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SLTINBRIEF

Markit rolls out triparty repo data

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Markit Securities Finance is seeking to capitalise on the $10 trillion repo market, with the expansion of its content and analytical services to include US dollar triparty repo transactions.

The firm will use triparty US dollar repo data and position updates from BNY Mellon, which has approximately 80 percent of the US triparty market. Adding to this data with original analytics, Markit hopes to aid transparency and price discovery for clients including banks, insurance companies, fund managers and corporations.

The data will include a two-year history and represents outstanding positions in excess of $1 trillion, marking a significant increase in the firm's original stock loan data set.

The aggregated repo data provides enhanced visibility into the key drivers of repo pricing at market, sector and security levels. It aims to provide repo market participants with greater clarity into transaction maturities, haircuts, collateral type and collateral quality.

"The data we are receiving is at security level, but we can then aggregate that by collateral class level as well," said David Carruthers, managing director at Markit Securities Finance.

"We could indicate the typical trade rate for corporate bonds, or typical type of haircut for government bonds—you can filter the data by any of these factors. It even includes equities, and is a rich data set that tells you how much money you could make if you were willing to accept a certain type of collateral, and how much you would have to pay if you were pledging that type of collateral and borrowing cash by transaction term."

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Survey reveals European repo market decline

The size of the European repo market declined 0.9 percent between June and December 2012, according to the European Repo Council of the International Capital Market Association's (ICMA's) bi-annual survey.

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Itaú BBA picks Broadridge to support prime

Itaú BBA has selected Broadridge's technology and business process outsourcing solution (BPO) to support its USD-based securities lending and repo business, Itaú BBA USA Securities.

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Markit rolls out triparty repo data

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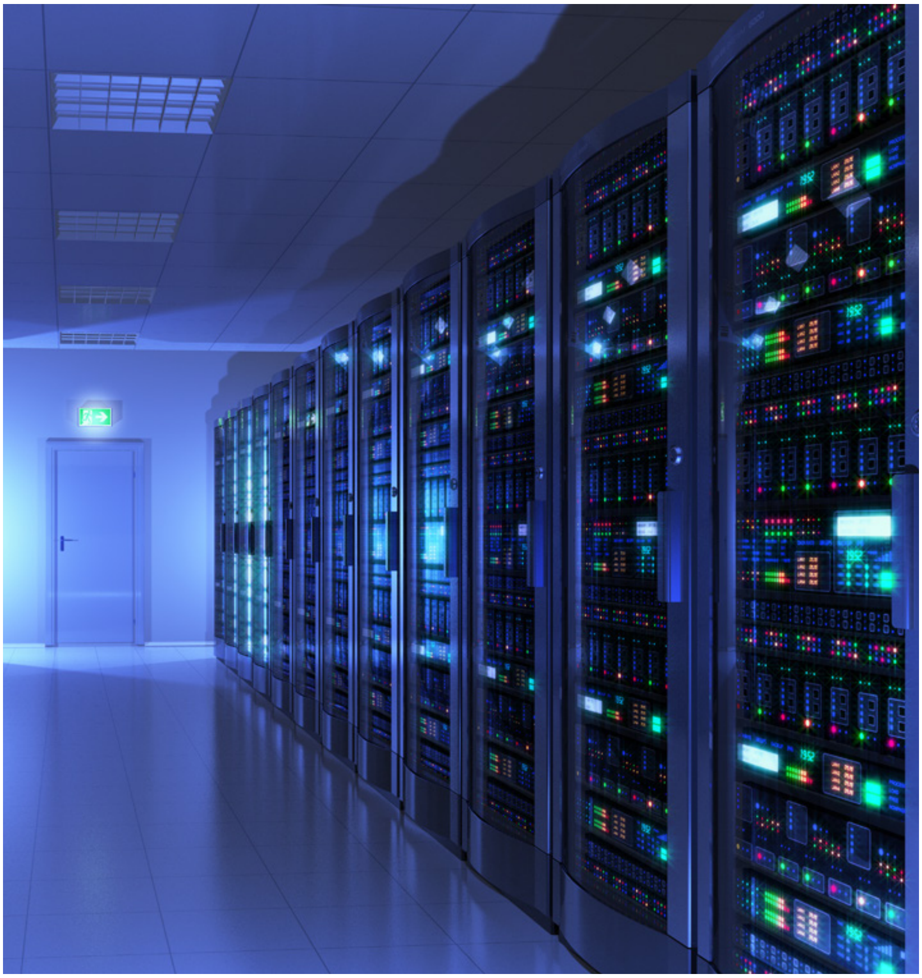
As for the reasoning behind the new venture, Carruthers indicated that the US Federal Reserve's infrastructure reform, the Dodd-Frank Act's collateral requirements for the central clearing of OTC derivatives and the LIBOR scandal all played their component parts in deciding the launch.

"The Federal Reserve wanted to look at a range of things. After the collapse of Lehman Brothers, they would like repo market participants to embrace longer-term trades, to diversify the range of collateral they accept and counterparties they deal with."

"In addition, the Dodd-Frank rules and other regulations across the globe will require OTC derivatives to be cleared through central counterparties. As a result, they now have to post initial margin, which they didn't have to post before. The direct consequence of that is the collateral shortage, and we expect a lot of people will want our information to enhance their collateral optimisation process and for benchmarking collateral swaps."

The firm is rolling out beta trials to major clients for the next month, after which the data will be available through a web browser with enhanced analytics. Carruthers added that after the trial, this data will be made available to the broader market including corporate treasurers, collateral managers, money market managers, risk managers and commercial banks.



Pierre Khemdoudi, previously of BNP Paribas, and Steve Baker of Calypso Technology have been recruited to Markit as product managers for this and other planned launches.

Survey reveals European repo market decline

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The survey, which measured the amount of repo business outstanding on 12 December 2012, set the baseline figure for market size at €5.611 billion. This represented a 9.5 percent reduction of repo business since the December 2011 survey.

The European Repo Council's survey is based on returns received from 71 financial institutions in Europe, and is a snapshot of the volume of repo trades outstanding on a single day in December 2012.

An analysis of a constant sample of survey respondents, using only the figures for the banks that participated in the last three surveys, revealed a decline in market size of 6.6 percent since June 2012 and an 11.9 percent year-on-year contraction.

"Continued weakness in the market is thought to reflect the effect of the ECB's (European Central Bank's) Long Term Refinancing Operations (LTRO) liquidity, which has meant that banks have been able to decrease their reliance on funding from repo operations in the market. However, the size of the market remains well above the trough recorded in the December 2008 survey (€4.633 billion)," said a statement from the council.

Godfried De Vidts, chairman of ICMA's European Repo Council, said: "The survey results demonstrate the continued existence of a robust European repo market; however the future of this market is in jeopardy. The European Commission's latest proposal for Financial Transactions Tax (FTT) comes at a time when the Basel Committee has guided interbank lending transactions away from an unsecured to a secured basis and when wholesale market participants, together with the central bank community, have moved to the repo market because it is the safest way of distributing liquidity throughout the European banking system."

"The FTT proposals to tax repo transactions put the economic viability of repo, including triparty, transactions at significant risk, which will lead to less liquidity provision to the real economy."

In February, the European Commission set out the details of the FTT under enhanced cooperation.

The 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.

De Vidts added: "The FTT proposals also put at risk the implementation of EMIR (European Market Infrastructure Regulation), which requires the use of collateral for centralised and bilateral clearing."

"As ESMA (European Securities and Markets Authority) highlighted upon release of its first EU securities markets risk report on 14 February, the collapse of unsecured markets during the financial crisis, as well as regulatory initiatives, have led market participants to rely increasingly on collateral as a means of mitigating counterparty risk, stimulating the demand for collateral. Additional demand for collateral will exceed the additional supply of collateral in 2013-2014, making collateral comparatively scarcer."

"If the FTT on repo transactions (which facilitate collateral being available where it is needed) goes ahead, the regulatory collateral crunch will actually materialise. Is that what we really want to happen?"

Itaú BBA picks Broadridge to support prime

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Itaú BBA will use Broadridge's BPO solution to create a single platform to manage its US-based prime services operations, technology and hosting needs.

The agreement will also facilitate Itaú BBA's expansion into the USD-based securities financing and repo businesses.

Gregory Wagner, managing director and global head of prime services at Itaú BBA, said: "[We are] confident Broadridge is the right strategic partner that will enable us to most effectively grow the business-accelerating time to market and benefiting from their deep securities operations knowledge."

Joseph Barra, president of international securities processing and global outsourcing solutions at Broadridge, added: "[Our] BPO model will allow Itaú BBA to minimise its fixed-cost investment in technology and operational infrastructure while also creating new revenue-generating opportunities for the firm as it ramps up broker-dealer capabilities in the US marketplace."

"Itaú BBA is a highly-respected institution and top name in the Latin American as well as global banking communities, and Broadridge looks forward to continuing to build upon this new relationship."

Earlier this month, Itaú BBA recruited Kristen Dove and Ross Levin for its prime services division.

Dove has been named head of prime services business architecture and Levin as vice president of prime services sales, trading and marketing.

Collateral Highway adds agency cash management platform

Newedge UK and EuroMTS will promote Euroclear's Collateral Highway as a means of managing collateral for triparty repo transactions that are conducted on the firms' agency cash management (ACM) platform in Europe after signing a memorandum of understanding.

The Newedge/MTS ACM platform, which was launched in January 2012, is the only auction-driven system for triparty repo transactions between cash and collateral providers that is geared towards the institutional repo market.

Cash providers are generally hedge funds, pension funds, corporates, central banks, family offices, investment managers and bank treasurers, while collateral providers are usually investment banks, commercial banks and asset managers.

It will be the first triparty repo auction platform to use the Collateral Highway.

The MoU between Newedge, MTS and Euroclear will also see them jointly marketing the Collateral Highway and educating existing and potential non-bank clients about its advantages.

In a statement, Tim Howell, CEO of Euroclear, said: "The agreement with Newedge and MTS will go very far in ensuring best execution of ACM triparty repo deals on a straight-through basis. Given the caution with which market participants are managing risk in the current environment, the Collateral Highway helps cash givers and receivers mitigate counterparty risk by easily collateralising credit exposures with diversified pools of securities on a segregated basis."

"We are delighted to work closely with Newedge and MTS as a post-trade provider for the ACM market. We are well equipped to work with even more counterparties, including non-bank institutions, to bring additional and welcome liquidity to the European repo markets."

Jack Jeffery, CEO of MTS, added: "The ACM platform was launched in response to demand from customers for secured money market investments and the transparency offered by electronic trading. We recognise the sophistication and appeal of Euroclear's Collateral Highway and the advantages it will bring to our present and future participants."

IMS Group and HedgeOp Compliance branch out in Asia

IMS Group and HedgeOp Compliance will open its first office in Hong Kong to support local and international firms in their efforts to manage global regulation.

The new office will enable hedge funds, wealth managers and other alternative investment managers engaged in the Asian markets to take advantage of focused localised support. It will offer services such as ongoing compliance, consulting across regulatory jurisdictions, web-based compliance and personal trading software.

Jonathan Currie, who was previously the head of IMS Group's regulatory transactions team in London, will lead the new office.

In a statement, Currie said: "Establishing a first local presence in Asia enables our group to better serve our clients, allowing them to maximise opportunities while substantially minimising the risk of financial and reputational loss associated through a regulatory breach."

The new office follows the merger of HedgeOp and IMS Group in January 2012. Bill Mulligan, CEO of HedgeOp Compliance, said: "The establishment of a Hong Kong office became the next logical step in our plans for expansion and continued growth. Our group has delivered sustained high growth and together, we are delivering a trusted and respected programme of regulatory services and training designed to support our clients through a continuing wave of unprecedented regulatory change and ever stricter enforcement."

Torstone Technology in a blaze for Financial Transaction Tax

Torstone Technology, providers of securities and derivatives processing software to the global financial markets, has readied its Inferno post-trade processing solution for the Financial Transaction Tax (FTT), and is rolling out the upgrade to existing clients.

Eleven European countries have decided to impose the FTT—subject to EU approval—across a range of equities and derivatives, with France and Italy being first to introduce their own version of the tax.

Brian Collings, chief executive of Torstone Technology, said: "FTT is a core systems upgrade as far as we are concerned which means that it will be automatically provided to clients. The inherent design, support for a broad range of asset classes within one system and the ease of centralising trade and reference data from disparate front office systems, has made it relatively straightforward for us to implement the changes in Inferno and provide the data required for FTT regulatory reporting."

The creators of Inferno stressed that the taxation logic can be adapted "on the fly" as regulations are clarified and the needs of other countries are more clearly defined.

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

The system's online and historic transaction and reference data aims to simplify backdated tax calculations and back reporting which the new rules may demand. It also calculates net trading positions across multiple source systems throughout the organisation.

BNP Paribas signs up to the Collateral Highway

BNP Paribas is the latest firm to go live on Euroclear Bank's Collateral Highway.

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

The firms have been working since last year to develop their triparty collateral management arrangements.

Under the arrangement, securities that are held in local custody with BNP Paribas may be used as collateral in triparty collateral management deals that are managed by Euroclear Bank.

In a statement, Frederic Hannequart, chairman of Euroclear Bank, said: "This partnership is particularly timely and important as demand for collateral continues to increase. By joining forces, we alleviate one of the challenges of collateral fragmentation by making the transfer of collateral to the right place at the right time as seamless and operationally simple as possible. As the first agent bank live on our Collateral Highway, we applaud BNP Paribas' foresight and drive to offer their clients a flexible and innovative option to ease collateral flows. We are delighted to be partnering with them."

Alain Pochet, head of clearing, settlement and custody at BNP Paribas Securities Services, added: "This is a major achievement for both parties, and comes at a very appropriate timing for our clients who face significant regulatory changes. From today, they will be able to flawlessly finance their available securities, which will help them address the ever-increasing demand for collateral."

"The first trade completed through this partnership was executed in the Spanish market. It allowed our mutual client to use available securities held with BNP Paribas Securities Madrid as collateral for the triparty transaction administered by Euroclear Bank. This resulted in increased purchasing power for the client. The transaction was easy and successful, and we are confident that this collaboration will continue to bear fruit in future—in fact, this same service is already available in the Italian market as well."

BNP Paribas Securities Services and Euroclear Bank are working to extend the scope of their arrangement to the main European and Asian markets.

Euroclear Bank's Collateral Highway had used €700 billion of securities as collateral each day by the year-end of 2012, according to its first recorded results. Citi and CME Clearing Europe are among the firms to have signed up to the Collateral Highway since its inception in July 2012.

BNY Mellon receives key patents for electronic commodity trading

BNY Mellon has been given three patents for key processes that enable electronic trading of commodities through exchange-traded funds (ETFs).

Commodities covered by the patents include gold, silver and other precious metals as well as base and industrial materials.

Joseph Keenan, head of global ETF services for BNY Mellon, explained that the patents recognise that the firm has created an innovative process that transforms cumbersome commodities into easily traded securities.

He added: "This formal affirmation of our intellectual property cements our ability to act as a catalyst to drive the continuous innovation that defines the ETF industry."

Jonathan Spirgel, co-inventor of the processes and executive vice president of BNY Mellon, said: "It's gratifying to see the spectacular growth of commodity ETF assets since we launched this unique process in 2003."

"It demonstrates the importance of these patents and the innovative impact BNY Mellon has on the marketplace."

Omgeo and Enfusion join forces

Omgeo has partnered with portfolio management solutions provider Enfusion to offer clients a new solution that increases middle-office efficiencies for hedge funds across asset classes.

The solution connects Enfusion's platform Integráta with Omgeo Central Trade Manager (CTM)—a strategic platform for the central matching of domestic and cross-border exchange-traded derivatives (ETDs), contracts for difference, equities and fixed income transactions.

The joint offering automates ETD post-trade processes for the global hedge fund industry for the global hedge fund industry, enabling clients to access the central matching benefits of Omgeo CTM directly from their Integráta portfolio management interface.

Users will be able to standardise post-trade workflows and enhance straight through processing of ETD trades, which in turn will increase accuracy and efficiency while reducing costs and operational risks.

Tarek Hammond, managing partner at Enfusion, said: "Our clients are moving toward more integrated workflows in post-trade op-

erations, and many continue to express an interest in this new solution. Partnering with Omgeo is a logical step as it allows us to assist our clients to increase efficiencies in the processing of listed derivatives and reduce operational risks."

Ted Leveroni, executive director of derivative strategy and external relations at Omgeo, added: "As hedge funds continue to boost their trading strategies with listed derivatives, they need to ensure their middle- and back-office processes keep pace with their front-office activities. This new joint offering highlights Omgeo's aim to facilitate efficiency across the evolving global markets, increasing the use of best practice automation and lowering risk for buy- and sell-side firms alike."

EquiLend partners with Finadium and FinTuition

EquiLend University, the global training programme of EquiLend, will be run in partnership with Finadium in North America and FinTuition in EMEA and Asia.

Finadium is a research and consulting firm focused on securities finance and asset servicing. The firm publishes an independent research report series highlighting securities lending, repo and collateral management for EquiLend University.

FinTuition is an international training company based in London that specialises in securities finance business including, securities lending, equity finance, hedge funds, prime brokerage, repo and collateral management.

Brian Lamb, CEO of EquiLend, said: "As our use base continues to grow, it is necessary to expand our global training programme for our platform by partnering with Finadium and FinTuition."

"The partnerships will allow us to deliver an even more robust training programme that will include an integral certification component. This qualification will provide an industry standard of measuring the caliber of one's EquiLend expertise."

Josh Galper, managing principal of Finadium, commented: "EquiLend University is an opportunity for EquiLend, BondLend and DataLend users to solidify their expertise and gain credentials that are recognised in the securities finance business."

Roy Zimmerhansl, owner of FinTuition, said: "It has been a pleasure to work with EquiLend in developing this course, and we have been very pleased with the support we have had in this project from the EquiLend team and many of their major clients."

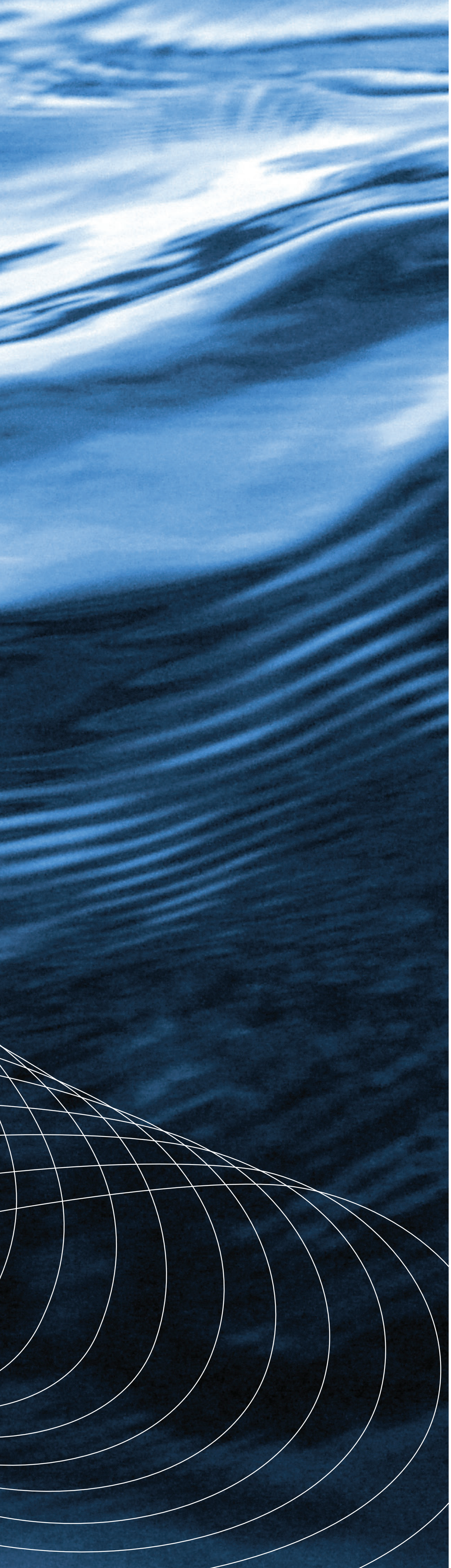
GSF down but AUA up for Clearstream

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

In February 2013, assets under custody held on behalf of customers reached €11.4 trillion, a year-on-year increase of four percent.

For GSF services, the monthly average outstanding reached €563.3 billion. The combined services, which include triparty repo, securities lending and collateral management, collectively experienced a drop of six percent over February 2012.

The investment funds services saw an 18 percent increase over February 2012, with 0.62 million transactions processed.



Daily volume increases but repo drops at Eurex

Eurex Group's February 2013 figures showed an increase in daily volume contracts but a decline in repo.

The international derivatives markets of Eurex Group recorded an average daily volume of 9 million contracts, up 0.3 million year-on-year.

Of those, 6.3 million were Eurex Exchange contracts, down 0.3 million from this time last year, and 2.7 million contracts were traded at the US-based international Securities Exchange, which was the same figure that was recorded in 2012.

Eurex repo, which operates Swiss franc, Euro repo and GC Pooling markets, recorded €213 billion average outstanding volume in all repo markets, a decline of €23.4 billion year-on-year.

The equity derivatives (equity options and single stock futures) segment at Eurex Exchange reached 21.8 million contracts, down 8.3 million contracts year-on-year. Equity options totalled 16.6 million contracts and single stock futures equalled 5.2 million contracts.

OneChicago sees volume growth

OneChicago witnessed its second best February in its history as securities futures volume for last month rose 219 percent year-on-year.

Other February highlights included 730,939 exchange futures for physicals (EFPs) and blocks traded. February's EFPs and blocks activity represented $3 billion in notional value.

OneChicago's equity finance tool—OCX.NoDivRisk—accounted for 55 percent of February 2013 month-end open interest.

Open interest stood at 703,831 contracts on the equity finance exchange at the end of February 2013, up 79 percent year-on-year.

OCC experiences securities lending rise but cleared contract decline

OCC's February figures showed an increase in securities lending central counterparty (CCP) activities but a decline in cleared contract volume.

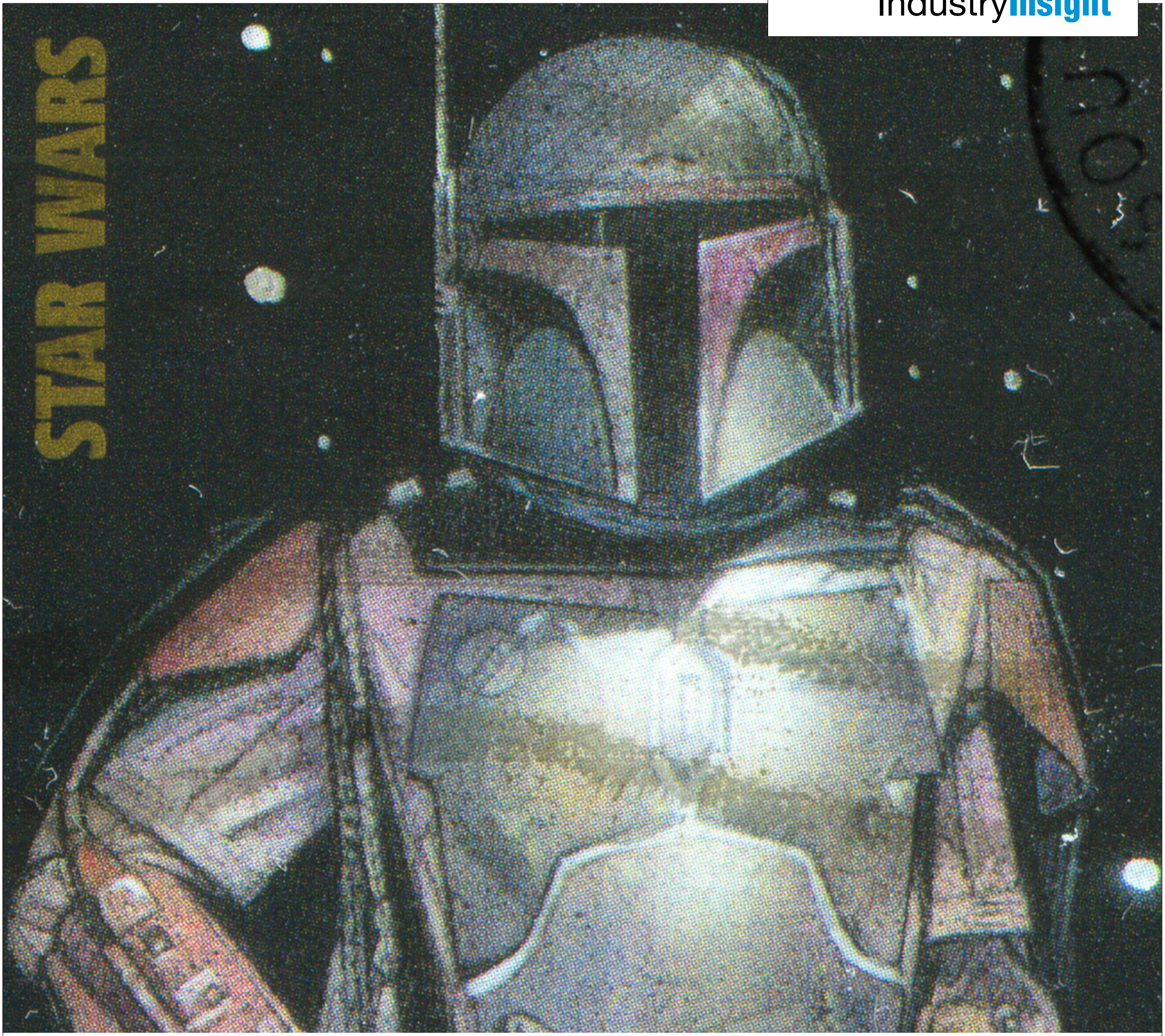
Total cleared contract volume in February reached 325,237,351 contracts, an eight percent decrease year-on-year. OCC's year-to-date cleared contract volume is up 0.19 percent from last year with 690,265,229 contracts.

Securities lending CCP activities saw a 31 percent increase in new loans year-on-year with 90,316 transactions last month. Year-to-date stock loan activity is up 44 percent with 190,890 new loan transactions this year.

The average daily loan value at OCC in February was $51,695,200,066.

Cleared futures contracts in February reached 4,294,039, a 92 percent increase year-on-year. Year-to-date cleared futures volume is up 103 percent with 8,250,296 contracts in 2013.

Exchange-listed options trading volume reached 320,943,312 contracts in February, an eight percent decrease from February 2012. Average daily options trading volume for the month was 16,891,753 contracts, 3 percent lower than February 2012. Year-to-date options trading volume is down 0.42 percent from 2012 with 682,014,933 contracts.



Buy-side bounty in the collateral chase

Olivier de Schaetzen of Euroclear looks at how demand for high-quality collateral may outstrip supply

Capital market professionals are finding themselves awash with initiatives to take the sting out of known risks. Proposed regulations such Basel III, the Volcker rule (a part of the US Dodd-Frank Act), the Liikanen report, the European Market Infrastructure Regulation (EMIR) and the Central Securities Depository Regulation (CSDR) all endorse stricter risk management requirements, for example, in terms of capital ratios or by shifting OTC flows onto regulated exchanges and central counterparties (CCPs).

Efforts to tackle risk are understandable and reducing or eliminating them makes perfect economic sense. However, the challenge is that the mitigation of risk is powered by exactly the same raw material: high-grade securities collateral. The combined effect of all the new regulatory changes on market dynamics may hasten collateral scarcity. While each legislative step on its own seems manageable, together they pose a potential quagmire for capital market firms.

During earlier periods of economic turbulence, collateral was easy to get hold of as demand from the banks and market infrastructures was relatively low. If anything, there was an excess of collateral as regulatory requirements were less arduous and there were fewer liquidity challenges.

But the financial environment of today cannot be compared to the recent past. Trust between financial institutions remains fragile with some banks fighting to stay afloat, and unsecured lending and borrowing have been consigned to history. The sum of all this is that the market faces a potential problem: demand for high-grade securities collateral may exceed supply.

Optimise to survive

How ready are buy-side firms to cope with the post-regulatory challenges and the ramifications on collateral? Industry experts would argue that overall readiness is low. Mitigating risks through the efficient use of securities collateral is a noble principle, yet if handled incorrectly, it could come at tremendous cost.

Changes to the derivatives market will trigger a huge IT spend in the global capital markets, according to a recent report from SimCorp. Buy-side firms are expected to spend roughly €5 billion on IT developments globally. Most of this will be focused on complying with the Dodd-Frank Act in the US and EMIR in Europe for central clearing of derivative contracts. This spend focuses on getting firms up to speed with connectivity, pre-settlement requirements such as matching and reconciliation, as well as common message formats and standards. It does not cover the requisite staff or price-data feeds for the management of collateral.

Furthermore, mandatory CCP clearing puts buy-side firms in a potentially inexperienced position; they are not familiar with posting margin with securities for OTC trades, which may force them to re-think their investment strategies. To measure the effectiveness of their brokers and traders, buy-side firms will need to employ transaction cost analysis tools, which will help them to understand the true cost of executing a transaction. Managing costs will be harder than ever. For example, the cost to meet margin obligations for a given trade may differ based on the chosen clearinghouse and/or clearing broker.

Selecting the best-in-breed third-party provider of collateral management services will be vital for institutional investors. Yes, many banks already have their own collateral optimisation tools. However, these tend to work on a very basic level, often covering only local securities inventories. Do these firms have multiple and efficient ways of getting required margin to those CCPs that will in future process OTC derivatives trades? Some industry estimates predict that certain CCPs will be invoking margin calls every 15 minutes out of a 21-hour business day. It is unlikely that many firms posting CCP margins have the in-house expertise or the infrastructure to mobilise the right securities to the right place at the right time. Here, help is needed to mobilise useable securities from enterprise-wide securities pools fragmented around the world.

Collateral optimisation needs to work across products, markets and depositories. This is the only way that a financial institution with a global presence can efficiently allocate collateral. And the only way this can truly work is if the market infrastructures, including intermediaries, interoperate to the maximum extent possible. Interoperability is a must between collateral management service providers, and also between collateral takers, but especially between central securities depositories and agent banks where the assets are actually housed.

Relaxing times

One future change is essential: acceptance criteria for securities that are used as collateral will need to be relaxed. Firms that previously did not need to post collateral, now or will soon find themselves under regulatory obligation to do so. For example, buy-side firms tend not to idly stockpile government bonds or cash. So, without some form of change in how their portfolios are managed, their business models are at risk.

Measures are currently being taken to fix many of the points raised above. In recognition of the mounting pressure on financial firms, market infrastructures such as Euroclear Bank are customising their collateral management products to meet the evolving needs of the market. Adept buy-side firms use infrastructure providers to ease access to the fragmented pools of high-grade collateral that are held in various silos worldwide. Euroclear's global Collateral Highway was conceived to precisely relieve financial institutions of the burdens that are associated with sourcing, upgrading and mobilising collateral across geographic locations and time zones. Securities are sourced from multiple entry points, such as partner CSDs, agent banks and the group's own CSDs, and then routed via the Collateral Highway to the right collateral taker at the right time, whether it is a central bank, CCP, or repo or derivatives trade counterparty.

However, there are complications. First, many sovereign debt issues are being downgraded, hence the securities held by banks are also losing their quality status. Second, the move to a centrally cleared OTC derivatives market is driving collateral demand upwards, meaning that banks with previously adequate collateral reserves may no longer be equipped with enough of the right collateral to cover their daily activities.

Collateral upgrade trades enable banks and other financial institutions that do not have the appropriate type of collateral in their portfolios to borrow high-grade securities from buy-side institutions that actually have stockpiles of such assets, using their lower grade securities as collateral. Lower grade sovereign debt, corporate bonds and equities are increasingly used to guarantee the loan. By doing so, these buy-side institutions are providing the market with crucial high-grade collateral, thereby improving overall market liquidity.

Competitive forces are the hallmark of healthy and vibrant capital markets. However, unbridled competition amongst capital market firms should not add to what is already a shaky global economic environment. Rather, firms should seek a balance of cooperation and competition, particularly if we are to overcome the impending collateral crunch. The collaboration already witnessed between previously fierce competitors demonstrates that the potential problem of collateral scarcity has been recognised by many as a dark cloud on the horizon that needs to be lifted. If and when regulators on both sides of the Atlantic reach agreement on a consistent and harmonised approach, the buy-side will need to meet the challenges ahead. **SLT**

Mandatory CCP clearing puts buy-side firms in a potentially inexperienced position; they are not familiar with posting margin with securities for OTC trades, which may force them to re-think their investment strategies

Olivier de Schaetzen
Director
Euroclear

Darkest before dawn

Hong Kong was the ideal setting for talks on the current state of securities finance at the 2013 PASLA/RMA conference

GEORGINA LAVERS REPORTS

This year's Pan Asia Securities Lending Association (PASLA)/Risk Management Association Conference on Asian Securities Lending kicked off with an introduction to the business, courtesy of Dominick Falco of BNY Mellon and Robert Nichols of J.P. Morgan.

The two swapped anecdotes as they took beginners, and those in need of a refresher, through the issues of proxy voting rights, the rare event of recalling, and legal agreements between counterparties. It was noted that lending has grown from a vanilla function that is solely intended to grease the wheels of settlement—staffed by "one guy who went on holiday a couple of times a year"—into something more elaborate. The basic statistics were given, with Taiwan requiring 140 percent collateral surprising some newbies in the audience.

One pertinent question from attendees was the issue of the Italian transaction tax on Asian countries, with it being generally agreed that the short side of the business would indeed be affected, considering stocks such as Prada and their existence in the Hong Kong market.

Current issues were also addressed in the next session: a market overview of securities lending in Asia, whereby attendees were informed of key issues to consider before entering an emerging market. These included settlement process, tax rules, manufactured dividends and clients' sales.

In India, it was explained that for now, there are restrictions on insurance companies and lending, but hope was expressed that this would change further on in the year. A healthy discussion on central counterparties (CCP) followed, with various advantages, including improved liquidity, an option to anonymously trade and reduced systemic risk, being offset by challenges such as additional costs to lending agents. Minimal capital requirements may put off some smaller parties, and it was agreed that various other regulations were promoting a CCP concept without fully or sufficiently defining platforms.

Finally, one participant illustrated the oft-thought about but unspoken challenge of CCPs: the emotional factor of lenders having to give up all of their tools for managing risk when they hand management over to a CCP. While it may be a relief to some, it was not doubted that this would come as a blow for those who prefer to keep full oversight and control in-house.

The second day started with a welcome and updates from the PASLA and RMA chairmen, with Martin Corrall of Citi and Jason Strofs of the RMA expressing their respective committees' keen desires to keep on getting in-front of regulators and pushing through change.

Stating that US Dodd-Frank Act Rule 165(e) was of most concern right now, regulation was also on the minds of the next panel as they discussed the future of securities finance in the Asia-Pacific region. A State Street representative from Hong Kong was adamant that risk profiling is not an issue any more; it's a given, with another lending head in Pittsburgh stating that Rule 165(e) only has an effect if one provides indemnification.

A New York representative from Citi was next to the floor, drawing on his experience working for the International Monetary Fund (IMF) in a speech that gave attendees valuable insight into the minds of regulators.

He swept through structural reform and sovereign debt from around the world in a break-neck half hour, discussing contagion from the intensified euro sovereign/bank crisis, and his proposals for what can be done to improve growth problems. He suggested implementing certain kinds of structural reforms, including product market reforms, where pricing is looser and dictated by the market—and as for how long it will take, a prediction of five to 10 years was realistic, if not a little gloomy.

As for China, he was confident that it is moving away from its export model, which depends on low-wage, low cost, due to social unrest, and in doing so, is following the path of Taiwan and South Korea. Due to this, the country's growth could slow down over the next five to 10 years as per capita GDP starts to rise.

The speaker also stated that shadow banking is an issue in China, creating vulnerabilities that a lack of transparency poses. Wealth management should collectively worry as a sector, as the Citi speaker indicated that regulators would be on their tails when it came to maturity mismatches with some of their products.

Regulations came under the microscope again on the final day of the conference, but this time it was the turn of Basel III, liquidity coverage ratios (LCRs) and the financial transaction tax to face the displeasure—or compliments—of panellists.

Patrick Avitabile of Citi, Paget Dare Bryan of Clifford Chance, Gregory Lyons of Debevoise & Plimpton, Michael McAuley of BNY Mellon and Florence Roegiers of BNP Paribas presented attendees with the slightly daunting bumper pack of regulations in what was a fast-paced discussion.

Dodd-Frank will take a while to have an effect, with it being noted that after almost three years it is still in process, and likely to take five to seven more years.

"Regulators are creating a conflict between supply and demand, and they have not proved very sympathetic," said one panel participant. "They've given us two choices: either get rid of indemnification; or raise more capital."

Current G-SIB Buckets—the Financial Stability Board's list of global systematically important banks and the levels of capital charges that they will pay—are not yet finalised, but at the moment, Citi, Deutsche Bank, HSBC and J.P. Morgan are holding the dubious honour of being in the highest bucket of 2.5 to 4 percent. Interestingly, many Asian banks, despite their vast size, are not being caught up in this due to their positions as domestic banks. A panel participant noted that regulators are essentially telling banks to avoid making any acquisitions during this time.

After much pushback, Basel III regulations concerning LCRs were relaxed on 7 January, widening the range of "high quality liquid assets" to include unencumbered corporate bonds, RMBs, and equities.

The US Federal Reserve Foreign Banking Organisations Supervision's proposed prudential rules have a compliance date of 2015, and have caused a lot of consternation, noted panellists. The question of whether Dodd-Frank, which talked only of "large banking organisations", is supposed to apply to non-US banks was answered by regulators with a curt 'yes', with foreign banks asking the Federal Reserve to give them some relief, pleading local capital rules as a good reason to not want any more.

A $50 billion institution with any activity in the US will be subject to these rules, with panellists predicting that firms such as UBS and Credit Suisse will be hit hard. One noted that UBS has already started laying staff off in New York, and there were murmurings that firms may reconsider their US activities.

As for the financial transaction tax, the rules have caused some confusion, with panellists admitting that they are still not sure about what the guidelines would be around collateral. One participant made the argument that collateral is returned and helps to lower risk—and shouldn't therefore be taxed—but then glumly predicted that if governments see another revenue stream, they will take it.

A barrage of rules, regulations and guidance from every angle is forming a new paradigm, with all panellists agreeing that regulators are taking a new and severe stance. There are similarities between regulatory responses across regions and macro-economic factors are influencing the outcomes of different rules.

Though the US and Europe have some challenges to deal with, they can both be comforted by the fact that their markets are still relatively strong. And judging by the enthusiastic presence of participants from emerging markets such as Taiwan, Indonesia, and India, it looks as though—in the PASLA halls at least—the sector is confident that it will continue to weather the storm and continue to lend and borrow. **SLT**

Healthy tension between buy and sell sides

Markit Securities Finance hosted more than 150 people representing the great and the good of the European securities financing market in London for its 16th forum

GEORGINA LAVERS REPORTS

The Markit Securities Finance Forum kicked off a debate on the state of the lender and borrower relationship.

Last year, it was agreed that it was the regulators that were really driving the agenda, with one head of repo noting that the industry is at a massive inflection point. From a structural perspective, each person along the securities lending chain needs to be able to make money if the industry is to prosper.

This year, a panellist stated that a healthy tension remains between borrowers and lenders as they to try seek value for clients.

Despite the major prime brokers having diversified their businesses with functions such as synthetics, delta one and swaps driving alternative routes to market, the overall relationship with lenders had not been adversely affected, according to a head of prime finance and delta one.

However, the securities lending value chain came in for some criticism from a different delta one head for being rigid, not allowing niche players and failing to adapt to changes in regulation.

On the question of a trade repository for the industry, a panel agreed that it was inevitable and that it will probably take about five years. On that basis, there is a great opportunity for the industry to come together voluntarily, or regulators will impose their version. However, one panellist warned that a trade repository needs to focus on positions and exposure rather than be distracted by individual transactions.

The old adage 'collateral is king' needs updating, with cash now usurped by collateral. A Markit survey of its consulting clients revealed a split with 40 percent of beneficial owners questioned being less flexible towards collateral upgrade trading whereas 40 percent are now more flexible.

One panellist that explained the decision to lend is not necessarily within the lender's control as it depends on where the beneficial owner is based as well as the appropriate regulatory regime, which creates challenges for borrowers.

Furthermore, some large lenders are more concerned with overall risk-adjusted returns from lending and are less interested in new structures such as collateral transformation.

Despite the widening definition of eligible collateral, no one knows how much will be needed and the numbers that are mooted are still huge. Conference attendees could not agree, with 41 percent voting that it could amount to less than $1 trillion while the same amount thought between $1 trillion and $4 trillion, and the question of how many new central counterparties will crop up to service the industry still remains.

A few panellists thought that securities finance had been solving the collateral question for decades and that regulator concerns stem from new players, such as treasury functions, failing to price collateral correctly and take appropriate risk decisions.

But another panellist countered that some collateral transformation involves buy-side institutions managing their own collateral as European Securities and Markets Authority regulations require different pools of collateral for each type of activity with re-use of collateral not permitted.

A different panellist noted that collateral is becoming its own asset class for the buy side and that they need help getting their arms around the operational challenge.

Yet one panellist took a different tone, contending that the collateral shortfall debate is overhyped and that one of the unintended consequences is that buy-side players that find the whole derivatives market too complex will simply pull back. SLT

A light at the end of the tunnel

What is driving the recent recovery in share prices? David Lewis of SunGard Astec Analytics takes a look

Recovery is something everyone is anxiously looking out for. Markets fluctuate on seemingly every bit of good and indeed bad news. Share prices that are dictated by fundamentals seems to be a thing of the past to some, and as the financial markets settle into the 'new normal', share price stability and normalisation seem to be the stuff of myths. So as several world indices push towards record highs, are we seeing signs of recovery, or a bubble of optimism that will be cruelly burst by the next wave of poor economic news?

The middle of March has seen the S&P 500 index within a hair's breadth of breaking its own record level including several constituents of the index approaching or breaching their own share price records, yet growth remains stubbornly flat in the US market. The UK and the US share another conundrum that is challenging investors and analysts alike—growth is stagnant, yet unemployment continues to fall. In fact, the US jobless rate is lower than at any time since 2008 (four week moving average), suggesting that the labour market continues to improve.

American Express and IBM are among 73 members of the S&P 500 that reached record price levels in the middle of March. At the prior S&P peak in 2007, there were only 60 companies recording all-time high valuations according to research published by Birinyi Associates. Combine these statistics with the assumption that share prices are dictated much more by future expectation than to reward historical performance (beware: your investments may go down in value and you may not get back what you invested) and you would certainly think that good times are around the corner. Does everyone agree? What does the short interest tell us about some of these stocks?

Figure 1 shows the indexed values for shares on loan for both American Express (AXP) and International Business Machines (IBM) and US equities as a whole. Also shown is the index value for the S&P 500 for comparison.

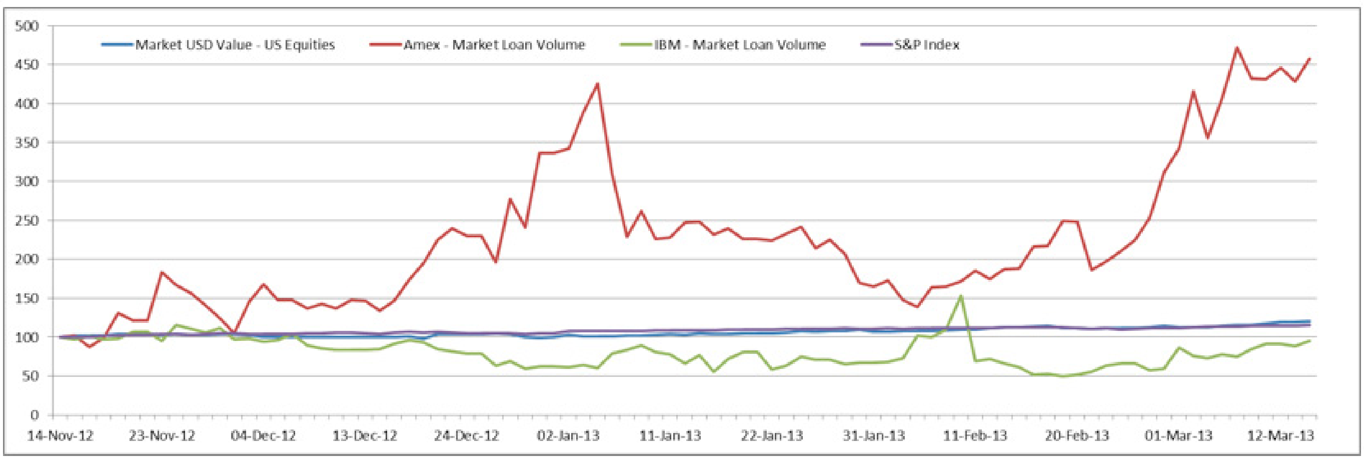
The volume of shares on loan for AXP have risen significantly over the last 120 days (index value of 458 on 14 March), far outstripping the levels for IBM, which have in fact fallen five points over the same period. Prices for these stocks rose 22 percent and 16 percent respectively, both outperforming the S&P 500 over the same period, which turned in a respectable 15 percent gain. Both shares also peaked strongly ahead of their dividend record dates falling away immediately after (APX 4 January and IBM 8 February). Somewhat overshadowed by the rising graph of APX is the rise in shares on loan for the US market overall. These rose by just over 20 percent in the last 20 days, neatly tracking the 15 percent rise in the value of the S&P and suggesting, as an aside, that share prices have continued to rise to near record highs despite a growing short interest base.

Are these short sellers expecting this steadily inflating bubble to burst? Improved corporate earnings (albeit arguably good compared with some pretty difficult prior years), increasing cash reserves/liquidity and ongoing central bank support have all helped fuel this rise in expectations, lifting share prices along the way, but which support will fail first? Certainly in the US, there will be an impact on government spending as sequestration changes bite into the public purse—expectations that this will slow consumer spending and return workers to the unemployment queues risk future economic growth in the US still, for the moment anyway, the world's biggest economy. In the UK, many critics believe that overly aggressive cuts to public spending have stalled the recovery here and threaten a triple dip recession to go alongside the loss of our triple AAA credit rating. Perhaps this is the scenario that short sellers in the US fear will choke off growth there.

Another factor hinted at by some economists is the propensity for short termism in some quarters. Corporate earnings have certainly risen compared with the previous poor years, but they have trailed off in Q4 2012, yet in the same period dividends and share buy backs have risen by 20 percent across the constituents of the S&P 500. If this is truly the cash deployment strategy of choice for these blue chip organisations, who is looking out for and investing in the future? It may well be that the reason behind growth in short interest is that the future expectations driving the share prices are not quite as rosy as everyone else thinks. The light at the end of the tunnel may well be there; let's just hope that it is not just a train coming the other way. **SLT**

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

Figure 1: indexed loan volumes and S&P 500 index prices—SunGard Astec Analytics



Industry appointments

Concept Capital Markets has recruited **Charlie Fisher** as a managing director in its prime brokerage services group.

He joins the firm from Grace Financial Group, where he was a managing director, and will be based in its newly established office in Atlanta.

At Grace Financial Group, Fisher spent eight years developing and growing a prime brokerage services practice as well as building a platform aimed at servicing traditional investment advisers.

He previously worked at Shearson, Neuberger Berman, Bear, Stearns & Co, Jefferies & Co, and Triad Securities.

Robert Moore, CEO at Concept Capital, said: "During our discussions in recent months, we've come to appreciate that Fisher's extensive prime brokerage experience and his vast relationships among hedge fund managers will help us to extend the reach of the Concept Capital brand and service offering, which is rooted in earning our clients' business every day by serving them as a trusted and loyal partner."

Pauline Bieringa has been proposed for appointment to the supervisory board of KAS BANK. She is currently the managing director of public finance with Dutch bank BNG.

The general meeting of shareholders of KAS BANK on 24 April will be asked to approve Bieringa's proposed appointment. She worked for 14 years with ING Bank in various management functions, lastly as managing director of corporate banking at ING BHF Bank in Germany.

Bieringa joined BNG Bank as managing director in 2004 and is responsible for the bank's lending portfolio.

The proposed appointment of Bieringa will fill the vacancy created by the departure of AH Lundqvist, who served on KAS BANK's supervisory board for 12 years. Bieringa has Dutch nationality and holds no KAS BANK shares.

Investment banking, securities and wealth management firm Maxim Group has appointed **Seth Michaels** as managing director of its prime brokerage services division.

Michaels joins Maxim Group from Jones Trading Institutional Services where he was head of advisor services. His appointment is part of a continuing expansion of Maxim Group's prime brokerage services.

Michael Rabinowitz, chairman and CEO of Maxim Group, said: "[Our] full-service offering, strong financial condition and broad markets coverage represent a terrific value proposition for hedge funds, investment advisors and family office clients. We are excited to be advancing our prime brokerage services offering with the addition of Michaels to our team."

RBC Investor and Treasury Services has hired **Andrew Gordon** as head of investor services for Hong Kong and North Asia.

He will be based in Hong Kong and report to David Travers, head of investor services.

Gordon previously held the role of executive vice president and head of alternative and broker-dealer services, Asia Pacific, at BNY Mellon.

A spokesperson at Credit Suisse has confirmed that **Paul Germain** will replace Philip Vasan as head of prime services at the firm.

Germain joined Credit Suisse from Goldman Sachs, where he was a partner, in 2010.

Vasan will move to the firm's private bank division in the Americas. He will report to Rob Shafir, global co-head of private banking and wealth management.

Before joining Credit Suisse, Vasan ran Citibank's FX options business in the US.

Brown Brothers Harriman (BBH) is reorganising its securities lending business to meet the growth of its value lending programme.

Keith Haberlin is relocating to Boston from London to co-manage the securities lending product globally with Elizabeth Seidel. Both will report to Chris Donovan, global head of securities lending.

Haberlin has been with BBH for nine years, the last five of which have been in leadership positions within securities lending.

Robert Lees is moving from Hong Kong to London to assume responsibility for trading in Europe and Asia. Lees will report to Mark Payson, global head of trading.

Zubair Nizami has also joined the firm to head up the Asia trading desk in Hong Kong, reporting to Lees.

Nizami joins BBH from Robeco Hong Kong, where he was responsible for securities lending trading for Asia.

Neil Hiralall has assumed responsibility for regulatory strategy along with his existing risk management responsibilities.

Brazilian bank Itaú BBA has recruited **Kristen Dove** and **Ross Levin** for its prime services division.

Dove joins the bank as vice president of prime services sales, trading and marketing.

She previously served a director of prime services at RBS Americas, where she led the securities lending exchange-traded fund sales and trading product. Before that, she worked at Calyon and ABN AMRO.

Levin joins Itaú BBA as head of prime services business architecture.

He brings 18 years of financial and technology expertise to Itaú BBA, having held multiple positions at RBS and its predecessor firms, ABN AMRO and ING, ranging from head of operations IT, head of equities IT and, most recently, head of product development for the RBS prime services division.

Dove and Levin are based in New York and report to Gregory Wagner, global head of prime services, who joined Itaú BBA in 2012.

Armstrong Investment Managers has recruited **Vincent Tournant** as its COO.

Tournant arrives from Newedge Prime Brokerage, where he was global head of origination and structuring.

The firm has also hired **Philip Riris** from Avalon Capital Markets as an analyst, and **Andy Hutcheon** from AH Consultants as a sales manager. **SLT**

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