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Italy bans short selling in bank stocks

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Italy's financial markets regulator banned short selling of shares in major Italian banks after an election result caused a sharp drop in their value.

The country's general election results on 25 February pointed towards a hung parliament—where no single party gains a majority of cast votes and so one or more must team up to form a government—resulting in the resignation of current prime minister, Mario Monti.

In a press conference, Monti said that he hoped the vote would benefit the Italian people and calm financial markets.

But shares in Italian banks on Milan exchanges fell sharply in response to the news that a hung parliament was likely in the country, leading markets regulator Consob to ban short selling of four of them on 26 February.

The short selling of shares in Banco Popolare, Mediolanum, Banca Carige and Intesa Sanpaolo was prohibited for the entire trading day of 27 February—although it did not apply to market making—and was lifted the next day.

In statements, Consob blamed significant falls in share prices for the bans.

David Lewis, EMEA head of SunGard Astec Analytics, said that short selling does not increase volatility in markets and "banning it can actually increase it".

"Bans on short selling are often politically driven and usually a sign of underlying economic problems. Many studies have shown that such bans do little to support share prices whilst damaging liquidity and widening spreads which are both bad news for investors. Short selling allows proper price discovery and is part and parcel of an efficient capital market."

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SLTINBRIEF

Cantor Fitzgerald toughens up on prime services

Cantor Fitzgerald & Co's prime services division will add a new electronic 'security locate' system with external connectivity to its existing prime brokerage platform.

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Hong Kong adds and removes short sale securities

Twenty-seven securities will be added and six existing securities will be removed from the list of designated securities for short selling in Hong Kong.

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Italy bans short selling in bank stocks

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The UK FSA also banned short selling in Banco Popolare, Mediolanum, Banca Carige and Intesa Sanpaolo shares on all UK exchanges on 27 February "following a significant price movement and in consultation with another competent authority".

Arguing against the effectiveness of short selling bans, Lewis added: "They say in war that the wrong action is usually better than inaction. Perhaps this is the case here."

"Many European countries have previously imposed bans on short selling. Our own study of the short selling bans in Spain (which were finally lifted at the end of January) showed there was no real change in the volatility of the market for the duration of the ban. It also showed little correlation between the direction of share price movement and the subsequent imposition of a ban."

Cantor Fitzgerald toughens up on prime services

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The system will enable hedge funds, proprietary trading firms and others the opportunity to borrow through the firm's new locate system.

Shawn Matthews, CEO of Cantor Fitzgerald & Co, said: "We are constantly looking for ways to strengthen our market franchise and develop services that exceed client expectations. This new functionality is an example of our ability to add value for clients, and I am extremely pleased with the positive response we have received thus far."

Noel Kimmel, global head of Cantor Prime Services and CEO of Cantor Clearing, said: "Our current roster of clients already benefits from our securities lending activity, but now we will be able to expand our offering to a wider reach and scope of clients. Cantor Prime Services is consistently investing in technology and this build out is a testament to our promise of delivering a superior, custom-tailored client experience. We will continue to strengthen our platform and evolve to serve the growing pool of clients and their unique needs."

"The system gives traders, the opportunity to trade 'hard to borrow' securities when they cannot source them through their normal channels," said Allen Wolkow, head of securities lending at Cantor Prime Services.

"In addition, active credit lines with the majority of prime brokers and clearing firms enable us to physically make delivery of the located shares. The system can communicate with any electronic trading platform or it can be used by individuals on a trading desk."

Hong Kong adds and removes short sale securities

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The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (HKEx), said that

there will be 602 designated securities for short selling after the revision.

A sizeable amount of the 27 additional securities are investment holding and property investment firms, including Y. T. Realty, Sea Holdings and Tian Teck Land.

Among the securities deemed ineligible was Chaoda Modern Agriculture, an agricultural company that was last year alleged to have overstated its assets.

The exchange tightened the rules that regulate the short selling of designated securities in May 2012 after it conducted a review earlier in the year, insisting the reasoning behind the increased severity was only due to increased market capitalisation of Hong Kong-listed firms.

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 2012 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.”

Omgeo CTM celebrates worldwide expansion

Twenty-eight investment manager and broker-dealer firms have signed to adopt the new exchange-traded derivatives functionality in Omgeo Central Trade Manager (CTM).

Omgeo CTM is the firm’s new central matching service for equity, fixed income, exchange-traded derivative (ETDs) and contracts-for-difference trades.

The firm recently increased asset class coverage on Omgeo CTM, adding central trade matching workflows for ETDs, building on the existing cross-asset class functionality.

The development of Omgeo CTM, including the addition of new ETD capabilities, as well as the migration of broker-dealer clients from its legacy local matching solution, have contributed to a 35 percent increase in Omgeo CTM clients in the past year.

Ted Leveroni, executive director of derivatives strategy and external reactions at Omgeo, said: “Many of our clients want to operationally standardise their ETD post-trade processing with their equity and fixed income transactions, which are usually matched on the same day as trade date.”

“We added ETD functionality to Omgeo CTM because we recognised that there was a need for a community-based solution that ad-

dressed the emerging regulatory framework around transparency and risk mitigation in the processing of derivatives. We are pleased to see our community embrace automation in this asset class."

CACEIS to help UCITS fund managers with ESMA compliance

CACEIS has honed its collateral management services for UCITS fund managers in the wake of the European Securities and Markets Authority's (ESMA's) consolidated guidelines on exchange-traded funds (ETFs) and other UCITS issues, and repo and reverse repo agreements.

ESMA published the guidelines in July and November 2012 respectively. It released the official translations on 18 December, giving national authorities two months to confirm whether they will comply.

The new guidelines include collateral requirements that CACEIS will fulfill with daily valuations on OTC derivatives, securities on lend and assets pledged as collateral, as well as making margin call calculations.

The firm also monitors compliance with the new risk diversification ratios, both by issuer and by counterparty. For OTC derivatives, CACEIS's new service takes into account the forthcoming regulatory measures of the European Market Infrastructure Regulation, which requires initial then variation margin call calculations.

For cash collateral, CACEIS segregates, in the fund's accounts, the securities originating from management activities that are eligible to lend, and those originating from the reinvestment of collateral.

"The latter, under the new guidelines, can no longer be reused. CACEIS's trading room also offers collateral reinvestment and transformation services that comply with ESMA's new requirements," explained a statement from the firm.

Laurent Durdilly, products and solutions director at CACEIS, said: "Regulators are placing collateral at the heart of the effort to rebuild confidence in the financial system following the 2008 crisis. However, systematic use of collateral and the more demanding requirements on its quality and liquidity mean that it is in increasingly short supply."

"CACEIS anticipated these changes and has honed its collateral management expertise, taking into account not only current and future regulations but also requirements concerning the optimisation of collateral usage."

ESMA's consolidated guidelines also repo and reverse repo rules, that UCITS funds should be able to recall assets that are subject to repo arrangements at any time, while those that are engaged in reverse repo should be able to recall the full amount of cash at any time on either an accrued or mark-to-market basis.

ESMA originally proposed allowing a proportion of assets "to be non-recallable at any time at the initiative of the UCITS", and then only assets in overnight repo and reverse repo arrangements would be recallable at any time.

Its guidelines apply to all fixed-term repo and reverse repo agreements that do not exceed seven days.

ESMA's guidelines on ETFs and other UCITS issues caused confusion when they were published, leading some commentators to believe that under the guidelines all revenue that is earned from securities lending would have to be returned to a UCITS fund and its investors.

An ESMA spokesperson confirmed that all net revenue must be returned, but this does not include the cost of running a securities lending programme.

Q4 2012 saw surge in M&A, says mergermarket

A lull in European dealmaking in the first nine months of 2012 was offset by a surge of M&A in Q4, with volumes up 5.4 percent and value up 88.9 percent.

M&A intelligence and data provider mergermarket said that the value of deals was the highest since Q4 2010, with the increased activity supported by improved confidence about the eurozone.

Deal-making continues to reflect the dynamics of the eurozone crisis, with the Nordics and relatively stable markets Central and Eastern Europe dominating deal flow alongside a more subdued Southern Europe, the firm added.

Most sectors registered a decline in full year M&A activity by value, with the overall figures rescued by a 31 percent surge in the value of energy mining and utilities deals, supported by the €34.4 billion all share merger of Xstrata and Glencore.

Industrials and chemicals was another active sector during 2012, accounting for 14.1 percent of deals by value and 22.3 percent by volume.

Buy-outs in the private equity sector proved relatively muted in 2012, with a total of 877 deals worth €70.7 billion compared to 1,105 worth €78.6 billion in 2011. Exits in 2012 were also down on the previous year, with 542 deals worth €84.9 billion compared to 655 worth €93.7 billion in 2011.

Sarah Syed, private equity correspondent at mergermarket, said: "Global economic uncertainty has hindered the M&A market since the Lehman crash and 2012 was no exception to this rule. On a positive ending to the year, however, deal flow picked up—a trend that dealmakers are hoping will trickle into 2013. Opportunistic M&A and consolidation looks most likely for the year ahead with some even hoping for further mega buys following the buyouts of Dell and Heinz."

ICMA backs development of Russian repo market

The International Capital Market Association (ICMA) has published a positive legal opinion on the validity of the Global Master Repurchase Agreement (GMRA) in Russia.

The GMRA is the most widely used legal agreement for documenting cross-border repo transactions and is also used in many domestic repo markets.

ICMA commissions legal opinions from leading law firms every year on the enforceability of the GMRA, its transfer of title provisions and its netting in insolvency mechanisms for transactions with banks and other entities.

Martin Scheck, chief executive of ICMA said: "With the publication of the legal documentation ... we have secured a sound legal basis for the further development of the repo market in Russia."

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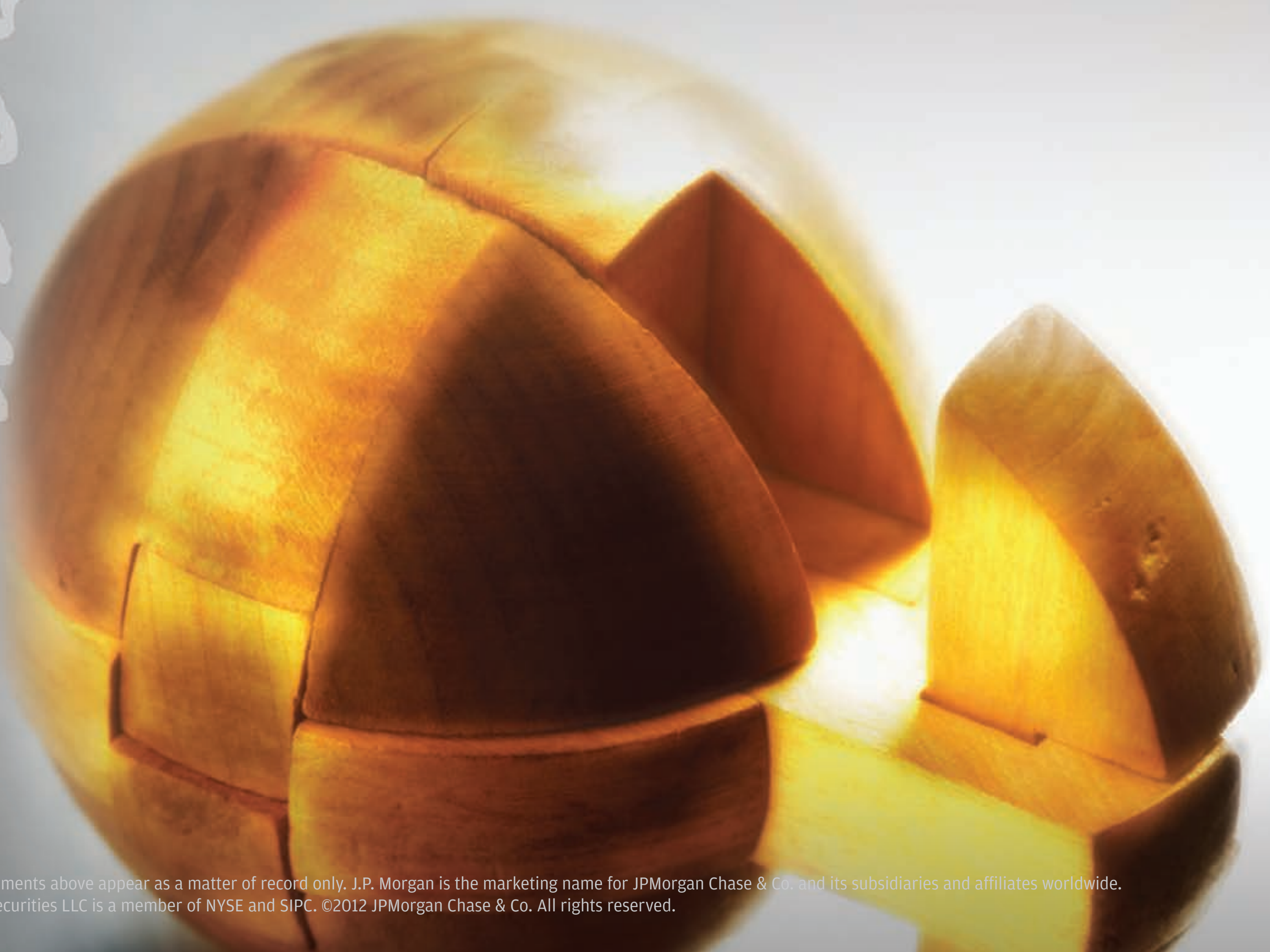

"This milestone is the result of many years of intensive international cooperation channelled through ICMA's European Repo Council (ERC), with the support of its Russian members, the Central Bank of the Russian Federation, the National Securities Market Association (NSMA) and the legal team at ICMA".

Godfried De Vidts, chair of the ERC, added: "This is one more step on the way to the robust development of the repo product in Russia. The successful co-operation between the ERC and NSMA looks set to continue in an environment where regulatory changes are high on the agenda, particularly the initiatives on shadow banking directed at repo."

The publication of the Russian legal opinion on the GMRA, together with a Russian annex to the agreement, has been made possible by amendments made in 2011 to the Russian insolvency and securities market legislation which recognised close out netting arrangements on the insolvency of a Russian counterparty to transactions documented under eligible agreements and where certain reporting requirements are satisfied.

The GMRA is recognised as an eligible agreement for the purposes of the legislation by virtue of ICMA being listed as an eligible international industry body by the Russian Federal Service for Financial Markets (FSFM). A Russian translation of the GMRA 2011 has also been published today.

As part of the suite of netting legislation developed, the FSFM adopted a regulation obliging parties to report certain transactions that are entered into under a master agreement (including repo transactions under the GMRA) to a Russian trade repository.

The National Settlement Depository (NSD) will function as a trade repository for this purpose. In the event of the insolvency of a Russian counterparty, close-out netting of the outstanding obligations is done on the basis of the information held by the NSD.

South Korea offers Eurex direct market access

Eurex Exchange, the international derivatives marketplace, has been granted permission to offer products in South Korea.

The South Korean Financial Services Commission admitted Eurex's full suite of products in South Korea without objection, building on the link that the exchange has built with Korea Exchange (KRX).

The new possibility of a direct membership will further enhance the Eurex/KRX cooperation and strengthen the ties between South Korean and German financial markets.

"We are very delighted by the [South] Korean regulator's decision to allow Eurex to offer direct access to market participants located in [South] Korea. This is an exciting opportunity to admit additional customers to our robust and reliable network and offer them direct access to our diverse, highly liquid futures and options product suite," said Michael Peters, member of the Eurex executive board.

Financial institutions from South Korea now have direct access to the Eurex Exchange network and to Eurex products, including benchmark index futures based on indices such EURO STOXX 50, DAX and SMI.

BCS prime brokerage division chooses QuantHouse

Trading solutions provider QuantHouse has partnered with the European arm of Russian financial institution BCS Financial Group to

launch low latency market data for Russia's main equity market, MICEX-RTS.

In addition, BCS will be using QuantHouse's trading infrastructure and algorithmic trading development tools.

"There is an established and long-term demand among European buy-side firms, hedge funds and specialist trading firms to access the Russian market," said a statement from QuantHouse.

"Coupled with this, is the increasing investment in smart and cost-effective technology to exploit arbitrage opportunities that exist between the prices of securities listed on multiple venues."

"As a result of the MICEX-RTS merger, there is an even greater demand for faster and more efficient trade flows in Russia," said Nils Jahn, head of prime brokerage and CRM at BCS.

"Against a backdrop of under-developed electronic trading for financial firms within the country, BCS has been at the forefront of adopting innovative products to keep both our clients and ourselves ahead of the curve. Our business has had a very successful few months in which we climbed to first position on MICEX, are now in the top three on the local FX market SELT and are in the top three on FORTS, with a strong positive trend upwards."

QuantFEED seeks to open up Russian securities to a broader investor audience, with global participants being able to get Russian data through a consolidated feed.

In conjunction with this, QuantLINK provides the trading infrastructure, and QuantFACTORY aims to optimise each step of the automated trading development cycle, from data acquisition to alpha discovery and from back-testing to production.

"QuantHouse supplies vital tools for brokers, which facilitate access to fresh markets and enable the identification of new opportunities," added Stephane Leroy, vice president and head of global real time solutions at S&P Capital IQ. "We understand that maintaining pace with competitors is key to the survival of financial firms, who are regularly limited from providing a complete offering to latency-sensitive clients by outmoded technology. Our solutions eliminate these shortfalls."

China opens up short selling for select brokerages

China is expanding its short selling programme to allow brokerages to borrow shares from institutional investors, according to reports.

The country is reportedly allowing 11 brokerages to borrow shares from a pool of 90 publicly traded companies to increase the efficiency of its equities market, manage risks and boost revenue.

State-run China Securities Finance Corp will oversee the programme. It will lend shares to the brokerages, which reportedly include Citic Securities, Haitong Securities and China Merchants Securities, so that they can re-lend them to their clients.

The pool will be made up of the shares of 50 and 40 companies that are listed on exchanges in Shanghai and Shenzhen. The shares reportedly have a total market capitalisation of 9.3 trillion yuan and can be borrowed for fixed periods of three, seven, 14, 28 and 182 days at different rates.

The Shanghai and Shenzhen stock exchanges expanded their joint pilot securities margin-trading programme on a trial basis in August 2012, permitting brokerages to borrow new money and stocks to re-lend to their clients.

China's first ever securities margin trading programme, which was launched by the exchanges in 2010, permitted brokerages and investors to use their own stocks as collateral to borrow money to conduct margin trading.

This was extended to money and stocks from banks, funds and insurers for margin trading purposes.


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Manufacturing change

The Netherlands securities lending market is narrowing to concentrate on its domestic clients, as SLT finds out

GEORGINA LAVERS REPORTS

The spice trade was a favourable period in history for citizens of the Netherlands, who revelled in the riches of dealing cinnamon, cassia, and ginger in Indonesia, which they promptly colonised and re-named the Dutch East Indies.

The region has retained close ties with the Netherlands—most recently, the government provided humanitarian assistance to a number disaster-stricken regions—and the Dutch have marked Indonesia out as a growing economic power, with high-level officials visiting the country in a new push to improve bilateral ties.

Trading ties could become more important to the Netherlands's financial security, as the country's central bank recently warned that the Dutch economy is in worse condition than originally believed in December last year.

Fears were proven correct as the Dutch economy contracted 0.2 percent in the final quarter of last year, meaning the Netherlands is now back in recession, according to initial estimates from the national statistics office CBS.

Sander Bauuw, a managing director of IT solutions and services provider Synechron, says that since the financial crisis, Dutch entrepreneurial spirit has rapidly declined in favour of a more conservative approach.

"Since the 17th century, the Dutch have been known for their creativity and their excellent trading spirit; due to these skills they conquered the world in that era. If you compare this to the banking sector 10 years ago, you still saw that same skill set and with this as a differentiator, the Dutch banks were a strong brand name in the world."

"Together with the Dutch pension plans, they were large players and always looked for new opportunities and expanding around the world. This was no different for the securities lending market, but nowadays this is totally different due to the crisis. The banks are risk averse and more focused on Dutch clients and don't feel the need to open offices all around the world anymore to expand their lending activities."

Bauuw describes the Netherlands as a decent-sized market, with one real custodian lender, one asset manager and three big banks. All five are risk adverse, which is not so different from every other country, he says.

"They all have been active in this market for many years, with a very professional, experienced, and loyal crew working for them. Next to these direct participants, you have the pension funds and insurance companies who have been historically large beneficial owners and who are active via the international agent lenders. On the other side of the market, you have a large market makers and arbitrage community in the Netherlands who are actively creating demand via their clearinghouses and prime brokers."

Drivers and demand

A natural resource boom could make a nation's currency stronger than others, resulting in its exports becoming more expensive to buy and its manufacturing sector, somewhat incongruously, less competitive. The phenomenon—known as 'Dutch disease'—was coined when the Dutch manufacturing sector struggled despite its natural gas boom in 1959.

Currently, the manufacturing sector in the Netherlands is fairly static, with an average daily output just one percent up in December 2012 from the same period a year before.

Outputs of petroleum, chemical, rubber and plastic products increased 5 percent, but output in the electronics and machinery sector declined nearly 8 percent. Production levels in the food, drinks and tobacco sector, as well as the basic metals and metal products sector, were also down, falling more than 2 and nearly 3 percent respectively.

A static output reflected a "combination of a slower fall in new orders and a further reduction of backlogs," said a Markit Securities Finance report in December, which added that jobs were cut at a weaker rate, while input price inflation

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eased and output charges were raised at a faster pace.

The firm's NEVI Netherlands Manufacturing PMI (purchasing managers' index) features original survey data collected from a representative panel of around 500 companies based in the Dutch manufacturing sector.

The headline NEVI Purchasing Managers' Index—an indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy—registered 49.6, up from 48.2 in November 2012. That was its highest reading in three months, although remained below the crucial 50.0 threshold to signal a further slight deterioration in overall operating conditions.

Stable overall production at Dutch manufacturers masked divergences at the sub-sector level, with higher output in the consumer and investment goods categories offsetting a marked drop in intermediate goods production. New orders placed with manufacturers in the Netherlands fell for the third month running in December.

The rate of contraction was unchanged from the moderate pace recorded in November, and respondees to Markit's survey said that reduced new order intakes had allowed them to dedicate resources to the clearance of existing workloads.

Input price inflation in the Dutch manufacturing sector eased in the latest survey period, although remained solid, and a range of raw materials were reported to have increased in cost since the previous month.

Jack Kennedy, senior economist at Markit, commented: "The Dutch manufacturing sector broadly stabilised in December, with output unchanged following a dip in November. Data suggested that higher export sales continued to offset weakness in domestic demand, albeit the disparity was less marked than in the previous survey period. A slower drop in employment also provides some encouragement that the sector is entering 2013 on a more stable footing, although the wider outlook clearly remains challenging."

Shaking up the changes

Looking at the laws and regulations in relation to securities finance in the Netherlands, there is not much different from most other West European countries, says Bauuw. "Every country has slightly different laws and regulations, but at the end the intention will be the same and the differences will be in the detail."

NASDAQ OMX Derivatives Markets shook up its list of eligible collateral in December, announcing that further changes will be made in connection to the implementation of its collateral management solution in March 2013.

Though government bills and fixed rate, unstructured and dated government bonds issued by the Netherlands remained in the 'yes' pile, Bauuw remarks that both lenders and beneficial owners are becoming more specific about which collateral is acceptable.

"The lenders did a great job the last five years to educate their beneficial owners about the risks of collateral and collateral reinvestment programmes, so they are more aware and their collateral eligibility matrix is stricter. The risk is actually not only in the acceptability, the liquidity and the concentration of the collateral; the danger is sometimes more in the lack of decent collateral processes."

The amount of manual work that is still in place remains a problem, with Bauuw commenting that an important example is the lack of procedures and workflows in case of a counterparty default.

"We have experienced a few counterparty defaults in the last couple of years, but if you ask people if they have a script in place what to do in case it happens, you will find out this will not always be there. Many trading desks will always answer this question with a full 'yes' if you ask them or they will say they don't need it because they have enough experience at the desk and they never suffered any losses on it in the past. They don't realise that these experienced staff may go on holiday, or break a leg. If I was a beneficial owner or a risk department, I would always want to see the full procedure on paper." **SLT**

The accidental 0.1

Karl Loomes of SunGard looks at how the proposed European Financial Transaction Tax could affect the securities finance business

In February, the European Commission set out the details of its intended Financial Transaction Tax (FTT) under what it calls 'enhanced cooperation' (where a group of nine or more members agree to go ahead with an initiative proposed by the commission). The detailed proposal, if adopted by the 11 member states that have agreed to it as drafted, could see a tax levied on equity, bond and derivatives trades as early as January 2014.

The tax is very wide in its scope, both in the trading activity it includes and in its efforts to stop any form of avoidance. Specifically it includes:

- A 0.1 percent of purchase price (or market value if higher) minimum tax on all financial instruments such as equity and debt securities, and 0.01 percent minimum tax on derivatives. Importantly, however, each institution is liable for the tax individually, meaning one transaction between two institutions will be taxed twice, payable to the participating member state (which may also opt to use some of the funds in the EU budget directly, and so reduce its national EU contributions.)
- The tax is broad in the scope of who will be liable, encompassing almost all financial institutions, from pension funds and insurance companies to retail banking and holding companies, and includes both exchange and over-the-counter (OTC) trading.
- The tax is subject to a 'residency principle', meaning it will be levied when at least one party in the transaction is established in the FTT area, regardless of where the transaction itself took place (this includes situations where a third party is acting on behalf of an institution subject to the tax).
- The tax is also subject to the 'issuance principle', meaning that financial instruments issued in the FTT area members will be taxed when traded, even if neither party trading them is itself an FTT member.
- As it stands, the tax will also apply to repos and securities lending, although only for one 'leg' of the transaction. It also seems likely that it will apply to the posting and return of collateral, although at this stage this is somewhat uncertain.
- The 11 member states that have agreed to adopt the tax are Germany, France, Italy, Spain, Portugal, Belgium, Austria, Greece, Estonia, Slovenia and Slovakia.

The proposal also establishes some exemptions that are designed to protect the real economy. These include:

- Exemption for primary market activities, such as primary securities issuance and the raising of capital.
- Day to day 'normal' banking activities of private individuals, such as making deposits and credit card transactions.
- Loan activity.
- Spot foreign exchange transactions (currency forwards and derivatives are not exempt).
- The member states themselves are exempt (at a national finance level), as are their central banks, central counterparties and depositories. It is worth noting, however, that other parties involved in transactions with these bodies will be subject to the levy.

Consequences

The broad consequences of this tax will be very widespread, with the potential to fundamentally change the way some of the world's largest financial institutions do business. This will include shifting these firms and trading activities geographically, as well as the potential to influence prices in the market and change the way that companies raise finance and manage their treasuries.

For the financial market as a whole, the potential effect falls far beyond the remit of this article. However, the tax may also have a fundamental impact on the securities lending market, both in the way parties undertake lending activities and the collateral that they post.

Cumulative effect

The first thing to note about this transaction tax is that, although set at what the commission deems a low rate, because each party in the transaction will be subject to the tax, overall the actual rate of a transaction will be subject to a cumulative, or cascade effect. Even if just between two parties, the tax would be double the 'stated amount' (as each party is liable to pay the tax). With the lack of an exemption for intermediary bodies such as brokers, the cumulative effect will be even greater.

For example, a standard sale and purchase of a bond could involve two principals (the end buyer and vendor), two brokers (on behalf of the principals) as well as one or more clearing members (although the clearing system itself is exempt). This means that the 0.1 percent tax would be levied not once, but anywhere up to 10 times. In this situation, the rate collected by the EU would not be just 0.1 percent of the purchase price, but 1 percent of the purchase price of the stock. This reality means that the tax is more substantial than the commission is suggesting.

There are also two other notable cases where the tax will accumulate far above the stated rate. The first of these will be when banks use overnight repos to fund themselves—standard practice for many institutions. Each trade for the repo each day will be subject to the tax.

The other area is through the use of rolling contracts. Many businesses that hedge currency exposure, for example, do so using one month forward contracts that roll over. Each of these would be subject to the tax, as would any collateral that is posted by either party to support the forward.

Impact on securities lending

As it currently stands, the FTT will apply to securities lending activities, although only on one 'leg' of the trade. As the transfer of securities during a lending transaction is technically a sale with an agreement to buy-back the securities, each loan will be the subject to the same cumulative effect as a sale.

Therefore, for a standard loan transaction, the tax will be implemented on the sale of securities between beneficial owner (via agent lender) and broker-dealer, at 0.1 percent each, followed by a further tax on the sale between broker-dealer and the end user, again at 0.1 percent each—meaning that the effective tax is actually 0.4 percent, even excluding any further sales of the borrowed securities by the end user.

It is also worth noting that the posting of securities as collateral may also fall under the heading of a sale, meaning if the borrower posts equity or bonds as collateral against a loan, both the broker-dealer and lender will be subject to a further 0.1 percent tax on the value of those securities.

As both borrower and lender are subject to the tax, it will likely bring about two different pressures for the transaction overall. From the lender's perspective, paying an additional cost of 0.1 percent to lend a security will mean that it will see its lending profits eroded, or be forced to inflate the borrowing cost it offers the market.. Eventually, we could assume this would filter through to the cost of borrowing securities as a whole.

On the other side of the deal, the broker-dealer also has to pay an additional 0.1 percent tax on top of the borrowing cost it pays, as do the end users. Generally therefore, we would expect either demand for borrowing securities to decrease as the costs become significantly higher, or for there to be a push from the demand side to lower borrowing costs overall to compensate for the increased cost.

In simple supply and demand terms, a decrease in the demand to borrow securities would generally lead to a fall in the cost of borrowing them. Who will 'win the battle' in terms of lowering or increasing costs overall, however, will most likely depend on the need to borrow the security itself.

As general rule, the lending parties would tend to have more 'price setting' power for specials. In that case, demand from the borrower may be sufficient to mean they accept the increased rate. For general collateral (GC) on the other hand, the borrowing parties tend to have much more power in dictating the cost that they pay, and so for GC loans, we may find that the balance is reversed, and costs are forced downward.

That said, the borrowing parties in the transaction take the brunt of the new tax. A broker-dealer will be subject to 0.2 percent tax overall for its transactions, while the end user will also face a 0.1 percent tax. A lender meanwhile will only pay the 0.1 percent on its initial transaction with the broker-dealer.

These numbers, even just 0.1 percent, are very significant in terms of securities lending. With general collateral, for example, a rate of 0.1 percent could equate to half of what borrowers currently pay per annum, just as an initial cost. Even for specials paying rates of an annualised 20 percent, for example, a rough estimate would see this as approximately 0.05 percent a day, meaning the initial tax would be double that of borrowing the security for just one day.

In these circumstances, a broker-dealer would be paying 0.2 percent on every loan they are counterparty to, which they can then either absorb or pass forward to the end user, meaning hedge funds, for example, could be paying anywhere from an additional 0.1 to 0.3 percent tax per borrow transaction. In turn, this means any expected revenue to be gained on their part (for example, through short selling) will need to offset this.

Although a dramatic example, and one that any forthcoming exemptions may address, the numbers are still startling. The potential for this to reduce the incentive, and cost effectiveness, of lending and borrowing securities will naturally lead to many beneficial owners no longer participating in lending activity, while it may become similarly unviable for traditional borrowers to partake as well. It will simply not be worth it for either party.

In turn, this could have dramatic consequences for both the securities lending sector, where we would expect borrowing costs to rise on the back of less availability, and in the markets as a whole, where the important liquidity and trade settlement aspects of securities lending will be hindered.

During 2012, the average value of loans that would have subject to the FTT based just on the securities' country of issuance would have been $125.2 billion, meaning lenders would have been liable for around $125 million (at 0.1 percent per value of 'sale'). These same loans generated $1.3 billion in revenue (then split between agent lender and beneficial owner), meaning in effect the 0.1 percent transaction tax would actually equate to a 10 percent tax of income from loan activity. And this does not take into account liable institutions trading 'non-liable' securities.

Collateral

The other significant shift this tax could bring about is in regards to collateral. As under the present draft, the transfer (regarded as a sale) of collateral securities against borrowed securities would also be subject to the tax. As this is only applicable to non-cash collateral, however, the increased costs that are associated with using securities as collateral would likely see a fundamental shift towards cash collateral.

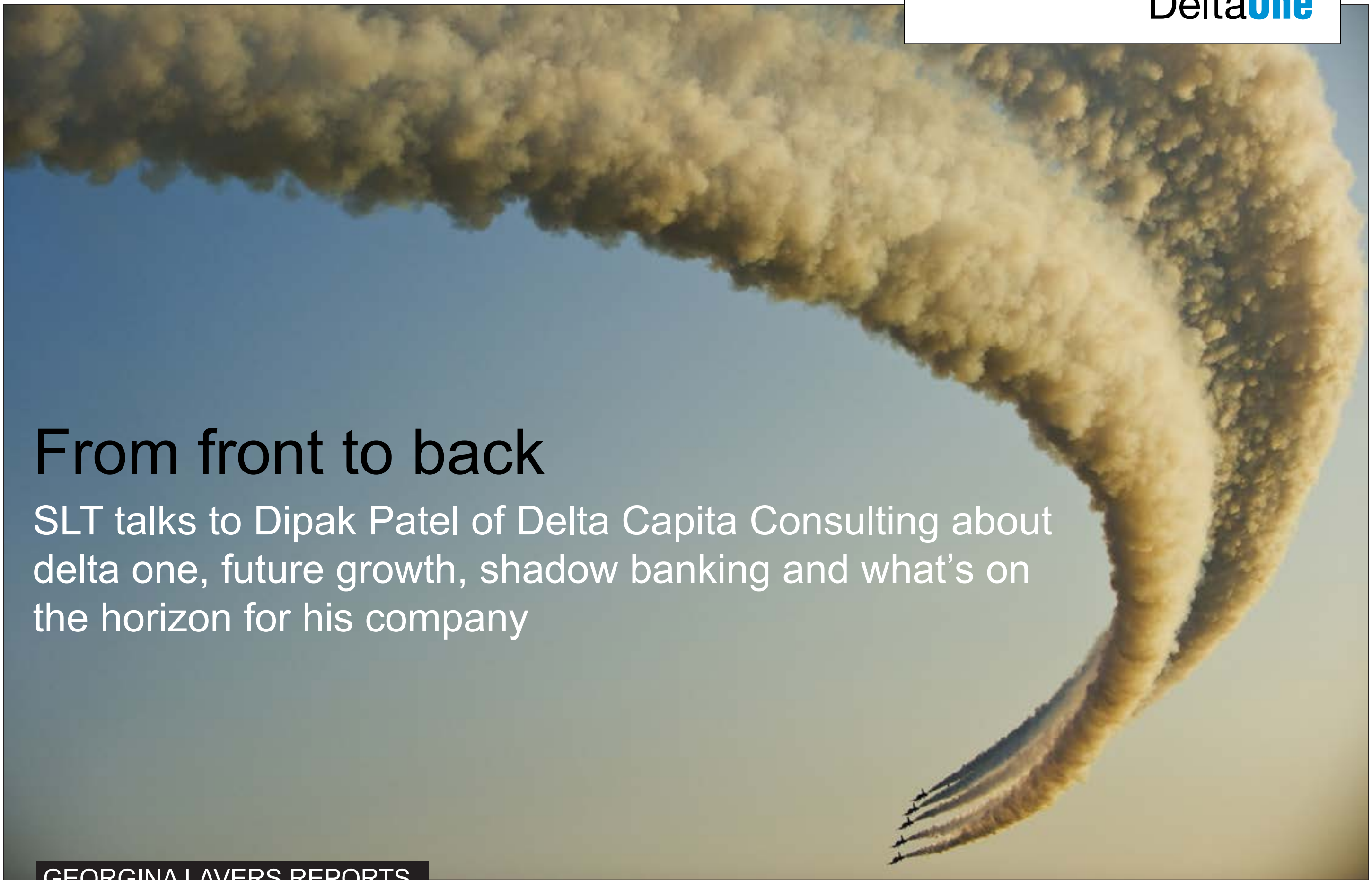
Last year, for the FTT liable securities, non-cash collateral covered on average $68 billion of loans, while cash collateral covered $57 billion—around a 55:45 split. By taxing the posting of non-cash collateral, the FTT would effectively increase the cost, and reduce any potential returns, on those securities, making them unappetising to say the least. In addition, the tax would more broadly also likely reduce the returns gains through the reinvestment of the cash collateral, making it less appealing as well.

We would expect, therefore, that the disincentive to use on-cash collateral would shift the market towards cash-based collateral, which in-turn would be more expensive, or less profitable, to reinvest—likely reducing the overall appetite for securities lending once again. In addition, both parties to the collateral transaction would be liable for the tax, reducing their appetites to borrow and lend even further.

As is often the case, the FTT represents an economic exercise brought about by political motivations, and as such, the broad financial consequences could be extreme and beyond what we could currently foresee. This is perhaps even more so the case for securities lending.

By no means the main 'target' of the FTT, securities lending will nonetheless be highly affected, and perhaps fundamentally changed, if the tax comes into being as drafted. This is a strong caveat, however, as all expectations are that despite the commissions' optimistic timeframe, more amendments will likely change any actual tax from what we see today. If this doesn't happen, the industry may indeed suffer as an unintended consequence. **SLT**

Karl Loomes
Analyst
SunGard



From front to back

SLT talks to Dipak Patel of Delta Capita Consulting about delta one, future growth, shadow banking and what's on the horizon for his company

GEORGINA LAVERS REPORTS

What is your background in the securities finance sector?

I have been involved on the technology side of securities lending, delta one and prime brokerage for almost 20 years, having worked for various global investment banks building platforms for trading, operations and finance. For example, at a Japanese bank, I put together the team to build its Greenfield synthetic prime platform.

After many years of doing this, we thought it was a good time to get together with like-minded people to set up a consultancy that is mainly involved in change management to bring together trading, operations and technology consulting. We work on various verticals, including equity, fixed income, FX, risk, and so on, and assist clients from target operating model design and infrastructure review, to core system implementations.

We cover all areas of equity finance and linear derivatives, from securities lending and prime brokerage (synthetic and physical), to delta one trading. Our people have had experience in all these areas, having built up their expertise working on Greenfield, or changing projects across the banking industry.

What are some of the advantages of delta one?

Ultimately, delta one refers to a trade in any derivative product that has a delta (or rate of change ratio with its underlying asset) at or very close to one, ie, for a movement in the price of the underlying asset there will be a near identical move on the price of the derivative. The products that are traded are often referred to as linear derivatives. Examples are equity swaps, dividend swaps, index arbitrage, forwards, futures, exchange-traded funds, CFDs (contracts for difference), portfolio swaps, and so on.

The main advantage of these products is that they closely track an underlying asset and can be less risky than buying the asset itself. Instead of buying an equity index, a hedge fund may buy an exchange-traded equity index fund. These derivatives are attractive because they typically require a low level of upfront capital.

The delta one business differs structurally from bank to bank. It is very dependent on the bank's equity derivatives capability and their position in prime brokerage as it could sit in either business area.

In 2010, J.P. Morgan predicted that it would be a prime future source of revenue for global investment banks—have you seen this growth?

The last few years have been particularly challenging for the investment banking industry with businesses downsizing due to all the well documented global issues: uncertainty in Europe due to the debt crisis, the slow-down in the Chinese economy, and the US fiscal cliff. This has led to a fall in trading volumes and an increase in volatility, thereby eroding investor confidence. All of these factors have played a big part in how the markets have performed since 2010.

Several prominent fraud cases have also played a part in denting confidence in the delta one business. However, even in this environment, the delta one business has not been performing too badly as businesses have been efficiently managing their balance sheets and optimally managing their inventory.

One reason for the success is the surge in growth of ETFs. On average, they are expected to grow about 20 percent a year, as hedge funds and institutions increasingly rely on these products for both exposure to the markets and as protection against volatility. Also helping the growth of these desks is increased demand from investors for computer program trading, which uses mathematical models to execute transactions.

Delta one desks are a profitable business, and on the surface at least, not a particularly risky one. But like many things in this industry, the practice can become perilous if not properly managed.

What regulations are significant concerns for delta one?

The post-credit crisis has seen increased central bank intervention in global markets and the overall climate of increased legislation has affected the industry and put pressure on revenues and operating margins—the cost of doing business is increasing.

With the Volcker Rule of the US Dodd-Frank Act restricting prop trading, the core issue is how to distinguish between pure market making and proprietary trading. For example, with market making, trying to determine the intention behind trades is difficult because when making a market you are effectively at risk. Whether you define this as prop trading or client facilitation can be a grey area. The bulge bracket banks have all spun off or reduced their prop desks.

In Europe, with Basel III, the latest set of capital constraints to be imposed following the financial crisis, we have global capital rules that make it far more costly to hold risky assets on trading books. It raises capital requirements across the board.

However, delta one desks are expected to weather the regulatory overhaul more easily than many other trading businesses. It should remain one of the most profitable areas on trading floors, together with high-volume computer-driven program and electronic trading.

How does Delta Capita fit into the delta one space?

At Delta Capita, we are very aligned with how investment banking businesses are structured from a front-to-back perspective. All of the partners have worked at investment banks at a senior level for at least 10 years.

The vertical that I am responsible for covers all elements of equity finance, prime brokerage and linear derivatives. If I need to call on any expertise from another vertical, say equity, the partners are easily accessible and we complement each other. We keep abreast of what's going on in the market through the experience gained while working with clients. We also write whitepapers and constantly undergo training to keep up with the new and latest thinking. We can therefore assist clients with all manner of consulting, from tactical project turn around to front-to-back strategic reviews from business, operational and technical perspectives.

What are your thoughts on regulatory initiatives to create a trade repository for all securities lending transactions?

'Shadow banking' regulation and the idea of providing transparency to limit systemic risk is an interesting topic. Given that there is a need for balanced regulation, we need to ensure that we understand the Financial Stability Board (FSB) requirements as they currently apply to both securities lending and repo transactions. There are certain recommendations that need to be looked at again, as some of the regulatory standards would interfere in areas left to national regulators, for example, setting fixed or minimum floors for haircuts and limiting the types of collateral repo that buyers might accept.

Given that there needs to be a distinction between the securities lending and repo markets as they are quite different, the FSB will need to tailor its recommendations accordingly. This applies to differences around the world for which the FSB would need to participate with national regulators in order to consider its recommendations in light of the particular circumstances in each individual market, rather than directing these regulators to adopt a specific type of requirement.

What is on the horizon for Delta Capita?

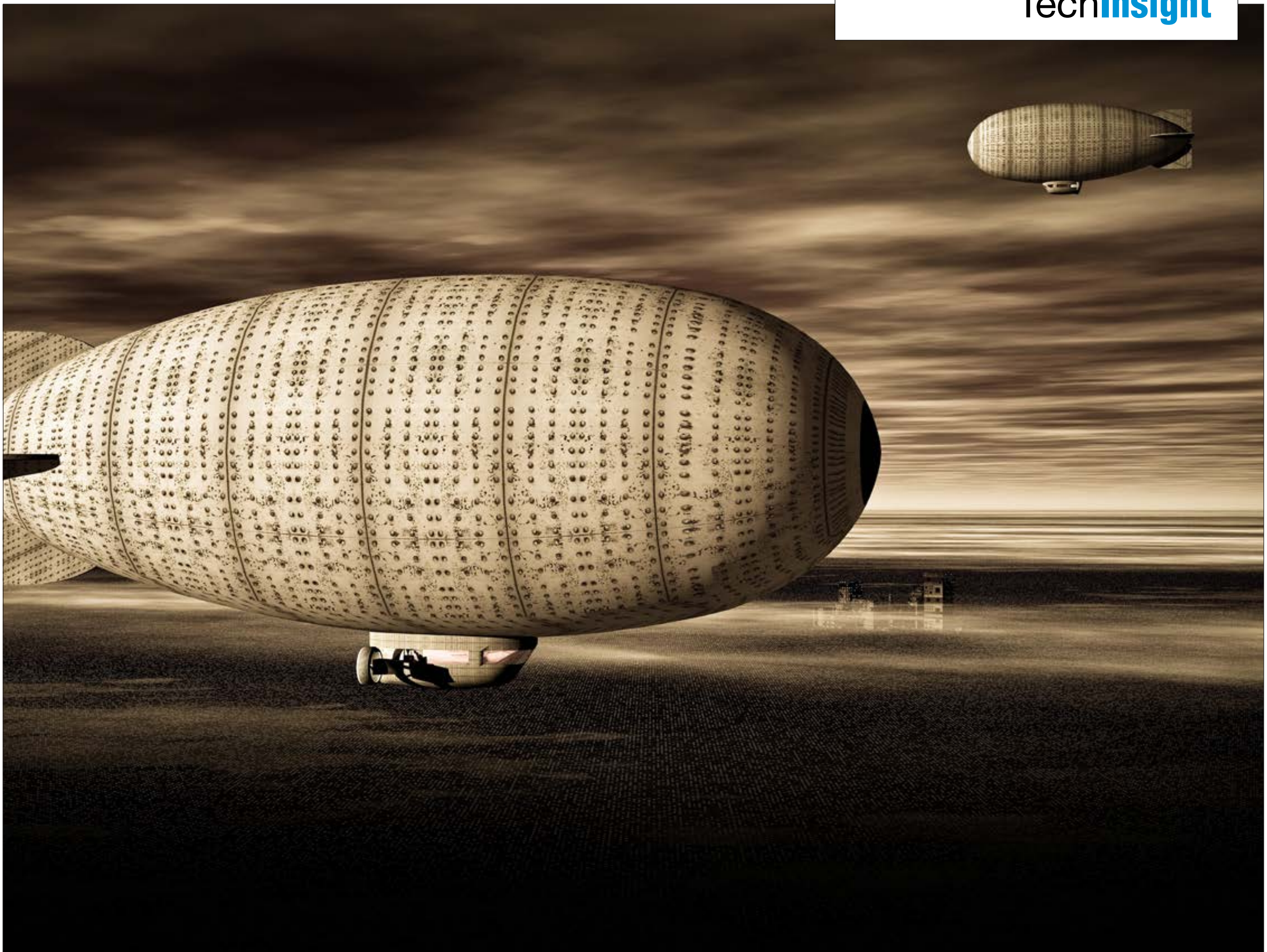
In the last couple of years, Delta Capita has been involved in a number of change projects as investment for new product implementation has decreased and client drivers have been on improving efficiencies and decreasing costs.

In 2013, we are seeing a cautious return to investment on new products and systems as confidence begins to grow. We have bolstered up our practices over the past year in anticipation for the uptick in activity and have a number of projects either on the go or in the pipeline. Of particular interest to me is a front-to-back review we are conducting for a banking client of its equity and equity finance infrastructure.

We are also actively working with software vendors to review the best-fit-for-purpose applications that are openly available in the market to support the securities lending, prime brokerage and delta one business. These areas were traditionally dominated by in-house solutions or collections of point solutions from vendors, with little cross-asset support. This is a very costly and operationally risky approach. Our clients recognise this and look for opportunities to improve how the necessary functionality is delivered.

Historically, there have only really been a small handful of technology providers that were limited in terms of products that they supported, ie, one of either securities lending, repo or equity swaps. However, now there are commercial solutions that cover all three products and on a front-to-back basis. We look forward to working with our clients on how they would fit in and be adapted, either on a standalone basis or integrated with their in-house systems. **SLT**

Dipak Patel
Partner
Delta Capita Consulting



Flying the flagship

SLT talks to Charlotte Wall of Olivetree Financial Group about her move to the firm, its primary product and regulatory initiatives affecting securities lending

MARK DUGDALE REPORTS

What is your role at Olivetree Financial Group?

My new role is global head of sales and marketing. My main focus is on marketing and selling our flagship technology product OTAS (Olivetree Trading Analytics System) to the buy side.

This is an equity platform that has been developed over the past three years and is transforming execution and portfolio management. It provides analytics across 10 market observables to help you make better investment decisions.

My new role is an exciting and challenging position that gives me the ability to draw on the equity knowledge that I gained at Morgan Stanley and use my four years of selling technology at Data Explorers and Markit. I really enjoy the marketing part too and have had great personal satisfaction in building out a new website www.olivetreefg.com and creating new marketing materials for the sales team.

Olivetree has seen an influx of former Morgan Stanley employees—many of whom you know—how has this helped you to settle in?

We are not all ex-Morgan Stanley! But yes, there are a few of us and this has definitely has helped me to settle into the organisation. Daryn Kutner, who was previously global head of cash trading at Morgan Stanley, is the founder, and Mark Kelly—also ex-Morgan Stanley—is CEO of the securities division, specialising in event-driven advisory services and execution consultancy. After spending 16 years at Morgan Stanley, to be back working with these talented people was an obvious attraction, but the whole of the team is superb. I am learning something new every day and my skill set is also helping to build an even stronger franchise.

The company's flagship product OTAS provides equity analytics. In what ways is this different to the products already in the market?

OTAS provides equity analytics to traders and portfolio managers to make better investment decisions. What makes it unique is the way it brings together 10 market observables into one platform. The data quality is excellent as we perform 160,000 data checks daily and the platform pushes information to the user by highlighting only statistically significant flags daily in areas such as implied volatility, short interest, director dealings and valuation.

> We are fortunate that OTAS can be classified as independent research. By being seen as research, it is an allowable service that can be purchased by a fund manager using clients' commissions

When you combine sentiment across all of these observables, it gives funds the ability to improve performance as OTAS can influence timing of entry and exit points. It also acts as a risk warning system highlighting stresses and inflection points within your portfolio.

What about your organisation's coverage of short interest?

We take data from Markit, SunGard and the exchange and back test these numbers to provide information on shares shorted as a percentage of free float, and also days to cover. We are working on expanding the coverage to percentage of shares available and also to provide some cost of carry indications.

The data is very accurate for days to cover as we are able to leverage all primary and secondary exchange volume data, so you get a true picture of liquidity.

Complementing OTAS, Olivetree provides institutional clients with event-driven advisory services and execution consultancy. What does this involve and how will you help on these fronts?

Olivetree Securities is an agency broker focused on the analysis and trading of event-driven situations. Our team uses a unique blend of sectorial expertise, event knowledge and the proprietary tools supplied by Olivetree Solutions to generate a superior understanding of these topics. Our expertise ranges from situations with very well-defined catalysts to those with a much less hardened juncture. Our clients are a varied mix of the world's largest institutional and hedge fund accounts. Although our execution services are concentrated on equity products, we study all situations from a cross-asset perspective, with particular focus on corporate balance sheets.

We provide an independent agency execution offering that includes a full suite of low-touch execution products combined with a top quality high-touch service. Our neutrality provides full anonymity and allows us to maximise our liquidity reach, and our execution desk benefits from the proprietary tools that are developed by Olivetree Solutions. These tools are designed to enhance the decision making skills of our traders and that of our clients to ensure that they achieve the optimal execution. We use a combination of back-tested signals from other market observables, real-time liquidity analysis and a wide range of intraday signals to capture as much performance as possible for our customer.

Trade Shaper provides single stock strategies by incorporating projected alpha, impact, risk, volatility, spread and expected trade cost.

How close is the market to becoming acceptably transparent for regulators and participants?

The US Federal Reserve's Daniel Tarullo recently presented to the Senate Banking Committee on various subjects. He said: "The regulatory and public transparency of shadow banking markets, especially securities financing transactions, should be increased". I think huge moves have been made in last two years to provide more transparency. SunGard's recent announcement on its global intraday data from its Astec Analytics system is a major step forward in satisfying and assisting trading and reporting requirements. The new disclosure rules under the European Securities and Markets Authority (ESMA) Short Selling Regulations (SSR), which says that any net positions over 0.2 percent of issued share capital have to be disclosed to the regulator and any net short position over 0.5 percent has to be made public, has also enabled the regulators to monitor short selling activity for any trace of market abuse.

The European Commission has now published its detailed proposals for an EU Financial Transaction Tax to be implemented under the enhanced cooperation procedure across France, Germany, and nine other EU member states. The scope of the tax is very wide and it is proposed that securities lending and repo transactions will be subject to the tax on one leg of the transaction at 0.1 percent. This would not be a good outcome for the securities lending market and would have a huge impact on liquidity and volume transacted.

The UK FSA has clamped down not only on the payment out of client funds for corporate access but also for data services. How will this affect your solutions business?

We are fortunate that OTAS can be classified as independent research. By being seen as research, it is an allowable service that can be purchased by a fund manager using clients' commissions, ie, via flow commission. Our services are capable of adding value to the investment or trading decisions of portfolio managers by providing new insights and assessment of new and existing facts. We are not merely a data provider and are also helped by the fact we have an agency broker arm under the Olivetree Financial Group umbrella.

European hedge fund launches are still at record lows. Only 86 European offshore hedge funds launched in 2012 raising just under $9 billion in assets. Will this have any impact on growing your business?

This is a challenge especially when approximately 90 funds were also liquidated in 2012. The start up climate has been challenged by the eurozone political and financial crisis and of course by the regulatory uncertainty. Olivetree has a blend of long-only institutional clients and hedge funds. Currently, more than $3 trillion of AUM is managed with the assistance of OTAS. We are continuing to see this grow as portfolio managers, traders and risk managers are finding value in the product, so a lot of the growth is organic.

We have been working with a number of new fund launches and they have found the platform very valuable, especially when they haven't yet established their internal models and infrastructure.

We also have tremendous growth potential in the US, hiring four new sales people and we look forward to seeing continued growth in this region. **SLT**

Charlotte Wall
Group head of sales and marketing
Olivetree Financial Group

A touch of trust

SLT talks to Claudine Gallagher of BNP Paribas about risk, regulation and the firm's new sub-custody offering in the US

MARK DUGDALE REPORTS

What are the current opportunities and challenges in the US market regarding sub-custody and securities lending?

Current securities lending opportunities centre on three key elements: implementing customised solutions for clients by differentiating oneself through greater transparency in all aspects of the service ranging from revenue generation under a transparent risk-adjusted framework; providing a robust risk management environment; and ensuring that reporting meets the expectations that clients require tailored to their individual needs. This sits alongside the need to ensure a high-touch client service to educate clients on the implications of the current regulatory environment. For BNP Paribas in the US, our aim is to leverage the bank's global presence and financial strength in order to harness the attention of the beneficial owner's client segment.

More specifically, how are regulations in the US affecting transparency in the securities lending market?

The changing regulatory environment is certain to affect the securities lending market. While the regulatory environment remains in flux, both industry regulators and clients will demand a greater amount of information from agent lenders. Lenders in this market should be prepared to meet and exceed the increased demand for information through their ability to deliver real-time loan and reinvestment details to clients as well as regulators, should the regulatory environment warrant this. Providers with a global presence will currently be providing this level of transparency to clients and providing it to appropriate regulatory bodies should be accomplished with relative ease.

It is becoming increasingly important that the service provider be well positioned to not only interpret the regulations, but also review with their clients the impact of regulations on their business activities. Client demand is driving the need for increased engagement and a high-touch relationship model. Part of this is accomplished through enhanced reporting and client education to address transparency needs.

How are US providers supporting their clients through regulatory change and ensuring the efficiency of their service?

Clients are seeking the support of their providers throughout the regulatory changes in the form of continuous communication, product education and in building their awareness about the potential impact of regulations on their revenue streams, loan balances and so on. Additionally, providers will need customised solutions for individual clients in terms of their respective risk profiles, reporting requirements, and relationship needs.

What is the appetite for risk in the US among securities lending clients? How can providers assist in controlling that risk and ensuring their interests are met?

The securities lending industry has gone through a series of well-known challenges over the past several years. As a result, and with little surprise, many beneficial owners have elected a more conservative strategy that has shifted the revenue attribution towards the loan element of the transaction. After several years of increased product education and understanding, clients have become more informed and engaged in their securities lending strategies, which has led to increased participation in securities lending by beneficial owners.

Our experience with clients has focused on continuous communication and playing an educational role to ensure client expectations are met and exceeded. Providing clients direct communication to our trading desks assists them in staying abreast of current market developments and helps them arrive at a better informed understanding of potential impacts on their securities lending programmes. Further, providing detailed reporting in real time and customised lending and reinvestment guidelines enables clients the flexibility to tailor programmes that are suited for their risk tolerances. We have seen beneficial owners throughout the industry engage more and more in securities lending as they realise the potential of generating revenue on otherwise idle assets. In certain instances, this includes beneficial owners expanding their reinvestment guidelines in a risk-controlled fashion to maximise revenue.

You recently launched your sub-custody offering in the US—do you have any further plans in the US for this year?

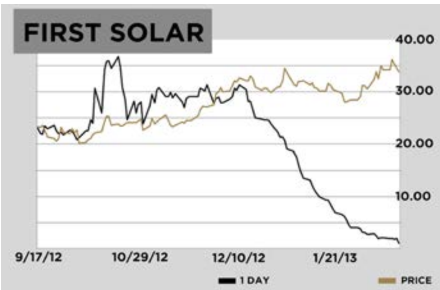
The US is crucial to not only our clients' strategic ambitions, but also our own. Launching our sub-custody product in late 2012 was a significant milestone for us, consolidating our global offering and making us a truly global custodian. The next steps include developing additional products to support our buy- and sell-side clients, including the launch of global custody in late 2013. **SLT**

Claudine Gallagher
Regional head for North America
BNP Paribas

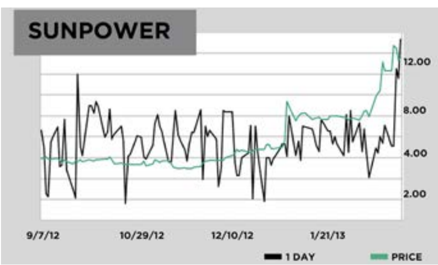
A glimmer of hope

Chris Benedict, vice president of DataLend, comments on the solar sector

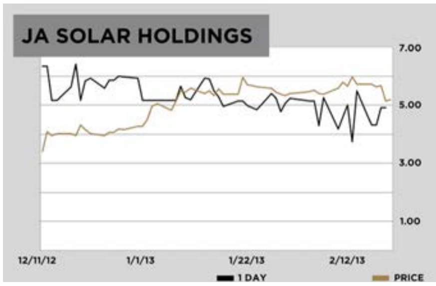
Solar stocks have been stuck in a money sucking black hole for years. The promise of 'green shoots' with this new renewable energy source never came close to meeting investor expectations. Some of the market leaders such as First Solar (FSLR) have plummeted from over $300 per share in 2008 down to an utterly depressing $11.43 per share in June of 2012. With irrational investor exuberance, the commoditisation of solar modules, the high profile bankruptcy of Solyndra and Chinese companies dumping their solar panels in the market at below cost, the solar industry has weathered its share of ominous black clouds blotting out profitability during the past four years. But shares of FSLR and other solar power companies seem to be off to a solid start in 2013. Will investors bet their bottom dollar that the sun is coming out tomorrow for solar stocks?



Since late 2012, borrowing fees for FSLR have dropped from 1400 basis points (bps) down to only 77 bps as the stock price has moved to the mid-upper $20 per share range. Utilisation is still relatively high at 78% with 17.5 million shares on loan but has dropped from 93% back in October of 2012. Short interest is close to 21% and days to cover at 3. It seems as if the bears have relented in this name (for now) and may be concentrating on other prey in this space.



Borrowing fees for Sunpower (SPWR) have gyrated between 150 and 20 bps as the stock price rebounded nicely from under $5 per share in November 2012 to about $12. Utilisation is around 83% for the past 3 months; short interest is a little over 9% and days to cover are 3.46. This is another solar energy stock that seems to be turning a corner.



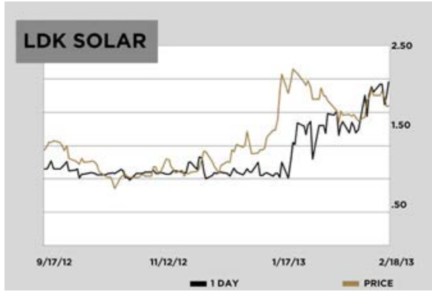
JA Solar ADR (JASO) has also seen borrowing fees decrease from 633 to 471 bps as the stock price has crept upwards but utilisation is still at a very high 99% with 2.9 million shares on loan. Even its 4.5% 2013 convertible bond, trades warm around 200 bps, down slightly from 245 in October. JASO hasn't recovered quite as strongly as some of its peers; it's stock price has risen from $3 per share in November to near $5 per share currently. But given the continued high borrowing fees and utilisation figures, it's possible this stock sees more selling pressure down the road.

Trina Solar ADR (TSL) has also seen a nice rise in its stock price from a low of $2.19 in mid November to just below $5 per share. Borrowing fees have also decreased from around 240 to 18 bps during the same timeframe. Utilisation has varied between 60 to 80% in 2012 and currently stands at 65% with 20 million shares on loan.

Borrowing fees for Power One (PWER) have remained steady in the range of 30 to 40 bps. Utilisation saw an uptick in the beginning of 2013 from 60 to 70% and has since settled back down without any increase in borrowing fees. The stock price has also stayed range bound from between $3.80 and $4.80 per share since the fall of 2012.

However, there are still bearish signals out there casting a dark shadow on solar energy's supposed comeback in 2013.

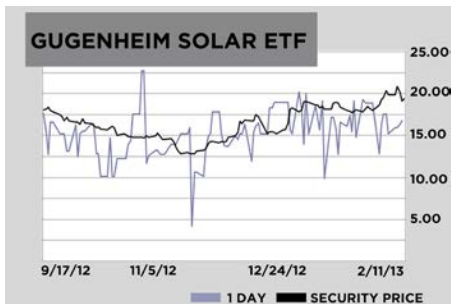
LDK Solar ADR (LDK) is another solar company whose stock price has received a bump up over the past few months but whose borrowing fees have also increased at the same time, from 4300 bps in mid-December to a whopping 9500 bps, a 99.9% utilisation and 7.8 million shares



on loan. It seems as if the bears may be betting against a comeback in this name.

Norwegian Renewable Energy (NO0010112675) has remained in a hot trading range from the fall of 2012 to today in the 1600 to 1700 bps range, a 94% utilisation and 205 million shares out on loan. Unlike other solar companies, Renewable Energy's stock price has yet to see a rebound.

Even the Guggenheim Solar ETF (TAN) is still trading quite hot. It has also seen an uptick in its price per share from $13 in November to just shy of $20, but it's borrowing fees have followed suit and currently trade in the 1000 bps range with the ETF 100% utilised.



Overall the securities lending market seems to suggest that the selling in some of the stronger solar companies may have been overdone in 2012. In the past few months we've seen borrowing fees drop, utilisations decrease and stock prices rebound in such names as FSLR, SPWR, TSL and PWER. But this doesn't seem to be the case across the entire industry and other solar companies who have seen their stock prices rebound somewhat may be in for a reversal.

Investors drawn to Swiss haven

Sentiment towards Switzerland remains positive with improving PMIs, falling volatility and declining short interest. Yet ETPs with a Swiss exposure have recorded net outflows, says Alex Brog of Markit Securities Finance

Switzerland's economic fortunes are tied closely to the health of the eurozone, so it is no surprise that the latest figures are forecast to show a deteriorating economic performance.

Gross domestic product is expected to have stagnated in Q4 2012 after a 0.6 percent expansion in Q3. When put in the perspective of the contractions seen in Germany, France, the UK, the US and Japan, this suggests that Switzerland is none the less weathering the recent global soft patch reasonably well.

A nascent upturn has been evident so far this year, with the weaker franc spurring stronger exports, which rose 3.8 percent in the year. Investor sentiment had also hit a 32-month high and the purchasing managers' index (PMI) has picked up sharply since hitting a post-crisis low last September.

Markit's chief economist, Chris Williamson, notes that the worry is that Switzerland will be hit by the double whammy of a further deterioration in its biggest export market—the eurozone—and an appreciating currency, as political uncertainty in Italy drives renewed demand for the safe-haven franc.

The hope is that, with the Markit PMI surveys showing resurgent, robust growth in Germany, exports to the eurozone's largest economy will offset falling demand in the region's periphery and help Switzerland to avoid contraction in Q1 and build a gradual recovery in 2013.

Declining short interest

Average short interest across the Swiss stocks with a market cap over $250 million is just below 1.5 percent of the total shares. This has declined since the highs recorded last June of 2.3 percent.

Yet there are several names that continue to witness heavy demand to borrow. A list of the top 10 most shorted stocks shows that Logitech leads with 20.8 percent of its total shares on loan. The troubled technology company, which makes accessories that plug in to PCs, tablets and other equipment, also has the dubious honour of being the most borrowed name in the whole of the EURO STOXX 600 index.

While the share price has tracked close to annual lows, short sellers have covered positions from the annual high of 27.8 percent that was seen at the end of December 2012, but demand to borrow the shares remains very high with almost 90 percent of the lendable supply being out on loan.

Solar firm and perennial short Meyer Burger is the second most borrowed name with 18 percent of its shares on loan, up 12.7 percent over the past month.

Of the top 10 most borrowed names, Nobel Biocare has seen the greatest increase in short interest over the past month—up 20 percent to lie in third place with 14.5 percent of its total shares on loan.

This is despite the second biggest maker of dental implants having recently reported Q4 profits that beat estimates as it moved European jobs to faster growing markets, according to Bloomberg.

Swiss ETP outflow

Exchange-traded products (ETPs) with exposure to the Swiss markets have seen an increase in AUM from $9.4 billion to $9.9 billion since the beginning of the year.

However, this masks the real investor sentiment as the increase was due to strong NAV performance in the Swiss markets rather than net new asset inflows.

Long-only Swiss ETPs recorded average price increases of 4.42 percent despite investors pulling money out to the tune of $93 million.

This negative sentiment was further confirmed as ETPs betting against the Swiss markets (short funds) saw inflows of $25 million, representing 63 percent of their AUM at the beginning of the year.

Funds tracking the Swiss equity markets saw an average price increase of 7.8 percent, but saw the biggest of all outflows in long-only funds—$47 million—closely followed by fixed income and currency funds with $36 million and $11 million outflows respectively.

Three of the top five funds by asset inflows track the SMI, Switzerland's blue-chip index, with db-X-trackers taking the lion's share with $62 million, followed by Credit Suisse and UBS with $40 million and $20 million.

These inflows are unsurprising given the strong performance of these funds, which recorded a price return of 10.7% percent.

ETPs on loan

Borrowing demand for ETPs with Swiss exposure is focused on the XMTCH Gold ETP, which sees almost double the quantity of shares on loan over the second and third most borrowed names.

The UBS ETP with exposure to the Swiss large cap index appears in second place, having seen demand to borrow increase 15 percent over the past month.

Of course, it is worth noting that the borrowing demand for ETPs can be a function of a negative view in the belief that it is overvalued or as part of a hedging strategy. **SLT**

Alex Brog
Director
Markit Securities Finance

...Jerry Friedhoff

SLT and Jerry Friedhoff, who is product manager for securities financing solutions at Broadridge, talk about his role in the securities lending market, and the challenges of globalisation, regulation and cross-asset financing

How did you get into the securities lending industry?

I have been working in the securities processing solutions division of Broadridge for six years. Before that, I worked for IBM, Gartner, ADP and several consulting firms that focused on the financial services industry. Several years ago, I became the product manager of securities financing solutions at Broadridge. In this role, my focus has been on understanding this exciting market and ensuring we have products that meet the needs of today's repo and securities lending desks.

To what extent has working in technology product development met your expectations?

I love working with clients and industry experts to define the trends and opportunities facing this industry. As a Broadridge product manager, I am responsible for the current and future profit and loss of our securities financing product line. This position provides me with great latitude to identify, develop and deploy new securities financing solutions. Every day, I have new problems to solve and very interesting people to work with.

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

Globalisation, regulation and cross-asset financing are the key challenges I see facing the securities financing industry in the years ahead. Nearly all of our clients are trying to navigate this changing landscape in a way that keeps them ahead of the competition while complying with government and agency requirements. The agility of securities lending firms' people, processes and technology is crucial to not crashing into the rocks or being left behind.

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

Carol Rose is one of my dear friends and a legend in the securities processing industry. She helped to design, build and product manage our flagship fixed income product (impact). Her passion for helping clients solve problems and ensuring technology is deployed in a quality way is an inspiration to me.

In or out of work, what are your ambitions?

I am nearing completion of my PhD in Systems Engineering at Stevens Institute of Technology. My dissertation on IT Risks Within Front Office Systems has helped me understand the securities financing industry from another viewpoint.

What are your plans for the future?

My wife and I were missionaries in Asia many years ago. We look forward to going back to full-time mission work after I retire.

What are your hobbies and interests?

I am an avid golfer and love to work in my garden. Almost every week, I rent some kind of yard equipment for a landscaping project of some kind. **SLT**

Jerry Friedhoff
Product manager
Broadridge

Industry appointments

Roy Zimmerhansl became global head of securities lending at HSBC Securities Services on 1 March.

He reports to John van Verre, head of global custody and treasury services, and is based in London.

With Zimmerhansl's arrival at HSBC Securities Services, former global head of securities lending Wayne Burlingham becomes head of securities lending product management.

He reports to Zimmerhansl, and focuses on the development of the securities lending product.

Nick Thomas will also report to Zimmerhansl as head of securities lending sales.

In an internal memo, van Verre said: "[Zimmerhansl] is a well-known figure in the securities lending industry and brings with him a wealth of experience. He has held senior positions at leading firms across the spectrum of securities lending including prime brokers, agent lenders and an electronic trading platform. His knowledge and experience in this business will be instrumental in achieving our strategic objective to develop a leading client proposition."

"[He] will lead the area as HSBC increases its investment in the client securities lending business in response to increased client demand and in recognition that an enhanced securities lending capability is integral to the growth of the global custody business."

Zimmerhansl runs his own consulting business, works as a product specialist at software company Trading Apps and owns training company FinTuition.

His new role at HSBC Securities Services is full-time, so his consultancy work will cease. While he will continue to own FinTuition, its ongoing management will fall to the existing team that he has in place.

Brian Staunton is joining BNY Mellon's global collateral services business on 18 March.

He will be managing director in the bank's Derivatives360(SM) division, which is now a part of the global collateral services business.

Staunton will be based in London and will report to Ross Whitehill.

He previously worked at Union Bancaire Privée as a consultant. Before that, Staunton was head of securities finance at Citi.

He joined the bank in October 2004 as European product manager responsible for the securities finance business in EMEA. Between 1997 and 2004, he worked for Deutsche Börse Group in London, formerly Clearstream Banking, where he was head of the UK, Ireland and Scandinavia for custody, clearing, securities lending and triparty repo.

Albert Fried & Company has hired **Carl Lang** for the newly created position of chief technology officer.

Lang previously worked as director of BNP Paribas prime brokerage, where he headed up technology for securities lending. Before that, Lang built out the global securities lending platform for Bank of America.

At Albert Fried & Company, he will oversee its technology infrastructure, which includes the new prime lending services division's securities lending and prime services build-out.

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

The firm recently hired **Salvatore Cangialosi** from Credit Suisse for the new division.

It also recruited **Vincent Avena** from BNP Paribas and **Paul Stegmann** from Credit Agricole as managing directors of the new prime lending services division.

Asset manager Robeco has chosen **Jeff Coyle** to replace Zubair Nizami as head of its securities lending desk in Hong Kong.

Robeco created the Hong Kong desk, which focuses on securities lending and swaps in the Asian markets, in 2011. It recruited Nizami from Northern Trust to run the desk, but he left in February of this year.

A Robeco spokesman confirmed that the firm had appointed Jeff Coyle to the role, who has previously worked for BBVA, AXA Investment Managers and Man Financial.

He added that the Rotterdam desk will cover the Asian region during Hong Kong hours in the meantime, until Coyle has settled in.

It has been reported that Bank of America Merill Lynch has hired **Martina Slowey** as its EMEA head of prime brokerage.

Slowey previously held the role of European head of prime brokerage at UBS.

Slowey will replace Charlotte Burkeman who reportedly left the EMEA head of prime brokerage role in January this year due to personal reasons.

Rule Financial has hired **Emily Cates** as principal consultant in its domain group. She will be based in the firm's London office. Cates has more than 18 years of experience across securities financing, prime brokerage, equities, fixed income and structured trades. She previously held the role of head of London operations at Knight Capital Europe.

Prior to her role at Knight Capital, Cates spent eight years at Dresdner Kleinwort, most recently holding the position of global head of client and cross products services.

Lombard Risk Management has appointed **Richard Ferrari** as managing director in the Americas and Cliff van Tonder as director of global alliances.

Ferrari will be based in New York to manage the ongoing expansion of Lombard Risk in North America. He previously held the role of vice president of business development at Orchestrade Financial Systems.

In the newly created role of director of global alliances, van Tonder will forge and manage strategic global partnerships. **SLT**

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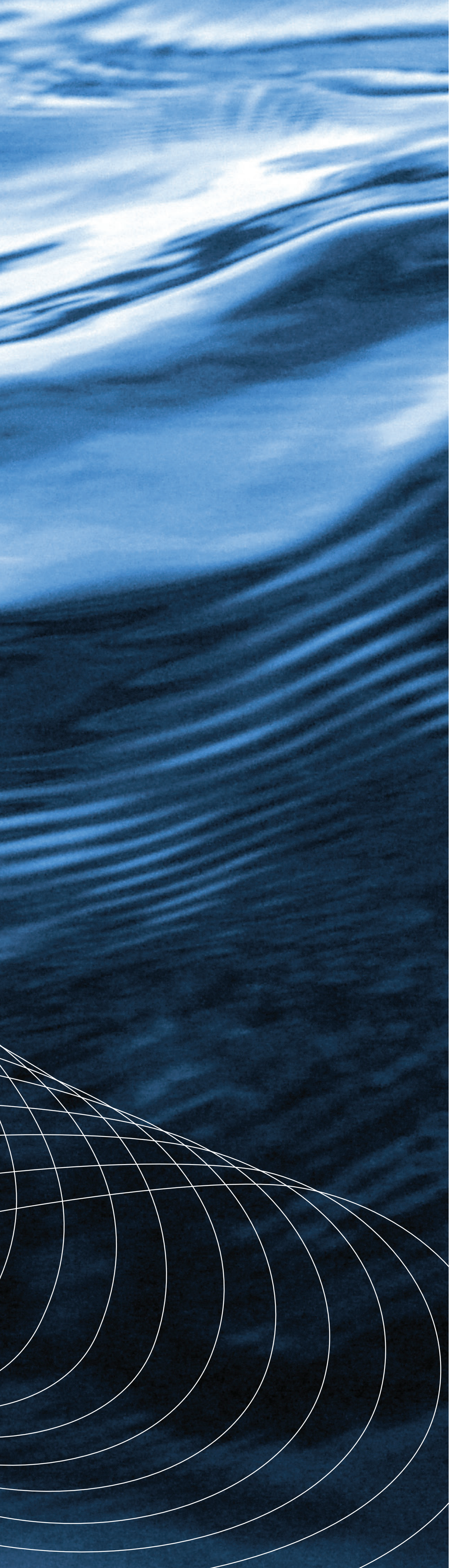

60 second resumé

Tej Dhindsa

Meet Tej Dhindsa, a former recruitment consultant who thinks that the industry needs a more dynamic approach to aid clients in the business

Tell us a little about yourself?

After graduating in 2000 from the University of Kingston, I joined the city working for UBS Asset Management as a fund manager assistant, and in 2005, I joined Northern Trust as a unit trust analyst covering Latin America. In 2007, using my links in asset management and investment banking, I joined Ingram Mayet, a specialist commodity recruiter, to start a front-office recruitment desk, spanning equity finance, FX, and fixed income sales and trading globally.

What industry qualifications or relevant certification do you hold?

I have a BA (Honours) in Financial Economics from university. I spent seven years in investment banking working for some of the largest investment banks and asset managers, including Credit Suisse, UBS and Northern Trust. I felt that having a working knowledge of systems such as EquiLend, a structural understanding of the stock lending industry, and great global relationships, qualified me to service this industry intrinsically.

Having held relationship managing and client services positions, I was prepared for the personal relationship building part of our business that is recruitment. As people buy into people, it is crucial as a recruiter that you are passionate about your field and specialism, as this will be conveyed to your client.

What was your last position in the industry and what did you enjoy most about it?

I was head of sales and trading at HB Ingram Mayet, focusing on equity finance and securities lending globally. I enjoyed learning about the effect of securities lending in the hedge fund industry and also how the regulations are affecting global custodians and investment banks alike.

What area are you looking to get back into?

I'm focusing on capital introduction and hedge fund capital raising in the equity finance and securities lending industries. The relationships I have built over the years across trading and sales have indicated that there is a gap in the market for an entity to raise capital for strategies with a track record and credible asset managers at the helm. This is an area I will be focusing on a global scale.

Headhunting and recruitment may play a part in the future, as when AUM have been deployed, a secondary service I can offer is to build the team to make the returns to the given investor/seeder.

What do you think you could bring to a future role?

I feel that recruitment has given me a great insight into relationship management and the importance of hiring the right person for a business. I feel now that the emerging/frontier markets are expanding and are crucial to the stabilisation of the European markets, both from a financial and recruitment perspective.

What do you feel the industry needs most?

I feel the recruitment industry needs a more dynamic approach, where as a recruiter you are more consultative and assisting not only in the human capital of a business but also assisting in capital and AUM raising. **SLT**

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