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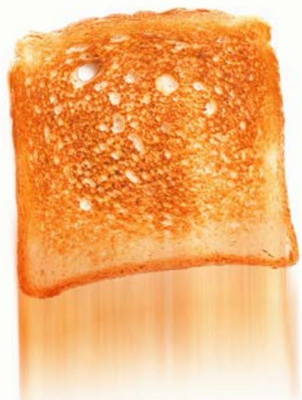

Securities finance data game hots up

NEW YORK 18.02.2013

SunGard will stream securities lending transactions data from around the world 24-hours a day and in real time through its Astec Analytics solution suite, as it competes with offerings from EquiLend and Markit Securities Finance.

The live supply of data comes at a time when "access to intraday data has become an important way to keep pace with price changes in the securities lending market", said Josh Galper, managing principal at Finadium, in a statement.

"Traders in fast moving markets and who work with hedge funds and other borrower clients need intraday data to make smarter decisions both for their securities loans and to price trades across a portfolio. As securities lending continues its evolution towards greater transparency, global intraday securities lending will play an expanding role in the markets."

Tim Smith, executive vice president at SunGard's Astec Analytics, added that global regulatory authorities are also putting a great deal of pressure on industry participants to produce or have access to more transparency to better service their clients.

"SunGard's introduction of global intraday streaming securities lending data is a major step forward in satisfying these needs and assisting with trading and reporting requirements."

Each day, SunGard's Astec Analytics will stream intraday data as its customers feed their transactions directly into the system, continuously updating the online analytics and information throughout the global day. Customers will also be able to see on-screen streamed and analysed data for the previous 48 hours, backed up by online trend analysis of up to seven years.

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SLTINBRIEF

BlackRock contests plumbers and pipefitters

A lawsuit from two pension plans could land BlackRock's securities lending scheme in trouble, after it was alleged that the asset management firm had taken revenue out of investors' hands.

readmore p3

TCRS to become a lender once again

The Tennessee Consolidated Retirement System (TCRS) is returning to securities lending, a spokesperson for the state's treasury department confirmed.

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Securities lending data game hots up

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With the introduction of a global intraday data service, the firm hopes to help increase profitability and improve transparency throughout the world's trading day.

SunGard's Astec Analytics currently monitors more than 1.3 million securities lending transactions at 75 financial institutions and tracks more than 33,000 unique securities on loan on average daily, but the firm faces stiff competition for a slice of the data market.

In January, EquiLend launched DataLend, a new market data provider for the global securities finance market.

The firm promised proprietary quantitative cleansing methods for an "excellent" quality of data, with Ben Glicher, CIO of EquiLend, commenting at the time: "After an intensive and extended beta phase, it is evident that we are bringing top quality, thoroughly cleansed, unadulterated data to the securities finance market. We believe that our data is more than just competitive and it is our aim to become the industry leader in global securities finance market data."

Markit Securities Finance is another competitor since its purchase of Data Explorers, which provides a view of short interest data and institutional fund activity across all market sectors.

Most recently, the firm released a new enhancement to Markit Data Analytics & Research's Factor product that tracks short selling sentiment. The new suite found that the cost of shorting is among the top performing (the best in Europe) of all factors since January 2007, with a high and consistent return.

BlackRock contests plumbers and pipefitters

Continued from page 1

The suit claims that a number of BlackRock's US-listed iShares exchange-traded funds (ETFs) "systematically violated their fiduciary duties, setting up an excessive fee structure designed to loot securities lending returns properly due to iShares investors".

The Laborers' Local 265 Pension Fund of Cincinnati and the Plumbers and Pipefitters Local No 572 Pension Fund of Nashville filed the suit in Tenneessee's Middle District Court.

BlackRock president Robert Kapito and iShares chairman Michael Latham are named as defendants in the suit, which alleges that they, alongside the ETFs, ran a scheme to take at least 40 percent of lending revenue.

A BlackRock statement said that the complaint is without merit, adding that the firm will "contest it vigorously".

BlackRock reportedly retains 40 to 50 percent of gross lending revenues, but regulatory initiatives could affect this in the future.

In 2012, European Securities and Markets Authority (ESMA) issued guidelines on exchange-traded funds (ETFs) and other UCITS issues that said fund managers operating securities lending programmes on behalf of UCITS funds should return all income from lending, "net of direct and indirect operational costs", to fund investors.

BlackRock is also providing an increasing number of indemnifications to securities lending clients to cover the risk of borrower default.

In a public policy statement, co-heads of BlackRock's cash and securities lending businesses, Rich Hoerner and Simon Mendelson, said: "Indemnification does cover a real risk and therefore comes at a cost to provide which must necessarily be reflected in lending agent fees."

At a 2012 conference in Miami, Bruce McDougal of BlackRock tackled regulatory reform and its effects on securities lending and borrowing. He emphasised the threat that Basel III capital requirements and US Dodd-Frank Act Section 165(e) counterparty concentration limits pose to indemnification.

Basel III could make securities lending too expensive to conduct, while Section 165(e) may make it "impossible to lend to counterparties", according to McDougal.

The firm is working to expand its ETF business. In January, BlackRock entered into a definitive agreement to acquire the ETF business of Credit Suisse, complementing its existing iShares ETF range, and expanding iShares' local product range in Switzerland.

The deal enables Swiss-based clients to access the largest European ETF offering across equities, fixed income and gold.

TCRS to become a lender once again

Continued from page 1

TCRS stopped lending securities in 2001 when its agreement with its custodian ended.

But the retirement system, which has Michael Brakebill as its CIO, has decided to return to the business for "incremental income and improved market opportunity".

The spokesperson said TCRS will operate a conservative and intrinsic-only securities lending programme with top-tier counterparties.

It issued a securities lending questionnaire as part of its selection process in July 2012, and in November of the same year, it selected Deutsche Bank as its agent lender.

TCRS plans to start its securities lending programme in the spring.

SimCorp promises enhanced collateral management

Copenhagen-based SimCorp has released a new version of its front-to-back-office investment management platform that offers enhanced collateral management.

Version 5.3 of the technology company's platform, SimCorp Dimension, includes reverse stress testing for increased risk management, collateral substitution, which enables better forecasting and improved control, and separation of compliance information.

The introduction of new reverse stress testing includes relevant loss scenarios and intuitive tables and charts. In the settlement area, the newly streamlined collateral substitution process allows users to reduce shortfalls.

Users can forecast events on outstanding collateral, "which improves control over the collateral substitution process", said a statement from the firm.

SimCorp CEO Klaus Holse added: "SimCorp Dimension version 5.3 brings increased value to our clients. Among many new features, this latest version includes comprehensive usability improvements as well as updated regulatory compliance capabilities."

The next version of SimCorp Dimension will be released in August.

Euroclear's Collateral Highway has smooth end of year

The first recorded results of Euroclear's global 'Collateral Highway' show that it had used €700 billion of securities as collateral each day by the end of 2012.

The Collateral Highway links commercial and investment banks, supranationals, central banks, central counterparties, and other capital market infrastructure providers across time zones and markets.

Euroclear's global Collateral Highway mobilised €700 billion of collateralised transactions each day by year-end 2012, a year when the repo market contracted by 14 percent according to the European Repo Council.

Launched in July 2012, the Collateral Highway has no direct year-over-year comparison data. In 2011, Euroclear Bank's triparty collateral management and Euroclear UK and Ireland's delivery-by-value services achieved the equivalent of €503 billion per day.

IOSCO helps regulators with client assets protection

A consultation report on recommendations regarding the protection of client assets from the International Organization of Securities Commissions (IOSCO) aims to help regulators improve the supervision of intermediaries holding client assets.

"Recent events such as the Lehman Brothers and MF Global insolvencies have highlighted the importance of client asset protection regimes," said an IOSCO statement. "In this context, investors are trying to better understand the potential implications of placing their assets with particular intermediaries and in certain jurisdictions. Regulators are seeking to address risks to client assets and determine how to transfer or return client assets in default, resolution or insolvency scenarios."

The IOSCO report's nine principles provide guidance to regulators on how to enhance their supervision of intermediaries holding client assets by clarifying the roles of the intermediary and the regulator in protecting those assets.

IOSCO added that many jurisdictions have rules and regulations governing client assets, "although their protection regimes may vary across these jurisdictions."

The report outlines the intermediary's responsibility to ensure compliance with these rules, including through the development of internal systems and controls to monitor compliance. Where the intermediary places client assets with third parties, the intermediary should reconcile the client´s accounts and records with those of the third party.

While the intermediary must comply with the client asset protection regimes, the regulator has a role in supervising the intermediary's compliance with the applicable domestic rules and maintaining a regime that promotes effective safeguarding of client assets, according to the report.

Comments on the consultation paper are welcome until 25 March.

Som Seif's new 'democratic' firm chooses CIBC Mellon

Purpose Investments has selected CIBC Mellon to deliver a full suite of asset servicing solutions, including securities lending, custody, fund accounting and ETF administration services.

Purpose Investments was launched on 10 January, purporting to be a new asset management firm "wholeheartedly committed to democratising the investment industry, providing all Canadians access to a range of investment strategies that have traditionally been out of their reach."

The founder, president and CEO of Purpose Investment is Som Seif, who was previously president and CEO of Claymore Investments, which is one of Canada's fastest growing asset managers, organically growing AUM to $7.8 billion when it was acquired in 2012.

CIBC Mellon will provide the newly launched Purpose Investments with a global custody solution via the BNY Mellon global network, and access to the workbench investment information delivery platform.

"Purpose Investments is focused on offering great investment strategies at fair prices, and 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 bringing real value and innovation to the Canadian marketplace," said Seif in a statement.

"Critical to our success is selecting highly capable service providers like CIBC Mellon. We have had a successful past working relationship with CIBC Mellon and their proven asset servicing expertise and outstanding technology, which will help our firm deliver strong performance while keeping investment costs down."

"We are excited to be working with Seif as he launches Purpose Investments here in Canada," said Gordon Kosokowsky, executive director of business development at CIBC Mellon.

"Like the team at Purpose, CIBC Mellon shares a culture that is deeply invested in delivering outstanding service and great results for our clients. We're proud to help power Purpose into the future."

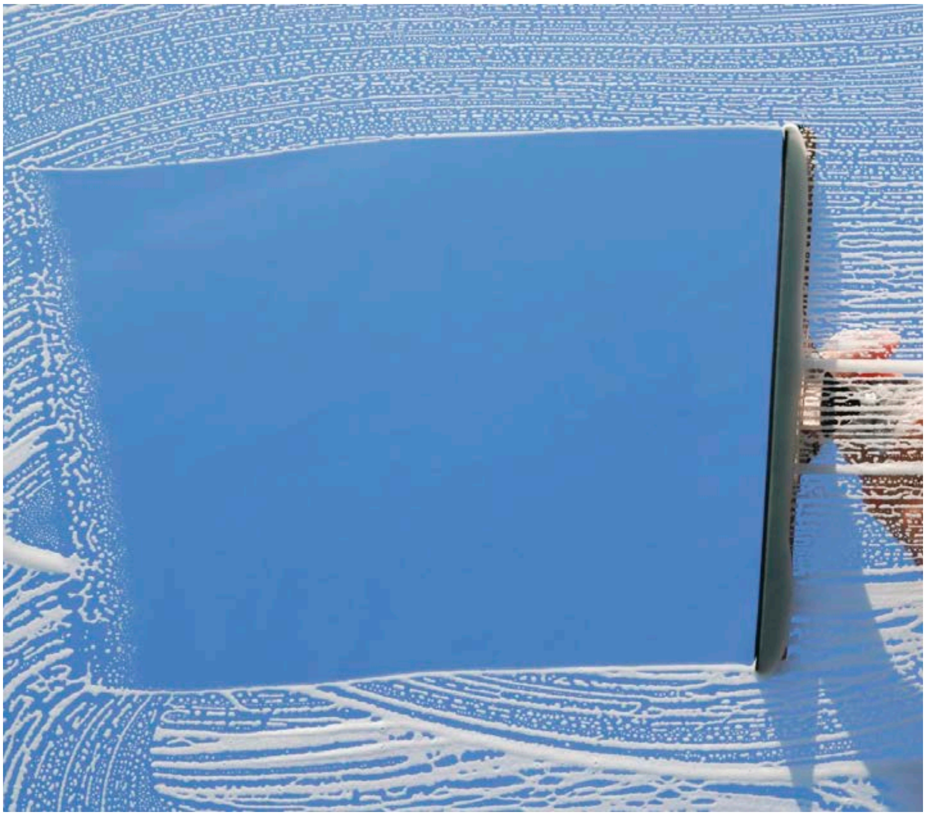
ESMA polishes up market making exemption

The European Securities and Markets Authority (ESMA) has published its final guidelines on the exemption for market making activities and primary market operations under the short selling regulation.

In a statement, ESMA chair Steven Maijoor said: "Market-making is an important function in securities markets, these guidelines provide clarity to participants and supervisors on the operation of the exemptions under the short selling regulation."

"This ensures that market participants can operate knowing that the same criteria are being applied in a consistent manner by authorities across the EU, thereby ensuring a level playing field for all."

The guidelines cover key elements, including the provision that in order to benefit from the market making exemption on a particular instrument, the market maker should be a member of a trading venue in which the relevant financial instrument is admitted to trading and conduct market making there.



Secondly, if a notification of an intent to use the exemption is made, ESMA states that the market maker should fulfill some general principles.

For equities and equity derivatives, the guidelines specify qualifying criteria for the authority that receives the notification of intent to consider in its assessment on whether to allow the use of the exemption or not.

European investors worry about MiFID transparency

More than half of European investors who were polled said that the second installment of the Markets in Financial Instruments Directive's (MiFID II's) proposal to force all quotes in fixed income instruments to be firm and disclosed to the market will have a negative impact on trading activity and reduce liquidity, according to new research from the Association for Financial Markets in Europe (AFME).

In AFME's Investor Survey of Fixed Income Liquidity, 56 percent of investors said that they believe the MiFID II pre-trade transparency regime will have a negative impact on market activity.

The fixed income market continues its migration from voice to electronic trading, "though more slowly than previously envisaged", said AFME's survey analysis.

More than one third of respondents said that electronic trading has increased over the past two years and 39 percent expect it to increase over the next 12 months. However, this growth is evolving from a low base. In 2012, 55 percent of investors conducted no more than 40 percent of their trades electronically.

The findings also showed that over half of investors believe a choice of both electronic and voice methods of trading is necessary in order to maintain optimal market liquidity. Compared to the large investors, a significant proportion of small investors (23 percent) believe that voice is the only method of trading necessary to maintain optimal market liquidity.

In a statement Christian Krohn, a managing director at the AFME, said: “The European Council and Parliament amendments to limit MiFID requirements to trades below a certain size are to be welcomed. However, the council proposal to broaden the scope to illiquid instruments will still hamper trading activity.”

“The survey also demonstrates the need to maintain the choice of both voice and electronic as methods of execution, which is seen by fixed income investors as essential to maintain optimal market liquidity.”

He added: “Proposals to force all over-the-counter voice trading to take place under MiFID’s proposed transparency rules will remove this flexibility and will have unintended damaging effects on liquidity.”

CIMB Securities Australia turns on Broadridge solution

CIMB Securities Australia has gone live with Broadridge’s broker client accounting solution, SUMMIT, for its Australian investment banking business.

The solution supports CIMB Securities’s cash equity business for principal and agency trades conducted on the Australia Securities Exchange (ASX) and CHI-X Markets, and enhances the firm’s operational processing efficiency while helping to minimise the risks associated with processing delays and manual checks.

CIMB Securities acquired its Australian investment banking business from Royal Bank of Scotland, as part of a regional growth plan. It commenced live operations on SUMMIT in a short timescale to coincide with the business handover from RBS and the commencement of local market operations.

“We have been consistently impressed with the professionalism and service quality provided by Broadridge in Australia throughout the course of this project,” said Carol Fong, group CEO at CIMB Securities. “We quickly and efficiently transitioned to live processing without any hitches, delays or budget overruns. Our operational technology supports our growth strategy into additional asset classes and markets.”

Feedback on ESMA short selling rules welcome

The European Securities and Markets Authority (ESMA) has published a call for evidence on the evaluation of the regulation on short selling and certain aspects of credit default swaps (SSR).

This follows receipt of a formal mandate from the European Commission seeking technical advice on the evaluation of the effects of the SSR.

In order to prepare its technical advice on the effects of the SSR, ESMA is inviting investors, market participants and any other interested stakeholders to provide responses to the questions outlined in the call for evidence by 15 March.

ESMA's advice is expected to be delivered to the commission no later than 31 May. It will contribute to the commision's report on the review of the SSR, which it is obliged to present to the European Parliament and the European Council at the end of June.

Securities lending CCP activities up for OCC

Total cleared contract volume in January reached 365,027,878 contracts for OCC. This represents an 8 percent increase from the January 2012 volume of 337,222,938 contracts.

OCC's securities lending central counterparty (CCP) activities saw a 57 percent increase in new loans over January 2012 with 100,574 transactions last month. The average daily loan value at OCC in January 2013 was $44,231,813,101.

Its options and futures volume was up significantly last month, making it the second highest January for OCC cleared contract volume on record behind January 2011. OCC's stock loan programme also reported a strong start to the year.

Futures cleared reached 3,956,257 contracts in January, a 117 percent increase from January 2012. Equity futures volume reached 537,739 contracts, an increase of 78 percent from January 2012.

Index and other futures volume was up 125 percent from January 2012 with 3,418,518 contracts. OCC cleared an average of 188,393 futures contracts per day in January 2013.

Assets under custody increase but GSF dips for Clearstream

Clearstream's January 2013 figures show a decrease in global securities finance (GSF), but an increase in assets under custody.

In January, assets under custody that were held on behalf of customers reached €11.3 trillion, a year-on-year increase of three percent.

For GSF services, the monthly average outstanding reached €548.8 billion. The combined services, which include triparty repo, securities lending and collateral management, collectively experienced a drop of 8 percent over January 2012.

The investment funds services saw a 41 percent increase from January 2012, with 0.67 million transactions processed.

Eurex witnesses single stock increase and repo decline

Eurex Group's January 2013 figures show an increase in equity derivatives but a decrease in repo.

The international derivatives exchanges of Eurex Group recorded an average daily volume of 8.7 million contracts in January, a year-on-year increase of half a million.

Of those, 5.9 million were Eurex Exchange contracts, up 0.4 million on 2012, and 2.7 million contracts were traded at the US based International Securities Exchange, which is the same figure that was recorded last year.

The equity derivatives (equity options and single stock futures) segment at Eurex Exchange reached 29.3 million contracts, an increase of 3 million year-on-year.

Equity options totaled 20.9 million contracts and single stock futures equaled 8.4 million contracts.

Eurex Repo, which operates Swiss Franc, Euro Repo and GC Pooling markets, recorded €193.4 billion average outstanding volume in all repo markets, down €44.8 billion on 2012. The Euro Repo Market totalled an average outstanding volume of €26.3 billion, down 8.8 billion year-on-year.

The secured money market GC Pooling recorded an average outstanding volume of €134.3 billion, an increase of 12.9 billion year-on-year.

A natural advantage

Hong Kong has some built-in benefits when it comes to securities lending, but the country must address the cost of shorting, as SLT finds out

GEORGINA LAVERS REPORTS

Securities lending first kicked off in Hong Kong when its monetary authority's Central Money Markets Unit (CMU) launched a lending programme for private sector debt securities on 1 December 1997.

The programme aimed to enhance the liquidity and settlement efficiency of CMU private sector debt securities, and increase their attractiveness to investors by enhancing the yields for lenders.

Drawing on the success of the market-making system for the exchange fund paper, the programme allowed CMU members that were prepared to act as market makers of private sector issues to borrow securities from other CMU members to cover their short positions. The market makers were required to quote two-way prices at a reasonable spread during money market hours.

Fast-forward 13 years to 2010, and the industry was in a state of flux. Hong Kong was not hit too hard by the credit squeeze, but the number of participants in securities lending was falling (due in part to increased conservatism among lenders), and consolidation meant that smaller companies were falling off the radar.

However, Hong Kong has a few built-in advantages that will ensure the continuance of a fairly vibrant lending market. The Pan-Asian Securities Lending Association (PASLA) was founded in Hong Kong in 1995 and has been vital in growing the Asian markets. Since Hong Kong is the regional headquarters for many financial firms, it is easy for borrowers and lenders to meet there and resolve any issues.

Disadvantages to the region do exist. There is an exemption from stamp duty for properly executed transactions, but it must be claimed by filing the stock lending agreement with the Inland Revenue Department, which is not particularly convenient for industry players. Also, Hong Kong shorting has become extremely costly in the last couple of years. In a September 2012 blog post, Will Duff Gordon, research director at Markit Securities Finance, said: “If you thought, like me, that the cost of short selling in Hong Kong could not get any higher since a year ago then you are wrong. Admittedly, this rise in the cost of borrowing plateaued over the last few months, but this was after a continued rise for nine consecutive months.”

He stated that the number of shares on loan in Hong Kong for more than 500 basis points increased from 13 percent of securities to 21 percent, compared to just 2 percent in Japan.

“Securities lending is widely used to provide coverage for short selling transactions in the market,” said a spokesperson for Hong Kong Exchanges and Clearing (HKEx) on shorting in the region. “HKEx currently does not have any policy overseeing securities lending activities. However, short selling activities are regulated under the Securities and Futures Ordinance (SFO), where naked or uncovered short selling is strictly prohibited unless exemption is granted.”

The Stock Exchange of Hong Kong tightened the rules that regulate the short selling of designated securities in May 2012, after it conducted a review earlier in the year.

The move to tighten restrictions followed the enactment of similar legislation in the US and Europe, with the exchange planning to increase the eligibility criteria for market capitalisation and turnover velocity from HKD$1 billion to $3 billion and 40 percent to 50 percent respectively.

In a statement, the exchange said: “The change reflects the fact that the average market capitalisation of listed companies in Hong Kong has grown by around three times and the market turnover velocity has increased from around 40 percent to over 50 percent in the past decade.”

“Had the new short selling eligibility criteria been adopted in the last quarterly review in April [2012], 82 out of the existing 646 designated securities would have become ineligible for short selling.”

After the announcement, tech companies rushed to find answers, with providers TORA and Paladyne releasing reporting solutions that promised to meet the Securities and Futures Commission’s (SFC) requirements.

TORA said that its new solution aimed to enable hedge funds to meet the Hong Kong requirements by consolidating a report of short positions that comply with both the SFC’s approved list of equities, which can be shorted, and the newly prescribed reporting thresholds.

The report tool integrated with the TORA Compass execution and order management platform to generate reports on demand or scheduled reports for the weekly or daily requirement that were set by the SFC.

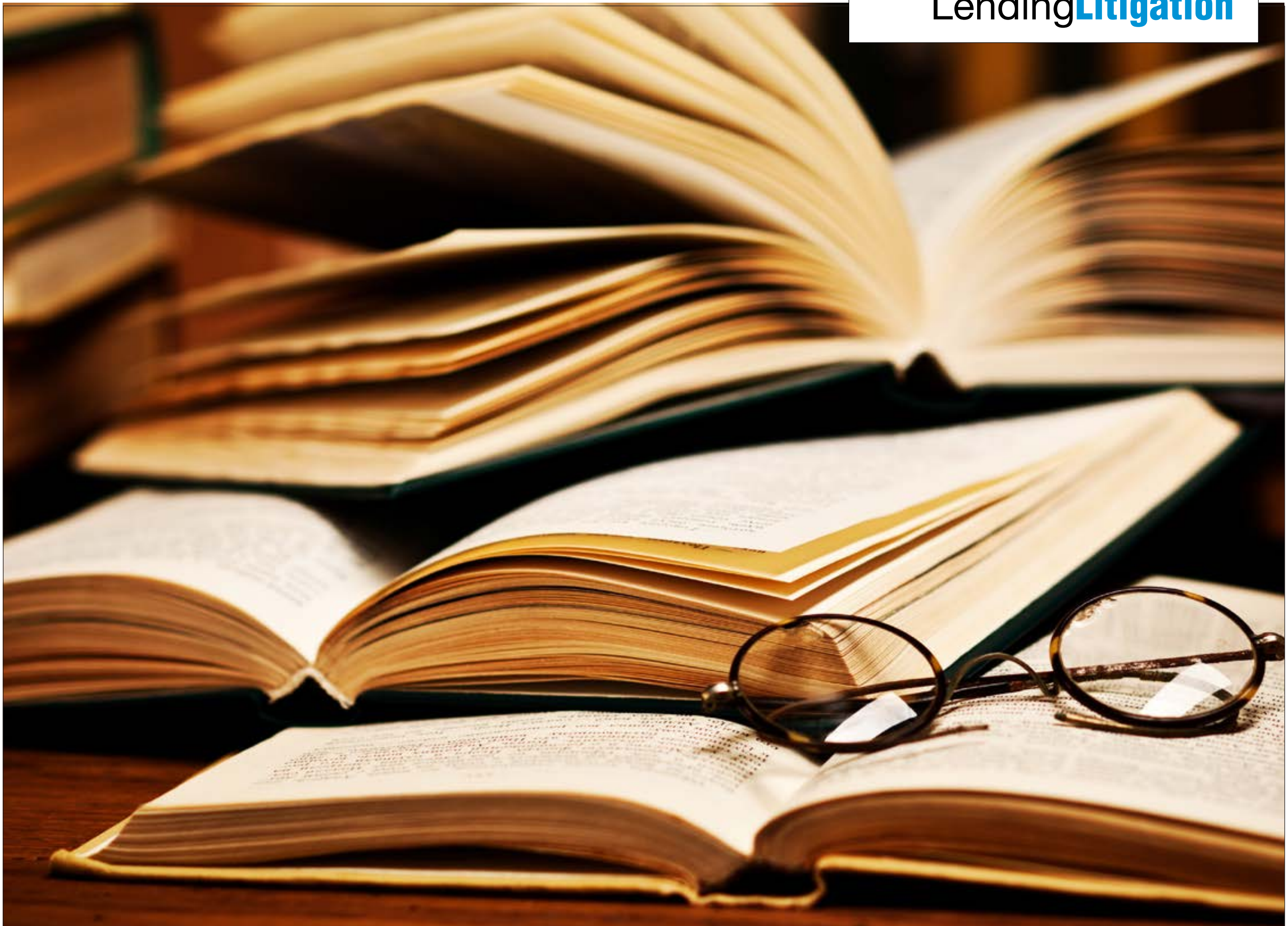
Paladyne Systems added capabilities to its order and portfolio management solution, Paladyne Portfolio Master, which automatically imports the SFC’s database of companies that must disclose short sale positions and allows clients to generate daily monitoring reports.

> Disadvantages to the region include a laborious process for stamp duty exemption, plus the high cost of shorting

The new rules from the SFC came into effect on 18 June 2012, with the first reporting day of net short positions on 22 June and a T+2 reporting deadline on 26 June. Net short positions were then required to be reported weekly with a contingency for the SFC to enforce daily reporting in the event, for example, of a rapid market decline.

On the issue of stamp duty, the HKEx spokesperson argued that from the market participants’ perspective, the stamp duty exemption helps to lower the overall transaction cost. “The lower cost probably helps to boost the usage of securities borrowing and lending transactions in various business activities such as equity financing, short selling, failed settlement coverage, equity conversion for arbitrage opportunities, etc. These business activities, in turn, help to boost the cash market’s turnover as a whole and thus benefits Hong Kong.”

The belief that more regulation equals less risk that dogs markets so much seems to be present in Asia. Although regulations around what is required prior to executing a short sale are less onerous than countries such Australia, Hong Kong needs to check itself against the rest of the world, because Asia’s continued yet stunted growth could negatively affect the country’s securities finance market unless it rectifies some of its shortcomings. **SLT**



Leaving it to the courts to decide

The past few years have been awash with securities lending lawsuits, whether it be due to the collapse of institutions, risky investments, or excessive fees. SLT takes a look

GEORGINA LAVERS REPORTS

In 2009, general treasurer Frank Caprio confirmed that the Rhode Island State Pension System exited its securities lending programme after making a $10 million profit.

"In the volatile markets we've seen over the past year, my team has made it a priority to focus on existing investments that may carry unintended risk and exit those investments," said Caprio at the time.

He stated that early in his administration, collateral in its securities lending pool was moved into much more secure investments, which held a higher percentage of liquid government notes including treasuries.

By the end of 2008, however, Caprio said that it became apparent that even the move to a high quality collateral pool was not enough to ensure a favourable risk/reward scenario, and slashed the programme.

Shortly after Rhode Island exited from securities lending, it was reported that as many as 90 percent of US pension funds and many defined contribution plans were suffering because of valuation problems in enhanced cash collateral pools that back securities lending activities.

Cynthia Steer, managing director and chief strategist of Connecticut-based consultant Rogerscasey (now Segals Rogerscasey), said in a 2010 report that only a few institutional investors made it out of this alive, "because they got out early or were very conservative in their fixed-income investment management", adding that they were "the exception, not the norm".

The Rhode Island pension plan's decision to quit securities lending was the first in a string of those that incurred losses, which, it was alleged, stemmed from lending programmes.

In the same year, Florida incurred $560 million in unrealised investment losses from its programme, and securities lending started to become both the black sheep, and the focus of litigation between plaintiffs' attorneys and plan sponsors and trustees.

BlackRock, BNY Mellon, Wells Fargo and J.P Morgan have all been hit with lawsuits.

The primary spate of complaints is around the relative riskiness of lending programmes, with pension plans and charities emphasising their lack of experience in the industry and conservative natures.

Different shapes and sizes

In February, a judge refused to throw out a lawsuit from The Salvation Army claiming BNY Mellon mismanaged its assets by investing the collateral for securities lending in risky mortgage-backed securities.

The charity alleged that it had told the bank that it had little experience in securities lending and wanted little or no risk from participating.

"As a result of BNY Mellon's misconduct, The Salvation Army has incurred losses and is left holding unproductive, toxic assets with extended maturity dates, the values of which have substantially declined," the charity said in the lawsuit.

However Ron Gruendl, a spokesman for BNY Mellon, said that the bank believes its actions were appropriate, having a very rigorous process that ensures its clients understand both the benefits and risks of securities lending.

US judge Barbara Kapnick rejected the bank's motion to dismiss the breach of fiduciary duty claim, and also let breach of contract and gross negligence claims stand, but pleased BNY Mellon in dismissing a claim for negligent misrepresentation.

The suits generally focus on claims that the investors were misled about the risk level that is associated with participating in a securities lending programme. Essentially, this is a fraud claim, which alleges that the banks misled the investors and falsely represented that securities lending was safe when in-fact it was quite risky, says Robert Heim, of New York law firm Meyers & Heim.

The central argument will be the question of whether banks concealed the risk of securities lending, or pension/retirement funds failed to understanding the nature of the programmes, adds Heim.

"The banks have argued in their defence that they disclosed all of the relevant risk factors to retirement and pension funds. Then they have further argued that the retirement plans and pension funds had the responsibility to evaluate the investments and make a decision on whether to participate," concludes Heim. "Ultimately, it may be a jury that decides who has the better argument."

Rubble and ruin

Failure is another feature of these lawsuits, with cases being filed due to losses from the collapse of Sigma Finance and Lehman Brothers, among others.

J.P. Morgan paid $150 million to settle a lawsuit from three American union pension funds and other investors that blamed the bank for securities lending losses.

The settlement with investors, including the American Federation of Television and Radio Artists (AFTRA) Retirement Fund, related to the collapse of $27 billion investment fund Sigma Finance Corp, which was created by London-based Gordian Knot and failed during the financial crisis.

J.P. Morgan "buried its head in the sand and refused to heed the warning signs" when it invested cash collateral that was posted by participants in a securities lending programme in medium-term notes after analysts predicted that Sigma Finance would be unable to repay them. Sigma Finance's failure left about $1.9 billion as security for roughly $6.2 billion of medium-term notes and other secured debt, the filings said.

J.P. Morgan spokeswoman Kristen Chambers said that the New York-based bank did not admit wrongdoing in settling, adding: "We are confident that we acted prudently and appropriately."

Other plaintiffs in the case were the Manhattan and Bronx Surface Transit Operating Authority Pension Fund in New York, and the Imperial County Employees' Retirement System in El Centro, California.

BNY Mellon and Wells Fargo were among the other banks to be sued for investing client money with Sigma Finance, with its failure leaving BNY Mellon out of pocket to the tune of $280 million.

The bank also agreed to settle a class action lawsuit for up to $280 million last year after workers' compensation insurance company CompSource Oklahoma filed due to losses connected with the investment of collateral in Sigma Finance.

BNY Mellon said its Q2 2012 results would include an after-tax charge of $210 million that would cover the settlement in part.

Gerald Hassell, chairman, president and CEO of BNY Mellon, was predictably discreet after the disclosure, stating that the settlement agreement reflected the "meaningful progress we are making in navigating the litigation environment that affects our company and the industry overall. We are putting this litigation behind us, with no significant impact on our capital position, while continuing to make headway on other matters."

When Wells Fargo assumed the liabilities of Wachovia after acquiring the bank at the end of 2008, it fell down the rabbit hole of litigation, ending up having to pay out $23.75 million to Sarasota County.

Wells Fargo said it would settle over claims that Wachovia Bank mismanaged the county's securities lending portfolio between 2007 and 2008.

Sarasota County engaged Wachovia in 2006 to enhance the performance of the county's working capital, but the financial crisis hit in 2008.

The county alleged that Wachovia negligently invested county funds in Lehman Brothers bonds and a collateralised debt obligation from Altius Funding, failing to follow the county's "extremely conservative" investment guidelines when it invested in Lehman Brothers and Altius.

A Wells Fargo spokesperson said both parties would "make payments to cover losses incurred in the securities lending programme during a time of unprecedented market conditions."

A different kind of claim occurred recently in the lawsuit against BlackRock. A Cincinnati laborers' local pension fund and a plumbers and pipefitters pension fund in Nashville filed a suit in Tenneessee, alleging that the asset management firm had taken revenue out of investors' hands.

The suit claims that a number of BlackRock's US-listed iShares ETFs "systematically violated their fiduciary duties, setting up an excessive fee structure designed to loot securities lending returns properly due to iShares investors."

Blackrock said that the complaint is without merit, adding that it will "contest it vigorously".

US-centric

All of these cases have been or are being litigated in US courts. Heim comments: "I believe a big part of the reason the lawsuits are US centric is that the US legal system has features that make it attractive for this type of litigation. For example, many of the cases have been filed as class actions. US courts are very familiar with class actions and they offer the plaintiffs an opportunity to litigate their case in a cost effective manner. Also, the US has an 'opt-out' system whereby investors are automatically class members unless they take steps to opt out. This provides plaintiff's attorneys with large potential classes and large damages amounts."

Stephen Everard, CEO of GOAL Group, a solutions provider for securities class actions, predicts class actions lawsuits could be on the rise outside of the US.

"For several years, the US has been the most developed legislature for securities class actions. Now, however, although it is still the dominant centre, securities class action growth elsewhere around the globe is now increasing rapidly, and is predicted to mirror the growth that the US saw in the early 2000s."

Heim agrees with this prediction, due to the fact that some of the cases have settled and others are progressing forward. "The early cases showed that the claims had merit, and it is likely other investors will follow suit with litigation outside the US."

"I believe that now that we have seen some settlements of the securities lending lawsuits and a class action being certified there is a likelihood that more retirement/pension funds will file additional litigation. The banks will be monitoring these developments closely so they can try to predict what their potential litigation risk is." **SLT**

Theatre of the deal

SLT's experts discuss the Asian markets, and how as China's growth slows, smaller markets such as the Philippines, Indonesia and Malaysia are experiencing strong headwinds

Francesco Squillacioti
Senior managing director, securities finance, Asia Pacific regional business director
State Street

Dane Fannin
Head of Asia trading
Northern Trust

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In 2012, the annual PASLA/RMA securities lending conference was held in Taiwan. How has that market developed and performed over the last year?

Paul Solway: Taiwan continues to demand some of the best spreads in the region, regardless of the regulatory headwinds that have faced many of its market participants that actively participated in 2012. Being heavily tech-focused and with index constituents and sectors that are directly correlated to the economic performance of the country, fundamental and relative value players continue to benefit from good volatility moves at a corporate as well as index level. With strong oversight of regulators, borrow balances are constantly scrutinised, which, in turn, has to some degree reduced investors' appetite to put trades on. It is also important not to underestimate the power of the local retail space, which often explains why stability of inventory is subject to dramatic change.

What is clear to many is that there is still a lack of quality offshore inventory availability in the market, so new entrants can make a real difference. BNY Mellon is constantly bringing new clients into our custody lending programmes and we look forward to opening up Taiwan to all of our lending clients in the very near future.

Andy McCardle: Taiwan continues to grow as time moves forward, with focus from our clients looking at market practices in the region and examining which automated solutions would make sense for their domestic entities. There is also a focus on bringing scalable risk mitigation tools, already in place in most markets, to their Taiwanese processes as this remains a rather manual process.

Karl Loomes: Taiwan has been a fairly solid market during 2012, and although it has not seen much in the way of growth, we have observed a slow and steady increase in the lending activity in the equities space. This has coincided with a reduction in the average value of loans in the region, which saw the overall market value of loans hold steady while the number of loans themselves did increase. At the same time, the average borrowing cost held steady, hovering around the 4 percent level for most of 2012.

Dane Fannin: Taiwan remains one of the region's most attractive revenue streams for lenders while a robust level of borrower demand continues to outstrip a limited supply base, particularly for offshore inventory. Demand has been sustained largely by directional trading strategies that are associated with gaining exposure to the supply chain of major technology companies around the globe, and market sentiment suggests this theme is likely to persist for the foreseeable future.

Regulatory developments in Taiwan attract a great deal of attention from industry participants with a desire to align these consistently with other regional jurisdictions that offer robust models in encouraging growth for the industry. In 2012, various regulatory changes were introduced to augment the existing short selling and securities lending regimes, although it is understood that the overall impact of these on industry developments was minimal.

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Francesco Squillacioti: Taiwan has continued to perform well in the region as a popular securities lending market for equities and, in large part, has maintained its momentum following its opening to offshore participants. As the value of its lendable assets has grown, it remains an important destination for the securities lending market.

Some estimates put the market at about $22 billion, and it boasts a relatively high utilisation rate of equities on loan. Spreads have also stayed relatively high. While Taiwan's market is diversified, its strong technology sector has proven a particularly significant driver of its economic growth, helping to fuel its status as an increasingly prominent securities lending centre. We certainly see Taiwan maintaining its place among the markets in this region.

What other emerging markets have performed well and are showing good signs of growth?

Loomes: Generally speaking, the markets we have seen significant growth in have been the smaller and less developed ones in terms of securities lending, such as the Philippines, Indonesia and Malaysia. Of course this has to be taken in context of their already very small lending activity, and it is worth noting that this growth is itself fairly small. That said, it is more significant than developed markets in the Asia Pacific and Japan region, which have seen little growth to speak of during the past year.

Fannin: One of the most prevalent themes to have sustained securities lending demand in 2012 was that of the China economy's slowing growth. Investors were compelled to gain exposure to sectors correlated with this trend and the effect of this was seen mostly in Hong Kong given restricted onshore access to the A share market. Consequently, Hong Kong emerged as one of the region's highest revenue streams in 2012, although the sustainability of this is being eroded as China begins to show signs of recovery. However, we expect Hong Kong to remain a strong driver of revenue in 2013, particularly now that correlation is weakening, with an assumption that demand will be driven more by stock specific fundamentals rather than broad based sector shorting.

Despite an indefinite ban on shorting financial securities, South Korean securities also performed well in 2012, driven partially by export related stocks exposed to a slowing of global demand, coupled with a strong South Korean currency. There was also an active interest for small-to-mid cap securities to facilitate high frequency trading patterns. We expect the South Korean market to remain one of the region's key developing markets in 2013.

Malaysia is one of the newest markets to open up securities lending, driven by positive regulatory changes in early 2012. While in the near term it is not expected to present significant revenue prospects due to lack of demand, further on this market ought to grow as long and short funds review offshore liquidity opportunities.

McCardle: It seems that the same markets continue to arise in conversations throughout the region; South Korea and Taiwan. These are the two markets where many see growth and opportunity. Over the past two years, these markets have gone through a number of regulatory and political changes which have not always assisted in the growth of securities finance in the short term, but over a longer period, the general trend has been a positive one. Some of the smaller markets that have seen growth do not currently have the revenue impact that the South Korean and Taiwanese markets have to presently deliver.

Squillacioti: Aside from Japan and Australia—the historical regional powerhouses—a few markets stand out. Most notably, Hong Kong has emerged as an important and vibrant market. Over the last three years, borrowers have paid close attention to this market. In its corner is a regulator that has maintained a robust and mature set of rules and regulations towards short selling and inward investment, it is seen as a proxy for China and, as cross-border liquidity increases, we expect to see further growth of our business in Hong Kong.

We continue to look at markets such as Malaysia with interest. Recent developments encourage us to think that offshore participants may soon be able to access the market with greater ease. The industry's focus on China gets stronger. While offshore participants are not yet able to participate in the onshore market, China is clearly making efforts to encourage development of its onshore securities lending market. With continued development, further liberalisation in the future seems possible.

Solway: Hong Kong has shown exceptional resilience and returns mainly due to many special situations that have recorded some significant returns to our clients which we believe are likely to continue into 2013. Underpinning this performance is the listing of Chinese companies in Hong Kong ('H' shares), which has allowed borrowers to short company stock—a practice that is still not easily managed in China but certainly a sign of what lies ahead when it opens up its market further. Subsequent to the lifting of its short selling ban in November 2011, demand continues to build in the shipping, chemical, energy and tech-heavy sectors of South Korea—certainly making it another market to watch closely in 2013.

Thailand has seen a relative resurgence of interest, though still lacks depth of supply and the newly opened Malaysian stock loan system is being keenly watched by investors as well as some other ASEAN markets that may also be looking to adding products to their exchange platforms.

Have the drivers for securities lending in Asia changed at all or are we still waiting on hedge funds and their specific trading strategies to fuel borrowing demand?

Squillacioti: Hedge funds remain a significant influence on growth in securities lending markets in this region and elsewhere. Increased allocations to alternative investments by institutional investors such as pension funds could fuel growth further. Ultimately, other prominent drivers are also in play. The overall development of capital markets, transparency, liquidity, and general economic certainty will drive market growth and be the catalyst for the strategies that impact borrowing demand.

Fannin: We expect Hong Kong to remain a strong driver of revenue in 2013, particularly now that correlation is weakening with an assumption that demand will be driven more by stock specific fundamentals

McCardle: The drivers seem to have stayed the same. I think the difference to the start of 2013 compared to 2012 is that the demand and flow seem to be at a much higher level.

Loomes: As far as we can see, the drivers for securities lending in Asia have not changed that significantly, although as legislation changes and new markets emerge and develop, this may not remain the case. For now, hedge funds remain the main driver, and our data does show a general increase in revenues gained from the high end specials—those over around 3.5 percent—from equity lending. At the same time, the number of loans taking place in the lower and general collateral ranges have seen a mild increase during the year, although this wasn't reflected by any significant increase in revenues.

Fannin: Securities lending demand in Asia continues to be driven predominantly by hedge fund activity despite this being relatively subdued of late. While hedge fund assets under management have grown, not all of this new capital has necessarily flowed through to securities lending for two key reasons. Firstly, conviction to deploy risk has continued to be constrained by sustained market volatility and political uncertainty, with a preference for capital preservation underpinned by higher levels of liquidity. Secondly, borrowers have leveraged internal long positions to facilitate hedge fund demand where possible, in an effort to reduce overall costs and be more efficient around their balance sheets. The former issue is expected to improve as the global economic environment recovers and markets move towards a more normalised state, driven more by financial fundamentals rather than headline news, fuelling hedge funds' risk appetites. This ought to encourage more corporate deal activity, which in turn would foster more demand.

Solway: Understanding Asia is where the real fundamental value is extracted, which is why we are seeing more hedge funds set up in the region locally

Solway: Asia, more and more, has downstream supply-chain stories that traders and fund managers look to trade on every day. Understanding Asia is where the real fundamental value is extracted, which is why we are seeing more hedge funds set up in the region locally. Likewise, arbitrage and relative value plays continue to develop across Asia, whether in region—China versus Hong Kong, or globally—India versus the US, Japan, Hong Kong and Australia underpin the liquidity across the region as index and/or algorithmic strategies continue to gain momentum.

With the regulatory differences that exist throughout Asia, has this led to a much slower development of a lending industry?

Loomes: This has been one of the key factors in the development of securities lending in Asia. The different stages of securities lending activity from one country to the next have by necessity, led to varying forms of regulation in the region. This brings a significant requirement on resources for those wishing to enter Asian securities lending, as well as large costs associated with any changes in legislation once established. South Korea was an example last year of the potential effect of legislation, with the removal of the country's short selling ban flagging it as one of the key potential markets in the region.

Fannin: Regulation plays a pivotal role in governing the success of the industry, particularly for emerging markets in Asia. Many of the regulatory frameworks facilitating securities lending make it challenging to encourage beneficial owners to enter into such markets, particularly where the settlement rules are excessively punitive. Agent lenders are therefore driven to maintain extremely cautious business models in compliance with such frameworks to mitigate risks for the beneficial owner, although this ultimately constrains supply and liquidity in the market.

While the industry continues to prioritise regulatory compliance, it is important for participants to maintain a proactive stance with regulators to ensure the views of the industry as a whole are being promulgated appropriately. Doing so can help ensure that regulatory changes are applied in such a way as long term growth of securities lending is fostered and its important role in the smooth functioning of global markets is recognised. Northern Trust continues to support regulatory developments through leadership positions in all major industry associations around the globe.

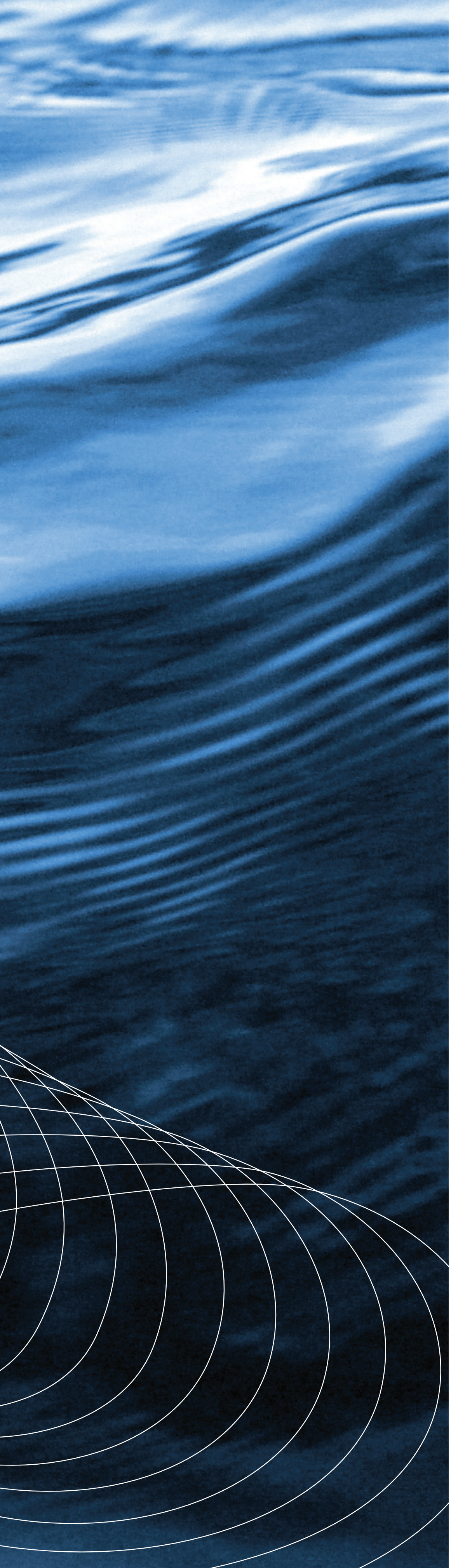
McCardle: In many instances, it has meant that firms need to be able to act much quicker to changes within each market. It is a constant topic of conversation and a key focus for firms to track the current regulatory processes and what effect any impending change will have. Regulatory differences mean that firms look to have ongoing processes to ensure that the correct ones are in place. This has been the case in Asia for so long now that it often feels like the norm. It is also something that new arrivals to the region find hard to track initially, but once they understand the nuances, they embrace the challenge.

Solway: I believe Asian regulation is more market specific than the US and Europe, but that hasn't meant it has been a hindrance to the development of lending. The issues in Asia are the size of the markets themselves, as most have lacked critical mass to attract significant foreign investment that is associated with overseas securities lending programmes. The most highly regulated markets of South Korea and Taiwan both have securities lending programmes that are among the most active in Asia. Those markets that lack programmes often lack regulation and infrastructure, although India is a good example of a unique platform that promotes real-time, transparent and effective disclosure of lending data. In Asia, it's all about size and accessibility of the markets, with size being the main factor.

Squillacioti: Any consideration of securities lending in Asia needs to acknowledge the diversity of markets and, of course, the diversity of jurisdictions. Each market operates on the basis of different needs, assumptions and 'local' realities. The overall effect of regulatory differences in an area as vast as Asia tends to introduce inefficiencies, uncertainties and a range of incentives (and disincentives). However, in the case of Asia, the spectrum of regulatory regimes we see has also enabled a certain pragmatic approach to emerge. We do see willingness in the various markets and regulatory bodies—Hong Kong and Taiwan, for example—to observe what is working in other markets, to listen to investors and to adopt innovative measures when their markets seem ready. Regulators in the region also show a readiness to keep in view global rule-making efforts as they formulate what approach is most suitable to their particular market. In the long run, these approaches could result in more effective regulatory frameworks that enhance growth in these markets.

How are technology investments helping businesses to overcome jurisdictional differences in the region?

Loomes: This is a very difficult area to pin down to specifics, and in broad terms the tech-



nological developments that are affecting the industry globally are also those that are likely to help businesses operate across national lines. The technology behind market transparency, for example, an issue that is very hot in securities lending at the moment, is one that could have a significant impact on at least easing market participant's understanding of the effect of jurisdictional differences.

> McCardle: Regulatory differences mean that firms look to have ongoing processes to ensure that the correct ones are in place. This has been the case in Asia for so long now that it often feels like the norm

Solway: Investors and regulators look for transparency of transactions and pricing. For securities lending, this then encourages supply and demand, which subsequently results in greater liquidity for the market. Asia clearly needs more supply. There are now a number of vendors that offer data services that look back on transactional history in order to give market and price trends within the securities lending space. Pricing by stock, sector and market are now therefore available to all participants, both as lender and borrower that in turn drives both efficiency and transparency. Other aspects such as differing settlement cycles in region, still need to see greater benefit from technological solutions that will ultimately help reduce operational risks for investors, for example, under recall scenarios.

The advent of EquiLend is also adding momentum in Asia, as more of the players get connected. Automation will increase in the next five years as such systems develop and lenders and borrowers look to automate processes as part of cost saving initiatives. Front-end systems are also being looked at, in order to consolidate and simplify trading applications—again, pushing efficiencies in terms of both time and scale.

Squillacioti: I see the role of technology bringing efficiencies while allowing us to offer flexibility to our clients in meeting their needs. In recent years, technology infrastructure has not only become highly scalable, but also highly flexible. This flexibility enables a high level of customisation, to account for widely varying investor needs as well as allowing us to transact globally across a range of asset classes to a diverse pool of counterparties. Current and emerging technology will be increasingly important in the future as the nexus of lender/beneficial owner-asset-collateral-counterparty continues to expand and grows more complex.

McCardle: Globally as well as regionally within Asia, we have seen a drive to make sure that scalable efficiencies that technology solutions, such as EquiLend trading and post trade services, provide are at the forefront wherever possible. If a global process is in place to increase efficiencies and mitigate risk, it seems logical to implement this process in every market. It can be fairly simple for technology to assist in reducing errors due to jurisdictional differences. It is very rare that a market encounters a unique problem that has never been faced before.

How do collateral pools in Asia compare to the US and European markets and do you see this changing?

Loomes: Although 2012 saw little significant change in the dominance of non-cash collateral in Asia, the balance remains differentiated between the equity market, and the much smaller fixed income. Overall, the breakdown of cash and non-cash collateral matches that of Europe, around 60 percent non-cash. This comes predominantly from the equity side of things, however, where non-cash makes up around 65 percent of the market. In fixed income lending, however, the market in Asia is dominated by cash—around 80 percent. But it is well worth noting that this is in context of a much smaller market for securities lending.

Squillacioti: Beneficial owners in Asia engage in the lending of assets not only in the region, but globally. Their requirements for collateral are driven by their internal considerations and policies with respect to risk tolerance and—from a transactional standpoint—what will be effective (within those parameters) in a particular lending market. As such, their view of collateral tends to be global in nature. Our role as lending agent is to help align those two aspects. We strive to bring to bear our strengths in risk management with our global trading footprint so that we can maximise opportunities for our clients within their expectations.

Solway: Most global financial institutions have different and ever-changing pricing and funding models, but clearly collateral now forms a crucial element in any secured deal decision-making process. Collateral is now measured in terms of cost if not cost-reduction. We have certainly seen an increase on a global basis, not just for the Asia region specifically, to post more Asian securities as collateral, be it JGBs, Hong Kong or Australian equities, or even moving out the collateral curve to some of the less established markets. This is arguably the main difference compared to the US and EMEA, which are clearly more standardised. At BNY Mellon, we have always looked at collateral from a global perspective, taking into account the nuances that exist in each region and tailored our programme accordingly.

There are a few big lenders based in Asia with significant global holdings. Many of these have been reluctant to take risk since the global financial crisis, and have maintained a conservative stance. Now, however, given the need for increasing revenues, many are reviewing their collateral flexibility policies and are considering accepting additional forms of collateral. One example where this works well is the equity versus equity trade, where risks are matched and the trade makes economic sense.

> Squillacioti: Current and emerging technology will be increasingly important in the future as the nexus of lender/beneficial owner-asset-collateral-counterparty continues to expand and grows more complex

To that end, our newly formed global collateral services group combines our global capabilities in collateral management, securities lending, collateral finance, liquidity and derivative services to provide an innovative, end-to-end solution to help our clients centralise, segregate and optimise their collateral portfolios across both mature and emerging markets. **SLT**

Reason is as reason does

Onerous short selling regulations need to change for Australia to regain its position among the world's top markets. SLT finds out more from ASLA

GEORGINA LAVERS REPORTS

There have been seismic changes in the securities borrowing and lending market in Australia in the past few years since the credit squeeze. Traditional stock borrow and loan platforms were dismissed in favour of synthetic access products, and regulatory changes were abound.

Brokers had to rethink their business transactions in the wake of amendments, which stated that shorts may only be undertaken on a covered borrow basis, and new solutions sprung up to aid the new environment, mostly in the form of enhanced reporting obligations.

However, a chairman's commentary from the Australian Securities Lending Association (ASLA) in 2012 said that stable was the best way to describe the Australian market over the past 18 months. "Bouncing between $20-25 billion shares on loan we have not seen the growth in lending volumes compared to markets such as Hong Kong and Taiwan. We haven't seen the drivers in the market to see such expansion and a new norm has been established."

The commentary added that participants have learned to live with the regulations as they stand and have adapted their business to accommodate, honing in on Europe and the short selling regulations that the European Securities and Markets Authority (ESMA) came out with. "Offshore markets appear to be moving closer to the Australian model from a reporting stand point but the regulations in Australia are still more onerous than what we see in peer markets such as Europe."

Despite fairly static levels in the industry, the report asserted that: "One needs to remember that Australia is still the third largest securities lending market in Asia both in terms of on-loan balance and revenue and with $180 billion of equities available for lending it remains a significant market for all banks."

Hopefully, this relative strength will not be affected by the upcoming Australian Prudential Regulation Authority (APRA) and Basel III restrictions. In September 2011, APRA released a discussion paper, Implementing Basel III Capital Reforms in Australia, outlining its proposals to implement a package of reforms to strengthen the capital framework for authorised deposit-taking institutions (ADIs) in the country. These reforms give effect to the measures from the Basel Committee on Banking Supervision that came out in December 2010 to strengthen global capital rules so as to "promote a more resilient global banking system".

Looking forward, it will be the impact of the US Dodd-Frank Act on counterparty limits and the margining and capital requirements of Basel III that will shape the future direction of the industry, says Peter Martin, chairman of ASLA. "Locally, the implementation of APRA's capital adequacy requirements has already seen a change in how market participants structure their business and we have only seen the start of these changes."

From a regulatory perspective, reporting regimes globally have become more consistent, and in many ways, Australia led the way on this, he adds.

"Unfortunately, when it comes to the regulations around what is required prior to executing a short sale, Australia is still more onerous than peer markets and that is reflected in the market not seeing the growth witnessed in other Asian markets like Hong Kong and Taiwan. Market participants have been carefully following developments in Europe with the new ESMA regulations and the adoption of the principles they have outlined is something we would like to see applied locally. This global consistency is required to see Australia regain its position amongst the worlds top markets."

Regulators believe that they have acted according to what was in the best interest for their markets, and ASIC is no different, comments Martin. In September 2012, the regulator released a report reviewing its 2008 short selling ban. It also explained the logic behind imposing a ban in the first place.

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 in a statement.

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.

However, the report also discussed the many reasons why people short and the benefits that this practice brings to the market, including liquidity and better price efficiency. This, Martin asserts, is indicative of the greater understanding of what is necessary for a properly functioning market and the role that securities lending plays.

> Reporting has become much more sophisticated and the level of detail that is now provided helps develop that understanding

"We have not seen the sensationalist headlines that were thrown about a few years ago to grab attention and this greater understanding of securities lending amongst market participants, including lending clients like the superannuation funds, is the biggest positive to have come from the events of the past four years," he says. "Understanding the risks, how they can be mitigated and managed and playing a much more active role in the management of their lending programme is something ASLA promotes for all lending clients. Reporting has become much more sophisticated and the level of detail that is now provided helps develop that understanding."

The lending environment, especially in Australia, is set for greater change than what has been seen since short selling bans were introduced in 2008, concludes Martin. "I am thankful that locally there is a much greater understanding of the importance of securities lending and the role it plays promoting an efficient market. Providing that understanding has been the major role of ASLA and the other lending associations over the past few years." **SLT**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Future proofing

SLT catches up with Dominick Falco, Sean Greaves and Paul Solway of BNY Mellon to find out what 2013 holds in store for securities lending in Asia and the firm's newly created global collateral services team

MARK DUGDALE REPORTS

Why is Asia a prime source of securities lending revenue?

Paul Solway: Some will remember 2012 as year of some fantastic economic and political news stories as well as some surprising (or otherwise) corporate earnings. What we did not hear about was much mention of any 'de-coupling of Asia'. Global stories had a direct impact on Asia resulting in subsequent moves for the regional bourses. Combined with many managers' flight to liquidity, markets such as Japan, Hong Kong and Australia had some strong as well as unique securities-lending related stories to tell.

> Lending is a prime example of where clients can look at additional revenues in markets such as Hong Kong
>
> **Paul Solway**
> **Asia Pacific head of equity finance**
> **BNY Mellon**

While broad-based demand may have eased somewhat, fundamental corporate and sector moves have created huge demand that in turn produced good returns for those able to take advantage of their long-term lending programs. Record fees on 'specials', which were sustainable for weeks, if not months, pushed up returns in markets that had previously been seen as mature, if not 'uninteresting'. China-related sectors such as shipping, real estate, renewable energy, airlines and autos have all produced good returns from a lending perspective and they look set to continue into 2013.

What is also telling is the degree of automation that has already entered the region. Whether it be direct market access for trading or EquiLend for securities lending, the ability for institutions to execute 'behind the scenes' is a consequence of increased volumes, economies of scale and smarter resourcing. For securities lending, utilising experienced traders for high-touch and technical trading is where BNY Mellon is creating the best opportunities for our clients' lending programmes. Asia's revenue pool is now significant and continues to offer some of the greatest potential for our business globally.

Sean Greaves: Revenues from lending in Asia have been driven by a small handful of markets, including Australia and Japan. In recent times, the Hong Kong market has become the strongest revenue generator, in no small part due to the listing of Chinese companies in Hong Kong ('H' Shares), which has allowed borrowers to short company stock—a practice that is still not easily managed in China.

Interest in the South Korean and Taiwanese markets remains strong, as market and regulatory restrictions act as a barrier to entry for many lenders, resulting in low liquidity compared to more established lending markets.

There is some interest in other regional markets, notably India, Malaysia, Thailand, Indonesia and the Philippines. However, the combined total volume of these markets is less than any of the other markets mentioned. The motivation for lenders to move into these markets is an expectation that high spreads will be available to first arrivers, and that as volumes grow the revenues will become significant as they did in South Korea and Taiwan.

How important is the region to securities lending businesses?

Greaves: Asia is an extremely important region. As Europe and the US grapple with voluminous regulation, low interest rates and underperforming markets, Asia continues to experience strong growth and higher average returns. Asia continues to be the global engine of growth and most market participants expect Asia to grow faster than other parts of the world.

Solway: The environment that we all face in 2013 is still an uncertain one. However, what is clear to us is that Asia is still growing and that clients still need to take full advantage of the many opportunities that surround them every day. Securities lending is a prime example of where clients, with our help, can look at the significant additional revenues in markets such as Hong Kong, China (H-shares), South Korea and Taiwan that can be derived from a well-managed lending programme.

Regulation is now not just a word that we all read stories about, but is a term that is used daily in our own conversations, meetings and business plans. Portfolio managers globally are continually seeking out extra alpha return, and securities lending has been a relatively risk-free success story for those managers who have both the ability and understanding of the product. Asia's markets continue to expand and, in turn, are adding market liquidity in terms of competition, volumes and product. Malaysia's doors, for example, are now open to securities lending. Thailand is seeing a resurgence of interest and some are looking forward to the potential race between Indonesia and the Philippines as the next potential markets to consider expanding their exchange platforms into the world of securities lending.

It's an exciting time for all of us involved in the securities lending business in Asia.

The momentum of growth is certainly gathering pace in Asia—what are BNY Mellon's plans for the region?

Solway: From our perspective we believe our role, as these markets expand, will be to guide, educate and offer solutions to clients that will put them in an optimal position in order to achieve their greatest success.

Dominick Falco: Timing is everything, as many institutions have discovered when it comes to building out their businesses. Since 2008, BNY Mellon has been adding product capability and personnel in order to build our presence in the region. We now have established presence in Hong Kong, Singapore and Japan in the securities lending and collateral services space and expect to add personnel in other markets in 2013. Our new global collateral services (GCS) business is just one example of our commitment and belief that there is plenty of opportunity for our platform to provide real solutions for clients in this region.

The creation of GCS has allowed us to leverage our collateral, securities finance and liquidity product capabilities within the region to further enhance the client experience. We are focused on bringing solutions to the client, rather than products, and we have re-engaged our client in many areas around the management of their businesses to discuss building solutions to specific needs.

How will the securities lending team partner with the GCS team to deliver collateral solutions in Asia?

Falco: Our securities lending team, now known as securities financing, is an intrinsic part of the GCS group. We are one team, working together. In respect of how the teams will come together and the role of securities financing going forward, currently the securities lending business is a client of the triparty collateral management team, so the 'pipes' are in place to offer solutions to customers. The biggest users of the collateral management system have been the sell side, so the largest global broker-dealers.

We see a great opportunity to provide collateral services to buy-side clients that have not historically focused on collateral management

Sean Greaves
Head of Asia Pacific securities lending client relationships
BNY Mellon

Greaves: Whereas the securities finance team has had excellent relationships with the buy-side beneficial owners, we see a great opportunity to provide collateral services to the buy-side clients that have not historically focused on collateral management, but given the new regulatory environment, they will have to do so.

We have already seen the first cases of beneficial owners working on collateral upgrade trades with the broker-dealers in region. To that end, we are marrying the custody and securities lending services with our collateral management systems to help beneficial owners risk manage these trades.

Having just joined BNY Mellon, what will Paul Solway's role be in developing the firm's securities lending business in Asia?

Solway: My primary focus will be to review and expand BNY Mellon's local distribution channels, enhance and develop the firm's equity financing product lines, and additionally, partner with colleagues in the broader global collateral services team to deliver collateral solutions to Asian institutional investors. With Asia being such an important growth area for BNY Mellon, our ability to extend our breadth of market coverage as well as depth of inventory access, will ultimately be the benchmark of our ability to offer the best equity finance solutions to clients across the region.

Falco: He will be instrumental in developing a strong Asia-Pacific equity financing business. His knowledge and experience from the sell side will help us fine tune and take our product and market offering to the next level.

And finally, what else is BNY Mellon planning in 2013 for both securities financing and the broader GCS team in Asia?

Falco: In one word—lots! While we have very strong and established securities financing and collateral management businesses in Europe and the US, here in Asia, it is really still early days for us. That said, we have come a long way in a very short space of time, and bringing the securities financing team together with the collateral management team under the new GCS banner has been a real positive for us. It has created a group with more people and resources, allowing for greater collaboration and teamwork, and we are confident this will help us to serve our clients better.

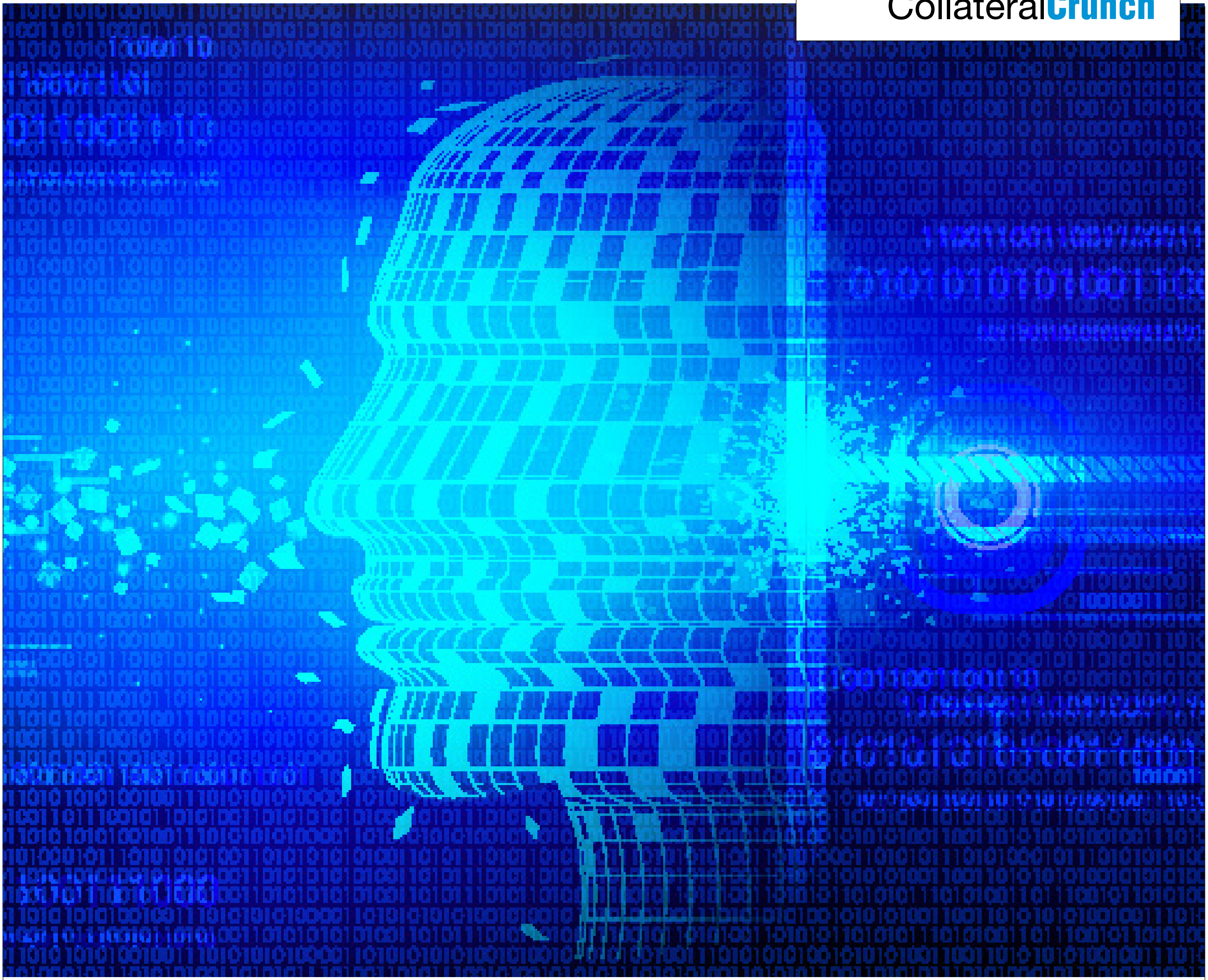
Greaves: The opportunities for growth and adding real value to our clients in Asia are both broad and varied, which makes this an exciting time to be bringing out business to the region. The challenge, of course, is deciding where to focus first.

Solway: From a securities financing perspective, I think expanding our lending capabilities in South Korea and Taiwan are arguably our two key areas of focus over the next 12 to 18 months. As is introducing solutions around collateral flexibility, which is increasingly important to all our borrowers. Investing in our people and our technology across the new GCS group as a whole will also be a focus for 2013.

He will be instrumental in developing a strong Asia-Pacific equity financing business. His knowledge and experience from the sell side will help us fine tune our product

Dominick Falco
Asia Pacific head of global collateral services
BNY Mellon

We will be hiring people in a number of infrastructures positions—so legal, risk and marketing, for example—as well as more client facing people across the region. The net effect will be a better customer experience and an increased number of products brought to market from 2013 going forward. **SLT**



A new future for CSDs

Monica Singer of Strate, which is a Liquidity Alliance partner, outlines why partnerships and collaboration will help to solve the global collateral problem

The financial landscape has evolved over the past five years with the heightened expectation that market infrastructures will further refine their risk management models and focus on asset safety. The lessons from the global financial crisis have taught the industry that the need to restore stability and confidence is a market imperative for the greater good of not only the financial system itself, but also its reputation as a whole.

As a result, increasing demands are placed on local market infrastructures to meet the wave of regulatory, technological and operational changes that are required to restore confidence in the system. In our role as a central securities depository (CSD) and a key financial market infrastructure (FMI), Strate's core purpose is to mitigate risk and bring efficiencies to the post-trade environment in South Africa. We aim to inspire confidence in our financial system by providing a world-class infrastructure to both the local and international markets.

However, in these fast-paced times of change, staying abreast of regulatory reforms and market developments, while ensuring their implementation, can be a challenge for any market. I have always maintained that Strate's success has been built on collaboration and key strategic partnerships. Since its inception more than 14 years ago, we have been able to create one of the most advanced and highly rated CSDs in the world. It has been through partnering with global market experts, such as Tata Consultancy Services (TCS), SWIFT and now Clearstream that has placed Strate and the South African financial markets where we are today.

Historically, the CSD industry has always been a collaborative one with an active number of international forums and regional associations. These forums have been broadly used to share and gain knowledge of other markets, including operating models, future initiatives and trends. We have been no stranger to these as Strate has been active members of various associations including the Americas Central Securities Depositories Association (ACSDA), the Africa and Middle East Depository Association (AMEDA) and the Committee of Southern African Stock Exchanges (CoSSE).

Strate is actively involved as a member of the World Federation of CSDs (WFC) and is currently the WFC secretariat. We also have been appointed as the WFC representative on the ISSA (International Securities Services Association) operational committees.

Collaboration is stepping up a gear. Post crisis, CSDs are now forming strategic partnerships with one another to deliver on their mandates. These alliances are helping local markets drive and provide change at a pace they would not have achieved on their own. As FMIs, we share a common purpose in our markets, and, as opposed to developing solutions in isolation, cross-border collaboration, cost containment for the market and information sharing make sense.

Much like many market infrastructures in other countries, Strate does not necessarily have the funding, resources or international knowledge to be developing solutions in isolation, so we have often used the mantra of 'don't re-invent the wheel'. With the intricacies of local markets varying, along with different regulatory environments, collaboration allows for the speedy implementation of changes that can be customised for local market requirements.

The importance of this collaboration cannot be highlighted more than by the recent announcement of a collective effort in the CSD industry—one that aims to address one of the biggest challenges facing our financial markets—a pending collateral crunch.

The global financial crisis effectively changed the global financial landscape. Regulators around the world began to make risk avoidance their top priority and they reinforced this through new regulations, such as Europe's Basel III, Solvency II, and EMIR, as well as the US Dodd-Frank Act and others. These regulatory changes have significantly altered the capital adequacy requirements for financial institutions, and as the so-called 'collateral crunch' unfolds, these institutions will be required to collateralise more of their financial transactions and ensure efficient collateral management and optimisation. In many instances, these institutions are turning to CSDs that offer triparty collateral management services.

In response, we as the CSD in South Africa are collaborating to meet these demands by sharing knowledge, expertise and know how on the matter. As a result, the announcement and launch of the association, Liquidity Alliance, in January 2013 was met with much fanfare in Europe and across the globe.

This association comprises five organisations (Australian CSD ASX, Brazilian CSD Cetip, the ICSD and CSD Clearstream, Spanish CSD Iberclear and Strate in South Africa), which share a similar approach to the looming global shortage of collateral. These five market infrastructures (four CSDs and one international central securities depository) have decided to leverage off the same collateral technology platform and share their expertise, experience and efforts in creating a solution.

Strate itself announced in 2012 that it would be providing a tri-party collateral management solution for the South African market using Clearstream's Liquidity Hub GO (Global Outsourcing) product, which enables the Clearstream functionality to handle all the administration (validation, selection, mark-to-market, margin calls, substitution, optimisation, etc.) while the assets remain in their domestic jurisdiction. This is the technology of choice for the Liquidity Alliance partners and, therefore, it is only natural that we collaborate with each other to rollout this service in our own markets.

As a member of the Liquidity Alliance, we believe that forging these partnerships with other like-minded infrastructure partners is the most sustainable and efficient way of extending our reach and, in future, cross-border collateral transfer and optimisation on a short-time-to-market basis. By ultimately meeting the requirements of our markets, we will effectively find solutions to this truly global problem.

While many of the members of the association are already working together on a bilateral basis, the Liquidity Alliance provides a formal platform to enable greater cooperation and joint communication efforts among our members.

As an open association, members exchange information, recognise common needs and can potentially identify collateral solutions for our local markets by leveraging off the expertise of others, as the association remains a neutral source of pan-industry information, ideas and opinions. Participants have agreed to meet each quarter to discuss partnership plans, key developments, commercial opportunities in collateral management and share individual market news while also investing resources on studies and industry research.

Already, some Liquidity Alliance members have commissioned research that will contribute to and enrich industry understanding. The Liquidity Alliance hopes that initiatives such as these will help it towards its aim of being an industry thought leader.

One of the critical aspects of the association's members is that we share a common view on the global collateral problem. The solutions we deliver to our local markets must ensure that we maintain the assets under custody within our own jurisdiction, enabling a solution for our local market players to mobilise their collateral efficiently.

This approach strengthens the local infrastructure providers and widens the relationships we have with our stakeholders. As a result, the Liquidity Alliance members can leverage off the intense consultations with other collateral users, regulators and the central banks of all its members.

By each of us acting as an independent and sophisticated collateral agent in our own market, we ensure alignment with local rules and pressing regulations, following the local business priorities. The fact that the members are from different regions around the world means that we bring together a unique pool of global knowledge, insight and expertise. This enables the Liquidity Alliance to be a trusted source of valuable information in our own markets.

I was fortunate enough to see the fruits of, and be part of, this active collaboration within our market as Clearstream hosted its 17th Global Securities Financing Summit in Luxembourg with almost 1000 delegates in January. The event brought together professionals from our industry, including banks and corporate treasuries, repo and securities lending desks, fund managers, central banks, central counterparties, regulatory bodies and infrastructure providers that were all debating the future of collateral management.

Liquidity Alliance's official launch at the event was positively met. We look to build on the collaborative efforts that have already been seen with Cetip in Brazil using the Clearstream Liquidity Hub GO system, which will be rolled out with some of the other Alliance members later in 2013. Sharing experiences and information from countries such as Brazil will not only speed up the development and rollout, but in a common vision for the future that the Liquidity Alliance members share, it will also ensure seamless connectivity leading to a less fragmented global collateral pool and potential for collateral optimisation.

All market infrastructures who share a common view on the global collateral problem and who agree to use and leverage a common technology infrastructure can become a member of the Liquidity Alliance. The reaction to this initiative has been very positive and interest has been seen from infrastructures globally. We anticipate other organisations coming on board this year to leverage from the Liquidity Hub GO infrastructure. These market infrastructures are then invited to partner with us by joining the Liquidity Alliance. Together the CSD industry can truly come to the fore in solving this global problem and meeting our clients' and the market's needs. **SLT**

Monica Singer
CEO
Strate

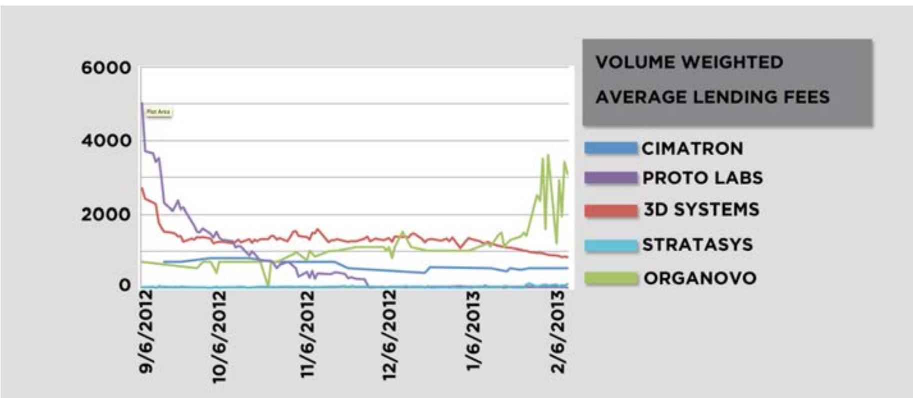
3D printing: printing the next disruptive technology gold rush

Chris Benedict, vice president of DataLend, gives an overview of the red-hot 3D printing industry

The idea of 3D printing seems like the stuff of science fiction. The concept of a machine that allows the user to create virtually any object from a computer model and a wide array of raw materials sends the imagination soaring, enticing investors to pump money into an industry The Economist heralded it as "a new industrial revolution". 3D printing stocks saw astronomical returns in 2012 with many up more than 150 percent for the year. Is the securities lending market taking a bearish view of what could be the most promising manufacturing technology ever created? Or does it believe that the heyday of 3D printing is still a few years off and that stock prices could ease in the short term?

3D printing takes a computer aided design (CAD) model of an object and uses raw materials such as plastics, metals, clay, glass or other elements to deposit extremely thin layers of that material on top of each other until the object is fully rendered. These objects can range in size from a pair of earrings to larger than a refrigerator. 3D printing varies widely in application and use, from recreating the old Star Wars figures your parents tossed out decades ago to constructing artificial human bones for replacement surgery.

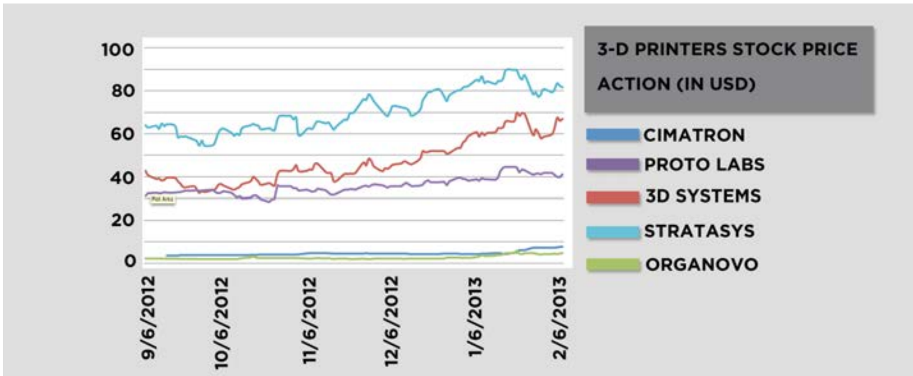
3D printing, despite the recent buzz and an impressive showing at the most recent Las Vegas CES convention, isn't a new technology. Additive manufacturing has existed in various forms for decades, but only now has become affordable and compact enough to potentially coax the commercial user to come out and play. Timing, however, is everything, and 3D printers may still be too expensive, time consuming and not economically scalable enough for budding DIY manufacturers to embrace in 2013.



3D Systems is a market leader in 3D printing. The company manufactures 3D printers, sells raw materials for them, generates on demand custom parts and assists designers with content development. 3D Systems has been heavily focused on the nascent consumer market with its Cube 3D printer. In the fall of 2012, as the stock price of 3D Systems gradually rose, the volume-weighted average fee to borrow the stock ranged from 1500 to 3100 basis points (bps). As the stock price and trading volume increased sharply into January of 2013 (from $43 per share up to a high of $69 per share), we saw a reversal in the average borrowing fees: they dropped from around 1300 down to 840 bps currently. Short interest currently stands at 22.4 percent and days to cover at 4.14. Utilisation in the name is still quite high at 91 percent with 12.03 million shares on loan, but it seems as if borrowing demand for the stock continues to soften, possibly due to concerns of another sudden move to the upside.

Proto Labs is another 3D printer manufacturer specialising in producing on demand custom parts or prototypes for industrial customers. The stock traded quite hot in late October of 2012 at around 700 bps and a utilisation of 66 percent. Since then, the stock price has gradually climbed from $35.68 to a high of $44.56 on 21 January, while the borrowing fees have cooled significantly, down to 30 bps as of 11 February. Utilisation remains fairly high at 60.5 percent with 1.47 million shares on loan.

Organovo Holdings, a relative newcomer to the field, uses proprietary 3D printing technology to build organic tissues one cell at a time. It's an incredible sounding technology that someday could enable the creation of new transplant organs based on a patient's own tissues. However, the company is still a long way off from that goal. The stock price has more than doubled in January from $2.46 per share to a high of $5.91.



So too have the lending fees for this stock, vacillating wildly from around 1200 bps up to 3613 bps currently and 100 percent utilised as of 11 February. The securities lending market currently seems to be more bearish on this name than others in the space.

Stratasys Ltd is another market leader in the 3D printing space and the product of a recent merger between Stratasys Inc and Objet Ltd. Stratasys concentrates more on large, industrial customers that use their printers and materials for rapid prototyping. The stock price of Stratasys also saw impressive gains in 2012. It is not currently trading as hot as 3D Systems in the securities lending marketplace. It is highly utilised at 80 percent with 3.47 million shares on loan, but borrowing fees are much lower at around 97 bps at the time of writing.

Another company just recently public is ExOne Co. It is the manufacturer of high-end, million-dollar industrial 3D printers for the likes of Ford Motor, Boeing and Caterpillar. Its recent IPO had an impressive 47 percent pop on its first day of trading on 7 February and continues to rise.

The securities lending market saw the stock command 114 bps to borrow and a 41 percent utilisation in the days immediately after the IPO settled.

Other stocks in the 3D printing space such as Perceptron and Cimatron have much lower trading volumes and don't yet seem to be on the many securities lenders' radar. Cimatron saw a 72 percent increase in its stock price from January to February. In the securities lending market, it trades sporadically at around 538 bps with only a few thousand shares on loan on any given day. MakerBot, another market leader in 3D printing, has yet to go public.

3D printing is a wildly captivating story and no doubt we'll be hearing more about this technology in the coming months and years. Currently, the securities lending market seems bearish on the DIY consumer 3D printing play, but less so with companies targeting larger engineering or industrial firms. With speed, cost and the size of these printers still unwieldy for the average consumer, speculation running rampant and very high P/E ratios for these stocks after the run ups of last year, investor imagination in 3D printing may be tempered by reality in 2013.

Source: http://www.spiegel.de

Animal instincts

David Lewis of SunGard Astec Analytics assess the early M&A activity of 2013

Having a positive mental attitude is supposed to help in all sorts of circumstances, both professional and personal. While I do not subscribe to the critics of short sellers who believe that simply taking a negative view of a company is enough to bring it down like a defenceless gazelle, I am going to continue to do my best to look for positive signals in the securities lending industry in the hope that it will help revive its fortunes.

The Financial Times, among others, have reported that M&A activity has suddenly taken off in 2013; some impressive statistics claim a 27 percent rise over the same period in 2012, turning around a net year-on-year fall up until only recently. This would suggest that it is more likely that a couple of 'mega deals' have turned up, rather than a sudden explosion of M&A activity. The buy-out of Dell by Michael Dell and the purchase of Virgin Media by the Liberty Group spring to mind.

From a securities lending industry point of view, the Liberty and Virgin Media tie up is the more interesting. In recent times, the market has been starved of the opportunities such large equity-driven acquisitions can provide. In line with other aspects of our industry though, when they do arise, the opportunities take off quickly.

Talks between the two companies broke news on 5 February and the impact on their shares was immediate; Virgin (the target) rose 17 percent and Liberty (the acquirer) fell 3.6 percent. Shares in BskyB also fell, albeit slightly, on the back of the news about the newly expanded competition. The impact on the loan activity was also immediate, underlining again the need for instant data to trade effectively. Figure 1 shows the loan balances and fee rates indexed back to 1 January 2013.

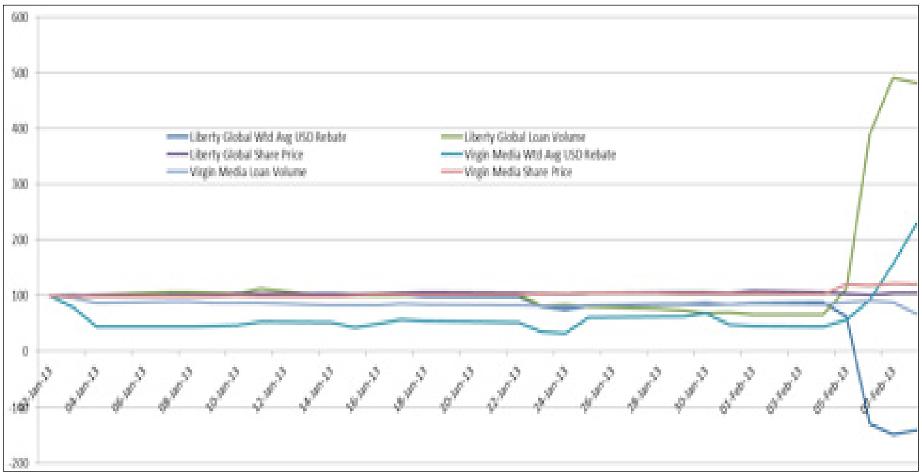
This period has been chosen specifically to show the impact of the announcement on the market—2013 was a near flat line on these measures until February 5. In a typical M&A strategy, we can see loan activity (as a proxy for short positions) spiking up for the acquiring company and falling for the target. In just two days, we can see Liberty Group shifting up five-fold and Virgin falling by a third.

As for the cost to borrow, rebates for Liberty Group moved down to an index value of -148 percent by 7 February, moving it from a firm general collateral level firmly into the more expensive specials territory. Although demand for Virgin shares appeared to fall away, the indexed value of shares on loan fell to 67 percent over the month, and the rebate doubled from marginally negative to moderately expensive. Note that the rising plot on the graph for the Virgin rebate is as a result of an increasingly negative value. Logic would suggest that the cost to borrow would fall as demand falls, but the reverse is the case here. Looking further into the data, we can see why this has occurred—despite the falling demand between 5 and 8 February (down 33 percent), the utilisation for Virgin went up from 55 percent to a peak of 80 percent on 7 February.

In general, it is the larger institutional funds and investors that participate in securities lending and a fall in volume on loan alongside a rise in utilisation indicates that those investors are recalling their shares. This may mean that they are selling their shares, or at the very least, placing a restriction on the lending of them. Either way, this means that these shares were increasingly scarce and those that wanted to remain short would have to pay more for the privilege. At the time of writing, that privilege was costing those with a short position around $6 a share as the price rose.

What can we learn from this event and indeed the data behind it? First and foremost (and apologies for stating the obvious), markets move quickly and to be left without the necessary up-to-date data and information to act quickly will cost either real money or lost opportunity. This proposed transaction has caused demand for one share to rise five-fold in two days alongside a shift in loan rates of around 75bps over the same period. On the other side of the same coin, those wanting to stay short will need to know where to source shares from a diminishing supply, and know what they need to pay to get them. Such activity can only be good for our industry and I, for one, do hope that this is the first of many interesting M&A events in 2013. **SLT**

Figure 1: rebate (USD), loan volume (shares) and market price indexed to January 1 2013



David Lewis
Senior vice president, Astec Analytics
SunGard's capital markets business

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PASLA/RMA Conference on Asian Securities Lending

Location: Hong Kong
Date: 5-7 March 2013
ebiz.rmahq.org

This annual event combines the resources of both the Pan Asia Securities Lending Association (PASLA) located in Hong Kong and The Risk Management Association (RMA) located in the US.

Securities Finance Forum London

Location: London
Date: 12 March 2013
www.dataexplorers.com

The Markit Securities Finance Forum is returning to Kings Place on 12th March 2013. Join your peers for this unmissable event.

ISLA's 22nd Annual International Securities Lending Conference

Location: Prague
Date: 18-20 June 2013
www.isla.co.uk

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

18th Annual European Beneficial Owners' Securities Lending Conference

Location: London
Date: 19-20 September 2013
www.imn.org

IMN is proud to announce that its 18th Annual European Beneficial Owners' Securities Lending Conference will take place September 19-20, 2013, in London, UK.

Industry appointments

Sean Capstick has joined investment manager RWC as the head of new markets, reporting to the firm's new CEO, Dan Mannix.

Capstick has more than 20 years of experience in financial services. He knows RWC from his time as EMEA head of prime brokerage at Bank of America Merrill Lynch and as global head of capital introduction at Deutsche Bank.

Dan Mannix assuming the role of CEO at RWC from the end of February. He replaces Peter Harrison, who will remain as non-executive chairman of RWC and a significant shareholder in the business.

Harrison is taking up a senior position at Schroders.

Armeet Sandhu has been promoted to CEO at securities finance software and solutions provider Stonewain Systems
.
Before joining Stonewain, Sandhu worked as managing director at Scotia Capital, where he developed a custom solution for the agency lending team.

He also managed technology integration when Wachovia Global Securities Lending merged with Wells Fargo to become ClearLend Securities, and he served as chief technology officer at Metropolitan West Securities, where he led the restructuring of its technology group and the development of a new securities lending platform.

Commenting on his promotion to CEO at Stonewain, Sandhu said: "Stonewain brings to the industry a culture of exceptional value—value for investment, extensive functionality based on our deep understanding of the business needs, cutting edge technology and a commitment to world class customer service. Stonewain's platform is being well received by the industry and we are writing our success story one client at a time."

Salvatore Cangialosi has been recruited for Albert Fried & Company's prime lending services division from Credit Suisse, where he was director of fixed income securities lending in their New York office.

Cangialosi has more than 30 years of experience, with the last 20 years at Credit Suisse where he covered hedge fund and firm financing. He was responsible for all facets of fixed income securities lending, firm and customer needs, as well as financing.

At Albert Fried & Company, he will specialise in corporate and treasury securities lending, customer financing both US domestic and international, as well as hedge fund coverage.

In January, Albert Fried & Company married securities lending and prime services in order to provide them both to hedge funds, traders and other buy-side clients.

In a statement, Anthony Katsingris, COO of Albert Fried & Company, said: "[Our firm's] prime lending services division will provide clients with direct securities lending market access as well as customised prime brokerage services. Clients will benefit with a unique transparent view of the securities lending market."

Albert Fried, the firm's CEO, added that the new division will provide clients with direct securities lending market access as well as customised prime brokerage services. "Clients will benefit with a unique transparent view of the securities lending market," he said.

The firm hired **Vincent Avena** and **Paul Stegmann** as managing directors of the new division.

Avena was previously managing director of securities lending at BNP Paribas, while Stegmann joined Albert Fried & Company from Credit Agricole, also as managing director of securities lending.

The California Public Employees' Retirement System (CalPERS) has recruited **Ron Lind** to its board of administration.

Lind, who is the president of United Food & Commercial Workers Union (UFCW), was appointed by the Speaker of the Assembly and Senate Rules Committee to serve on the CalPERS board as the public representative. He replaces Lou Moret, who left the in December 2011.

CalPERS board president Rob Feckner said: "His experience and leadership will be valuable as we work with the state, our city, county and school employers to deliver secure pension and health benefits to our members." **SLT**

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...Yuka Hasumi

SLT and Yuka Hasumi, a sales representative at EquiLend in Hong Kong, talks about moving from the UK to Asia, securities finance technology and why skiing in Japan is world-class

How did you get into the securities lending industry?

After graduating from Kingston University in London, Sumitomo Trust and Banking London gave me an opportunity to join their team as securities lending middle/trade support. With just a basic understanding of financial markets and having no knowledge whatsoever of securities lending, I made a decision to go into this industry, which seemed to offer something a bit different and I certainly haven't regretted it. I was amazed on how such a simple concept of securities lending could be so intricate. Over the next few months, I gained and learned a lot about the industry from colleagues and clients. They have enabled me to have a hands-on approach in every aspect of the division. Over the next couple of years, I resumed the position of international securities lending trader. In 2007, I moved back to Tokyo to join Citigroup global markets in the prime finance division where I gained an understanding from different aspect of the industry.

I started at EquiLend in January 2011 when I felt it was time for a change, to seek new opportunities, challenges and gain a new skill set. I am now based at our Hong Kong office as a sales representative, responsible for managing clients in the region to provide scalable and efficient trading services, post-trade solutions and market data for the securities finance market place.

To what extent has working in technology sales met your expectations?

It has been exactly as I thought. Fast moving, dynamic and with lots to learn, it has been a perfect match. EquiLend has been evolving and changing as fast as the industry and its clients' needs, always keeping me on my toes and offering more challenges. It is a satisfying role as I get to know the industry more by meeting and understanding the challenges our clients are facing, and delivering solutions to contribute to their success.

How was the transition from being UK-based to moving to Asia?

Having relocated multiple times between Japan and the UK since a young age, I am quite used to the upheaval that relocating brings. I actually quite enjoy it now and feel privileged to have the opportunity to experience a different culture and environment. I enjoy being based in Hong Kong as we are strategically located at the heart of Asia, proximate to growth and vital markets in the global financial industry, and for the closeness of the marketplace that Asia brings.

What do you see as the biggest challenge facing the industry right now and why?

Regulatory consistency. We see that regulation forces our clients to spend resources becoming compliant. In the current tough environment, it is hard for businesses to keep being innovative to drive revenue, improve systems and efficiency.

Increased market transparency is another change that I would make to the industry.

Do you have any role models in the industry who have helped or inspired you?

I have been very fortunate to have very supportive family and friends and especially my parents, who have been exceptionally inspirational. I am lucky to have had opportunities working with talented and professional people who have given me great guidance over the last several years of my career. In my current working environment, I am truly grateful and appreciate the encouragement, patience and mentoring that my team and managers have given me.

What are your ambitions?

I would like to continue to grow and be successful both professionally and personally. In work, I really love to assist in introducing innovation, automation, and transparency that our services bring to Asia. On a personal level, I would like to enjoy each day at a time, and build towards bigger ambitions. I see it more as a way of life and a source of motivation without overruling other important aspects such as my values. I realise that one evaluates ambitions and goals as one gets older and wiser.

If you could go back in time, what would you change or do differently in your career?

At the moment I have very few regrets. I have achieved a good education, rich experience and am experiencing exciting opportunities. I've learned to focus on present and future and hope to never repeat those mistakes I may have made in the past!

If you were not in the industry, what would you be doing?

If I wasn't in the industry…that's a tough one, as I really enjoy what I do. But if I weren't then I suppose I see myself working with technology, as I am a bit of a tech geek and always look forward to innovations in that field.

What are your hobbies and interests?

I really enjoy being out and about in the countryside and enjoy walking whenever I get the chance back in the UK. On a slightly different note, I've been rock climbing for many years now and really enjoy the rush that rock climbing brings. When I'm back in Japan, I love to ski. Having skied all over Europe and America, you cannot beat the slopes together with après-ski onsen (hot spring) back home. **SLT**

Yuka Hasumi
Sales representative
EquiLend