutions for our clients," said David Russell, regional head for Asia Pacific, securities and fund services, at Citi Transaction Services.

read**more p2**

SLTINBRIEF

Newedge launches improved FX prime brokerage platform

Newedge has launched a new foreign exchange (FX) prime brokerage platform. The enhanced platform will provide institutional clients with unrivaled access to the global currency market.

read**more p2**

IOSCO money market fund reforms address NAVs

The International Organization of Securities Commissions (IOSCO) has published a final report on policy recommendations for money market funds, with its board's approval being met during a meeting in Madrid.

read**more p2**

Citi launches securities lending service in India

Continued from page 1

David Martocci, global head of securities finance for Citi Transaction Services added that opportunity in the emerging markets, given the impressive gains over the past 12 months, has kept them a focal point of the firm's securities lending business. "We are leveraging Citi's market expertise and global reach to turn these opportunities into optimised returns for client assets."

Citi recently released a report on securities lending in the emerging markets.

It stated that as emerging market countries open up their financial markets and align their regulatory regimes to international practices, holders of emerging market securities can benefit from the economic opportunities that securities lending can present.

"Experienced agent lenders, with knowledge of multiple markets, varying operational requirements and emerging regulatory trends, can demystify securities lending in the world's fastest-growing markets for the benefit of borrowers and lenders alike."

It added that these types of markets are idiosyncratic in their practices, citing Turkey's adoption of securities lending standards closer to those prevailing in neighbouring Western Europe as an example. Other emerging market countries, for example, India, Brazil and Taiwan, have implemented lending, but with their own specific market requirements.

However, the report warned that for many of these markets, the development of the securities lending industry must defer to regulatory concern over short selling, specifically relating to issues of market and settlement efficiency.

"Many frontier and emerging markets are contemplating the allowance of short selling. However, most markets will require that the institution undertaking short selling have securities lending agreements in place to ensure that they can cover their short positions. In this regard, securities lending and short selling are a two-part market reform aimed at enhancing market depth, liquidity and efficiency."

Newedge launches improved FX prime brokerage platform

Continued from page 1

"Connectivity to the forex market's electronic platforms has been significantly expanded, while the infrastructure supporting the processing of trades for managers and investors across multiple accounts and clearing brokers has been updated, to ensure Newedge clients are able to seamlessly execute their FX trading strategies and benefit from significant cross-margining opportunities," said a statement from the firm.

"Newedge's FX offering, coupled with our wider capabilities as a leading prime broker and global futures commission merchant, provides hedge fund managers and institutional investors with the most efficient platform to support their FX and multi-asset business," said Jasper Chua, associate director, origination and structuring at Newedge.

Andrew Waterworth, global head of fixed income and currency strategies at Newedge, said: "The prime brokerage space is a highly competitive market. The investment in new technology we have undertaken and the expertise of our talented prime brokerage team will ensure that Newedge continues to provide industry leading prime brokerage services that give clients the strongest, agency-based FX PB platform, which is closely integrated across all asset classes."

IOSCO money market fund reforms address NAVs

Continued from page 1

While it was noted that a majority of the commissioners of the US SEC did not support its publication, there have been no other objections.

The MMF industry represents approximately $4.7 trillion in AUM at Q1 2012 and around one fifth of the assets of collective investment schemes (CIS) worldwide.

"Although money market funds, which provide a significant source of credit and liquidity, did not cause the crisis, their performance during the 2007-2008 financial turmoil highlighted their potential to spread or even amplify a crisis," said a statement from IOSCO.

As requested by the Financial Stability Board, the current 15 recommendations for MMFs seek to supplement the existing frameworks where IOSCO considers there is still room for further reforms and improvements, following reforms undertaken on MMFs both in the US and in Europe in 2010. Other reforms were also adopted in countries such as Canada, China, India and South Africa.

Compared to the 2010 reforms, which mainly focused on the asset side of funds, the present recommendations address vulnerabilities arising from the liability side, as well as the valuation and the display of a constant net asset value (CNAV). In particular, the IOSCO recommendations seek to address the vulnerabilities around the risk of run and first mover advantage.

The implementation of the recommendations may vary from jurisdiction to jurisdiction, depending on local conditions and circumstances, as well as according to the specificities of the existing domestic legal and regulatory structures.

"All the recommendations are important for the safety and robustness of the MMF industry. However, the implementation of some recommendations may need to be phased in, in order to avoid disruptive impacts on the MMF industry and the functioning of the financial system at large," said IOSCO.

IOSCO proposes to conduct a review of the application of these recommendations within two years with a view to assess whether the recommendations should be revised, complemented or strengthened. At this time, IOSCO will also consider other market or regulatory developments that may have affected MMFs over this period.

These may include the impact of new banking regulations and the evolution in the structure of bank funding, potential upcoming regulatory reforms in relation to the 'shadow banking' system, the interest rate environment, changes in the industry of MMFs, changes in investor demand and the potential development of competing products.

OneChicago swells up

OneChicago surpassed its whole volume for last year within the first three quarters of 2012. Volume in Q3 2012 was up 105 percent, compared to the same period in 2011 and exceeded more than 3.7 million contracts so far this year.

The September 2012 volume of 847,488 was up 365 percent year-over-year compared with September 2011. Other September highlights included 828,536 exchange futures for physicals (EFPs) blocks traded, with EFPs and blocks activity representing $4.9 billion in notional value.

The company's equity finance tool, OCX.NoDivRisk, accounted for 46 percent of September 2012 month-end open interest.

181,126 of September 2012 futures valued at more than $1,012 billion were taken to delivery, "emphasising the use of single stock futures as an equity finance product," said a statement from the firm.

Open interest stood at 493,995 contracts on the equity finance exchange at the end of September 2012, up 41 percent year-on-year compared with September 2011.

PrimeOne releases SynPrime

PrimeOne Solutions, a division of CoreOne Technologies, has unveiled SynPrime, its new equity swap platform created to lower operational risk.

The platform will provide investment banks and hedge funds with all aspects of managing and valuing synthetic trading activities, including robust financing capabilities, profit and loss, dividend workflows, resets and commissions.

"Most financial firms have traditionally built swap systems internally," said EJ Liotta, global head of PrimeOne Solutions.

"The market environment has permanently changed this strategy for firms, and now is the time for them to reap the benefits of the types of economies and operating leverage that a focused vendor can provide."

"We believe the product and deployment model fit well in an environment where firms are seeking scale and stronger operational controls for key businesses, while lowering the cost of technology ownership," added Liotta.

UAE approves regulations for sec lending and short selling

The board of directors of the United Arab Emirates Securities and Commodities Authority (SCA) has approved a market-maker regulation along with related regulations for securities lending and borrowing, short selling and liquidity.

The regulations were approved during a board of directors meeting, which was led by SCA board chairman and the UAE's minister of economy, Sultan bin Saeed Al-Mansoori.

The aim of the regulations is to introduce market making in UAE financial markets. The SCA's CEO, Abdullah Al-Turifi, said: "The market maker is a securities' company with the desire and capability to trade in certain securities, and can tolerate the risks of retaining a certain size of stocks as a depository or to sell such securities for which the company acts as a market maker from the available depository."

Al-Turifi explained the benefits of market making, saying that a licensed market making entity can continuously offer a price for one particular stock or more in order to achieve 'liquidity' demand and supply for that stock or security.

SCA board member Abdulla bin Ali Al-Hamli said: "Investors will be trading among each other on the Abu Dhabi securities market or Dubai financial market. A market maker may trade only in the securities available to it as a trader. In the event of any disruption of the balance, the market maker will then intervene. In general, the markets will decide what they deem appropriate with respect to the intervention mechanism," he explained further.

The intervention mechanism is designed to promote and enhance capital market activities, added Al-Hamil. There is also a 30 million Dirhams minimum capital requirement for market makers.

Al-Hamil said: "The market maker will, at a certain point of time, find out that due to the higher volume of activities, it should increase the size of its capital."

Vice chairman of the SCA board of directors, Mohammed bin Ali bin Zayed Al-Falasi, outlined the importance of other regulations to market making.

He said that market making required associated regulations to support it, including regulations for securities borrowing and lending, short selling and liquidity.

The regulation for securities lending and borrowing will regulate the temporary transfer of securities ownership from one party to another. The practice will be carried out in accordance with a contract that is signed by two parties and rules that are outlined in the regulation.

The regulation for short selling outlines when and how securities can be shorted, as well as the types of securities that can be used in the practice.

The short selling regulation also outlines the responsibilities of all parties that are involved in short selling and mandates the disclosure of short-selling centres.

All of the regulations will start to be implemented at the end of 2012.

Six ups range of currencies for international repo services

Six Securities Services has begun to offer international repo services for an additional five currencies, bringing its total offering to 10.

The international repo service is a real-time service that is designed to enhance market liquidity. The service allows clients to refi-

nance their transactions, establish arbitrage services and select high quality collateral while leaving them free to choose their preferred counterparty.

The new currencies are the New Zealand dollar, the Australian dollar, the Swedish krona, the Danish krone and the Norwegian krone.

The service already offers the euro, sterling, the US and Canadian dollars, and the Japanese yen.

CEO of Six Securities Services, Thomas Zeeb, said: "Choice and flexibility are key elements of our internationalisation strategy and it is with this in mind that we continue to expand our markets, our services and now, in the case of international repo, our range of currencies."

Derivatives down for Eurex Group

Volume for international derivatives markets fell by 2.2 million year-on-year, recorded the Eurex Group. In September 2012, daily volume was at 10.2 million contracts, compared to 12.4 million in September 2011.

Of those, 7.5 million were Eurex Exchange contracts (September 2011: 9.1 million), and 2.7 million contracts (September 2011: 3.3 million) were traded at the US-based International Securities Exchange (ISE).

Eurex Repo, which operates Swiss Franc Repo, Euro Repo and GC Pooling markets, reported in September 2012 for all Eurex Repo markets an average outstanding volume of €227.1 billion (September 2011: €255.7 billion).

The secured money market GC Pooling recorded an average outstanding volume of €155.8 billion, an increase of 7 percent year-on-year (September 2011: €145.4 billion). The euro repo market reached an average outstanding volume of €30.5 billion (September 2011: €34 billion). The Swiss franc repo market reached €48.9 billion.

SunGard releases Loanet Automated Rebate Collection service

SunGard has launched Loanet Automated Rebate Collection to help securities finance, operations, trading and technology professionals more efficiently handle the collection and settlement of rebates from firms borrowing or lending securities.

SunGard's Loanet Automated Rebate Collection service streamlines the process for both matched and disputed rebates that tend to be manually collected on a monthly basis.

It automatically collects rebates for matched payments, schedules their settlement, and extracts and reports rebate collection data. Optional modules automatically update general ledger systems for rebate payments, write-offs and adjustments.

A workflow helps users to research and negotiate any discrepancies with counterparties. The service also centralises all rebate collection and payment information and provides a full audit trail of all activities that are related to the negotiation and settlement of rebate charges.

John Grimaldi, executive vice president, North American securities operations and securities finance for SunGard's capital markets business, said: "Breakdowns in the collection and settlement process and the lack of straight-through processing can create excessive costs, risks, regulatory issues, and potential financial losses. Loanet Automated Rebate Collection helps automate this process, helping firms collect their payments more quickly and helping staff to focus on resolving exceptions."

Josh Galper, managing principal of Finadium, said: "Securities finance participants continue to adapt to faster moving markets and higher levels of regulation. Further automating the rebate collection process provides welcome relief from a time consuming and occasionally frustrating process. It also frees up important internal resources to focus on higher value added tasks."

Increased capital requirements forces 25 percent exit

Financial institutions around the world are feeling the impact of increased capital requirements on certain business lines, with 25 percent exiting these businesses, according to the fourth annual survey by the Professional Risk Managers' Association (PRMIA), co-sponsored by SunGard.

According to survey respondents, the introduction of central clearing is expected to result in lower margins, increased collateral requirements and a general increase in the cost of doing business in areas such as OTC derivatives.

The survey was sent to PRMIA members around the world. Respondents were evenly split among the buy side, sell side and consulting firms (25 percent each), with the balance made up of regulatory bodies and government institutions (7 percent) and other types of firms. A total of 170 surveys were completed.

Twenty-five percent of the respondents to the survey have withdrawn from capital-intensive businesses, while 58 percent admit that they are more selective when undertaking such business. Eighteen percent say they would pass on extra capital costs to clients.

Other key findings include that 64 percent of respondents feel that less than half of OTC contracts will be cleared via central counterparties (CCPs), suggesting that bilateral clearing will still have a significant role to play.

Among sell-side respondents, who are more closely involved in the clearing process, only 43 percent agreed, whereas 84 percent of buy-side respondents hold this view.

Half of buy-side firms do not measure credit valuation adjustment (CVA). Only 24 percent of the sell side reports the same. While 26 percent of sell-side firms actively manage and hedge their CVA, no buy-side respondents do.

Nearly twice as many buy-side firms (45 percent) as sell-side firms (24 percent) do not run any reverse stress testing.

Wrong way risk continues to be ignored by roughly a third of institutions, although there is a slight increase from 34 percent to 36 percent since last year's survey in the number of firms that have an automated system in place to detect wrong way risk.

There has been a marked reduction in the amount of proprietary trading following the Volcker Rule, with only 24 percent of firms saying they can carry on as before.

Dan Travers, director of product management for SunGard's Adaptiv business unit, said: "As banks begin to fully appreciate the impact of initiatives that were previously confined to silos in the risk management, front office or the exchange margining worlds, risk managers should have an increasingly direct impact on the bank and its business model. Buy-side firms are also starting to feel the pressure to implement risk management practices that were previously the domain of their sell-side counterparts."

Securities lending drops 16 percent for Clearstream

For Global Securities Financing (GSF) services, Clearstream recorded its monthly average outstanding reaching €552.2 billion in September. The combined services, which include triparty repo, securities lending and collateral management, collectively experienced a drop of 16 percent over September 2011 (€653.6 billion).

Year-to-date September 2012 GSF monthly average outstanding is, at €576.4 billion, 1 percent above the same period last year (January to September 2011: €571.9 billion).

Also in September 2012, the value of assets under custody held on behalf of customers registered an increase of 3 percent to €11.2 trillion (compared to €10.8 trillion in September 2011).

Securities held under custody in Clearstream's international business increased by 2 percent from €5.9 trillion in September 2011 to €6 trillion in September 2012—while domestic German securities held under custody increased by 5 percent from €4.9 trillion in September 2011 to €5.1 trillion in September 2012.

In September 2012, 3.2 million international settlement transactions were processed, a 7 percent increase over September 2011 (3 million).

Of all international transactions, 83 percent were OTC transactions and 17 percent were registered as stock exchange transactions. On the German domestic market, settlement transactions reached 5.9 million, 24 percent less than in September 2011 (7.7 million). Of these transactions, 65 percent were stock exchange transactions and 35 percent OTC transactions.

In the Investment Funds Services (IFS), 0.53 million transactions were processed, a 36 percent increase over September 2011 (0.39 million).

Markit's dividend content now readily available to clients

Global financial information services company, Markit has announced that its dividend forecasting content is now available to clients via Markit Securities Finance products and services.

The Markit Dividend service covers more than 6,500 of the most traded global equities that influence the securities lending markets. The service forecasts dividend amounts and payment schedules for up to four years and enables clients to improve the pricing of dividend baskets and portfolio revenue estimations.

Brad Hunt, managing director and head of securities finance and dividends at Markit, said: "The integration of dividend forecasting data with our services is a first for our industry. This is the first of many planned enhancements to our comprehensive securities financing information drawing on data from across the Markit product portfolio."

The service is available now through the Markit Securities Finance toolkit for Excel, Datafeeds and API applications.

LCH.Clearnet launches certification programme for OTC Clearing

LCH.Clearnet's interest rate swap clearing service, SwapClear has launched a global certification programme for firms, preparing market participants for centralised OTC clearing.

The SwapClear Consultancy Certification Programme (CCP2) provides experience-based certification and CCP-authorised resources to better inform industry practitioners as they prepare for mandatory clearing.

So far four consultancies have become certified under the programme: Accenture, Catalyst Development, Sapient Global Markets and Rule Financial. Deloitte has also joined the programme as a knowledge partner.

To certify for CCP2 applicants must undergo an assessment that evaluates their depth of experience in OTC clearing. Firms can register for certification in any of up to ten categories and uncertified participation is also available for knowledge partners.

A CCP2 knowledge partner is a consultancy that has access to the knowledge and training resources of CCP2 and is active in the OTC clearing space but has not applied for or received certification.

"Clearing firms and buy-side clients are facing significant challenges as they look to implement central clearing for OTC derivatives," said Jeff Bandman, head of partnerships and alliances at SwapClear.

"This innovative programme is designed to create a more efficient framework that will assist market participants as they adjust to the new regulatory environment. In addition, it represents a further example of SwapClear's commit-

ment to collaboration for the benefit of all market participants," added Bandman.

Jim Bennett, managing director, Sapient Global Markets, said: "There are a lot of moving parts in the clearing model, and experience working with the right systems and processes is a critical component for implementation success. The CCP2 programme provides a way for the industry to ensure it is getting advice from knowledgeable and seasoned practitioners such as Sapient Global Markets."

"Global regulations are forcing massive change on the industry, and we view the launch of SwapClear's CCP2 programme as a positive step in bringing standards to market participants tackling these new requirements," said Chris Potts, CEO at Rule Financial.

"Our 2012 OTC survey found that 70 percent of sell-side and 40 percent of buy-side participants are very concerned about lack of clarity, content and the implementation of central clearing regulations, showing the value of those who can remove ambiguity."

RBC expands ETF range

RBC Global Asset Management has expanded its suite of Target Maturity Corporate Bond ETFs. Effective today, the RBC Target 2021 Corporate Bond Index ETF is available for purchase by individual and institutional investors on the Toronto Stock Exchange.

"It has become more challenging for investors to manage and source quality corporate bonds across different maturities," said Mark Neill, head of RBC ETFs. "We are pleased to be able to help investors address this challenge with the suite of RBC Target Maturity Corporate Bond ETFs, which now includes the RBC Target 2021 Corporate Bond Index ETF."

The RBC Target 2021 Corporate Bond Index ETF will maintain a diversified portfolio of individual Canadian investment grade corporate bonds, with an effective maturity of November 2021.

Similar to the other eight RBC Target Maturity Corporate Bond ETFs, this ETF is designed to act like an individual bond while providing the diversification and professional oversight of a mutual fund, with the transparency and intraday liquidity of an ETF.

"It has been one year since RBC Global Asset Management entered the ETF market in Canada. As we continue to add to our product offering in this space, our focus is on catering to the needs of investors," continued Neill. "We are proud to continue to deliver investment solutions that enable investors to construct diverse portfolios."

Chartis names SunGard as one to watch for collateral

Chartis Research has named SunGard as a category leader in its RiskTech Quadrant for enterprise collateral management solutions. SunGard is the only vendor recognised as a category leader for both the trading and banking books.

Chartis analysed a range of collateral management solutions for their completeness and market potential, with SunGard's Apex Collateral and Ambit Core Banking's collateral management solution both scoring highly.

Peyman Mestchian, managing partner at Chartis Research, said: "Technology providers need to be able to support the shift of collateral management from a fragmented, cost-focused discipline to an enterprise-wide, dynamic process that manages collateral to raise revenue as well as keep costs down."

Harold Finders, chief executive officer of SunGard added that the move to central clearing and increased capital charges are creating greater demand for high quality collateral. "SunGard's Apex Collateral and Ambit Core Banking's collateral management solutions provide real-time, enterprise-wide views to help firms optimise their collateral across the organisation."

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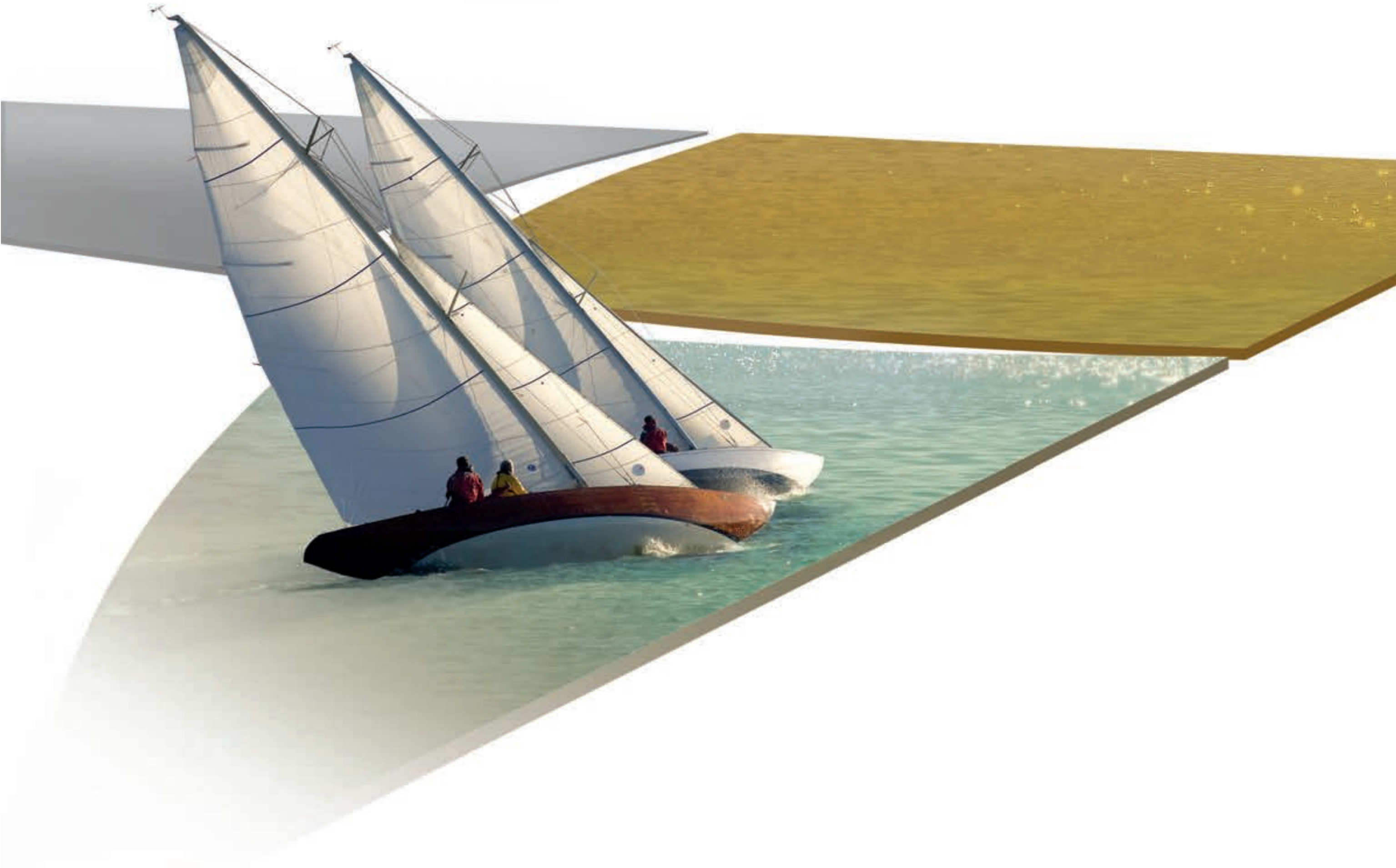
Who's helping you?

With increased pressure on margins, institutional investors need to consider every opportunity to enhance portfolio returns. At BNY Mellon, our experts will work with you to mobilize your idle assets through our suite of securities lending services. Working together, we'll do the small and large things that help you chart your path to success.



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Shadows and ghosts dominate RMA conference

Attendees arrived in Miami with thoughts of sunshine and Cuban food, but they had to settle for heavy rain, high humidity and the prospect of a complicated future for securities lending

MARK DUGDALE REPORTS

The Risk Management Association's (RMA's) 29th Annual Conference on Securities Lending kicked off with a comprehensive update on efforts to reform and transform the US triparty repo market.

Panellists John Morik of BNY Mellon, Edward Corral of Morgan Stanley, Gary Chan of DTCC and Mark Trivedi of J.P. Morgan, who all sit on the Task Force on Tri-Party Repo Infrastructure and have taken leading roles in working to achieve the "target state" of a safer and more robust settlement process for the triparty repo market that would not rely on significant discretionary intraday credit, sat alongside Vic Chakrian of the Federal Reserve Bank of New York to provide attendees with the update.

"We're talking about introducing a significant amount of control into the platform," began Trivedi. To achieve the target state, the panel outlined key components with the overall aim of reducing reliance on intraday credit. "Ultimately, the goal is to cap the level of credit that banks are exposed to," added Morik.

Key components include one large, initial batch of trades having a 3pm deadline to confirm funding is in place, a clear common rule set governing the settlement priority for each dealer's trades across all cash investors, and a secured credit cap of 10 percent from the clearing bank.

Morik said that the goal of the reforms is for clearing banks to cap secured credit at no more than 10 percent of their triparty repo books, adding that the other key components have to be in place before the cap can be implemented and the market can "draw away from the intradealer liquidity that we currently provide".

With a deadline of the end of 2013, the target state is within the market's grasp, and Trivedi said that while reforms have "made it harder to do repo in the US, the market is bigger than ever". According to Chakrian, the US triparty repo market is worth $1.8 trillion in intraday credit. Developing and sustaining a more resilient market and infrastructure, particularly in times of stress, is "pretty critical across the board".

Gregory Lyons of Debevoise & Plimpton and Bruce McDougal of BlackRock tackled regulatory reform and its effects on securities lending and borrowing. They emphasised the threat that Basel III capital requirements and US Dodd-Frank Act Section 165(e) counterparty concentration limits pose to securities finance indemnification.

Basel III could make securities lending too expensive to conduct, while Section 165(e)—or "the ghost of Christmas future", as Lyons described it—may make it "impossible to lend to counterparties", according to McDougal.

Dodd-Frank Section 165(e) was labelled the "anti-shadow banking act of 2012" in a panel featuring Simon Mandelson of BlackRock, Nick Bonn of State Street, Alan Pace of Citi, James Slater of BNY Mellon and Thomas Wipf of Morgan Stanley.

Slater said that "borrower indemnification is at the heart of this". The panel agreed that the rule would make securities lending more difficult to do and that beneficial owners would have a tougher time with lending.

The ultimate worry is that borrower default indemnification could disappear as a practice, which is something that "we're all struggling with", added Slater.

Bonn said that the implementation of Dodd-Frank Section 165(e) is inevitable, but what it will finally look like remains to be seen. "We all have to work to make sure that it's not in this form", he said, while Slater added: "We're trying to educate regulators about what the unintended consequences are. I'm cautiously optimistic that they will make some adjustments."

The panel went on to discuss repricing after showing data that suggested that the velocity of rebate rates increased post-2008.

Slater said that market shrinkage and pricing transparency are "driving a lot more repricing", which has been "good for agent lenders". But Pace said that hedge funds are not willing to take repricing lying down: "Although this is the new reality, this hasn't been passed all the way down to the client base."

Bonn called repricing a "necessary evil" as agent lenders have to get the best prices for beneficial owners, while Wipf said that "this is the new paradigm". He added: "This is a fundamental change to the market. The only surprise is that it's taken this long."

Frederick Nadd-Aubert of Credit Suisse, Peter Abric of Wells Fargo Securities, James Gerspach of J.P. Morgan, Carey Chamberlain of HSBC and Mark Payson of Brown Brothers Harriman analysed global demand trends in equity trading.

Nadd-Aubert said that hedge funds are going into "defensive mode" as far as capital is concerned, while the rest of the panel identified other trends.

One trend that Chamberlain has observed is that credit diversification has become a big focus. He has also seen US money managers change the way that they operate.

He said: "A lot of US money managers have pulled money out of Europe and are possibly putting it back into their home market, which is fair enough."

Another trend is that beneficial owners are "more demanding about being informed about opportunities and emerging markets", according to Gerspach.

Chamberlain added: "There's been a shift in how trading desks, lenders and hedge funds look at stock lending."

Clients want research-based products as their emphases on transparency and information have increased, according to Chamberlain. Gerspach agreed, adding: "That demand has certainly taken off and multiplied in the last few years."

The main change that Payson has identified is how clients view his firm. The firm now acts "as an advisor", providing information and transparency on a regular basis and before trading is initiated. **SLT** 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

Journey to the centre of the earth

SLT opens the floor to experts from Lombard Risk and 4sight Financial Software, who discuss how to realistically centralise collateral processes across product silos

GEORGINA LAVERS REPORTS

The Lehman Brothers default and the drying up of market liquidity were key drivers of centralisation and the increased focus on and importance of collateral. Now, new regulations, heightened risk sensitivity and fast-changing market dynamics are combining to make collateral management more critical than ever.

While centralising collateral processes across product silos is not a new concept, attempting this kind of integration presents organisational and technical challenges that present a stumbling block for many. Martin Wingate of Lombard Risk and Martin Seagroatt of 4sight Financial Software explain their respective companies' attitudes to centralisation, including operational efficiencies of such a process, as well as factors that firms must be cautious of before attempting the process.

What is the best way to centralise collateral processes across product silos with technology?

Martin Seagroatt: As with any major project, firms looking to centralise collateral management need to have strong business objectives from the outset. It is important to gain a clear idea of the benefits and cost savings desired from the target business model before consolidating products and business lines.

Most projects of this type involve replacing multiple systems that are supplied by various vendors with a single unified technology solution across products. Generally, firms are using one system for derivatives collateral and another for securities lending/repo. It is therefore important to ensure that the technology vendor that is selected has experience with these types of migrations and consolidation of data and feeds, to ensure a smooth transition between systems.

Changing to one system for everything allows users to gain a single consolidated view of inventory across products, geographical locations, currencies, and more. Collateral management systems also help to improve communication and sharing of data between front- and middle/back-office users. Out of necessity, front-office traders now need to have a much greater awareness of collateral costs and optimum allocations at the point of trade. Collateral management systems with a strong trading and inventory management function are therefore essential for this.

Firms consolidating silos also need to promote a change in mindset among staff who were previously used to working on separate desks with little co-operation between desks. This needs to be replaced with a far more collaborative approach as decisions are made on a firm-wide basis on the optimum deployment of collateral.

This then allows firms to optimise the usage of bilateral, tripartY and central counterparty (CCP) collateral by re-allocating based on acceptability rules, collateral costs, concentration limits and settlement costs with a view to lowering collateral costs and freeing up high-grade assets.

Martin Wingate: A single technology platform can be adopted in order to:

- Support a legal agreement database that can support all forms of master legal agreements
- Retrieve trade, market data and valuation feeds from any upstream source and be able to consolidate and calculate margin requirements according to legal agreement parameters
- Calculate, capture and process all collateral events across products on a single platform to allow consolidated firm-wide view and management of credit exposure
- Capture consolidated collateral inventory
- Provide cross-product collateral reporting to clients/end-users/internal consumers
- Provide the potential to cross-margin (offset) risk across products (when legal provisions to do so are available).

It is not necessary to dispense with product-specific technology silos 'front-to-back'. There are still benefits to trade capture and execution

technologies that are supported within product silos. But post-trade capture/valuation, there are broad synergies in the processes of collateral management that can be leveraged across all financial products, and in all global markets, although the margin calculation parameters may vary.

For these reasons, to realistically and successfully centralise collateral processes across product silos requires a system that can support flexible and configurable functionality, which can be defined by product or master agreement, but consolidated (normalised) across products.

What do you feel are some of the specific technical challenges to this centralisation?

Wingate: There are three points to consider given the complexity of existing product-siloed technical infrastructure—often including a combination of internal and external technology platforms, identifying the optimal data entry and exit points for each system, and achieving flexibility in treatment of product specific-requirements, while still being able to calculate and present a 'cross-product' view of risk, for example:

- Agreement parameters—bilateral thresholds for International Swaps and Derivatives Association (ISDA) margining versus unilateral credit limits for repo
- Supporting multiple and flexible pricing rules per product—and the ability to configure rules for accurate application and control of those prices
- Resolving inconsistencies of margin timings—real-time versus end-of-day markets and products.

Seagroatt: One of the main challenges is that there is more of everything. These were previously siloed processes involving multiple systems, so in the past they would consist of one solution for the derivatives desk and one for the stock loan/repo desks. Now, collateral management solutions must support all of these business lines in an integrated way. This means more data to migrate, more real time data feeds, and more legal agreements to map. There are also higher trading volumes going through the system and more diverse settlement requirements. This in turn leads to more complex business rules and these must have some degree of flexibility.

There are also obviously more departments involved (for example, traders, collateral managers, risk personnel, operations, regulatory reporting, finance, and more). This results in a broader spectrum of stakeholders and requirements. It also requires a larger amount of data that needs to be extracted from the system for day-to-day activities and reporting needs.

Non-standardisation of legal agreements for derivatives and securities lending/repo is also holding back some of the potential netting benefits across products. This is an area where the technology is ready but the legal framework has not yet caught up.

Firms also want more sophisticated schedules for collateral eligibility, concentration and haircut rules and ever more complex optimisation algorithms. The ability to process collateral upgrade trades is also something that we are being asked about.

In addition, most implementations will now require connectivity with some of the many CCPs that are emerging and the mapping of their margining requirements.

Typically, projects involve the development of a tailored solution involving a high level of customisation. Vendors must be flexible in accommodating client needs rather than simply pitching a generic product suite. Vendors must also have the necessary business knowledge to understand the specific nuances of securities lending, repo and derivatives collateral management.

What are the operational differences between repo agreements and securities lending?

Wingate: Most of these are either historical and created by precedence or technological capabilities of the parties, or driven by the underlying differences between the master agreements governing margin practices.

Securities lending tends towards a real-time model, while repo is largely a close-of-business model.

A lender tends to impose collateral terms (timings, eligibilities, prices, concentration limits, and so on) on the borrower under securities lending agreements. In repo, terms are often agreed between the parties.

Typically, under a GMSLA (securities lending) agreement with a large portfolio, multiple margin agreements may be made within a single business day, depending on collateral type and real-time loan and collateral settlements. Under a GMRA (repo), margin is generally agreed on an end-of-day basis.

There remain wide variations in market practice of which trades should be included within a margin call according to trade or collateral settlement status, or prepay status. These variations are generally resolved and agreed on a bilateral basis.

Seagroatt: From a technology point of view, there are a number of differences between the two trade types.

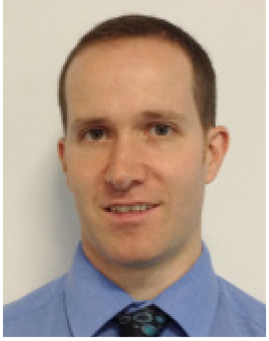
Securities lending requires daily marking (equity price) for both fee calculation and loan valuation for collateral management purposes. Repo typically only requires daily marking for margin (exposure management) purposes, with interest being calculated on the start cash. To reduce this operational burden systems need to offer automated mark to market, along with STP for cash/margin payments.

Collateral management can be more straightforward for repo, as securities loans are often collateralised from a pool of client securities. This pooled approach can make collateral management for securities lending more complex than repo. Pooling also increases reporting requirements, along with complexities such as recalls and substitutions. Furthermore, repo margin calls can be achieved through repricing individual trades, which is not possible with traditional fee loans.

From a collateral netting point of view, cross product margining is possible between repo and securities loan transactions in the 4sight system. However, it is not currently prevalent in the marketplace as many firms are still in the process of merging desks and different legal agreements are involved (GMSLA/GMRA). Therefore, netting is largely taking place by legal agreement at present. One of the intricacies of margining across securities lending and repo is that haircuts are in opposite directions for the different transactions and systems need to address this to gain accurate exposure figures across trade types.

Firms want more sophisticated schedules for collateral eligibility, concentration and haircut rules and ever more complex optimisation algorithms

Martin Seagroatt
Head of global marketing
4sight Financial Software



Trade lifecycle management is also often more time consuming for securities lending. Stock loans typically require more re-rating, as although you can have variable rated repo and market indexed repo, there is also a lot of fixed rate repo (and buy/sell-back). Stock lending can also result in many more (partial) returns than repo. However, repo can involve reprice, substitution and rollover, which are quite tricky to manage. Systems that can perform all of these activities in bulk rather than for individual trades can greatly reduce the level of manual effort required.

Another key difference is that securities lending involves more equities, while repo is more fixed income (though there are obvious overlaps). With securities lending, you have the intricacies of corporate actions processing. This can be very time-consuming and technology solutions require functionality to ease the headaches that are involved in this.

Other manually intensive tasks around securities lending are billing and settlements. Securities lending requires monthly billing; repo adds its interest into the end-leg (no separate billing required). For settlements, securities lending systems have to track actual settlements for fee calculation and the like. Repo systems assume a perfect settlement model (ie, based on contractual rather than actual settlement dates). To support the complexity of settlement processing, systems must offer settlement tracking and workflow that allows users to track the status of settlements and potential failures.

Finally, approximately a third of the European repo market is now electronic. I'm not sure that you can say the same about securities lending, although this will (perhaps) change as time goes on. We have therefore added connectivity with electronic markets and are planning further integration as the business moves toward higher volumes of electronic trading.

How is data gathered to get a consolidated view of all collateral inventory?

Seagroatt: Inventory feeds from a multitude of sources are loaded into the system and organised into a hierarchical company and book structure. This allows users to view exposures at any level, for example, at custodian, sub custodian, account level, or even the dividend entitlement level. They can therefore clearly see exposure with specific counterparties, for different products, or at the overall company level, giving risk managers a complete view of a firm's exposures and satisfying regulatory reporting needs.

It also enables the formation of a single collateral pool across all asset classes. When looking at their inventory, traders can see all available assets at every level of the firm in real time. This provides the information necessary to make optimal use of available inventory for collateral financing. It also allows better utilisation of internal assets.

Wingate: There is currently no single answer to this. Firms have a wide variety of requirements and priorities when it comes to how they want to be able to access, view and filter a consolidated inventory. A source-neutral system is required. The system should be configurable by user so that multiple source feeds can be provided (on a real-time basis), named according to requirement (perhaps by source, book, desk, region, and so on). Either the data sources, or the data retrieval system, must be able to automatically map data standards (security identifiers, and so on) in order to properly present consolidated data. Finally, a global capture system is required that can support follow-the-sun data feeds so that regional views benefit from the latest view of the available inventory that is inherited from the preceding time zone.

What are the operational efficiencies that are gained through a centralised collateral management operation?

Seagroatt: Centralisation and collateral optimisation allow firms to reduce their cost of collateral and free up high-grade assets sitting on the balance sheet. Before going to the street to source expensive collateral to satisfy a margin call, users can check internal inventory, which is of course cheaper to use.

It is also a key component in reducing over-collateralisation. Optimisation algorithms now allow systems to propose the cheapest to deliver collateral to pledge to a counterparty that will meet eligibility and concentration guidelines. Consolidation of collateral also enables more informed decision making on the allocation of capital. The system can assign an opportunity cost to assets, so users can decide whether a security is best deployed in say a securities loan, or as collateral on a derivative trade, based on its collateral cost and the respective profit and loss that it can generate.

Finally, there could potentially be significant netting benefits between products at some point in the future once the legal framework is in place.

Wingate: By centralising collateral management operations functions, cross-product collateral strategy can be implemented, which is necessary to be able to properly analyse and assess the synergies and differences in product siloed collateral processes. Even while supporting multiple product siloed processes, functions that are associated with collateral but operated at a firm-wide level (for example, nostro and depot functions) can be aligned—this immediately achieves operational and staffing/training efficiencies.

However, this centralisation of collateral operations is only the necessary first step towards achieving truly consolidated collateral operations and the benefits that this introduces. What is required to maximise operational efficiency, achieve cost savings and improve cost attribution (and potentially revenue generation), is to be able to support and view all collateral operations on a single system.

With single system support—obvious operational efficiency improvements are immediately achieved—you only need to train one team, define, control and support one process, and you reduce operational inefficiencies by replacing multiple sub-optimal manual processes across product teams. You have one IT support team for collateral management systems, and crucially you can offer one point of contact for clients.

Greater benefits can only be achieved by centralising collateral operations on a single system

Martin Wingate
Business matter expert
Collateral management team
Lombard Risk

As a consequence, greater benefits can only be achieved by centralising collateral operations on a single system:

- Maximise collateral inventory availability by creating single firm-wide collateral inventory
- Implement a pro-active cross-product collateral optimisation programme
- Achieve (and be able to quantify and attribute) cost savings in your collateral management programme
- Offer consolidated cross-product reporting to your clients
- Potentially offer cross-product collateral netting (and further, offset) to your clients.

At a Lombard Risk webinar, the audience was polled with the question, 'Is Cross-Product a key strategic aim for your firm?'—90 percent of those answering confirmed that it was.

How will collateral management teams in different divisions across a firm tweak procedures to support enterprise-wide collateral management strategies?

Wingate: At a minimum, global collateral operations need to:

- Sponsor front-to-back analysis of all product-level collateral operations and processes in place
- Identify best-of-breed functions from an operational perspective and quickly achieve efficiencies by aligning and centralising control processes where possible, for example:
  - Nostro and depot management
  - Settlement reporting
  - Inventory management and reporting
  - Dispute reporting
- Implement global control and responsibility and align cross product strategy, achieving buy-in from firm-wide stakeholders (front office and risk functions).

Strategic priorities should include:

- Map detailed business requirements across all collateral functions to gain a clear view of all cross-product requirements—map which of those may be flexible (ie, changes or improvements could be achieved by centralising or aligning processes or standards with other product lines) and which are mandatory (generally driven by legal or client-driven obligations)
- Carry out a review of all available collateral technologies—internally and externally
- Identify best of breed from a technology perspective, carry out a gap analysis and identify 'best fit' at a functional level.

Seagroatt: Enterprise-wide collateral management requires a more collaborative approach between derivatives, securities lending and repo desks to work successfully. This adds complexity and requires more standardisation of procedures that are in some cases quite different due to the legal agreements that are involved. It also requires much greater central co-ordination of how assets are allocated.

One of the key roles of collateral management systems is to simplify this complexity and provide users with the tools and data that they need to make effective decisions on exposure management and collateral allocation. **SLT**

Blame it on the ETFs

Industry experts have waded into the debate on whether ESMA's guidelines on ETFs and other UCITS issues are as harsh as they seem. SLT takes a look

GEORGINA LAVERS REPORTS

The European Securities and Markets Authority (ESMA) published new guidelines on ETFs and other UCITS issues in July, following a January consultation paper that invited the industry to respond to issues that are under consideration. ESMA chair Steven Maijoor said that the "comprehensive" guidelines were aimed at strengthening investor protection and harmonising regulatory practices across the EU fund sector.

"They increase the level and the quality of information provided by UCITS to their investors, clarify the criteria for the management of collateralised transactions such as securities lending, repo and reverse repos and OTC derivatives, and set out the types of financial index in which UCITS may invest."

"Furthermore, these guidelines are a valuable response to many of the issues identified in the on-going debate on shadow banking and will constitute an important step in the development of the regulatory framework of UCITS."

ESMA also launched a specific consultation on UCITS funds that use repo and reverse repo arrangements. "The draft guidelines provide some flexibility in the type of arrangements into which UCITS may enter, but provide adequate safeguards to ensure that UCITS can continue meeting investors' redemption requests," Maijoor concluded.

The main issues that the guidelines sought to clarify were the proper labelling of ETFs, better disclosure of 'efficient portfolio management' techniques, securities lending revenue (and whether it would be returned in full to the fund), recalling securities and diversified collateral.

The surprise of the guidelines came with the decision not to cap securities lending from a UCITS fund or ETF; one of the original sticking points of the first proposal, and a welcome omission for many. ETF providers were still disappointed with ESMA's decision on securities lending revenue—namely, that all revenues "net of direct and indirect operational costs" must be returned to investors—but doubt remains over exactly what this means.

Speaking at the recent annual European Fund and Asset Management Association conference in Brussels, Maijoor admitted that the new guideline was not as clear as it could be, but that "efforts should be focused on complying with the letter and spirit of the requirements, rather than on identifying potential loopholes or grey areas that could be exploited". Clarifications are not expected to be made until 2013.

In a panel discussion at the recent Irish Funds Industry Association conference in Dublin, senior industry figures discussed the implications of the new guidelines on the industry.

Ted Hood, CEO of Source, defended the press and its attitude towards ETFs, saying that the press was not solely to blame for the negative light that has been shone on the sector.

"There are some macroeconomic issues which may have affected ETFs … it's not just the press. All of our businesses are relatively complicated close-up, and regulators are balking at the perceived complexity of our business. I don't think that an industry that takes people's money and manages it can complain about being scrutinised by regulators. Though it started off poorly, with 20 quasi-regulatory bodies stating ETFs needed regulation, which ranged from informed to ignorant, it has been for the best. But it is something of a shame for an industry which has been noble to its investors to have been put under such a cloud. Nothing happened to investors, remember: people just thought it might. Investors must regain their confidence in products."

Manooj Mistry, head of ETF structuring at Deutsche Bank, said that he thought that the debate has been quite healthy, considering that there were a number of factors leading up to the scrutiny. "We must remember that up until 2010, ETFs were the darlings of the media. Especially in the US, where there were issues with leveraged products, and the flash crash on the New York Stock Exchange. Certainly between the providers, we didn't help ourselves by nitpicking each-others' products. ETF assets made up 3 percent of all European fund assets, but we were blamed for everything. Investor protection, because of UCITS, is very strong."

In terms of swaps and securities lending, Mistry stated that regulators have to be educated on how things work in the banking world. "We have to show regulators that ETFs cannot be the cause of a meltdown in the financial markets. They are never going to take over the market, but we can be a significant part of someone's portfolio. On the transparency side, we will disclose as much of the index as we can, but some providers are very protective about the intellectual property of the index."

Alan Dubois, chairman of Lyxor Asset Management, said that his was not one such provider, but asserted that the guidelines, in his opinion, are not overly ETF-specific. "We are already incredibly transparent: we publish our counterparty risk everyday on our website. Looking at the guidelines, there is nothing which regulates ETFs specifically. It is more to do with UCITS. And ETFs are UCITS, so there doesn't need to be specific regulations for ETFs. ESMA guidelines are good for investors and for Europe, they regulate everything concerning counterparty risk, collateral, the use of derivatives and securities lending … however, I don't think the guidelines will have much effect on ETFs themselves."

Helga Mepham, managing director of iShares product development at BlackRock, concluded the discussion by praising the speed of implementation since the guidelines' conception, and stressing that ETFs will continue to provide transparency to investors. "Since the ESMA guidelines, I think that some requirements have already been realised before they've even been mandated."

"I'd like to think the debate around different fund structures is done. We as an ETF industry have an obligation to ensure our investors know exactly what they're buying. You wouldn't go and buy a car without looking under the hood. As long as they know what they're buying, it is the investor's choice as to what structure they want." **SLT**

Go East (where the opportunities are)

Though yield enhancement may be dying away, David Lewis of SunGard's Astec Analytics asserts that the Eastern markets are alive and kicking

The present and future health of the global securities lending market was a popular topic at the recent IMN conference in London.

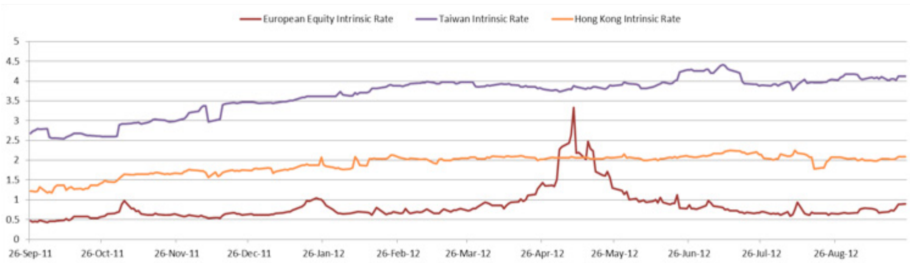
Cash reinvestment yields are at an all-time low; near zero interest rates and much lower appetites to invest in a largely un-indemnified market have combined to all but shut off this avenue of income. Historically, cash reinvestment has been a cornerstone of the US securities lending market, meaning this market has been hit harder than others. In Europe, there has always been an expectation that the cash cow that is 'yield enhancement' will one day come to an end, but that day was always a long way in the future. However, with recent legislative changes and actions in the European courts, it is suddenly a much more real and nearer term possibility.

Delegates at the conference discussed the potential reduction in yield enhancement activity and what plans were being made to try and replace this very significant source of revenues. Discussing this in front of a part beneficial owner audience was certainly interesting—for those asset owners, this is a double-headed coin as they win either way. Yield enhancement, or dividend arbitrage to use its older name, is based on tax disadvantages that are suffered by some funds, disadvantages that would be swept away by tax harmonisation in Europe eradicating the need to lend to recover the lost tax. The only losers would be the securities lending market and one agent's plea to consider the "well-being" of their business did indeed raise some smiles.

To quote one panel participant who, in turn, was quoting Mark Twain: "The report of my death was an exaggeration". The observation was astutely made—while revenues are certainly suffering under all the regulatory and economic pressures weighing heavily on the market, it is far from dead, despite what some gloom mongers might say. Ever resourceful, the market is aggressively looking for new opportunities, especially towards the Middle and Far East.

Markets in parts of Asia have long been active in securities lending; Japan, Hong Kong and more recently Taiwan. None of these markets can be termed 'new' and certainly not 'emerging', but they can be termed, to quote another IMN panel participant, as "complex". These markets do not necessarily mirror or follow the same models that are employed in Europe or North America; they have different market structures and importantly, different penalties for settlement failure. In terms of simple supply and demand effects, the relative lack of active supply in, say, Taiwan, ensures that the average fees there are significantly above those in more easily accessible markets. Strict settlement timeframes and time zone effects combine to minimise the lendable assets made available there as risk adverse beneficial owners keep away. Figure 1 shows the weighted average fees (equities only) that were achieved in Taiwan compared with Europe, over the last 12 months.

Figure 1: Intrinsic lending rates for Europe, Hong Kong and Taiwan



The graph in Figure 1 clearly shows the European dividend season peak (red plot) over the April/May period. It also shows that even at the European peak, it still does not reach the weighted average intrinsic rates being achieved in Taiwan throughout the year. Looking at the comparison with Hong Kong rates, Europe does poke through in April/May, but otherwise lags behind Hong Kong throughout the last 12 months. Average rates over the last 12 months in Europe are just under half of those in Hong Kong and less than a quarter of those that were achieved in Taiwan.

Balances are a different story of course, and it is here that one needs to tread carefully with statistics. As a market in itself, Hong Kong has grown significantly in recent years. Looking at the Astec Analytics data we can see that the market value on loan has grown 26 percent over the last 12 months, but as a proportion of the global market it remains a relatively low 3 to 4 percent of the total balances on loan.

Revenue wise, we are seeing a different story. Using average market value on loan and average intrinsic fee paid/earned for both Europe and Hong Kong, we can estimate the size of the revenues that were generated in each region/market. On this, admittedly blunt comparison, revenue that was generated in Hong Kong equates to 44 percent of that generated in European (equity only) markets in the last 12 months. Put together, Japan, Hong Kong and Taiwan equate to 74 percent of the revenues that were earned in Europe and all Asian markets together sum up to 89 percent. As a return on balance lent, this places Asia significantly ahead as a revenue earning opportunity for many agent lenders and their beneficial owner clients.

Figure 2 shows the daily securities lending revenue that was created by region (equities only) in USD millions per day. The European market revenues (dark green) are matched closely by Asian market values (orange area), eclipsing Europe at many points during the year. North American markets continue to dominate the total revenues that are generated, although Europe edges ahead during the dividend season. The lightest green shaded area shows the total market revenues generated.

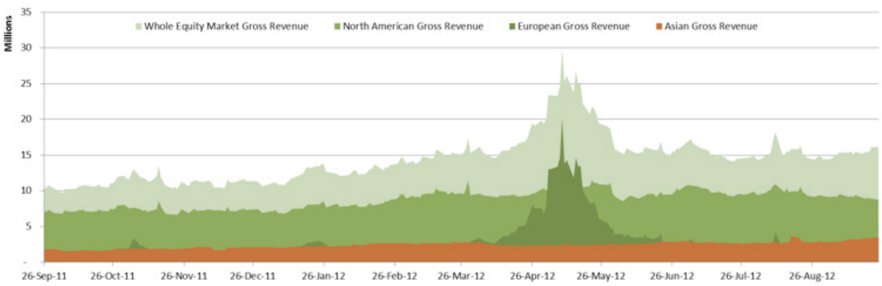
In simple supply and demand theory, as more beneficial owners look East for revenue support and growth, the increasing supply in those markets will bring fee levels down. However, given the relatively low penetration of the markets, there is further room for growth. In the near future, India and China will also open up for further lending opportunities. Both those jurisdictions are already dipping their toes into the securities lending and short selling market mechanics, following a common path of emerging markets in opening facilities for a restricted list of domestic market participants and domestic securities.

Also in common with other newer markets, they are developing processes unfamiliar to the mainstream European markets. Operating a central counterparty structure, India is following a similar path to Brazil, a market that is still considered emerging or new to some lenders. India is developing several new rules currently unique to them—for example, if a loan is returned early by a borrower, they are still liable to pay all the rental fees due until the expected termination of the trade. While potentially a benefit to some participants, such rules are clearly costs to others and may well place a drag on market liquidity.

Moving westwards to the Middle East there is a great deal of activity going on, particularly in the UAE. There is a distinct development path that markets follow from frontier through emerging to developed. The UAE, Qatar and Saudi Arabia all fall into the frontier market classification and are actively working on developing their market infrastructures to move to an emerging market status. Short selling and securities lending facilities are two criteria, among many, that are needed to achieve this. Such facilities help attract foreign investment and boost local markets liquidity and efficiency.

Together, these markets offer significant future growth prospects for securities lending, and when combined with existing markets in the Far East (Taiwan, Hong Kong and Japan, and so on) and future prospects such as India and China, there is ample opportunity for the industry to reinvent itself once more. In the 19th and early part of the 20th centuries, 'Go West' was a phrase that was used to encourage people to find and develop their fortunes in the emerging North American region. Now, it seems that the sentiment is the same—it just needs amending to 'Go East' to fit into the 21st century. **SLT**

Figure 2: Daily revenues by region in USD millions per day



David Lewis
Senior vice president, Astec Analytics
SunGard Capital Markets

Equities: share buybacks

Simon Colvin of Markit Securities Finance asks whether share buybacks are a hit, a miss, or something in between

With share buybacks gaining in popularity, we see that short interest tends to surge in the month following the announcement of a share buyback programme.

The global economic climate has seen an increasing number of companies sit on an ever growing cash pile. But as the US economy looks to turn a corner, investors are increasingly lobbying management to pay out a portion of their excess capital.

CEOs looking to redistribute capital can either pay cash directly through dividends or buy back their shares in the open market. The jury is still out as to which of the two chosen paths is the most effective given the differing tax treatment of dividend income and varying share price appreciation following a share buyback.

Despite many companies actively buying back their shares, we see high short interest in several firms, indicating possible further bearish sentiment.

Buybacks increasingly popular

The flurry of recent buyback announcements looks set to make 2012 the biggest year for buybacks, breaking last year's haul when 113 buybacks were instigated across the S&P 500. The volume of buybacks is also picking up with this year's 103 deals valuing $219.6 billion, more than last year's $216.5 billion of announced deals, according to Capital IQ.

Companies in the S&P 500 Index which have initiated a share buyback programme have outperformed the Index by 1.08 percent in the month following the announcement of the policy.

This phenomenon also holds true across the broader market as illustrated by the Markit Data Analytics factor of percent change in shares outstanding, a proxy for shareholder dilution/concentration given changes in shares outstanding. Cumulative returns across the Russell 3000 Index show that shares in the least diluted 1st decile outperformed their more diluted 10th decile peers by 67 percent in the last seven years.

Short sellers staying put

Given this phenomenon, one would assume short sellers would scurry to cover short positions upon a buyback being initiated.

The average short interest in companies announcing a shares buyback stands at a slightly below index average of 2.5 percent of shares outstanding. but, this surges in the month following a buyback announcement with average shares out on loan jumping 11 percent.

This phenomenon is also seen across heavily borrowed shares (seeing more than 6 percent of their shares out on loan). This group see an average increase in short interest of 5.65 percent.

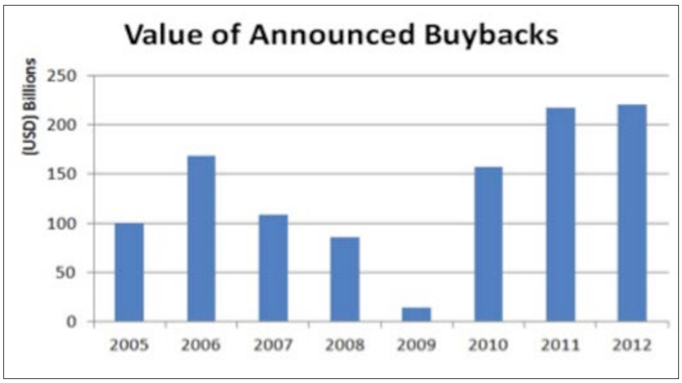
It is hard to identify the root cause of this phenomenon. Share buybacks tend to be a longer term capital redistribution process than dividend payments, often times spanning several years, and it is not possible to isolate a company's share price from short term market movements.

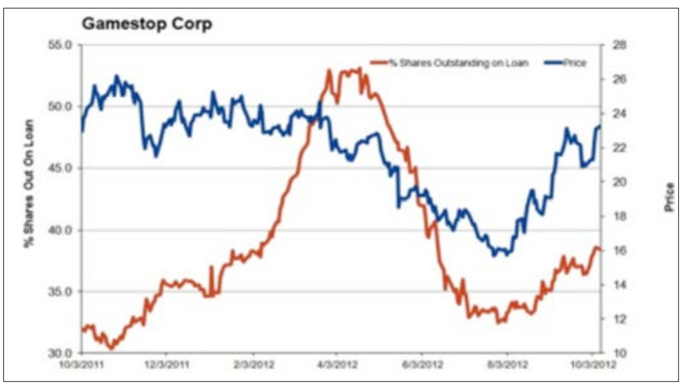
Recent announcements

Looking at recently announced share buybacks we see several companies with high short interest in the run up to and the wake of their buyback announcement.

Retailer GameStop announced a $500 million buyback in February. This did little to deter short sellers with short interest jumping 8 percent in the month following the buyback announcement to 53 percent of shares.

We see a similar trend in consumer-spending exposed BigLots, which saw its short interest jump 61 percent to 12.2 percent of shares in the month following its $200 million buyback announcement in May. **SLT**





Industry appointments

Former Deutsche Bank head of European securities lending **Benga Sofoluwe** has joined the hedge fund EQI Asset Management.

Sofoluwe left Deutsche Bank in March and has been on gardening leave for six months.

At EQI Asset Management, he will work with Steve Smith as a trader in equity finance and Delta One trading. He will be based in London and takes up his new job on 22 October.

Mia Bourgeois, the head of prime brokerage origination for Asia Pacific at Nomura Holdings, is leaving the firm, according to reports.

It was also reported that **Christopher Antonelli**, global co-head of prime services, will be the acting head.

Nomura, which took over the European, Middle Eastern and Asian units of the now defunct Lehman Brothers, did not have a historical track record in prime brokerage when it employed ex-Lehman employee Bourgeois in late 2010.

Macquarie associate director **Paul Solway** is moving to BNY Mellon in Hong Kong, a source has confirmed.

He will be taking a senior role in the firm's securities lending team, which is now a part of Global Collateral Services.

BNY Mellon's new business was formed in June and brings together the firm's global capabilities in segregating, allocating, financing and transforming collateral for its clients, including its own broker-dealer, collateral management, securities lending, collateral financing, liquidity and derivatives services teams.

Solway has worked at Macquarie since 2005. His previous roles include director at HSBC and prime brokerage specialist at Nomura.

Legal and General Investment Management (LGIM) has appointed **Teresa Poy** as chief compliance officer.

In her new role Poy will report to Paul Sweeney, LGIM's head of legal and regulatory affairs.

Poy previously worked for TT International as head of compliance for Europe and North America.

Prior to this Poy held senior roles at various UK regulators including the FSA, SFA and the London Stock Exchange in the traded options market.

The Hague-based Panel of Recognised International Market Experts (Prime) in Finance has appointed ten new experts to its panel.

Allen & Overy partner **Zoltán Lengyel**, who heads the firm's Hungarian corporate team, and **Victor De Serière**, both join the panel alongside Linklaters' Asian derivatives and structured products head **Chin Chong Liew**.

Other appointees include **James Spigelman QC**, the former chief justice and lieutenant governor of New South Wales in Australia and an arbitrator at One Essex Court, International Monetary Fund Administrative Tribunal judge **Andres Rigo Sureda**, previously deputy general counsel at the World Bank, and **John Hull**, Maple Financial Professor of Derivatives and Risk Management at the University of Toronto.

Mohamad Akram Laldin, executive director of the International Shari'ah Research Academy for Islamic Finance, **Rene Mouchotte**, non-executive director and senior advisor to Traccr, and **Leslie Rahl**, founder and managing partner of Capital Market Risk Advisors, have also been added to the board.

Lastly, NERA Economic Consulting vice president **Dr. Sharon Brown-Hruska** has been appointed to Prime, bringing experience in securities, derivatives, and risk management.

Prime was established in January 2012 to compliment judicial systems in the settlement of disputes involving complex financial transactions. Dr. Brown-Hruska and her colleagues will function as arbitrators, mediators, and litigation experts.

Natixis Global Asset Management (NGAM) has strengthened its international product group with the recruitment of **James Beaumont** and **Catherine Morat**.

Beaumont has been appointed as head of product consulting and solutions, durable portfolio consultant. Morat joins as head of the product marketing team.

Both will be based in London and report to Cora Gibbons, head of the international product group.

Beaumont joins NGAM from Standard Life Investments (SLI), where he held the role of senior investment analyst in SLI's fund solutions team.

Morat previously worked for Wellington Management as a director, relationship manager and sales/marketing specialist.**SLT**

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