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Stock lending under review for Fidelity

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Fidelity looks increasingly likely to reassess aspects of its securities lending programme.

Dominic Rossi, the global chief investment officer of equities at Fidelity Worldwide Investment, hinted that the firm is reconsidering its practices in oral evidence that he gave before the UK House of Commons Business, Innovation and Skills Committee in February.

He said that short selling and dividend arbitrage in particular have not lined up with the firm's ethics in the past.

"With respect to the practice of stock lending ... my board is extraordinarily conservative about this. The idea that we would lend the stock that we obviously like, otherwise we would not own it, to someone who is then going to short it does not really make much sense."

"It is not in the interests of our clients to have to foster that short-selling, nor is it in the interests of the company in which we invest. We do a very limited amount related to dividends and I suspect even that practice will stop shortly."

A Fidelity spokesperson confirmed: "The benefits of stock lending are becoming much more marginal and that while our motivation has always only been to deliver additional value to our fund shareholders, we are increasingly questioning the extent to which this exists."

Mainstream press has suggested that the firm will scrap securities lending altogether, but Sébastien Bietho, the former head of securities finance at Fortis Investments, disagrees. "This is standard process within any business you would be doing; it doesn't mean you are going to stop—it just means you are reassessing the risk-return profile and operational structure."

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SLTINBRIEF

Pirum links up with BNY Mellon to improve trade efficiency

BNY Mellon's global collateral services business has upgraded its AccessEdge collateral management portal with a newly-established link to Pirum's triparty required value (RQV) processing service.

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BNP Paribas secures Knight Capital mandate

Knight Capital Europe has selected BNP Paribas Securities Services to provide it with clearing and stock lending services on a pan-European scale.

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Stock lending under review for Fidelity

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He added that it is no secret that the industry is mutating at the moment, with risk-return components being largely affected.

Tax harmonisation in Europe is becoming more tangible, and spreads have reduced. But there are a number of areas that are promising, including the collateral business and emerging markets, says Bietho.

"Reassessing your position is always a good thing. A number of beneficial owners have stopped securities lending post-Lehman, reassessed their programme—and returned to the market."

Indeed, the Tennessee Consolidated Retirement System (TCRS) is returning to securities lending after ceasing activities in 2001.

TCRS is eying "incremental income and improved market opportunity". It selected Deutsche Bank as its agent lender.

Net of what?

During his oral evidence before the UK House of Commons Business, Innovation and Skills Committee, Fidelity's Rossi also weighed into the debate over revenue sharing between asset managers and investors.

He made it clear that all income from securities lending belongs to the client, reportedly adding that the only subtraction would be for administrative fees.

His clarification came in the wake of confusion surrounding the European Securities and Markets Authority's (ESMA's) UCITS guidelines, which became effective in February. It was originally feared that they would force asset managers to return all revenues from securities lending to investors.

ESMA has since confirmed that revenue must be returned net of operation costs, although what this covers remains unclear.

"With regards to the ESMA ruling, the scope of the 'net of costs' stills needs to be defined—and I suspect that the resolution of the BlackRock and State Street lawsuits will shed some light on this," said Bietho.

"That said, I find it difficult to argue to investors that a fee-split change that would increase the funds net return would now make securities lending not worthy. This is pure alpha and potentially give funds a higher ranking to their peers, which ultimately increases the potential for net inflows."

Pirum links up with BNY Mellon to improve trade efficiency

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The bank's AccessEdge portal connects dealers with investors that participate in repo, securities lending, OTC, central counterparty (CCP) and other collateralised transactions, enabling real-time collateral transfers in a secure and efficient environment.

The link with Pirum's triparty RQV solution, which simplifies collateralisation and expedites securities transfers between dealers and investors, will improve intraday visibility of proposed trades, allow for simpler and timelier trade resolution management, and create a single unified process for the agreement and communication of trades.

With the link, BNY Mellon clients will be able to automatically calculate, reconcile, agree and submit their RQVs across all counterparties, whether they are Pirum participants or not.

Staffan Ahlner, managing director in the global collateral services business at BNY Mellon, said: “In today’s environment, we need to take a comprehensive view on all aspects of a financial transaction. Post-trade risks and operational risks are important factors when processing trades. Complexity is often added with the need to segregate collateral at a final beneficial ownership level on a timely basis.”

“BNY Mellon is focusing on improving the market efficiencies in this processing cycle. The new link is a step in the overall plan to enhance the connectivity of BNY Mellon’s triparty system to lenders and borrowers.”

Jonathan Lombardo, head of global sales at Pirum, added: “Daily RQVs for securities lending portfolios will be calculated by Pirum using a client’s own data and rules. The new service improves the intraday visibility of proposed RQVs, facilitating much simpler and timelier dispute resolution amongst market participants.”

“It also provides a single unified process for operations teams to use when agreeing and communicating RQVs. Pirum receives the latest RQVs from triparty agents for inclusion in the RQV summary screen. Triparty agents’ collateral allocation reports facilitate the display of the latest collateralised values and provide a collateral position reconciliation against the participants’ own records.”

BNP Paribas secures Knight Capital mandate

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Knight Capital Group provides access to the capital markets across multiple asset classes to a broad network of clients, including buy- and sell-side firms and corporate issuers.

The firm engages in agency-based trading and market making across global equities, fixed income, foreign exchange, options and futures. Knight is a source of liquidity in global equities and provides services to both retail and institutional clients in the UK and across Europe.

BNP Paribas will provide clearing, settlement, custody, stock lending and financing for the European equity business across Europe and North Africa.

Albert Maasland, head of international at Knight Capital Europe, said: “We chose to work with BNP Paribas because we believe our teams share a passion for high quality client service and can work together in a real partnership.”

"The bank's top-rated proprietary network in our main markets, real time risk modelling in liquidity management, and overall transparency were key factors in the decision process. Entering into a partnership with BNP Paribas represents another step in growing our European execution business."

ICMA: repo should be exempt from FTT

The proposed EU Financial Transaction Tax would cause the short-term repo market in Europe to contract by an estimated amount of at least 66 percent, according to a study from the European Repo Council of the International Capital Market Association (ICMA).

The study, authored by Richard Comotto, senior visiting fellow at the ICMA Centre, argues that it is essential for secured financing, such as repo and securities lending, to be exempted from the FTT to ensure an efficient debt capital market and support the continued collateralisation of the financial markets.

The shrivelling of the repo market and the lack of viable alternatives would pose serious problems to institutional and corporate investors, forcing them into unsecured bank deposits or into seeking to escape the FTT by transferring funds out of the EU11 through the untaxed channel that is provided by unsecured deposits, said Comotto.

"Such a capital flight would cut EU11 bank funding and thus lending to the real economy, as well as exacerbating the fragmentation of the eurozone, undermining the single market and complicating the conduct of monetary policy."

"Bank lending in the EU11 would also suffer because, without repo and money market securities (which would also be rendered uneconomic by the FTT), access by EU11 banks to non-bank financial investors such as money market mutual funds would be severely constrained, forcing a disorderly acceleration of the current process of deleveraging," he said.

The problem would be exacerbated by the difficulties facing EU11 banks in managing their marginal liquidity in the interbank market, where they would be restricted to seeking and making unsecured deposits.

REGIS-TR is on the road to ESMA acceptance

REGIS-TR, the European trade tepository owned by Clearstream and Iberclear, is confident that its application to act as a trade repository across all asset classes will be accepted by European Securities and Markets Authority (ESMA).

"Obtaining the trade repository license for all asset classes in Europe promptly is just one of the key elements REGIS-TR is committed to delivering as part of its business proposition," said a statement from the company.

"REGIS-TR has supported the industry from the inception of the new reporting obligation derived from EMIR and is prepared to be able to cover the market's needs during the upcoming and crucial onboarding process. REGIS-TR is in permanent contact with ESMA and performs an active educational role via its close proximity to the derivatives market's participants."

REGIS-TR is a central trade repository for derivatives transactions across multiple product classes and jurisdictions. The trade repository is open to financial and non-financial institutions, primarily in Europe, and will service all types of derivative contracts.

In addition to its core services, the repository plans to introduce centralised collateral management and third-party exposure valuation services.

MENA asset managers moving from fixed income to equities

A combination of increased government investment and dynamic local equity markets will make the six GCC (Gulf Cooperation Council) states attractive investment locations, said respondees to a Qatar survey.

The Qatar Financial Centre (QFC) Authority published the first edition of its MENA Asset Management Barometer, offering a comprehensive portrait of current market sentiment to be tracked over time.

The barometer, which will be published annually, found that asset managers are showing an increasingly "risk-on" attitude towards the growth potential in local equity markets. Additionally, asset managers are united by the need for clearer regulation and better distribution opportunities.

The findings were announced during the second annual Bloomberg Doha Conference exploring the challenges and opportunities for asset managers in the GCC and MENA (Middle East and North Africa) regions.

Yousuf Mohamed Al-Jaida, chief strategic development officer of the QFC Authority, said: "The barometer paints an optimistic yet realistic picture. It reveals confidence in the continued expansion of GCC and MENA markets in 2013."

"Fund managers expect more weighting towards equities and away from fixed income, encouraged by government investment and progress in developing financial centres around the region. They would also like to see more regulatory convergence. Regulation is seen as having the biggest impact on the conduct of business and as the major cost. There is strong support for Sharia'ah-compliant finance, but again fragmented regulation is a hindrance."

According to the survey, 70 percent of managers are confident about the continued growth of MENA financial markets; 38 percent believe political unrest to be the largest negative impact on local markets; 80 percent believe the increased spending of governments is the largest positive impact on local

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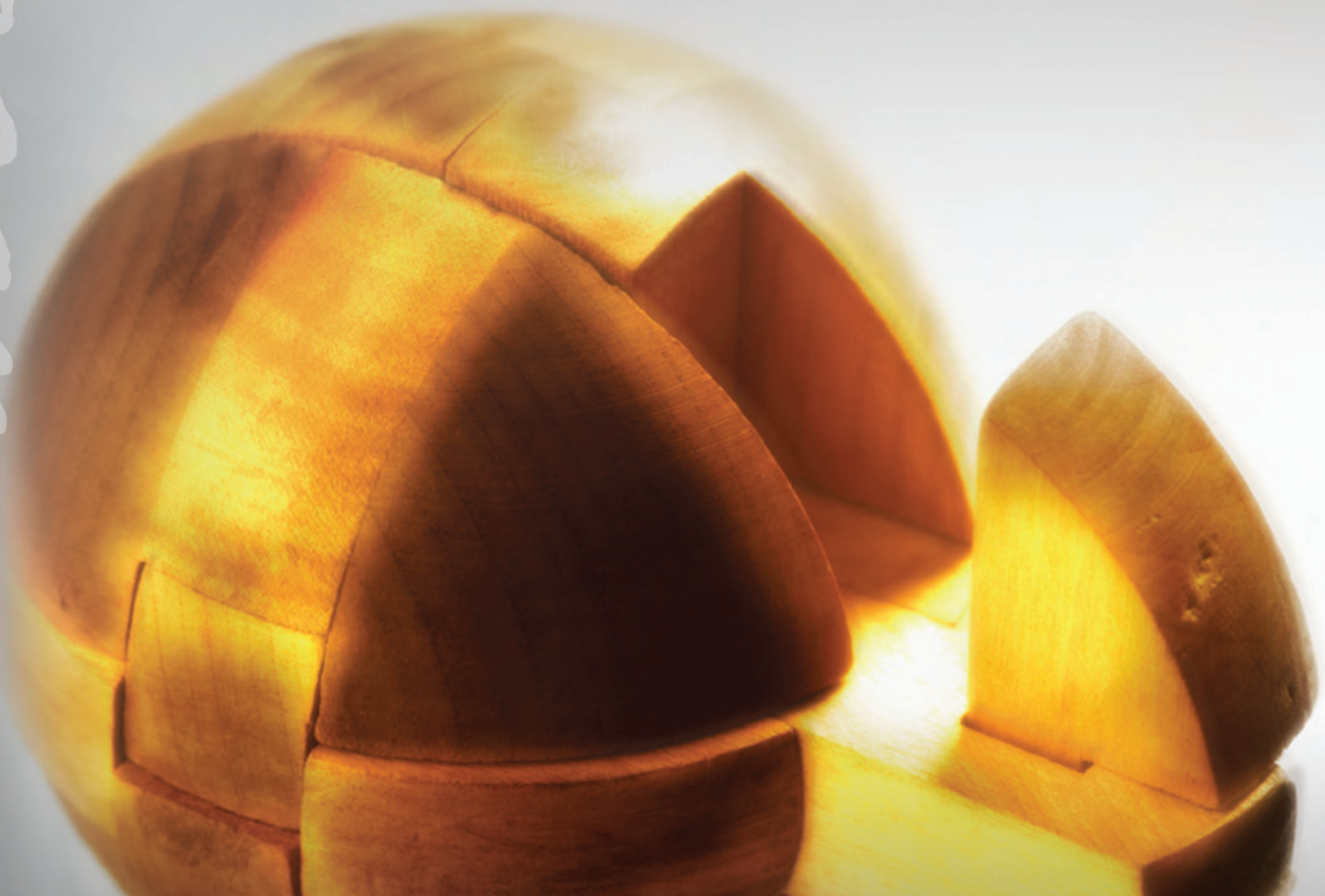


markets; and 42 percent believe equities will be the best performing asset class of 2013.

More than 70 percent of MENA's asset managers remain confident about 2013. This optimism mainly stemmed from GCC-based firms that believed that the combination of increased government investment and dynamic local equity markets would make the six GCC states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) attractive investment locations.

Qatar and the UAE seemed to offer the most potential. Barometer respondents said that the countries' infrastructure spending programmes and successful attempts to build hubs for financial service firms would continue to pay off in 2013.

The biggest investment trend mentioned by managers was a return to a more "risk-on" approach. This was chiefly characterised by asset managers moving from fixed income to equities, or at least re-weighting portfolios to an equity parity or bias.

Different geographies agreed on the impact of regulation, with all participants predicting that new rules would have a measurable effect on MENA's asset management sector. Though respondents strongly supported the region's Sharia'ah-compliant sector, managers also said that the lack of unified regulation across MENA was damaging distribution and investment opportunities, as well as pushing up asset management overheads.

Citi revamps collateral custody accounts

Citi has expanded its Citi OpenInvestor suite of investment services to include segregated collateral custody accounts.

The new accounts are hoped to help clients better mitigate counterparty risk, provide asset safety, and improve collateral efficiency, and add to Citi's existing agency collateral management service, OpenCollateral.

The new service also helps clients to support new requirements under the US Dodd-Frank Act and the European Market Infrastructure Regulation (EMIR) rules.

"The possibility that every OTC relationship may need collateral accounts under new regulations has driven client demand for more efficient solutions," said Chandresh Iyer, managing director of investor services at Citi. "These services draw upon our deep understanding of relevant business issues to streamline the technical and operational challenges of managing all types of collateral assets across multiple counterparties."

For triparty account control arrangements (ACA), Citi will act as an intermediary between the pledgor and the secured party, holding pledged collateral in a segregated custody account.

Within the terms of each ACA, Citi's new solutions allow pledgors to instruct transactions on the collateral account and secured parties to monitor pledged collateral positions in a highly automated manner.

Citi's suite of new collateral custody solutions also offers clients features for automated substitution control for rapidly changing collateral portfolios, collateral monitoring, and margin manager cash reinvestment.

Itaú BBA sees a future with 4sight

Itaú BBA has selected 4sight's securities finance and collateral management solution to support its US-based securities lending and repo business, Itaú BBA USA Securities.

Itaú BBA will use 4sight's software for equity and fixed income securities lending and repo trade booking and position management.

The solution will also be used for collateral management, credit limits controls, profit and loss, and reporting.

Ross Levin, head of prime services architecture at Itaú BBA, said: "It was critical for this project to select a technology solution that can be installed rapidly on a lightweight footprint while also to scale globally."

"Itaú BBA also required a vendor with strong industry and domain expertise, global support services and a flexible approach to customisation. We look forward to working with 4sight to implement this project as we expand Itaú BBA's US securities lending and repo business."

Arrowpoint opts for Cortland Capital

Arrowpoint Asset Management (Arrowpoint) has mandated Cortland Capital Market Services to provide middle office services to its collateralised loan obligation 2013-1 (Arrowpoint CLO).

Cortland will provide CLO waterfall modelling, collateral substitution compliance, trustee reconciliation, loan administration and trade settlement services to Arrowpoint.

Denver-based Arrowpoint is an investment advisor with approximately $1.9 billion under management as of the end of 2012.

CLO middle office service provider, Cortland, offers syndicate bank loan services to clients including investment managers, CLO collateral managers and custodians.

Cortland's bank loan services include agency services, loan administration, trade settlement, CLO infrastructure and bank debt fund administration.

Rick Grove, COO of Arrowpoint, said: "Having the depth and breadth of Cortland's experienced professionals at our side allowed us to efficiently manage our CLO launch."

"The timeliness and quality of information Cortland's CLO infrastructure provides extremely valuable to out team."

"We are excited to be working with the team at Arrowpoint as they launch their new CLO," said Lora Peloquin, managing director of Cortland.

"Cortland's CLO infrastructure platform is second to none. We believe it is very difficult to replicate the scale of expertise and functions our solution provides a collateral manager."

Q1 volume up 67 percent for OneChicago

OneChicago's Q1 trading volume has increased 67 percent compared with 2012. March 2013 volume of 752,336 also showed an increase of 9 percent year-on-year.

David Downey, CEO at OneChicago, said: "We are continuing to see a dramatic increase in trading volume, indicating further adoption of single stock futures in the US. We would attribute these consistent gains to the increasing use of our NoDivRisk contract and expect to see this trend to continue throughout 2013."

March 2013 also saw 323,907 futures valued at more than $1.6 billion taken to delivery, emphasising the use of single stock futures as an equity finance tool.

Open interest stood at 569,835 on the equity finance exchange at the end of March 2013.

Finally, 58 percent of March 2013 month-end open interest was in OCX.NoDivRisk products.

Good and bad news for Clearstream's global securities financing

For its Global Securities Financing services, Clearstream recorded a monthly average outstanding volume of €576.2 billion for March 2013.

The combined services, which include triparty repo, securities lending and collateral management, collectively experienced a rise of 1 percent over March 2012, to €571.8 billion.

But the monthly average outstanding year-to-date, is, at €562.8 billion, four percent below the same period last year.

In the same month, the value of assets under custody held on behalf of customers registered an increase of four percent to €11.5 trillion (compared to €11.1 trillion in March 2012).

Securities held under custody in Clearstream's international business increased four percent from €5.9 trillion in March 2012 to €6.2 trillion in March 2013, and domestic German securities held rose four percent from €5.2 trillion in March 2012 to €5.4 trillion in March 2013.

In March 2013, 3.4 million international settlement transactions were processed, a 7 percent decrease over March 2012 (3.6 million).

Of all international transactions, 83 percent were OTC transactions and 17 percent were registered as exchange transactions.

In the German domestic market, settlement transactions reached 6.6 million, 8 percent less than in March 2012 (7.2 million). Of these transactions, 65 percent were stock exchange transactions and 35 percent were OTC transactions.

OCC on track with securities lending CCP activity

OCC's securities lending CCP activities saw a 15 percent increase in new loans over March 2012 with 95,686 transactions last month.

Year-to-date stock loan activity was up 33 percent from 2012 with 286,576 new loan transactions in 2013. The average daily loan value at OCC in March was $52,367,602,922.

Average daily cleared contract volume for the month was 15,831,521 contracts, an 8 percent decline from March 2012. Total cleared contract volume in March reached 316,630,411, a 17 percent decrease from the 379,763,970 contracts in March 2012, which had two more trading days.

OCC's year-to-date total contract volume was down 6 percent from 2012 with 1,006,895,640 contracts, while average daily volume was down 3 percent at 16,781,594 contracts.

Exchange-listed options trading volume reached 311,565,300 contracts in March, a 17 percent decrease from March 2012. Average daily options trading volume for the month was 15,578,265 contracts, a 9 percent decrease from the average daily volume of March 2012.

Year-to-date total options trading volume was down 6 percent with 993,580,233 contracts in 2013. Futures cleared by OCC reached 5,065,111 contracts in March, up 44 percent from March 2012. OCC cleared an average of 253,256 futures contracts per day last month, a 58 percent increase from March 2012.

OCC's year-to-date cleared futures volume was up 76 percent with 13,315,407 contracts in 2013.

Misys launches new version of Loan IQ

Financial software provider Misys has launched its latest version of Loan IQ, its commercial lending solution for financial institutions.

Misys has partnered with existing clients, industry utilities and market standards organisations to create a solution that improves cost efficiencies and eliminates costly error correction by reducing manual entry and providing best practice driven process flows.

Loan IQ v7.2 enables more cost-effective operations, as well as increased transparency and analysis of the data that is most critical to sound credit and asset management decision making, according to Misys.

New functionality in Loan IQ v7.2 offers customisable support for real estate and other collateralised lending business lines.

Ken Katz, director of Misys Loan IQ product management, said: "Financial institutions are ultimately focused on pushing up their return on equity. In the current environment, reducing costs by consolidating systems is one of the most powerful levers our clients have."

"Implementing a unified commercial lending platform is an important first step towards increasing transparency and reducing operational costs to a level that is unimaginable in fragmented lending system environments."

Jim Long, Misys Loan IQ head of development, added: "It is a solution that increases consolidation and integration; is scalable, flexible and transparent; is reliable and has a global reach. By simplifying IT complexity with a next-generation platform, financial institutions can take advantage of a powerful, cost-effective and future-proof solution for lending."

Becoming international

Changes must be made to ramp up short interest in Israel. SLT finds what can be done amid concerns over the country's budget deficit

GEORGINA LAVERS REPORTS

As statements go, it was not very grandiose. "Not bad" was the resounding summary of the current Israeli economy by Bank of Israel governor Stanley Fischer, who incidentally, is jumping ship in the middle of his second term.

The final sentiments of Fischer before he bows out came in the form of an annual report presented to Prime Minister Benjamin Netanyahu's new government, and included warnings that the country could suffer if its budget deficit is not reined in.

"The report describes the 'not bad' situation of the Israeli economy," Fischer said. "There are things to fix but we still grew faster than almost all OECD countries."

"Growth is relatively good [at 3.1 percent], inflation is low [1.6 percent], unemployment is at its lowest rate for 30 years but there is a problem in the budget which must be dealt with before it becomes greater. I am pleased to see that the new finance minister is taking the deficit into account and understands the depths of the problem."

The report also presented the five most important issues facing the economy in the near future: keeping government expenditure in check; assimilating Arabs and ultra-Orthodox into the labour market; increasing labour productivity, which is low compared to other industrialised economies; reducing the cost of living; and managing Israel's newly active natural gas resources.

As for lending, the practice tends to be split between local domestic bank trading and the more international OTC market. Short selling is thin on the ground, due to a fairly cautious culture among investors.

Edi Stelzer, securities lending desk manager in the capital markets division at Bank Leumi, says that the Israeli market has a number of variations from the global relevant practices—the most obvious being that trading is done Sunday to Thursday.

"The most noticeable differences are, firstly, the regulatory requirement to have a termination date for any lending transaction, which is limited to 31 December of the following year. This means every transaction requires a negotiation between the borrower and lender (having said that, in the transaction negotiation, it is possible to set an option for daily termination). Secondly, the bank does not have a pool of securities inventory that would be lent in generic terms overnight."

"It is worth mentioning that regulation allows both for the transfer of the lent securities to the borrower, or the marking of such securities with the lender without transferring them."

In terms of size, short interest is quite small, says Stelzer. As of 31 December 2012:

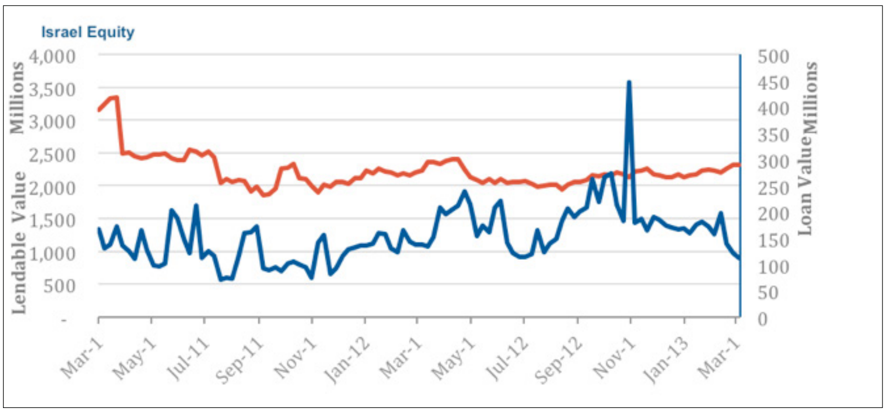
- Lent equities were 0.23 percent of the total market capitalisation (which was ILS603B at the date)
- Lent government bonds were 2 percent (out of ILS460B)
- Lent corporate bonds were 0.7 percent (out of ILS260B)
- Lent T-Bills (called Makam) were 0.7 percent (out of ILS117B).

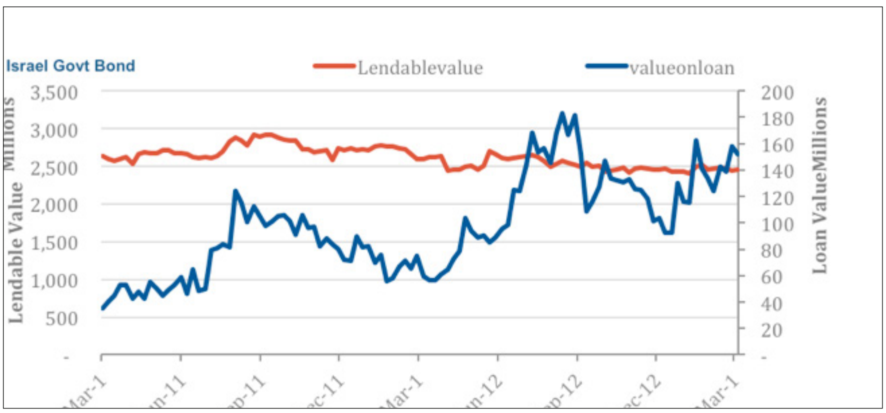
As for any changes, Stelzer has a few that he thinks would revitalise the market. "We would recommend removing the requirement for a termination date, and allowing for longer period transactions with or without call back options, such as five years (instead of the need to roll such a transaction at least twice)."

Despite the aforementioned, the bank does see international investors active in the Israeli lending market, concludes Stelzer.

"We do have GMSLA agreements in place that are adjusted to the Israeli practices. We believe that if regulation will amend several issues and the Israeli practice will be similar to international, we will see more interest in short selling." **SLT**

Israel as it stands





Source: Markit Securities Finance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Worldwide welcome

CIBC Mellon's Phil Zywot tells SLT why his firm is looking at new markets, and how PASLA provided expansion insights

GEORGINA LAVERS REPORTS

How important are Asian markets to securities lending?

We have seen a shift away from the traditional European markets as regulatory and tax changes dampen the profitability of lending in that region; we are instead seeing an increased focus on the Far East. While the Far East has not typically been a significant region in terms of our securities lending programme, we are now exploring new markets within that region. Asia represents a great opportunity for our clients and our business to capture growing demand from market participants. While our custody operations are focused on Canada, we are a global securities lending player active in all major markets.

How did you find the PASLA conference?

Sessions at the recent PASLA conference were informative, and the expert panels provided some useful food for thought in terms of expanding into new markets. Opening a new market can be complex: there are many variables that come into play, as each market is different. At CIBC Mellon, we evaluate each market in terms of ease of entry and the anticipated return on portfolio assets The conference represented a great opportunity to meet prospective borrowers as well as reinforce and strengthen existing relationships. As much as technology has become an important part of our business, it cannot replace the value of connecting face-to-face as you establish and grow business relationships.

In terms of global growth, our main focus remains on established markets such as Hong Kong, Singapore, South Korea, and Taiwan. We are also looking at some of the Eastern bloc countries such as Turkey, Poland, and the Czech Republic.

Our set-up is fairly unique given that everything is run out of Canada. Over the last eight years, we've had a member of our staff run the London shift from our Toronto office. The individual works from 3 am Toronto time to approximately noon.

Does the size of the local market in Canada mean new markets are necessary?

The Toronto securities lending industry is much more compact than London or New York. It is also very domestically orientated in terms of the Canadian industry players. Over the last five years, however, Canadian players have been stretching out globally, and we are seeing both broker/dealers and even the lenders reaching farther out.

It makes sense that we expand our business in Asia, as this positions us with coverage to meet the expanding needs of the borrowers within that time zone. We have been able to successfully cover the European time zone out of Canada, so I could see us implementing a similar model for Asia. Various markets have certain caveats that create need for real-time oversight. For example, automatic buy-ins: if you don't have staff covering that time zone, you run the risk of an automatic buy-in creating financial risk, penalties or fines.

What specific interests are you seeing coming out of your desks?

Our fixed income desk has seen increasing interest in the corporate bond space over the last few years. Certain sectors in particular have seen demand, such as coal/energy, casino gaming and most recently the retail space.

We're also seeing increased demand for highly-rated Canadian government bonds, which carry a "AAA" rating. With regulatory changes and the number of credit downgrades to sovereign debt around the world, Canadian bonds have become attractive from a collateral-usage standpoint. The Canadian lending market is still predominantly a non-cash collateral market; mainly made up of sovereign debt. I would say approximately 80 to 85 percent of the collateral seen by the Canadian lenders is non-cash collateral.

What about equities?

Our domestic equity business has remained steady over recent years. The Canadian market has benefited from the relative strength of the country's financial and resource sectors, and from a stable political environment. For us, continued strength in Canadian domestic business has helped offset some of the European business that has tapered off. The Canadian markets in general are dominated by the domestic players, but we have seen greater demand for Canadian assets coming out of the US and London. Although M&A activity has remained subdued over the last few years, we've recently experienced an increase in activity, along with continued financing in the resource sector which has helped drive our securities lending market.

How are players treating collateral transformation?

Collateral transformation has definitely been a trend over the last four to five years of collateral becoming an instrumental component of structuring securities lending transactions—at times it can even be the make-or-break factor impacting whether a deal is executed. Collateral transformation is a natural consequence of current market pressure, with borrowers using the most efficient forms of collateral.

The challenge for the agent lender is to try and balance the 'wants' of the borrowers with the 'needs' of the beneficial owners with respect to collateral. Collateral transformation can make sense if its viewed on a risk-adjusted basis. If the rewards justify the increase in apparent risk, then the trade makes sense.

What emphasis are beneficial owners placing on transparency?

We've definitely seen an increase in the desire for more transparency and more reporting from beneficial owners. They have been more involved and interested in understanding what the drivers are for securities lending transactions and what it entails.

In general for the Canadian marketplace, I would say beneficial owners have seen their lending providers perform well through several stressful periods—such as the 2008 market downturn and recent challenges around European debt. I think owners have been satisfied with the handling of these situations by securities lenders, which is providing owners with the confidence to continue to participate in lending programs. In fact, we are seeing many clients looking at how they can further increase returns and expand their participation in CIBC Mellon's lending programme.

The Canadian system fared well post-crisis, as the regulatory regime we have in place worked as designed. Questions do remain as to how ongoing global regulatory changes will affect and reshape our industry, of course. There are some concerns that there could be duplication or overlap in regulatory requirements along with additional costs. This could possibly have an impact on some of the marginal, higher-volume-lower-spread business within the securities lending marketplace.

What will be the effect of upcoming regulations?

I think that the emerging and potential regulatory changes facing the industry could have a variety of effects. For example, we may see a consolidation within our business whereby some of the bigger players may acquire some of the boutique shops; it may be tougher for some of the smaller firms, as they may not have the scale or resources to support the build-outs necessary to cope with emerging requirements. I would expect those firms to eventually consider selling their existing business or exiting it in one way or another. Of course, every business has different calculus, and the potential regulatory changes may yet be softened.

What is next for your firm?

At CIBC Mellon, we are considering a number of new initiatives as we work to grow our business and global footprint. We are always looking at different forms of collateral, and we are expanding our offer to include new forms of sovereign debt, new cash currencies and new asset classes—such as exchange-traded funds (ETFs).

There was a regulatory change in Canada in October whereby ETFs became recognised as "qualified securities" under Canadian securities law, meaning that we can lend all types of ETFs as well as take ETFs as collateral. Regulations continue to shape the market, of course, and this was a change we were happy to see come to fruition.

Another initiative is to continue to expand the markets in which we execute securities lending transactions. We are aggressively pursuing new markets with a focus on the Far East and Eastern Europe.

Finally, another major project for us is looking at different structures for securities lending transactions such as evergreen trades. The better we can match up the needs of borrowers with our underlying clients, the greater the opportunities for all the stakeholders in our programme. **SLT**

Phil Zywot
Head of trading
CIBC Mellon

When your products are pants

David Lewis of SunGard Astec Anaylics casts his eye over the shares of a manufacturer to see how a lack of product quality is affecting short interest

Michael Porter, a well-known writer on competitive strategy who I studied at university so many years ago, put forward a very simple principle—make it better or cheaper and you will win. There are, of course, many other facets to effective competition such as your product mix and your marketing strategy, but even with those things in place, what can happen when your one of your products fail and fails big?

Lululemon Athletica (Lulu), the Canadian yoga and sportswear manufacturer with around 200 stores across the US and Canada, must be ruing their choice of company names now that their customers have, in more ways than one, seen right through one of their main products. For those of you who have not seen this story, in brief, it revolves around a moment of 'sheer' madness when Lulu launched a pair of yoga pants (Luon pants) that were, it seems shockingly, not tested properly for the effects of stretching. Retailing at between around $70 and $100, Luon pants accounted for about 17 percent of Lulu sales, but quality control issues regarding raw materials and production problems have forced the company to recall them and issue refunds. In a similar reaction to sales and product issues at Marks & Spencer last year, it is the product heads who are in charge of what ends up on the shelves who have paid with their jobs as the Lulu's sales falter.

But what did the short side of the market make of this and what, if anything, can we learn from it?

Figure 1 highlights the securities volume on loan as well as the fee levels for Lulu from January 1 2013 indexed to show the changes up to the start of April. Marked on the graph with a vertical blue line is the earnings announcement date—21 March. To the right of this line, both the balances on loan (red plot) and the borrowing fees (blue plot) rise quite significantly, and it is perhaps of little surprise given that the 21 March announcement delivered some fairly harsh news—withdrawing the Luon products would cause sales to drop $12 million down to $17 million in the next quarter alone, extending an impact of more than $45 million, or around 47 percent, on the annual results. But what can we learn from the data preceding this event, and could it have helped investors to make better informed decisions?

Securities lending volumes are often used as an excellent proxy for short interest and can be used as an important trade and sentiment indicator, especially when you can strip out other borrow motivations such as collateral, dividends and other corporate actions. As can be seen from the red line in Figure 1, loan balances began their trend upwards during Q1 2013. As a group, many shares in the "textiles, apparel and luxury goods" sector have seen increased borrowing over the past 12 months, most likely as a direct result of spending on luxury goods suffering from consumers tightening their belts. However, short interest in Lulu has risen more than some of its peers while its share price has fallen around 16 percent in the first three months of 2013.

Short interest changes can be seen as early indicators of market events ahead—good or bad. The rising balances in Lulu came ahead of their public announcements of product recalls (18 March, marked with a vertical orange line in Figure 1), suggesting that analysts were already highlighting issues with the company. Note however, that the fee levels being charged remained firmly in the cheaper 'general collateral' band until the March sales projections were announced. This pattern is typical among shares coming under steadily increasing pressure and it remains an area that agent lenders need to monitor better.

Strong sales success in 2012 has indeed been marred by earlier product recalls and some supply issues as well as increased competition from others such as Gap, which has recently launched its Athleta brand in a direct bid to steal market share. Looking at the rising short interest indicated in Figure 1, alongside the announcements regarding the impact on sales of the Luon pants debacle, suggests that many think these shares could fall further. Of course, having the most accurate and timely securities lending data available could have helped investors avoid getting caught with their pants down. **SLT**

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

Figure 1: securities lending volume and fee rates for Lulu indexed to 1 January 2013 (source: SunGard's Astec Analytics)

Industry appointments

Former Morgan Stanley employee **Deepak Abraham** has been hired as head of capital strategy in Asia Pacific for Bank of America Merrill Lynch's prime brokerage division.

Reporting to Graham Seaton, the head of the bank's prime brokerage unit in Asia Pacific, Abraham will relocate from Dubai to Hong Kong.

Prior to this, he was head of MENA prime brokerage at Morgan Stanley.

A group of 11 lawyers—ten partners and one counsel—will be joining the Sidley Austin law firm in multiple offices.

Sidley's SEC Enforcement practice, including former senior SEC enforcement lawyers Barry Rashkover, Paul Gerlach and Jose Sanchez, regularly defends clients in investigations, enforcement actions and litigation by the SEC, FINRA, and other regulators.

There were ten new hires to the firm, including **Robert Buhlman**, **Hardy Callcott**, **Herbert Janick**, **Kenneth Kopelman**, and **Susan Merrill**.

This group works closely with the firm's Securities & Futures Regulatory practice, led by partners James Brigagliano and David Katz, which represents investment banks, broker-dealers, futures commission merchants, commercial banks, insurance companies, hedge funds and exchanges.

The five other new layers hired include **Gerald Russello**, **Nader Salehi**, **Eric Seltzer**, **Neal Sullivan**, **Corin Swift**, and **Michael Wolk**.

In bringing this team to the firm, Sidley will establish offices in Boston and Portland, Maine. The start dates for the lawyers joining the firm have not yet been finalised.

Ajay Nagpal, previously the head of Barclays Capital's prime services business, has left the bank to join Millennium, the $18 billion hedge fun run by Israel Englander.

Nagpal will join as COO, and is expected to make his move official in July. Prior to his appointment at Barclays, Nagpal joined Lehman Brothers in 2001, holding leadership roles within capital markets including head of equity sales from 2005 to 2008 and head of liquid market sales within the fixed income division from 2001 to 2004.

Nagpal was previously with J.P. Morgan where he ran the municipal derivative effort as well as the firm's financial institutions derivatives sales group.

Barclays has recruited **Harry Harrison** as a replacement for Nagpal.

Greg Medcraft, chair of the Australian Securities and Investments Commission, took over as chair of the International Organization of Securities Commissions (IOSCO) board at its Sydney meeting. He succeeds Masamichi Kono of the Japan FSA. The board also elected Ontario Securities Commission chairman Howard Wetston as IOSCO vice chair following the retirement of Ethiopis Tafara.

The board meeting underscored IOSCO's commitment to improving engagement with industry and the broader IOSCO membership, and was preceded by a round table attended by the board and seven financial services executives from Australia, Asia, Europe and North America to discuss emerging risks.

Some potential risks discussed included the global imbalances caused by capital flows, weaknesses in financial market infrastructure, high-frequency trading, market fragmentation, and cyber-attacks.

BNY Mellon has appointed **Dean Sakati** to the newly created position of head of strategy and business development for securities finance with the firm's global collateral services business.

Sakati will be based in Boston and report to Mike McAuley, managing director of product and strategy for securities finance.

Sakati joins BNY Mellon from AXOPA, where he was one of the founders of a buy-side focused company that brings together leading financial trading technologies to help clients through the investment management process.

Charles Stewart has moved from Morgan Stanley to become the CEO of Itaú BBA International, the London division of Brazilian investment bank Itaú BBA.

Stewart was deputy head of EMEA investment banking for Morgan Stanley, and will start on 24 June. He replaces Almir Vignoto, who will move to New York to head up Itaú BBA's US arm.

Morgan Stanley said **Kamal Jabre**, currently chairman and chief executive of its Middle East and North Africa business in Dubai, would take Stewart's position and relocate to London.

Last year, Itaú moved its corporate and investment banking arm's European headquarters to London from Lisbon, and recently hired two London bankers to its board as non-executive members.

In March, the bank recruited Kristen Dove and Ross Levin for its prime services division in New York. Dove joined the bank as vice president of prime services sales, trading and marketing, previously working at RBS Americas. Levin joined as head of prime services business architecture, also coming from RBS.

Omgeo has appointed **Edward Hazel** of Goldman Sachs, **Richard Taggart** of State Street and **Susan Cosgrove** of The Depository Trust & Clearing Corporation (DTCC) to its board of managers.

Hazel is the global co-head of securities operations for Goldman Sachs. He is a member of the firm's operations operating and risk committees.

Since joining Goldman Sachs in 1979, Hazel has held a number of leadership roles in the operations division and was named managing director in 2001.

Taggart is a senior vice president at State Street Global Services. He joined State Street in March 2012 to head the investment manager services business in North America.

Cosgrove is the managing director and general manager of settlement and asset services at DTCC, responsible for all depository businesses including settlement, underwriting, custody, securities processing, corporate action processing, and tax and issuer services.

In addition to the newly added members, John Devine, formerly of Threadneedle Asset Management, Peter Johnston of Goldman Sachs, and Donald Donahue, formerly of DTCC, have stepped down as board members. **SLT**

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