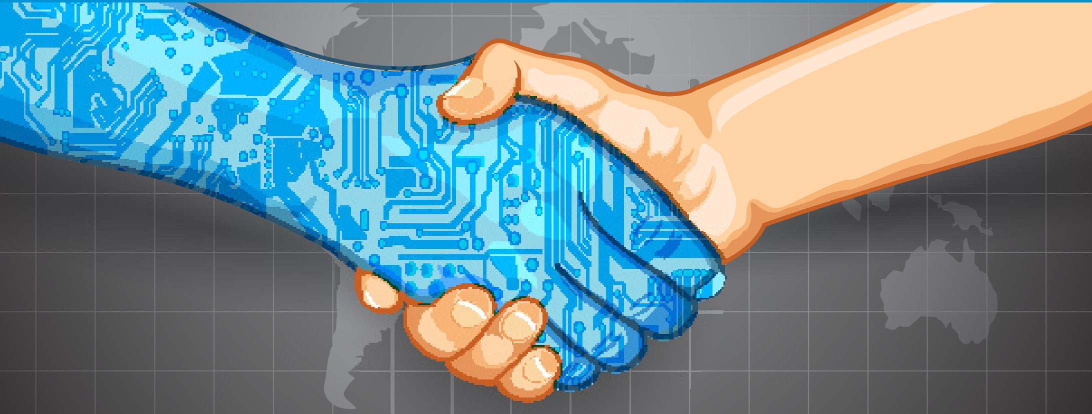
SLT SECURITIESLENDINGTIMES

ISSUE075
30.04.2013 TUESDAY
securitieslendingtimes.com



Weeden Investors buys prime broker

GREENWICH 29.04.2013

Institutional broker Weeden Investors has acquired Saxis Group, a full-service prime brokerage business.

Under the terms of the agreement, Saxis Group becomes a wholly owned subsidiary of Weeden Investors and will continue to be led by its founder and CEO Sohail Khalid.

Founded in 2009, Saxis Group is a technology-powered prime brokerage business whose clients are mainly hedge funds and family offices. Some of its services include proprietary risk management and analytics technology (Armor), customisable trading applications (Razer), automated allocation technology and portfolio reporting.

A statement from Weeden said: "Saxis Group has forged deep relationships with investors who are 'natural buyers' of early stage and emerging hedge fund managers. These capital allocators, consisting largely of family offices, fund of funds, institutional and ultra high net-worth investors have contributed to the asset growth of many clients."

"Investors may choose to leverage the separately managed account platform or invest directly into a client's limited partnership. Investors also use the Armor risk management system provided by Saxis Group in order to manage risk and exposure levels on a real-time basis."

"This is a key investment in, and a natural extension of, our product suite offering to the investment community. This effort will provide opportunities to cross-sell many quality products, including high-touch execution services and proprietary risk management products to a wider audience of hedge funds and investment advisors," said Andrew Formato, president of Weeden & Co.

readmore p3

SLTINBRIEF

Latest news
State Street reveals decreased securities finance revenue year-on-year for Q1 2013
page3

Latest news
Russia's CSD to launch new service to help Bank of Russia's triparty repo transactions
page8

Country profile
Sweden's most popular stocks to borrow are revealed in a discussion on the country
page14

Panel discussion
Experts discuss increased interest in Canada's mining sector, as well as collateral transformation
page20

Regime comment
A look into the proposed amendments to empty voting from the Canadian Securities Administrators
page26

People moves
Edward Marhefka joins Markit Securities Finance, Brett Langbert joins I.A. Englander, and more
page34

Clearstream and Standard Chartered connect collateral

Clearstream and Standard Chartered Bank have agreed to collaborate on the development of a customised collateral management solution for their mutual clients.

readmore p3

Nomura to match Japanese equity with Omgeo's help

Nomura Asset Management is now using Omgeo Central Trade Manager (CTM) for the central matching of its Japanese domestic equity trades.

readmore p3

eSecLending
SECURITIES FINANCE TRUST COMPANY

United States +1.617.204.4500
Europe +44 (0) 207.469.6000
Asia Pacific +61 (0)2 9220.3610
info@eseclending.com
www.eseclending.com

Differentiated Lending Process:

Disciplined, Transparent, Repeatable

Securities Finance Trust Company, an eSecLending company, and/or eSecLending (Europe) Ltd., authorised and regulated by the Financial Services Authority, performs all regulated business activities. eSecLending (Asia Pacific) - ABN 16 134 096 147, AFS Licence 333334, is an office of Securities Finance Trust Company (incorporated in Maryland, U.S.A.), the liability of the members is limited.

Christopher Antonelli
Global co-Head of Prime Services
Head of APAC Quant Prime Services
Nomura International Hong Kong

As a leading financial services group, Nomura believes EquiLend effectively enhances front-to-back business. EquiLend not only allows Nomura to increase volumes efficiently but also to focus on the value-add services Nomura provides to clients.

EquiLend is constantly evolving to deliver a product needed and desired by the sell-side industry. A business without EquiLend is a business that is inefficient.

EQUILEND.COM

OUR INNOVATION. YOUR ADVANTAGE.

NEW YORK
+1 212 901 2200

LONDON
+44 207 426 4426

TORONTO
+1 416 865 3395

HONG KONG
+852 3798 2652

EquiLend LLC, EquiLend Europe Limited, and EquiLend Canada Corp. are subsidiaries of EquiLend Holdings LLC (collectively, "EquiLend"). EquiLend LLC is a member of the FINRA and SIPC. EquiLend Europe Limited is authorized and regulated by the Financial Conduct Authority. EquiLend Canada Corp. is authorized and regulated by IIROC. All services offered by EquiLend are offered through EquiLend LLC, EquiLend Europe Limited, and EquiLend Canada Corp. EquiLend and the EquiLend mark are protected in the United States and in countries throughout the world. © 2001-2013 EquiLend Holdings LLC. All Rights Reserved.

Weeden Investors buys prime broker

Continued from page 1

Lance Lonergan, co-CEO of Weeden & Co, said that the acquisition underscores his firm's desire to invest in "cutting edge" technology and platforms, adding: "The combination of Weeden and Saxis will further our ability to provide exceptional services to our clients."

Sohail Khalid, Saxis Group's founder and CEO, said that the acquisition means that clients now have access to a greater range of products, including high-touch trading services, advisory services and better access to liquidity.

"This transaction allows Saxis Group to expand its proven technology and services platform to a broader set of asset managers and family offices who are seeking the best alternatives to grow their businesses."

The deal follows a spate of prime brokerage acquisitions and some bankruptcies in the last few years.

In April 2010, ConvergEx purchased NorthPoint Trading, while Lighthouse Financial Group and its prime brokerage outfit filed for bankruptcy protection, with debts of $14.6 million, at the tail end of the same year.

FBR Capital Markets closed the shutters on its prime brokerage unit in 2011, after just 16 months of operation, but Wells Fargo Securities purchased Merlin Securities—a San Francisco- and New York-based prime brokerage services and technology provider—in April of 2012.

Clearstream and Standard Chartered connect collateral

Continued from page 1

The two firms signed a letter of intent that will enable both of their customers to benefit from the Liquidity Hub Connect collateral management service.

This will allow Standard Chartered customers to be able to consolidate their collateral holdings through Clearstream's Global Liquidity Hub and cover their global exposures from a single collateral pool. The customers will be able to leave their assets in custody at Standard Chartered, "while avoiding any inefficient collateral fragmentation", said the bank.

George Nast, global product head of transaction banking at Standard Chartered, said: "I am pleased that the joint clients of Standard Chartered and Clearstream will be able to cover their global exposures from a single collateral pool."

"Not only will clients across our footprint markets of Asia, Africa and the Middle East be able to effectively collateralise obligations on a real time basis, they can overcome an industry challenge of collateral fragmentation as well."

Stefan Lepp, a member of the executive board and head of global securities financing at Clearstream, said: "[Our] working philosophy of creating cooperation agreements with strategic partners is having a big impact in extending reach and scope for our mutual customers and their clients."

"This will be the third customised Liquidity Hub Connect service to be developed and we are pleased to say that it delivers the most efficient solution on the market as it only mobilises collateral based on actual demand."

Nomura to match Japanese equity with Omgeo's help

Continued from page 1

Omgeo CTM can be used to centrally match equity, fixed income, exchange-traded derivative (futures and listed options) and contracts for difference trades.

Omgeo's executive director for sales and solution delivery Nellie Dagdag said: "This is certainly a significant milestone in the Japan domestic equity market. We've been actively working with Japanese firms to bring increased efficiency and standardisation to Japan's cross-border trade operations for over a decade."

"We look forward to continuing to work with our community to set new standards for operational efficiency across Japan's domestic market."

Omgeo CTM is an automated solution for the central matching of cross-border and domestic trades, with links to the Japanese Securities Depository (JASDEC), as well as the Canadian Securities Depository (CSD), Korean Securities Depository (KSD) and Chilean Securities Depository (DCV).

BNP Paribas uses SWIFT to strengthen collateral walls

BNP Paribas Securities Services is now working with SWIFT to ramp up its collateral protection solutions for corporate, buy-side and sell-side clients.

The bank will integrate SWIFT's standardised messages supporting triparty collateral flows within the bank's Margin Protect solution, which aims to guarantee clients ensures full compliance with the upcoming regulatory requirements on OTC transaction, mitigation of counterparty risk, asset safety and cash reinvestment facilities.

The bank also hopes that Margin Protect will provide straightforward and more efficient management of all securities collateral operations, from instruction to substitution and monitoring.

Philippe Ruault, head of clearing settlement and custody products at BNP Paribas Securities Services, said: "The more stringent requirements and the expected increase in volumes of collateral exchanged will make it difficult for firms to cope with a manual process still largely reliant on fax and emails."

"The combination of our robust and efficient custody model with SWIFT's secure messaging services supporting collateral management will benefit clients as it ensures collateral safety through a simplified access to account control arrangements."

State Street securities finance up 5.4 percent

State Street's Q1 2013 results saw slightly dipped revenue of $2.44 billion: down just one percent from Q4 2012, and up one percent from Q1 2012.

Trading services revenue, which includes foreign-exchange trading revenue, brokerage and other fees, was $281 million in Q1 2013, up 15.6 percent from Q4 2012 due to strength in foreign-exchange and electronic trading.

Trading Apps - 21st century technology

"Finance apps to solve your business gaps"

- **World class products**
- **World class technology**
- **World class management team**
- **We are Trading Apps**

For more information please join us at tradingapps.com or email info@tradingapps.com

Foreign-exchange revenue increased 23.7 percent from Q4 2012 due to higher volumes and volatilities, but decreased 2 percent from Q1 2012. Brokerage and other fees increased 8 percent to $135 million from Q4 2012 due to increased electronic trading.

Securities finance revenue was $78 million in Q1 2013, an increase of 5.4 percent from Q4 2012 due to slightly higher volumes. Securities finance revenue decreased 19.6 percent when compared to Q1 2012 due to lower spreads and volumes.

The firm was also awarded $223 billion in asset servicing mandates, and had $5 billion in net new assets to be managed at State Street Global Advisors.

Assets under custody and administration were recorded at $25.4 trillion for Q1 2013, an increase of 9.5 percent from Q1 2012 ($23.2 billion).

Servicing fees increased 2.2 percent to $1.2 billion in the Q1 2013 from Q4 2012, due to stronger global equity markets and higher transaction volumes.

Compared to Q1 2012, servicing fees increased 9 percent, due to stronger global equity markets, net new business, and the acquired Goldman Sachs Administration Services business.

Joseph Hooley, State Street's chairman, president and CEO, said: "The first-quarter results reflect good performance and our continued commitment to delivering value-added solutions to our clients across our asset servicing and asset management businesses. The strength in the equity markets, combined with higher volumes and increased volatility in foreign-exchange trading, supported our fee revenue."

"Overall, the environment continues to show signs of gradual improvement as reflected by investors shifting into equities. However, given the ongoing fragile state of the global markets, we continue to remain cautious for 2013."

Finding just-right collateral is key, say Asian conference delegates

Sourcing the most appropriate collateral to cover global exposures is still a major priority for most financial institutions in Asia, according to a poll of banking professionals at Clearstream's Global Securities Financing (GSF) Conference Asia in Singapore.

Some 92.6 percent of the delegates, who represented pan-regional institutions, infrastructures, investment banks, universal banks and central banks, expressed that identifying the right type of collateral was either a "very high" or "high" priority for their organisation.

Additionally, in the light of upcoming regulatory changes across much of the world requiring greater collateralisation of trading exposures, 38.7 percent of the delegates said their institution had no access to a collateral optimisation system. Collateral optimisation enables the most appropriate collateral to be identified, allocated and then substituted automatically to ensure exposures are covered in the most efficient way.

The results were borne out in debates during the event on 23 April, the fourth annual Clearstream GSF Conference Asia in Singapore. More than 150 delegates attended from across the region to discuss collateral management and securities lending developments both in the Asia-Pacific and more globally.

Stefan Lepp, head of global securities financing at Clearstream, said the poll results clearly demonstrated that overcoming the collateral challenge was a global issue and that Asian securities would play an increasingly important role in the overall collateral supply.

"We know that there is plenty of collateral in the market, but much of it is fragmented and so difficult to unlock and mobilise which means institutions are losing money through inefficient collateral management," he said. "Discussing these issues with industry delegates in the Asia-Pacific region at another successful GSF Conference was not only very constructive but also encouraged us that we are definitely on the right track with the development of our flexible and open Global Liquidity Hub."

FinTution and ISLA extend course discount

FinTution and the International Securities Lending Association (ISLA) have agreed a change in the discount structure for their Introduction to Securities Lending course for staff of beneficial owners and regulatory bodies.

The standard cost of the course is £495. In the past, only staff of ISLA member firms benefitted from a £200 discount.

Now, those who work for beneficial owners or regulatory bodies can also benefit from the discount, as long as an ISLA member introduces them to the course.

Kevin McNulty, CEO of ISLA, said: "We are pleased with the extension of the discount for this course and hope that this will encourage more beneficial owners and regulators to have their staff participate in this course and benefit from the training being provided."

"Increasing the understanding of securities lending to both members and non-members, is a key aim of ISLA, and this introductory course is a part of our ongoing commitment in this area."

FinTuition said that beneficial owners wishing to send their staff on the course should consult with their agent lenders or counterparties, and if they are members of ISLA, request that they provide an introduction.

Other moves have been made recently to improve and open up securities lending education. In March, FinTuition and Finadium agreed to partner with EquiLend in the operation of EquiLend University, a global training programme for the company's platform.

Speaking at the time, 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."

BNY Mellon's combined AUM/AUC is on the up

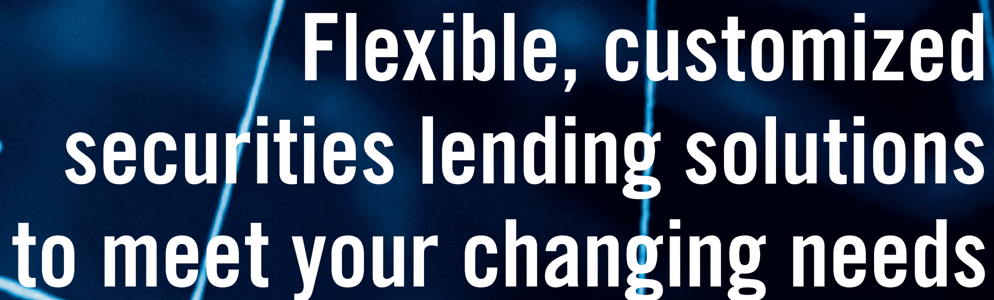
BNY Mellon's assets under custody and/or administration amounted to $26.3 trillion at 31 March, an increase of 2 percent over the previous year, but it was unchanged sequentially.

Receive automatic notification of borrow or loan opportunities without ever having to check your e-mail or answer the phone.

Put Twill to work for you!

Chelsea Potvin
Business Analyst

chelsea.potvin@anetics.com
413.395.9500



When challenging markets put pressure on investment returns, it's important to work with a proven lending agent that understands your business. As one of the world's most experienced lending agents providing both custodial and third-party lending, State Street offers the individualized service, client-facing technology and commitment to transparency you're looking for. Whatever the market conditions, our dedicated team can help you optimize opportunities without compromising our conservative approach to risk or your need for flexibility.

For more information, visit www.statestreet.com/securitiesfinance.

STATE STREET GLOBAL MARKETS®

State Street Global Markets is the investment research and trading arm of State Street Corporation (NYSE: STT), one of the world's leading providers of financial services to institutional investors.

©2010 STATE STREET CORPORATION 10-SGM0660910

The bank attributed the year-over-year increase to net new business and improved market values, but changes in foreign currency rates did partially offset it.

Sequentially, changes in foreign currency rates offset improved market values, while net new business was flat.

Assets under management amounted to a record $1.4 trillion at March 31, an increase of 9 percent compared with the prior year and 3 percent sequentially.

Both increases primarily resulted from net new business and higher market values. Long-term inflows totalled a record $40 billion and short-term outflows totalled $13 billion for Q1 2013.

Long-term inflows benefited from liability-driven investments as well as equity and fixed income funds.

BNY Mellon's investment services fees totalled $1.7 billion, an increase of 1 percent year-over-year and 4 percent sequentially.

Both increases were primarily due to higher asset servicing revenue as a result of increased activity with existing clients and improved market values.

The year-over-year increase also reflect higher treasury and clearing services revenue, although these were partially offset by lower issuer services and securities lending revenue.

The sequential increase also reflects higher issuer and clearing services revenue.

Gerald Hassell, chairman and CEO of BNY Mellon, said: "We are pleased to report our fourteenth consecutive quarter of net long-term asset management flows, and continued growth in investment services fees."

"Investments in our investment management, global collateral services and global markets businesses have positioned us well for future growth, and we remain on track to deliver the savings from our operational excellence initiatives."

Carrot is just out of reach for pension plans

Aon likened the current state of pension plans as "a donkey pursuing a carrot dangling from a stick hooked in front of the donkey" after the release of its 2013 Global Pension Risk survey.

The survey found that most UK pension plans (more than 90 percent) are now indicating that they have a long-term objective—typically expressed as a buy-out objective or self-sufficiency objective.

"When we carried out the 2009 Global Pension Risk survey the villain of the piece was the asset side of the balance sheet," said a statement from Aon. "Assets were in a depressed state, following the chaos of the global credit crunch. Since then assets have recovered substantially—equities are up by around 70 percent from their low point in 2009."

But four years later, the firm points to not the assets as the cause of a problem, but the liability side of the balance sheet; the historically low levels of yields on government bonds causing liabilities to soar.

The survey emphasised the central role that bonds are expected to play in pension plan portfolios, and pointed out the relative death of equities.

"With many commentators (not for the first time) warning of a looming bubble in 'safe haven' government bond markets (the defensive asset of choice for pension trustees) the search is clearly on for 'better bonds' for unusual times and more use of opportunities from a wider credit spectrum."

"Phrases such as the 'death of the cult of the equity' seen in trade press coverage in 2012 make reference to the fact that pension plans on average now hold more bonds than equities. George Ross-Goobey's seminal argument for equities being the natural investment for pension plans, now dating back over 40 years, is literally history. This structural shift in defined benefit pension plans' appetites is permanent and we are merely somewhere along the journey to an endgame."

Texan pension fund rounds up 2012 sec lending results

The Teacher Retirement System of Texas's (TRS) 2012 annual financial report recorded that, out of total assets of $134 billion, it invested $454 million of securities lending collateral.

Interest, dividends and securities lending income (net of investing activity expenses of $153 million) were $1.88 billion.

A complete solution for all your business needs and emerging requirements.

Stonewain provides a comprehensive, fully integrated solution for securities finance industry that is scalable, flexible and customizable to meet all your business needs.

Services.
Scalability.
Solution.
Strength.
Support.

info@stonewain.com 973.788.1886 www.stonewain.com

Broadridge's FinancePro®

A Global Multi-Asset Securities Financing Solution

FinancePro Global® provides repo and securities lending desks of any size with increased transparency into positions across geographies, advanced deal management tools, and powerful workflow and data management capabilities.

- Improve collateral usage across business units, region and asset classes
- Scale repo and securities financing operations efficiently
- Mitigate risk with robust business controls—fully compliant with tri-party reform & applicable regulatory requirements

Contact us to learn more about FinancePro:

+1 888.237.1900
Broadridge.com

© 2013 Broadridge Financial Solutions, Inc. Broadridge and the Broadridge logo are registered trademarks of Broadridge Financial Solutions, Inc.

It was reported that the pension fund has earned a total of $940 million in securities lending revenue from the start of its programme in 2002, to the end of 2012.

In 2012, the pension fund had an average pool of lendable assets of $60.5 billion, with the average use of those assets by borrowers throughout the year standing at 37 percent.

US Treasury debt was the biggest earner for the pension fund, generating revenue of $55.1 million in 2012. The next highest revenue was US equities at $28.3 million, followed by non-US at $21.1 million.

NSD to aid Russian repo market

The National Settlement Depository (NSD), Russia's central securities depository launched a new service that will aid the Bank of Russia's off-exchange triparty repo transactions and includes collateral management, clearing and settlement services.

During the first day of the new system's operations, the Bank of Russia concluded 11 transactions with ING Commercial Banking, JSCB N.A.B., CB RIAL-CREDIT and JSCB DERZHAVA.

The collateral management system developed by NSD could contribute to the improved liquidity of the market and reduced expenses of the market participants during concluding repo transactions with the Bank of Russia.

The new technology will allow participants to select the optimal collateral for repo transactions, to replace securities, to automatically replace collaterals prior to corporate actions, and to hold margining on the pool of all transactions.

Previously, NSD's supervisory board has established tariffs for clearing operations and collateral management. The management board of the company has set a promotional period for these operations until 1 June 2013. During the period, tariffs are reduced by 50 percent.

The settlements are to be held in three clearing sessions and to allow partial execution of the first part of the repo transaction.

STOXX and Eurex Repo launch GC Pooling Indices

STOXX Limited, the index concepts provider, and Eurex Repo have co-created a STOXX GC Pooling index family, migrating existing GC Pooling Indices that are calculated by Deutsche Börse.

The STOXX GC Pooling Indices provide a representation of the secured euro funding transactions taking place on the Eurex Repo GC Pooling Market. Both firms point to the introduction of two funding rates that measure secured interbank funding rates and volumes in the eurozone as a unique feature of the index family.

All STOXX GC Pooling Indices aim to provide transparent, rules-based alternatives to unsecured interbank benchmarks such as LIBOR and EURIBOR/EONIA.

The new indices can be used for benchmarking purposes in the money market, and as underlying for financial products. The STOXX GC Pooling Index family will be calculated in euro and will be available end-of-day in CET time.

"In light of the recent LIBOR scandal, market participants and regulators globally are looking for a transparent, rules-based and reliable benchmark for the interbank market, based on real transactions," said Hartmut Graf, CEO of STOXX Limited. "Money market trading volumes have shifted significantly from unsecured to secured markets over the recent years.

"STOXX and Eurex Repo have thus teamed up to develop the STOXX GC Pooling Indices, which are based on the daily transactions on the regulated GC Pooling market. These innovative indices can contribute to improved trust in reference interest rates."

The indices will be available based on two standardised fixed-income securities baskets available on the GC Pooling Market: the ECB basket and the ECB EXTended basket. The following standard terms will be calculated for each basket, respectively: OverNight (ON), TomNext (TN) and SpotNext (SN).

Technology solutions for Securities Lending,

simply made to work better...

Being able to achieve your goals can be as simple as selecting the right vendor.

With fifteen years of experience and a user base that spans the globe, we have the depth and breadth necessary to deliver.

What are your requirements?

Chelsea Potvin
Business Analyst

chelsea.potvin@anetics.com
413.395.9500

www.anetics.com

CREDIT SUISSE

Developing unique performance solutions.

Customized Securities Lending

Credit Suisse has over 30 years experience in equities and fixed income securities lending. Across the globe, we are uniquely qualified to create tailor-made innovative solutions to improve your portfolio performance. For more information please call: Zurich +41 44 335 11 21*, New York +1 212 325 7625*.

credit-suisse.com

*We would like to inform you that all conversations on our phone lines will be recorded. When we receive your call, we assume that you agree to this business practice.
©2012 CREDIT SUISSE GROUP AG and/or its affiliates. All rights reserved.

Each index will have two versions—volume weighted average rate and total volume.

This approach is in line with the central banks' proposal to implement and use reference rates based on short-term transactions like repos since these exclude counterparty and credit risks. Indices that reflect the entire yield curve are could be introduced shortly.

SunGard's Valdi helps with Russian ruble conversion

Otkritie Capital, a Russian financial services provider, has selected SunGard to help launch a new direct market access (DMA) service allowing for automatic real-time currency conversion from the Russian ruble to the US dollar.

SunGard has also added integrated access to an algorithmic trading service to provide Otkritie's clients with access to Russian trading venues.

The new DMA service automatically converts Russian Ruble-denominated transactions executed on Moscow Exchange's MICEX order books into US dollar execution fills, allowing clients to remain currency-neutral and avoid complexities of Ruble-clearing and holding.

The new service is automatically available in all Valdi and FIX-enabled trading applications and SunGard Global Network members.

British Airways opts for BNY Mellon

British Airways Pension Fund has selected BNY Mellon to provide OTC derivatives and collateral management services.

Nadine Chakar, executive vice president and head of product and strategy for BNY Mellon's global collateral services business, said: "The needs of global retirement systems have grown increasingly sophisticated given ongoing regulatory developments, the emergence of new, more complex financial instruments and today's cross-border investment environment."

"As an organisation, we're focused on delivering services to work with clients at every stage of the investment lifecycle by trading, holding, managing, servicing and distributing their financial assets."

Qatar Exchange enhances DvP to support securities lending

Qatar Exchange plans to enhance its delivery versus payment (DvP) mechanism throughout 2013 to support securities lending and borrowing.

Qatar Exchange has also reported that since its implementation on 11 April 2011, its DvP mechanism has been performing successfully and "that in no instance was a securities buy-in or a cash close-out execution required".

Upon implementation in 2011, Qatar Exchange facilitated its DvP mechanism by introducing trade confirmation procedures for investors under custody and offering a buy in system and a seller compensation scheme.

In 2012, Qatar Exchange improved the system. Investors were awarded enhanced protection for their securities during the dividends season by ensuring the applicability of the DvP process throughout the corporate actions period.

Commenting on the success of DvP, Rashid Al Mansoori, CEO of Qatar Exchange, said: "Being the first exchange in the region to implement such a sophisticated mechanism shows our commitment and dedication to the overall development of the capital markets in Qatar. It has also strengthened the confidence of the international investment community that Qatar is a safe market to invest in."

Omgeo expands ProtoColl functionality

Omgeo has enhanced the functionality of its automated collateral and margin management solution, Omgeo ProtoColl. It now offers collateral optimisation capabilities to financial services firms.

The new enhancement will enable clients to make more effective use of their existing asset inventory in light of emerging margin collateral requirements imposed by the US Dodd-Frank Act and the European Market Infrastructure Regulation.

"With Omgeo ProtoColl, firms can manage their margin and collateral calls across their entire trading operation, enabling them to make smarter, more effective use of all of their collateral," said Omgeo in a recent statement.

ProtoColl's latest version includes a browser-based management dashboard, giving users a real-time view of collateral management activities, including collateral dispute status, uncovered exposure and counterparty risk positions.

Ted Leveroni, executive director of derivatives strategy and external relations at Omgeo, said: "Increasing collateral and margin requirements, coupled with a shorter list of eligible collateral instruments, will likely result in a collateral shortage. As a result, many buy-side firms face an overriding need to be able to optimise their use of existing collateral."

"ProtoColl provides a holistic view of collateral that is both needed and available allowing firms to optimise what they have and ensure they are making the best possible use of their resources."

Euroclear expands in Luxembourg

Euroclear is expanding its Luxembourg-based office to accommodate up to 10 employees who will focus on growing client relationships and delivering account management services.

The office is led by Jane Sidnell, who reports to Philippe Laurensy, director and regional head, in Brussels.

Sidnell, Laurensy and their commercial team will work extensively with Euroclear's Luxembourg client base in adapting to new regulations and preparing to work in a T2S post-trade environment.

Pierre Yves Goemans, managing director at Euroclear, said: "Luxembourg is the largest private banking centre and second largets investment fund centre in the world, making it a logical focal point for Euroclear. The expansion of our Luxembourg office is a clear indication of our continued commitment to provide high levels of service to our clients."

"Sidnell's understanding of the Luxembourg investment fund sector and Laurensy's broader industry knowledge and experience will provide instrumental in building a highly client-focused team in Luxembourg with the right skills to attract new business."

Fidessa is one-stop shop for Asian brokers

Fidessa has partnered with a number of key

DORMANT ASSETS IN GERMAN FUNDS?

www.comyno.com/securitiesfinance

LET US BE YOUR FIRST PORT OF CALL FOR ALL COLLATERAL RELATED ISSUES.

New market requirements focused on capital rules, liquidity and collateral eligibility requirements make collateral management more critical than ever. At BNY Mellon, we strive to deliver an innovative and comprehensive suite of services to help address your changing collateral, liquidity and securities financing needs. Contact us to find out how our segregation, optimization and management services can help you navigate today's collateral challenges. We have a lot to talk about.

TO SPEAK TO ONE OF OUR EXPERTS IN COLLATERAL SERVICES, PLEASE CONTACT:

Europe, Middle East & Africa: Drew Demko +44 20 7163 5994
North America: Bill Kelly +1 212 922 4649
Asia Pacific: Dominick Falco +852 2840 9846

BNY MELLON

INVESTMENT MANAGEMENT + INVESTMENT SERVICING

bnymellon.com/collateralservices

Products and services are provided in various countries by subsidiaries, affiliates, and joint ventures of The Bank of New York Mellon Corporation, including The Bank of New York Mellon, and in some instances by third party providers. Each is authorised and regulated as required within each jurisdiction. Products and services may be provided under various brand names, including BNY Mellon. Not all products and services are offered in all locations. This document and information contained herein is for general information and reference purposes only and does not constitute legal, tax, accounting or other professional advice nor is it an offer or solicitation of securities or services or an endorsement thereof in any jurisdiction or in any circumstance that is otherwise unlawful or not authorised. ©2013 The Bank of New York Mellon Corporation. All rights reserved.

Asian regional brokers to provide a one-stop-shop trading service for all ASEAN markets.

The partnerships, with CIMB, DBS Vickers, Maybank Kim Eng, OCBC Securities, Philip Securities and UOB Kay Hian, make it possible to trade across the whole of the ASEAN region from a single connection to Fidessa's global trading network.

Jean-Pierre Baron, managing director for Fidessa Asia-Pacific, said: "Global firms are looking for a service that gives them low cost, low risk, low maintenance access across ASEAN markets, and are turning to the Fidessa network to connect to local brokers who can do just that. In this way, we are facilitating greater access to some of the world's most dynamic emerging marketplaces."

"This is an important time for South East Asia, as individual markets within the ASEAN region are proving increasingly attractive to international investors," continued Baron.

"For example, with a population of 244 million and a GDP in the region of US$1 trillion, Indonesia is recognised as one of the world's fastest growing emerging economies. The Philippines Stock Exchange has started to offer direct market access, encouraging more advanced trading. Members of the Fidessa network can easily access these important destinations and work with brokers that have local knowledge, which in turn enables them to operate more efficiently and provide a better client service."

Fidessa's global FIX network currently connects around 3,500 buy-sides to 750 brokers across 200 execution venues covering all asset classes, and carries order flow of around $850 billion each month.

Oversight under the microscope

When a beneficial owner employs an asset manager and a separate agent lender, the asset manager sometimes takes a share of the fees for oversight of the lending programme. Some asset managers take this role seriously and implement appropriate checks and balances on the lending programme, assuming a level of responsibility for the actions of the agent lender, which seems reasonable. Other times, the asset manager takes a fee for essentially receiving the reports from the agent lender and incorporating them into a bigger management information pack, assuming no liability. Whether this is reasonable seems less obvious.

Of course there are also a lot of asset managers that fall between these two descriptions.

This practice of taking a fee for overseeing a third-party activity is coming under increasing scrutiny as regulators consider fees and charges more broadly and seek to ensure investors are treated fairly. Some regulators believe that securities lending enhances performance so the asset managers will be re-imbursed through the normal application of asset management fees, which are based on the overall value and performance of the portfolio. However as a discretionary business with small performance returns this may not be sufficient incentive—although there is an argument around an asset manager's fiduciary responsibility to maximise returns, that might suggest it would be remiss to ignore the opportunity on this basis.

The European Securities and Markets Authority UCITS guidelines published in February caused a stir with a lack of clarity around the guideline concerning securities lending fees, which, when its chair Stephen Majjoor clarified in a speech, seemed to be broadly suggesting this practice may not be appropriate (although does not explicitly forbid it).

With regulatory compliance becoming increasingly complex and a greater focus on understanding the activities of service providers, the oversight role becomes even more critical and the roles and responsibilities around this need to be clearly defined and documented. Someone needs to be considering the risks of the activity, the appropriate framework and adherence with the beneficial owner's requirements, so who better than the asset manager who manages the other strategies of a portfolio? Securities lending has moved away from defining a set of parameters and then sitting back and waiting for the monthly cheque, and recognising it as a legitimate investment strategy, it needs the same level of robust consideration and review as any other strategy.

The key will be in who has the responsibility of decision making and who has the liability of monitoring compliance with the risk appetite and parameters of the fund in a proactive manner.

Sarah Nicholson, senior partner
MX Consulting Services

Proven and reliable solutions to manage and automate your entire **securities finance** business

Innovative solutions for **enterprise-wide collateral management** and **optimization**

Cutting-edge **prime services** technology to help you better manage and serve hedge fund clients

For more information

Securities Finance:
web: www.sungard.com/securitiesfinance
email: securitiesfinance@sungard.com

Collateral Management:
web: www.sungard.com/enterprisecollateral
email: apexcollateral@sungard.com

Prime Services:
web: www.sungard.com/primeservices
email: apexprime@sungard.com

©2013 SunGard.
Trademark Information: SunGard, and the SunGard logo are trademarks or registered trademarks of SunGard Data Systems Inc. or its subsidiaries in the U.S. and other countries. All other trade names are trademarks or registered trademarks of their respective holders.

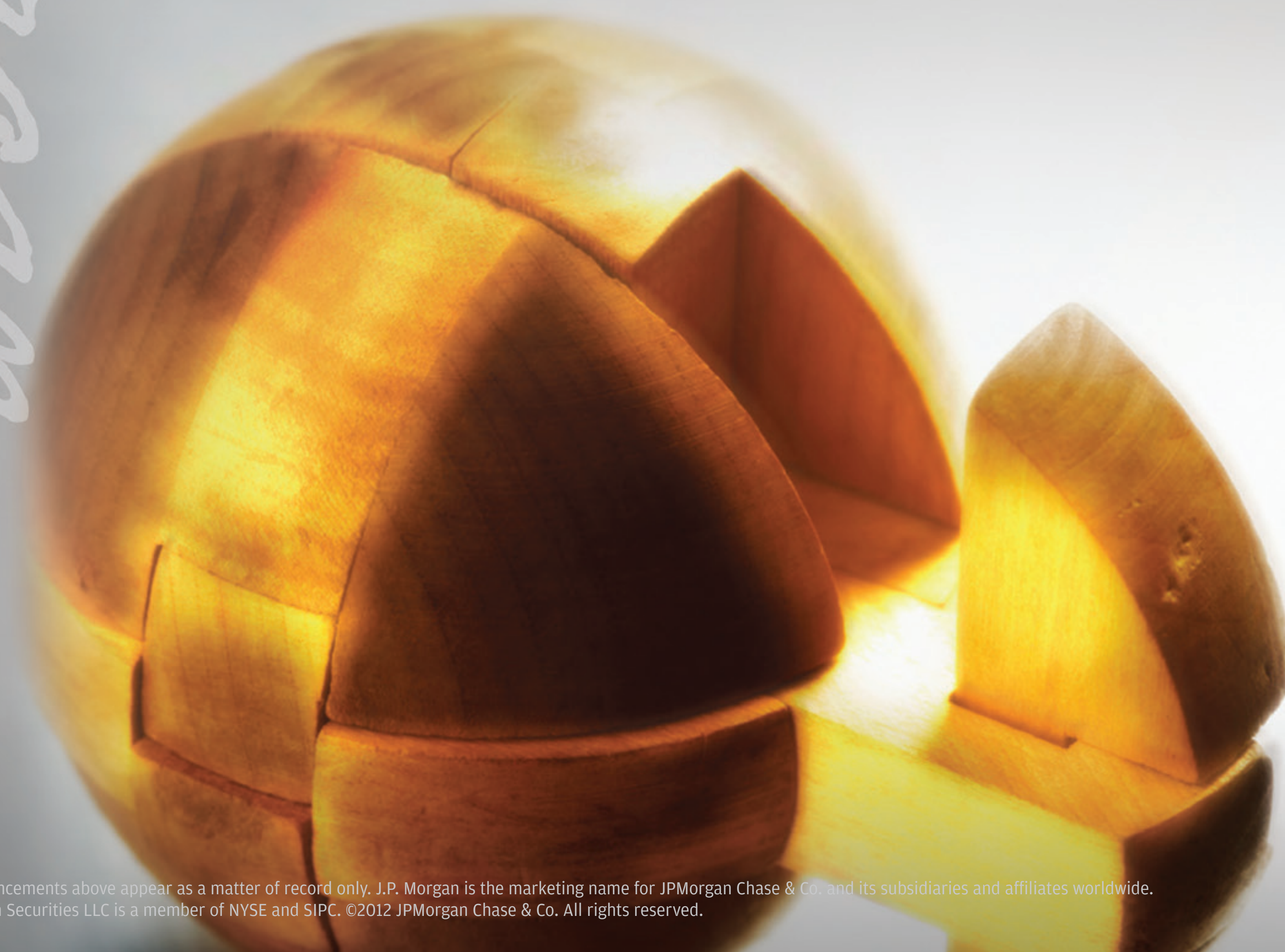
J.P.Morgan

Securities Lending

Customized solutions to meet each client's needs.

For more than 25 years, J.P. Morgan has provided clients with customized solutions to fit their unique needs. We believe that clients should have choices with respect to program design, parameters, collateral, loan distribution and oversight. Our clients benefit from customized and comprehensive lending options and one-stop access to a range of solutions, supported by the world-class expertise and execution of our entire firm.

jpmorgan.com/securitieslending



The announcements above appear as a matter of record only. J.P. Morgan is the marketing name for JPMorgan Chase & Co. and its subsidiaries and affiliates worldwide.
J.P. Morgan Securities LLC is a member of NYSE and SIPC. ©2012 JPMorgan Chase & Co. All rights reserved.

Solid as an ox

Sweden has experienced some lucrative lending in recent years. SLT finds out if the country is still on track

GEORGINA LAVERS REPORTS

Oh so carefully, Sweden has lit a flame under its economy that has burned for nearly five years. In the 1990s, it was a very different scene—with the country suffering under a horrible debt-to-GDP ratio and a Socialist government that could not borrow or print money fast enough.

But now, cautiously-introduced competitive pressures on the public sector, a lowering of top tax rates and a quirky mix of social democracy, communitarianism and advanced capitalism have led to the country's economy going from strength to strength—most recently wrong footing pessimistic analysts to grow 1.4 percent in Q4 2012 year-on-year.

A recent drive to central clearing has meant changes to certain practices and creativity when it comes to new products, both in Sweden and other European countries. Mandatory clearing of certain swaps went live on 11 March in the US for transactions involving major swap participants and swap dealers. Though Europe has been slower off the mark, with the new European cleared derivatives addendum published by the International Swaps and Derivatives Association and Futures and Options Association just recently being finalised, there is no doubt that this is a sea change for the industry.

SIX Group confirmed that it will be launching a central counterparty (CCP) product for securities lending in June, using its original model that was closed down in 2011. The product is reported to be standalone, and linked to a European trading venue.

Eurex, which is owned by exchange group Deutsche Börse, launched a securities lending CCP in November last year, and recently expanded the product scope to fixed income instruments. On 4 March, it added fixed income securities to become eligible loan securities. Since January, the Eurex Repo SecLend Market has been connected to Eurex Clearing's lending CCP, with the aim of making trading opportunities available to more users.

Currently, Eurex Clearing's securities lending CCP covers German and Swiss markets for loans in equities as well as selected exchange-traded funds (ETFs).

The new product range in scope includes EUR, CHF, and USD-denominated bonds of European governments, regional and local governments, corporates, and supranational issuers.

"Live since 22 November, the new lending CCP delivers significant capital and operational benefits to all participants and supports our customers with the mitigation of their counterparty risk," a statement from Eurex said at the time. "Our offering is Europe's first to preserve the special bilateral structure of the securities lending market and to combine it with a proven and industry-accepted CCP model."

Change your type

Awareness of collateral costs and liquidity has been the biggest change in a market that has not seen many larger rights issues, comments Sebastian Sjöholm, a senior trader in equity finance for Nordea.

"In Sweden there has not been any larger rights issues or corporate events that's has driven the market over the past year. The corporate events have mainly been in small and midcap names. There is a bigger awareness of collateral/liquidity costs where clients have a bigger appetite to pledge different kinds of collateral (non-cash, different currencies) and doing collateral up/down grades trades."

"With the new ESMA (European Securities and Markets Authority) regulations on short selling, there is an increased demand from clients to be able to reserve stocks/indexes."

Stock loan volumes in Sweden have been fairly stable during the last six months, he adds, with any increases over the last month most likely due to dividend season—and there have been less short squeezes than there were in 2008 to 2011.

As for whether neighbouring countries' short selling bans encourage investment in Sweden, a country that historically has been fairly relaxed about the practice—Sjöholm remarks that it is nothing that Nordea has seen.

Though Sweden weathered the credit crisis reasonably well, the market events of 2008 and 2009 did affect cash collateral pools in the country. Sjöholm says: "We saw increased interest in booking stock loans DVP (delivery versus payment) and non-cash to reduce intraday risk, less interest from bigger lenders to take part in cash reinvestment programmes, and more focus on triparty." **SLT**

Stock to pop

Nordea's Sebastian Sjöholm rounds up some of Sweden's popular stocks to borrow

CDON SS (RIGHTS ISSUE)—an internet retailer primarily in Sweden, Norway, Finland, and Denmark and selling in the entertainment, sports and health, fashion, and home and garden industries. The group recently released Q1 2013 results that showed an operating loss of SEK 7.8 million, compared to SEK 12.1 million reported a year ago.

EKTAB SS—Elekta AB produces and sells advanced medical products for treatment of neurological disorders and radiation of cancer. The company has developed the Gamma Knife, a non-invasive surgical tool for the management of small and hard-to-locate intracranial lesions.

ORI SS—Oriflame Cosmetics, which was named as an isolated area of interest for short sellers by Markit Securities Finance back in 2011, on 16 March of that year, saw its short interest hit a 52-week high.

AXIS SS—Axis develops network video solutions for professional installations worldwide. The company's products and solutions focus on security surveillance and remote monitoring

GC shs—GC Rieber Shipping engages in the ownership and operation of specialised vessels, as well as a provision of marine ship management.

HUSQB SS—Husqvarna manufactures outdoor maintenance and recreational products including chainsaws, trimmers, blowers, commercial lawn mowers, tillers, generators, snow blowers, stump grinders, and utility vehicles.

SSABA SS—SSAB manufactures sheet and plate steel. The company's main products include hot-rolled, cold-rolled and organic-coated steel sheet.

SAND SS—Sandvik is a high-technology engineering group that develops and manufactures tools for metalworking applications, machinery and tools for rock excavation, stainless steel products, and special alloys.

Experts in:

☐ Securities Lending

☐ Cash Management

☐ Risk Management

☐ Client Servicing

☑ All of the above

You want to focus on your strategic priorities. You need experts anticipating your needs and developing the tools to make you successful. For your securities lending business, rely on Northern Trust's unique global integration, exceptional capital strength and time-tested risk management. So you can concentrate on running ***your*** business. To find out more, visit northerntrust.com/securitieslending or call George Trapp at +1 312 444 3126 or Sunil Daswani at +44 (0)20 7982 3850.

Northern Trust

Asset Servicing | Asset Management | Wealth Management

© 2011 Northern Trust Corporation, 50 South La Salle Street, Chicago, Illinois 60603 U.S.A. Incorporated with limited liability in the United States.

Stepping into the light

Ambiguity and outstanding reservations of authority should prompt a call-to-action for market participants, says SunGard's Daniel Parker

The overarching mandate of financial reform is to mitigate the potential risks that are associated with systemically important financial activities and institutions. Statutory authority has purposely reserved an abundance of discretionary authority for regulators to capture and reconfigure processes that have 'an effect upon' covered activities.

As a means of exercising this reservation of authority, rule-makers as well as regulatory-framework-setting bodies now seek to target shadow banking.

For instance, the Financial Stability Board (FSB), which itself does not have rule-making authority yet is considered a persuasive advisory body concerning international standards within the financial system, seeks to "mitigate the spill-over effect between the regular banking system and the shadow banking system".

Additionally, the Financial Stability Oversight Council (FSOC), which has rule-making authority under Section 120 of the US Dodd-Frank Act, seeks to enhance and substantively modify the shadow banking space. The FSOC has concluded that the current state of shadow banking contributes to systemic risks. As a result, it now seeks to address the perceived bank-like activities that pose risks by subjecting shadow banking, and related activities such as money market mutual funds (MMFs), and securitisation activities to more onerous oversight.

Changes are coming to shadow banking

Shadow banking, which arguably provides a valuable funding conduit that supports real economic activity, broadly covers credit intermediation, liquidity optimisation and maturity transformation involving entities and activities outside of the traditional banking system. Shadow banking may include securitisation activities such as origination, or alternatively, wholesale funding through MMFs.

For example, MMFs, which had approximately $3.1 trillion in assets under management as of 31 December 2012, according to the Investment Company Institute, provide a substantial portion of the short-term funding available in the capital markets and are an integral part of shadow banking.

The regulators purport that MMFs generally lack loss-absorption capacity and are susceptible to runs. The FSOC and the US Securities Exchange Commission (SEC) propose substantive rule changes that constitute the second regulatory enhancement since 2010. The present rule related to MMFs seeks to incorporate a variable value calculation that would replace the traditional fixed valuation.

Specifically, the proposed regulatory enhancements call for a mark-to-market variable NAV as opposed to the fixed NAV that is used currently. The migration toward a variable NAV, which values the asset(s) at the current available market price, calls for supporting automation that would allow investors to monitor and contemplate risk and valuation changes in the MMF's assets through a data-driven dashboard.

Additionally, the credit risk retention rule under Section 941 of the Dodd-Frank Act, which supplants Section 15G to the Securities Exchange Act of 1934, requires securitisation sponsors to retain a portion of the credit risk and an economic interest in the assets that they securitise.

According to the rule, securitisation sponsors may retain credit risk in a number of ways. Since the manner and method in which risk retention is accomplished remains discretionary, based on certain limitations, firms are then faced with a technology challenge. That is, the flexibility of the rules in light of the heterogeneity of products and market participants provides a robust business case for automation. Accordingly, sponsors, or other market participants with independent technology processing capabilities, may achieve compliance with the risk retentions requirements in Section 941, or alternatively, may leverage the analytics in other ways.

Still, shadow banking will continue to evolve

Shadow banking takes a variety of forms, which are continuously evolving despite the regulatory scrutiny of these activities. From a regulatory monitoring perspective, authorities intend to cast a wide net, potentially subjecting all non-bank credit intermediation activities that might arise to new rules.

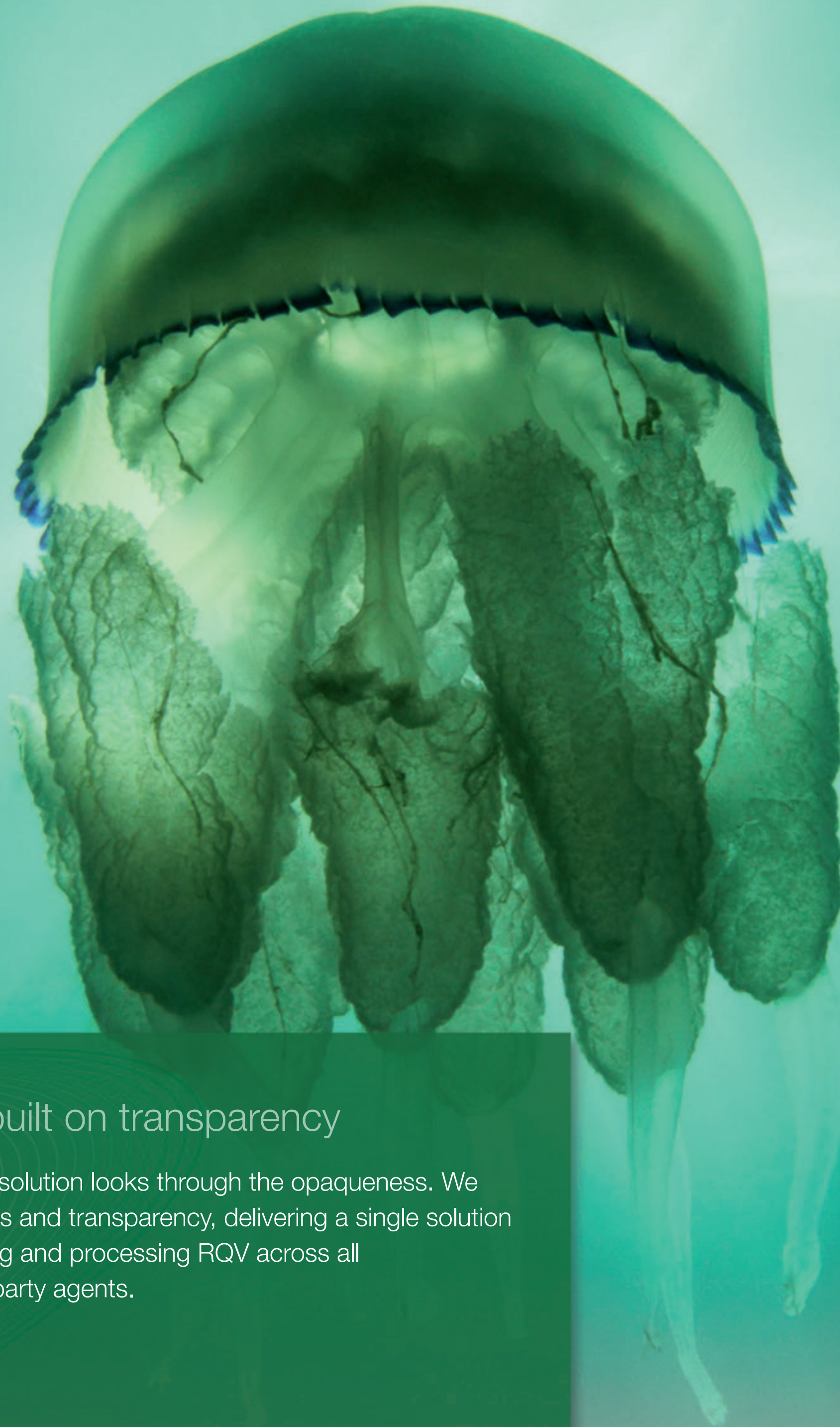
From a regulatory policy perspective, the proposed rules likely require enhanced automation processes for all covered shadow banking activities that involve credit intermediation, liquidity optimisation and maturity transformation. This is true because enhanced transparency almost always requires connectivity reconfiguration and quantitative capabilities.

It is important to note that the FSOC and FSB regulatory objectives are not merely minor revisions to existing regulatory structures, but substantial changes in the ways that shadow banking will be regulated globally.

The ambiguity of these directives and outstanding reservations of authority given to regulators should prompt a call-to-action for shadow banking participants—including buy-side beneficiaries—regarding necessary automation advancements to support these industry changes. **SLT**

Daniel Parker
Vice president
SunGard's capital markets business

Clarity Evolved.

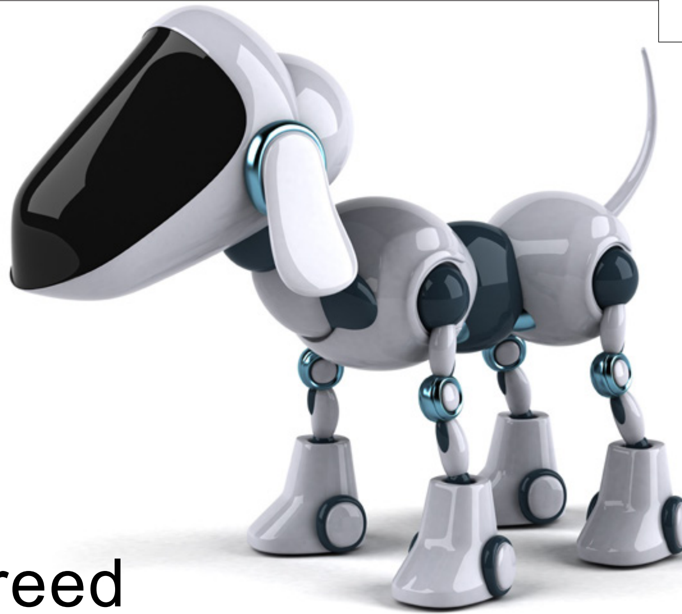


A philosophy built on transparency

Pirum's real time RQV solution looks through the opaqueness. We provide greater controls and transparency, delivering a single solution for calculating, agreeing and processing RQV across all counterparties and Triparty agents.

www.pirum.com
sales@pirum.com

PIRUM



A new breed

Albert Fried & Company's managing director Paul Stegmann tells SLT what his firm's plans for prime services and securities lending will mean for clients

GEORGINA LAVERS REPORTS

What was the reasoning behind marrying securities lending and prime services together?

The marriage of securities lending and prime services is a completely natural pairing. Think Apple and the cellphone or Google and the internet. Securities lending drives virtually all prime services structured products: synthetic longs and shorts; financing; and derivatives; and prime service clients consistently request greater securities lending access for their trading. We've combined them both to create a unique market advantage for our customers. Additionally, we'll be rolling out exciting new client-centered IT products in the near future that will more closely link securities lending and prime services.

How will securities lending drive the prime brokerage business?

Our robust securities lending facility gives us access to hard-to-borrow securities and top-rate financing. We deliver these, in turn, to our prime services clients. Our prime customers enjoy direct securities lending market access, giving them the ability to trade securities that may not be available from their clearing broker or prime broker. Financing access gives clients greatly improved liquidity. Additionally, our direct market access provides customers with securities lending market transparency, which is available nowhere else in prime brokerage.

What part did transparency play in the decision?

Transparency in the securities lending market is the offering our clients ask for most frequently. It is vital information for traders, hedge funds and sophisticated investors alike. With market transparency, securities lending-prime service division clients no longer miss trades or overpay for them.

How has the team been re-structured and what benefits will this bring for clients?

Albert Fried & Company (AF&Co) has re-centered completely around the securities lending-prime services division hub. AF&Co provides the services of a much larger broker-dealer but tailors those services to individual clients, with the added benefit of securities lending coverage. Through AF&Co, prime accounts can access high frequency trading and high touch agency execution, as well as correspondence clearing and unparalleled securities lending market access.

Additionally, AF&Co has no risky leverage structure that firms with large proprietary desks may have. Also, customers appreciate that AF&Co has no debt or leverage and has extremely limited risk. We offer triparty financing as well, for an added layer of safety.

What do you see as the main benefits of outsourcing?

With AF&Co securities lending-prime services, clients can 'unbundle' select services from their prime broker or clearing broker and outsource them to AF&Co. Clients get the benefit of a full-service securities lending team when and where they need it. This setup benefits customers with substantial cost savings. For instance, smaller broker-dealers that do not have a securities lending desk gain primary access to a full lending desk, with better rates and access to securities that are unavailable elsewhere. Trading customers gain a full-scale securities lending desk at a fraction of the cost of building one.

How are internal securities lending departments faring at the moment? What does this mean for AF&Co?

The general Wall Street downsizing created numerous opportunities for AF&Co, as hedge funds and traders look for improved services that their prime brokers or clearing brokers cannot or do not provide. Particularly in the securities lending, prime services and financing space, AF&Co is building on a number of these opportunities.

What should the buy side take into account when deciding whether or not to move securities lending to a provider?

At AF&Co, buy-side clients gain the top rates for their long positions as well as high rate, fully-collateralised cash investments. AF&Co also provides market anonymity. When customers lend their stock through AF&Co, they remain completely anonymous to the market, as the borrower ultimately sees only AF&Co.

Regarding regulatory requirements, AF&Co offers complete regulatory coverage and reporting. In addition, expected regulatory changes increase the value of the securities lending-prime services division's offering to customers. In the coming regulatory environment, we expect hedge funds will find it harder to obtain financing from their prime brokers due to balance sheet constraints. AF&Co offers its customers secure financing against different types of collateral.

As you can see, the union of securities lending and prime services at AF&Co truly represents the evolution of these two industries. Like Google and Apple, AF&Co's unique securities lending and prime services combination will continue to be an industry frontrunner, to the clear benefit of our customers. SLT

Post-trade made easy

Get on the Collateral Highway

Whatever your collateral destination

The right securities – at the right place – at the right time

© 2012 Euroclear SA/NV, 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium, RPM Brussels number 0423 747 369

In the rudest of health

SLT's Canadian experts agree that that lending in the country is strong, with increased interest in the mining sector and typical keenness for government debt helping to keep the country ticking along

STATE STREET.

How would you describe the current state of the Canadian securities lending sector?

Dave Sedman: The Canadian securities lending market is very healthy. Demand, supply and collateral have all fared well throughout 2012 and into 2013, contributing to a successful programme for our clients.

Spreads and volumes in 2012 were higher versus the previous year driven mainly by sector and stock specific demand for securities lending. There were a few special situations that contributed to the strong performance in the Canadian equity market, specifically the demand for Telus and Loblaws. Additionally, demand for securities in the mining sector helped drive demand throughout the year. Dividend Reinvestment Plan (DRIP) trading remains popular and has been contributing to client earnings. This year started out well with robust demand for European equities and strong demand for emerging market equities and sector specific names in Canada.

On the supply side, investors remain interested in securities lending as a way to generate incremental revenue in a very low rate environment. The supply of securities available in the market continues to grow, but at a measured pace relative to the growth in the capital markets.

Canada enjoys the safety and simplicity of being predominantly a non-cash market, which continues to be favored in the marketplace.

Nathalie Bockler: From the perspective of Societe Generale Corporate & Investment Banking (SGCIB), the Canadian securities lending market is healthy and robust. It continues to realise growth in terms of assets under administration, diversity of asset classes and trade structures such as collateral upgrade transactions and long term financing transactions. It is worth noting that just as other markets have witnessed dramatic concentration in past years with regard to participants, Canada has also experienced a significant increase in the number of counterparts active in the region.

> We are seeing expanded global demand from borrowers for Canadian securities, both in the equities and fixed income asset classes
>
> **Rob Ferguson**
> **Senior vice president, capital markets**
> **CIBC Mellon**

Alexa Lemstra: From an EquiLend perspective, we see the Canadian market continue to adopt automated trading. March 2013 EquiLend trade volumes showed an 11 percent increase over March 2012 with a trade value of $6.2 billion. The increase stems from a few variables. Clients have expanded trade volumes as they move to fully adopt the platform and automate more of their book.

A new interest in trading beyond the general collateral level has prompted a move to automate warm rate trades. We have also seen a rise in fixed income trading with the Canadian fixed income lender desks on AutoBorrow. Clients are operationally focused on reducing costs and mandating post trade services in their business.

Rob Ferguson: The Canadian securities lending market is both steady and stable, and we believe prospects are quite good overall—particularly given ongoing uncertainty around the world. For example, we are seeing expanded global demand from borrowers for Canadian securities, both in the equities and fixed income asset classes.

On the Canadian fixed-income side, we are likewise seeing much greater demand for Canadian government debt because Canada is one of the few remaining nations with a triple-A credit rating. While Canada is of course not immune to global challenges—for example, our economy is very closely tied to growth prospects in our largest trading partner, the US—we continue to face comparatively optimistic prospects, which mean Canada's brand is well-regarded in the eyes of many global players.

> There is definitely an increased level of confidence as the market gains stability, particularly on the reinvestment of cash collateral
>
> **Don D'Eramo**
> **Senior managing director, securities finance, EMEA and Canada**
> **State Street**

Don D'Eramo: The securities lending market in Canada is strong. We have new clients entering our program for the first time. And there is definitely an increased level of confidence as the market gains stability, particularly on the reinvestment of cash collateral. Clients are more willing to broaden their collateral parameters and are more willing to look at opportunities. We're also seeing more variety in the types of clients we are working with.

What are proving to be the most popular trades at the moment and why?

Bockler: Similar to other regions, there is a seasonal effect impacting the Canadian securities lending activity. More recently we have seen this effect complimented by regular day-to-day trading on collateral upgrades and term financing.

D'Eramo: Regulatory changes are creating great demand for non-cash collateral right now. In particular, clients are looking for high-quality collateral due to central clearing of over-the counter derivatives. In addition, bor-

STATE STREET.

rowers are increasingly looking to fund high-quality collateral with other asset classes, particularly equities.

Ferguson: Canadian M&A activity has picked up in recent years, driving up demand and lending volumes. There has also been a big move into collateral transformation activities, as Canada's highly-rated government bonds are both sought as collateral and offered up by owners seeking to extract value from their holdings.

The Canadian resource sector has been a hot market for financing deals, as oil, gas and mining companies work to position themselves against both current and future needs. This has certainly helped drive activity in the Canadian lending market. Canada's resource sector has seen a few bumps recently—for example, the recent decline in the price of gold—but overall has been very strong for Canada. We are one of the world's leading exporters of resources, for example, the largest supplier of petroleum to the US, and even as Chinese resource demand continues to be a growing factor in the sector.

Sedman: While mergers and acquisition activity has remained subdued, Canadian demand seems to be largely driven by individual directional issues, dividend yield enhancement trades and dividend reinvestment plan (DRIP) trades. The DRIP trade continues to yield attractive returns as demand remains strong with borrowers wanting to participate and compete for supply.

What will be the effects of Canada's regulatory change in October that expanded the definition of a "qualified security"?

D'Eramo: The proposed amendment to section 260 of the Income Tax Act remains a positive development to the securities lending industry in Canada. Expanding the borrowable universe of securities to include non-Canadian exchange traded funds (ETFs) and real estate investment trusts (REITs) will generally create opportunities for beneficial owners and borrowers that previously were inaccessible. While the immediate effects haven't been pronounced yet, this removes obstacles that had previously restricted lending of these securities.

American and European counterparts will allow Canadians to capture lending revenues on additional asset classes

Nathalie Bockler
Head of equity finance and Delta 1 sales Americas
Societe Generale Corporate & Investment Banking

Sedman: The expanded definition of a qualified security has and will continue to open additional opportunities for beneficial owners within the framework of a conservative Canadian securities lending program. With the explosion of ETF's and other unitised investments, the supply and demand of these products has opened a new area for securities lending participants. Not only will this allow us to lend this asset class on behalf of our clients, but it will additionally allow us to accept this type of asset as collateral.

Ferguson: Canada's federal government clarified the definition of "qualified security" to include any unit trusts that are traded on a recognised exchange—in Canada or in other jurisdictions around the world. This opens up the use of ETFs and unit trusts—both in terms of being lent and also in terms of acceptability as collateral against other loans. This is particularly helpful for the borrowers and holders of ETFs and unit trusts in markets outside Canada: because their borrowing needs and holdings are qualified securities, it makes it that much easier to participate in Canada's lending market.

Bockler: I do not think the change in regulation comes as a surprise to anybody. It was widely expected. It is the view of SGCIB that the impact will simply level the playing field with the American and European counterparts allowing Canadians to capture lending revenues on additional asset classes.

We estimate this legislation could potentially introduce upwards of 50B CAD in new assets to the market place. This is not insignificant.

How will the regulatory change make Canada more attractive to lending businesses?

Sedman: Canada has always been on the conservative end of the spectrum with respect to the securities lending market. Regardless of regulatory changes, the Canadian market should continue to provide investors with an attractive value proposition.

Ferguson: One of the big demand-side pressures being exerted on our securities lending market stems from the G20 nations' commitment that OTC derivatives must be cleared through central counterparties or be subject to much higher collateralisation requirements.

A new interest in trading beyond the general collateral level has prompted a move to automate warm rate trades

Alexa Lemstra
Head of Canada
EquiLend

This has been combined with credit downgrades around the world and market forces that

CIBC MELLON

STATE STREET.

SOCIETE GENERALE
Corporate & Investment Banking

are pushing participants towards a need to be much more strongly collateralised: the result is that Canadian government debt has become very attractive collateral. The appetite for these highly-rated instruments, along with the willingness of many holders of these instruments to respond to the demand, has created a fairly robust market for Canadian bonds—at the federal level, but also at the provincial level. On the operational side, central counterparty settlement and some ongoing structural changes in the Canadian repo market are also adding efficiency, which has likewise been good for volumes.

The Bank of Canada and the various Canadian regulators continue to be supportive of securities lending. They recognise that lending plays a valuable role in supplying liquidity to the markets, which in turn helps aid the efficient allocation of capital through the markets. I would also credit clients on both the owner and borrower side for demonstrating continued confidence in Canada's securities lending market through their ongoing participation in lending as well as through their input to regulatory stakeholders. Clients' views, support and overall satisfaction with securities lending are no doubt a lynchpin of regulators' favourable views on the practice.

D'Eramo: In two ways. For Canadian lenders, loans of non-Canadian ETFs and REITs would qualify as "securities lending arrangements" under Section 260. Prior to the change in definition, these loans did not qualify because foreign ETFs and REITs were not "qualified securities". Second, prior to this change, foreign ETF compensation payments paid cross border were subject to Canadian withholding tax, as these payments were Canadian-source income. Changing the source of these ETF compensation payments from Canadian to foreign will allow Canadian borrowers to make these payments without an obligation to withhold Canadian tax.

How are businesses looking to expand their collateral lists?

D'Eramo: Regulatory changes are driving borrowers to increasingly look for ways to transform or fund other and alternative assets. Clients are re-examining their risk appetites. As an agent lender, we work closely with our clients to illustrate and help them weigh the risks and returns on these market developments. We offer clients our view on the kinds of trades and collateral and talk to them about whether the approach aligns with their risk appetite.

Sedman: Collateral is one of the main areas that will continue to evolve within the securities lending market. Financing a variety of products will continue to be a priority for borrowers and prime brokers. With the expanded definition of a qualified security, the Canadian market is already showing its willingness to change and adapt to additional types of collateral.

Bockler: For borrowers, collateral can be the most costly element of stock borrowing. Those costs vary by counterpart creating strategic advantages and disadvantages. Canada historically accepted limited assets, Canadian bonds and US treasuries as collateral. In the past year

Strength in numbers

Ranked as one of the world's top investment banks by Bloomberg Markets and Thomson Reuters*, our global prime finance team has the perfect combination of skill, knowledge and responsiveness to assist our clients. As a leader in prime brokerage we offer access to difficult to borrow securities, capital introduction and a robust balance sheet. Count on our global market expertise to help you stay on top of market positions, around the clock and around the world.

Your ambition achieved.®†

CAPITAL RAISING • MERGERS & ACQUISITIONS • RISK MANAGEMENT • RESEARCH • INSTITUTIONAL SALES & TRADING

***Bloomberg Markets Ranking of investment banking fees, March 2012; Thomson Reuters Top 20 Global Investment Banking League Table for fees for M&A, Equity, Bonds and Loan transactions for the year to 12.31.12.** BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (formerly Harris N.A.) and Bank of Montreal Ireland p.l.c, and the institutional broker dealer businesses of BMO Capital Markets Corp. and BMO Capital Markets GKST Inc. in the U.S. BMO Nesbitt Burns Inc. (Member – Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Securities Limited (registered in the United States and a member of FINRA), BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India. ® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere. ®† Registered trademark of Bank of Montreal in the United States and Canada.

we have witnessed greater flexibility in collateral schedules with Canadian counterparts who have adapted their models to accept a wider range of assets including global equity.

Ferguson: Here at CIBC Mellon, we are constantly evaluating and reviewing asks from borrowers and matching them against the securities and changing collateralisation needs of our beneficial owner clients. We look at opportunities from a risk-adjusted basis, seeking opportunities to adjust or expand our collateral list: when it makes sense from a risk perspective, when it fits within our and our clients' risk appetites, then we move forward.

As OTC reforms come through, access to securities that have typically been used as collateral will become tighter with the increased demand. We expect clients on both the borrower and owner sides will be expanding their collateral acceptability guidelines to include a greater share of equities, secondary equity indices, multiple cash currencies, asset-backed securities and other secondary forms of collateral. As with everything else, each client's decisions come down to their individual risk appetite: do the returns and liquidity justify the risk for a given activity.

As the collateral transformation trades continue to evolve, demand may grow for Canadian government and government-backed collateral

Dave Sedman
Senior vice president and securities lending manager
Northern Trust

As a lending provider, our role is to help provide a clear and stable framework, iron-clad governance, and information to support clients in making lending decisions that are right for their businesses. We provide detailed reporting on various activities, risks and potential impacts that are designed to assist clients in assessing the opportunities available to them. So, in terms of expanding collateral acceptability, we don't provide clients with advice or guidance about their investment decisions, but we do make every effort to provide them with relevant information to support their decision-making.

Has the trend of collateral transformation been adopted in Canada?

Ferguson: Over the last few years, we have continued to see growth in this front. Collateral transformation activities have become more widely accepted as a way to meet expanded collateralisation needs under new regulations, and as a way to extract value when collateral held exceeds business needs in quality or quantity. This generally takes the form of lending out government bonds and taking equities or secondary, lesser-grade bond collateral along with a fee. This enables owners and borrowers to precisely fine-tune their collateral holdings against their business needs. For example, one of the popular trends has been lending out Canadian federal bonds against provincial bonds, with owners swapping their AAA-rated federal bonds against AA-rated provincial bonds.

D'Eramo: Collateral transformation has always been a component of our securities lending program in Canada. Our rigorous risk management approach has allowed us to take advantage of these opportunities when it aligns with our clients' risk parameters. It's all about the communication and knowing the client well. With a good analysis of the opportunities—including an understanding of liquidity, risks and transparency—and a good understanding of the clients' risk parameters, we can quickly and efficiently engage in discussions with clients about opportunities that are likely to be relevant to them.

Sedman: It is important to understand that as one of the last AAA rated sovereigns, Canada holds valuable collateral relative to other debt (collateral). As the collateral transformation trades continue to evolve, demand may grow for Canadian government and government-backed collateral. It is hard to predict how this will play out over the next several years as there is a shortage of high quality collateral predicted in the marketplace. To a large extent, holders of high quality collateral will need to be comfortable with the terms of the collateral transformation.

Bockler: It is our view that Canadian counterparts have not adopted collateral transformation but instead, they acted as market leaders in transformation. We have to remember that Canadian asset owners are quite sophisticated. **SLT**

markit

The Science of Finance.

Markit is a leading, global financial information services company.

We provide independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency.

Our client base includes the most significant institutional participants in the financial marketplace.

markit.com

Not an empty seat in the province

The Canadian Securities Administrators's proposed amendments to securities lending tackle the issue of empty voting. SLT takes a look

GEORGINA LAVERS REPORTS

The Canadian Securities Administrators, a firm responsible for securities regulations in all of the country's provinces, is attempting to tackle the thorny issues of insider reporting and empty voting, by appealing for comment on proposed amendments and changes to their current usage.

The objective of the amendments, stated the CSA, is to provide: "Greater transparency about significant holdings of issuers' securities by proposing an early warning reporting threshold of five percent, requiring disclosure of both increases and decreases in ownership of two percent or more of securities, and enhancing the content of the disclosure in the early warning news releases and reports required to be filed."

The CSA also proposed changes so that certain "hidden ownership" and "empty voting" arrangements are disclosed.

The shifting rulebook includes amendments to the early warning reporting requirements, which applies in all provinces and territories of Canada except Ontario. The province does not get off scot-free, however, with the CSA anticipating that amendments to its Securities Act will be proposed so that the substance of the changes can apply fully in Ontario.

A history of warning

The early warning system was introduced in Canada in 1987 as a result of proposals made by the Securities Industry Committee on Take-over Bids. The industry committee believed that a 20 percent threshold was appropriate for regulating take-over bids in Canada, but at the same time recognised that the accumulation of a holding of 10 percent should be disclosed as it could be a signal of a potential acquisition of control.

In June 1990, the CSA published for comment a proposal to reduce the take-over bid threshold to 10 percent.

"We indicated … that we were reviewing reform proposals to address hidden ownership concerns in other jurisdictions and were considering developing similar proposals for Canada," said a statement from the CSA.

It added that it had received a number of comments in support of developing comparable proposals for Canada, including comments from issuers, investors, law firms and investor protection organisations, and that no commenters opposed the initiative.

The basic requirements of the early warning regime are that, if a person acquires beneficial ownership of, or control or direction over, voting or equity securities of any class of a reporting issuer that would constitute 10 percent or more of the outstanding securities of that class, the person must issue and file a news release promptly and file a report within two business days. A person must also issue a news release and file a report for additional acquisitions of 2 percent or more of the outstanding securities.

CENTRAL COUNTERPARTY GUARANTEE.

UNSURPASSED RISK MANAGEMENT.

For nearly 40 years, OCC has provided high-quality clearing and settlement services and sound risk management at the lowest possible cost for the listed options market. Today, the protections of our financial guarantee and central counterparty role extend beyond listed options to financial and commodity futures, security futures, and securities lending.

THE FOUNDATION FOR SECURE MARKETS.

theocc.com

Amanda Linett, partner in the Toronto office of Stikeman Elliott, and Ruth Elnekave, a member of the corporate department in Stikeman Elliott's Toronto office, remarked in an online report that the amendments could affect the conduct of certain equity derivative transactions and related hedging activities.

"Currently, under the Early Warning Reporting (EWR) regime, prescribed disclosure is required by any investor that acquires beneficial ownership of or the power to exercise control or direction over 10 percent or more of any class of a public company's voting or equity securities," they wrote. Additional reporting is required on each incremental acquisition of two percent as well as a change in a material fact contained in an earlier report. However, there is leeway for certain eligible institutional investors, who can take advantage of relaxed timing requirements for early warning reporting under the alternative monthly reporting regime.

"In our view, our current threshold of 10 percent, introduced in 1987, does not respond to the reality of increasing shareholder activism and to the ability of a shareholder holding five percent to requisition a shareholders' meeting," said the CSA. "The objective of early warning disclosure is not only to predict possible take-over bids but also to anticipate proxy-related matters where a threshold of five percent may be critical.

It added that its own early warning disclosure requirements should recognise the realities of current markets where a significant accumulation of securities is relevant for purposes beyond signalling potential take-over-bids.

"We believe that changes to the scope of the early warning framework are required in order to ensure proper transparency of securities ownership in light of the increased use of derivatives by investors," the CSA added. "A sophisticated investor may be able, through the use of equity swaps or similar derivative arrangements, to accumulate a substantial economic interest in an issuer without public disclosure and then potentially convert this interest into voting securities in time to exercise a vote (this is referred to as hidden ownership)."

How to make friends and influence votes

As well as hidden ownership concerns, the CSA also started to grow uneasy with the practice of investors using derivatives or securities lending arrangements to hold voting rights without an equivalent economic stake and influence the outcome of a shareholder vote—a practice known as empty voting.

Though these types of arrangements may not be disclosed under current securities law, disclosure of them would be helpful in maintaining transparency and market integrity, said the CSA.

As a result, it proposed amendments that were intended to include certain types of derivatives that affect an investor's total economic interest in an issuer for the purposes of determining the early warning reporting threshold trigger. The changes would require disclosure of an investor's economic interest in an issuer, as well as its voting interest in the case of securities lending arrangements. An investor would also have to disclose that it has entered into related financial instruments and other arrangements with respect to the securities of the issuer, if this is the case.

"Under securities lending arrangements, the lender disposes of its securities and the borrower acquires the securities, generally along with the right to vote the securities for the duration of the loan," wrote Linett and Elnekave. The CSA stated that the current regime requires the lender and borrower to consider the securities disposed of and acquired, respectively, in determining whether the reporting requirement has been triggered, notwithstanding the duration of the loan.

In light of the proposed requirement to report 2 percent decreases in ownership, the reporting requirement would specifically apply to lenders under securities lending arrangements, absent available exemptions. However, wrote Linett and Elnekave, the proposals would excuse the lender (but not the borrower) from reporting securities lent out as a disposition under a "specified securities lending arrangement". This provides an unrestricted ability for the lender to recall the securities (or identical securities) before a meeting of securityholders and/or requires the borrower to vote the securities in accordance with the lender's instructions.

"Further, in order to provide the market increased transparency about the use of these arrangements, it is also proposed that securities lending arrangements in effect at the time of a reportable transaction be disclosed, even if such transaction did not involve the securities lending arrangement."

Sorting out the possibilities

As for what the proposed changes will mean for the Candian sector, Linett and Elnekave wrote that reducing the reporting threshold from 10 to 5 percent could benefit potential borrowers by identifying more broadly, and earlier in the process, lenders that hold 5 percent of the target securities, and allow issuers more time to defend against a potential borrower or activist shareholder.

"On the other hand," they wrote, "pre-bid accumulation transactions may be hindered, and potential acquirors would need to consider, in some cases, the earlier disclosure to the market of their intentions."

The proposed changes may result in increased compliance costs, largely to investment managers, mutual funds and other institutional investors, and Linett and Elnekave predict the volume of reporting under the EWR regime to increase significantly, particularly among public mutual funds that are subject to a higher portfolio concentration limit of 10 percent.

Also, investors who use derivatives and securities lending as a risk management tool in connection with short and/or long positions in an issuer's stock—and who may not have previously been caught—may have to publicly disclose holdings, and at the lower five percent threshold.

Ultimately, investors have three things to check off of their to-do list, wrote Linett and Elnekave. "They will need to plan early in connection with stock accumulations, consider carefully whether a particular proposed transaction is caught by the EWR regime—and generally assess possible implications in connection with reportable transactions such as the potential dissemination of investment strategies."

The CSA's request for comments is open until 12 June. **SLT**

The key issues

What the regime change will mean to those who count

- A decreased reporting threshold from 10 to 5 percent
- Clarifying that the reporting trigger applies to a 2 percent decrease in ownership and a decrease below the new 5 percent threshold
- Expanding the reporting trigger to capture certain types of derivatives that affect an investor's total economic return in an issuer
- Expanding the scope of required disclosure to include a broader range of interests and require more specific disclosure
- Making the Alternative Monthly Reporting regime unavailable to investors who actively engage with shareholders on certain corporate matters.

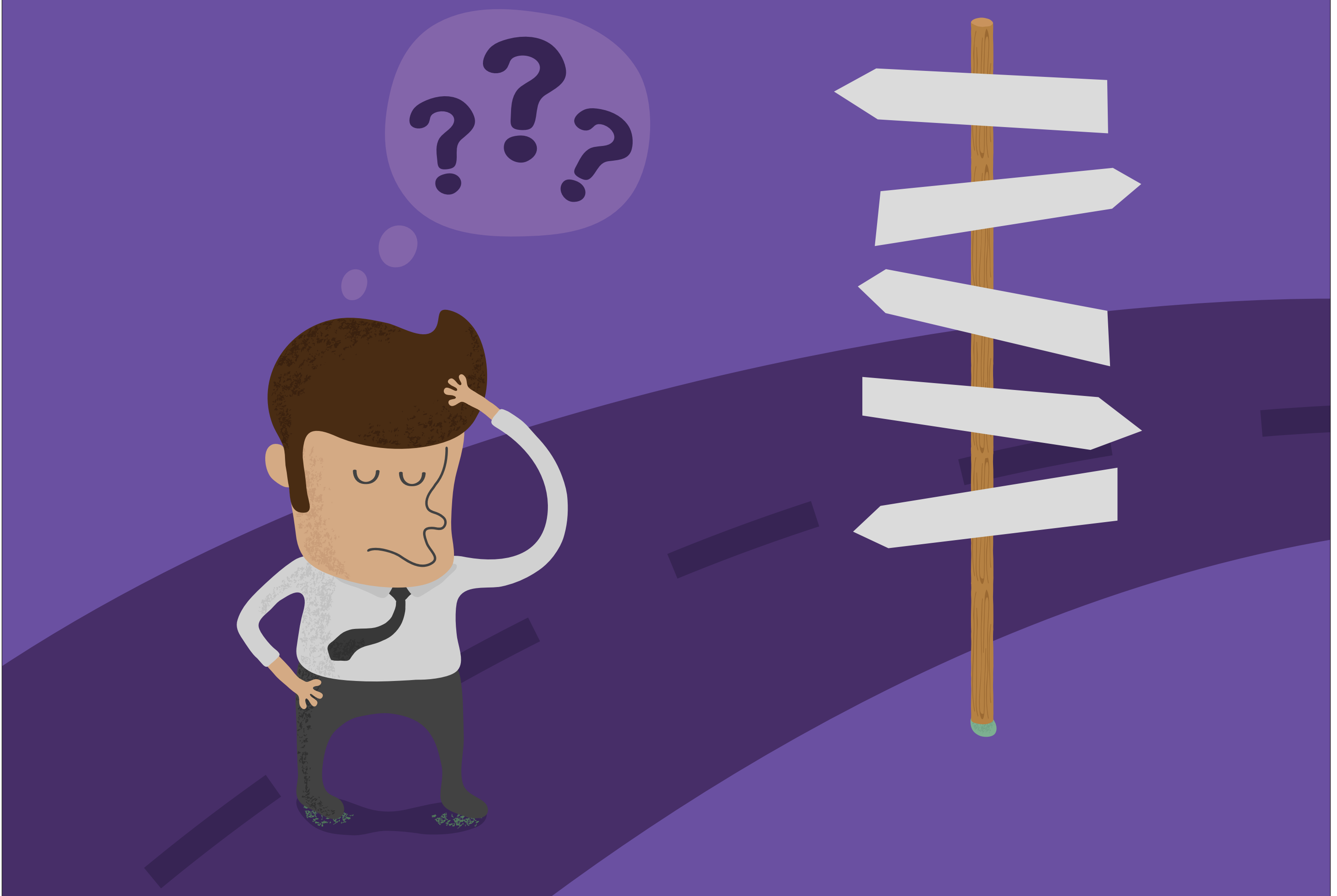
By your side in a complex world

Sell-side, buy-side or issuer, at BNP Paribas Securities Services, dealing with complexity is our speciality. We can help you find your way.

BNP PARIBAS
SECURITIES SERVICES | The bank for a changing world

securities.bnpparibas.com

BNP Paribas Securities Services is incorporated in France as a Partnership Limited by Shares and is authorised by the ACP (Autorité de Contrôle Prudentiel) and supervised by the AMF (Autorité des Marchés Financiers). BNP Paribas Securities Services' London branch is subject to limited regulation by the Financial Services Authority for the conduct of its investment business in the United Kingdom and is a member of the London Stock Exchange. BNP Paribas Trust Corporation UK Limited and Investment Fund Services Limited are wholly owned subsidiaries of BNP Paribas Securities Services, incorporated in the UK and are authorised and regulated by the Financial Services Authority. Details on the extent of our regulation by the Financial Services Authority are available from us on request.



The SOMA dilemma

Oscar Huettner of BondLend looks at the effect of the Federal Reserve's lending programmes on securities finance

In reaction to the financial crisis of 2008, the US Federal Reserve created a series of emergency financing programmes aimed at ensuring the orderly functioning of the US financial markets. The TSLF, CPFF, PDCF, AMLF, MMIFF and TALF each provided liquidity to specific sectors of the banking system. As the market stabilised, each of these programmes was wound down and the Federal Reserve reverted to its traditional limited arsenal of tools for supplying emergency liquidity to the financial markets.

While these emergency programmes have slipped into financial history, one rarely noted measure that the Federal Reserve undertook in 2008 has not been reversed. That is, the easing of the terms of the Federal Reserve SOMA lending programme and the dramatic increase in availability that it has provided to the securities lending market.

Traditionally, the Federal Reserve allowed dealers to borrow limited amounts of treasuries and agencies from its SOMA holdings on an overnight basis. It capped availability to 45 percent of its holdings in each CUSIP and charged a minimum fee of 100 basis points. Dealers could borrow a maximum of 100 million per issue and were restricted to bidding for no more than 500 million of securities in total.

In response to the severe market conditions in 2008, the Federal Reserve dramatically eased these terms. Ninety percent of each CUSIP was made available. Dealers could bid for up to 25 percent of the available supply and had their overall cap raised to 5 billion. More importantly, the minimum borrow fee was lowered to 1 basis point in December 2008. It was increased nominally in April 2009 to 5 basis points but still remains extraordinarily generous by historical standards.

Given the relative stability of the US treasury market at the current time, it is worth asking the question should the Federal Reserve alter its extremely accommodative stance towards lending its SOMA portfolio and revert back to its traditional role as lender of last resort? An examination of the Federal Reserve's SOMA holdings versus the market-wide statistics available in DataLend illustrates the dilemma the Federal Reserve faces in making this decision.

As of the end of March, the Federal Reserve held approximately 2.95 trillion securities; about four times its pre-crisis holdings. Of these, 1.875 trillion were notes, bonds, TIPS and agency securities. Most commentaries on the effects of Quantitative Easing (QE) have concerned themselves with the difficulties involved in unwinding these positions in the future. What they generally have not examined is how these positions

affect the current securities finance market. The Federal Reserve's holdings now dramatically exceed the combined inventories of the major agent lenders. DataLend reported a total inventory of 809 billion treasuries and agencies as of March month end and a total nominal on loan of 297 billion. This represents the vast majority of US treasuries available to the market from traditional providers. The Federal Reserve is now in a position where it is the largest single source of US treasury lending liquidity.

Pre-crisis, the Federal Reserve's daily securities lending balances rarely exceeded 2 billion. Since easing the terms of its SOMA lending programme, the Federal Reserve's outstanding loans have increased dramatically. The high water mark was June 29 2011 when Wall Street borrowed more than 37 billion of securities. Although daily levels decreased during 2012, we have seen a spike in 2013 with 28 March reaching almost 26 billion. If the terms of the Federal Reserve's SOMA lending programme were to revert back to pre-crisis levels would we expect to see an increase in agent lenders' balances of approximately 23 to 24 billion? The answer to this question is not as simple as you would expect.

More important to this discussion than QE1, 2 or 3 is Operation Twist. As a result of its targeting of specific maturities, the Federal Reserve now finds itself holding almost 71 percent of its portfolio in the 2016 to 2021 area of the curve. The Federal Reserve currently holds 245 individual treasury issues. For 105 of these, their holdings exceed 30 percent of each issue. For 77, their holdings exceed 40 percent and in 44 cases they hold more than 50 percent. The majority of these large holdings are concentrated in this 2016 to 2021 segment of the curve.

On 28 March 2013, Wall Street borrowed 112 different CUSIPs from the Federal Reserve. All but seven of these were borrowed at the minimum rate of 5 basis points. The highest average fee paid was 12.4 basis points. While it may be argued that the fact that most of these securities were lent at 5 basis points effectively put a floor under these issues and possibly the market as a whole, there is another factor to consider here. In reviewing these 112 securities against DataLend's inventory figures, 23 were not held in sufficient quantities by agent lenders to satisfy Wall Street's needs. Of the five issues with SOMA borrowings of 2.5 billion or more, none were held by agent lenders in sufficient quantity. All were within the 2016 to 2021 section of the curve

Looking closely at T 3.375 11/15/19, we can see the importance of the availability of the Federal Reserve's SOMA holdings to the overall liquidity of the US treasury market.

What becomes apparent from this analysis is how Operation Twist has led to a dislocation in the securities lending space. However unintentional, the Federal Reserve has created a situation where its holdings have dramatically limited the lending pool of certain securities. Further, it faces a dilemma that if it were to revert back to a 50 or 100 basis point minimum lending fee for its holdings, it would potentially be seen as punishing market participants for assisting with Operation Twist.

One possible solution to this dilemma might be for the Federal Reserve to vary its minimum fee based upon the proportionate size of its holdings. In the current environment, it is not difficult to envision the Federal Reserve moving its minimum fee to 25 or even 50 basis points for the majority of its holdings. This would not only aid agent lenders and beneficial owners, but it would also provide the Federal Reserve and the market with a means of price discovery in the securities lending space. For those issues where the Federal Reserve holds a disproportionate position it could set the minimum lending rate lower, eg, 10 or 20 basis points. If the programme were to be properly structured, it would serve as an important message to the market that the Federal Reserve sees the US treasury market moving towards a 'normal' structure.

Figure 1

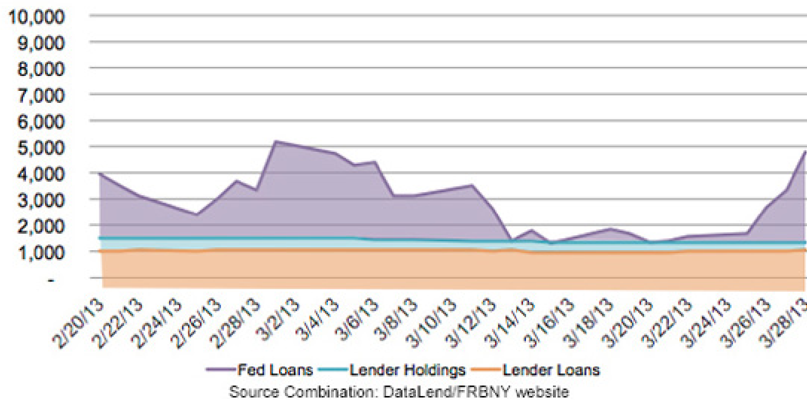


Figure 2

ISSUE	ISSUE SIZE	FED HOLDINGS*	LENDER HOLDINGS**	FED LOANS*	LENDER LOANS**	LENDER SHORT FALL
T 3.375 11/15/19	71,037	34,521	1,358	4,785	1,089	4,515
T 3.5 5/15/20	68,219	36,594	2,490	5,522	1,126	-4,158
T 1.25 10/31/19	29,000	14,519	1,012	2,987	678	-2,652
T 1.25 2/29/20	29,000	4,854	3,090	2,583	2,473	-1,966
T 3.626 2/15/20	71,595	27,744	2,405	2,785	1,489	-1,870

*Source: DataLend

All financial information in this article was sourced from FRBNY Website: http://www.newyorkfed.org/index.html* and DataLend**

Oscar Huettner
Director and global product manager
BondLend

DATALEND
OUR INNOVATION. YOUR ADVANTAGE.

Food groups satisfy investor appetite

The sector has become investors' favourite aggressive defensive play, says Alex Brog of Markit Securities Finance

Food and beverage stocks are shaping up as key beneficiaries of the great rotation from bonds to equities.

The sector goliaths Nestle and Diageo boast impressive price earnings valuations as well as attractive yields, at a time when investors are searching for alternative income rather than relying on government bonds.

Other traditionally defensive sectors have become less attractive with pharmaceutical companies facing patent cliffs, while long-term declines in profits and revenues have taken their toll on the dividend outlook for telecom companies, according to the Financial Times.

Attractive dividend income

The share prices of Nestle and Diageo have held up despite both companies posting earnings at the bottom end of analysts' expectations.

The dividend outlook is attractive with Markit Dividends forecasting the 12-month yield to be 3.3 percent for Nestle and 2.8 percent for Diageo. And both companies are forecast to post impressive dividend per share gains for FY13 with Nestle at CHF 2.2.

Alcoholic beverage companies such as Diageo have taken advantage of increased demand for alcohol brands from the affluent middle class in emerging markets around the world. Markit forecasts a 10 percent dividend per share increase to 53p. Budweiser maker Anheuser-Busch is expected to increase dividend per share by 16.9 percent to $2.6.

The average yield for the large cap European companies in the sector is 2.9 percent, with Britvic having led the way with a forecast yield of 4.6 percent.

Securities lending flows

There has been a noticeable improvement in the appetite of institutional investors towards the sector since mid-February.

The aggregate size of their lending programmes had fallen to an annual low of 10.3 percent of the total shares, but has since recovered to 10.5 percent.

All of the top 15 shares with the greatest proportion of their shares in lending programmes have seen increased year-to-date flows. Kraft Food Group and Hillshire Brands have led the way, with their lending programmes expanding by a quarter to 23 and 24 percent of the total shares respectively.

Short interest

Average short interest across the sector has held steady this year at around 1.4 percent of the total shares and short sellers appear to have targeted stocks facing specific challenges.

Perhaps unsurprisingly, Herbalife is the most shorted name with 23.5 percent of its shares on loan. The company has been caught in the crosshairs with prominent hedge funds raising Ponzi scheme allegations while others have defended the business. Matters have not been helped with the resignation of its auditors due to a separate insider dealing scandal.

With over two thirds of the shares that can be borrowed on loan, it would be hard to short more of the company, although short interest remains below the record high seen in early January of 26.6 percent.

Green Mountain Coffee Roasters has seen demand to borrow fall from the record high of 30 percent in October 2012, but the company remains heavily borrowed ahead of results early next month, with 21.6 percent of its shares on loan, which represents over two thirds of the lendable supply of shares.

Natural food producer the Hain Celestial Group has seen borrowing demand of its shares stand just off a record high at 17.9 percent, up 53.6 percent this year. **SLT**

Stock Name	Markit FY13 DPS (Gross)	Currency	Action*	FY13 DPS YoY Change	Markit 12mth Yield**
Britvic Plc ORD GBP 0.2, London Stock Exchange	0.203	GBP	Increased	3.4%	4.63%
Unilever Plc ORD GBP 0.03111, London Stock Exchang	1.156	EUR	Increased	7.0%	3.57%
Tate & Lyle Plc ORD GBP 0.25, London Stock Exchang	0.290	GBP	Increased	4.8%	3.52%
Nestle S A ORD CHF 1, SWX Europe Ltd	2.160	CHF	Increased	5.4%	3.31%
Unilever N V CVA EUR 0.16, Euronext Amsterdam	1.040	EUR	Increased	7.0%	3.31%
Anheuser-Busch InBev ORD EUR NPV, Euronext Bruss	2.600	USD	Increased	16.9%	3.26%
Nutreco NV ORD EUR 0.24, Euronext Amsterdam	2.250	EUR	Increased	9.8%	3.24%
Ebro Foods SA ORD EUR 0.6, Spanish Continuous Mar	0.510	EUR	Increased	6.3%	3.18%
Suedzucker AG ORD EUR NPV, XETRA	0.900	EUR	Increased	28.6%	2.94%
Diageo Plc ORD GBP 0.28935185, London Stock Excha	0.530	GBP	Increased	9.7%	2.79%

*Initiate includes the resumption of a previously suspended payout

**Yields are based on dividends going ex during the next 12mths

Name	% Total Shares on Loan	YTD % change
Herbalife Ltd	23.5%	-7.0%
Green Mountain Coffee Roasters Inc	21.6%	21.5%
The Hain Celestial Group Inc	17.9%	53.6%
The Boston Beer Company Inc	10.6%	-38.0%
Olam International Ltd	7.7%	-28.0%
Tootsie Roll Industries Inc	7.6%	-10.8%
Grupo Modelo Sab De Cv	7.4%	159.0%
Sanderson Farms Inc	6.8%	119.9%
Whitewave Foods Co	6.4%	291.1%
Mccormick & Company Inc	5.4%	25.1%

05 May

M	T	W	T	F	S	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

Markit Securities Finance and Equities Forum

Location: New York
Date: 9 May 2013
www.markit.com

Please join us for the Markit Securities Finance and Equities Forum on Thursday 9 May at the Times Center in New York.

06 June

M	T	W	T	F	S	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

Collateral and Clearing: Opportunity or Burden?

Location: Johannesburg
Date: 22 May 2013
www.sungard.com

Register now to attend this free evening seminar where senior industry practitioners will look at how the forces of regulation and competition are shaping the financial landscape

07 July

M	T	W	T	F	S	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

ISLA's 22nd Annual International Securities Lending Conference

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

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

08 August

M	T	W	T	F	S	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

18th Annual European Beneficial Owners' Securities Lending Conference

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

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

ACCESS FROM ANY DEVICE
SLT
SECURITIESLENDINGTIMES
DESKTOP
LAPTOP
TABLET
MOBILE
READ THE LATEST ISSUE OF SECURITIES LENDING TIMES ONLINE TODAY
THE INDUSTRY'S ONLY FORTNIGHTLY DIGITAL TITLE
SUBSCRIBE ONLINE FOR FREE AT SECURITIESLENDINGTIMES.COM

Industry appointments

Former Morgan Stanley employee **Edward Marhefka** has joined Markit Securities Finance as managing director and co-head of the business.

Working alongside co-head David Carruthers, Marhefka will lead and expand the Markit Securities Finance business in North America, providing senior engagement with securities finance clients to shape commercial and data strategy across the product set.

Marhefka spent 15 years at Morgan Stanley, most notably as managing director in bank resource management, executive director in equity securities lending and vice president in prime brokerage.

He also spent three years as co-head of North American equity financing services sales at Lehman Brothers.

In a statement, Brad Hunt, managing director of equities at Markit, said: "At a time when participants in the securities lending and repo markets face significant challenges and opportunities, we are fortunate to have strengthened our management team to help deliver the next generation of innovative services."

"Marhefka's deep understanding of client requirements and extensive relationships will be valuable as we seek to expand our offering and increase our relevance to our core securities finance client base."

His appointment follows a series of recent hires for Markit Securities Finance, including Steve Baker as director of product management for the recently launched repo content set and Pierre Khemdoudi as director of product management for the wholesale and sell-side securities finance business, both in February.

Aisling O'Boyle joined as vice president for sales and account management in the securities finance business in March.

Rule Financial has recruited **Neil Hookway** as a principal consultant in its domain group, based in London.

In his new role, Hookway will facilitate the delivery of a portfolio of projects to clients, most notably in the regulatory space. He will report to Jim Warburton, head of the domain group.

Hookway joins Rule Financial from the Royal Bank of Scotland (RBS), where he worked as global head of the firm's money markets and portfolio investment management IT investment programme.

Prior to his role at RBS, Hookway worked at the Man Group, Lehman Brothers and City Practitioners, and carried out consulting roles at Lloyds Bank, Deutsche Bank and Credit Suisse.

BCS Prime Brokerage has appointed **John Barker** and **Edward Golosov** to its board to join existing executive directors Rizwan Kayani and Vitaliy Shelikhovskiy.

John Barker joins as a non-executive director. Prior to this role, he was the chief executive and managing director of Liquidnet Europe. He was also head of international with responsibility for driving revenue across Asia, Canada and the move into Latin America.

One of the founding partners of BCS Financial Group, Edward Golosov, has rejoined as an executive director.

Having set up the firm's domestic and international brokerage as well as asset management operations back in 1995, he will now be responsible for product development across a range of businesses as BCS continues its expansion across Russia and into the UK.

Golosov was with Barclays Capital Fund Solutions from 2006 to 2011, where he was global head of structuring and origination.

Israel A. Englander's managed accounts and prime services (MA&PS) team has named **Brett Langbert** as managing director, responsible for directing sales and distribution.

Langbert previously held the roles of president and COO of HedgeCo Networks and president of HedgeCo Securities.

Prior to joining HedgeCo, Langbert worked at UBS, where he served as managing director and head of prime brokerage sales for the Americas region.

Sal Provenzano has joined the senior management team of Velocity Trade as the head of institutional FX.

In his new role, Provenzano will be responsible for enhancing the development of Velocity Trade's business initiatives, including relationships with new and existing FX prime brokers, FX liquidity provision and relationships with trading platforms.

Provenzano previously held the role of global head of FX prime brokerage at Prudential Bache. Simon Law, Velocity Trade principal partner, said that Provenzano has a depth of foreign exchange experience that was very attractive to Velocity Trade, specifically in terms of his ability to cultivate and support FX channels. **SLT**

SLT SECURITIESLENDINGTIMES

Editor: Mark Dugdale
editor@securitieslendingtimes.com
Tel: +44 (0)20 8663 9620

Deputy editor: Georgina Lavers
georginalavers@securitieslendingtimes.com
Tel: +44 (0)20 8663 9629

Reporter: Jenna Jones
jennajones@securitieslendingtimes.com
Tel: +44 (0)20 8663 9622

Publisher: Justin Lawson
justinlawson@securitieslendingtimes.com
Tel: +44 (0)20 8663 9628

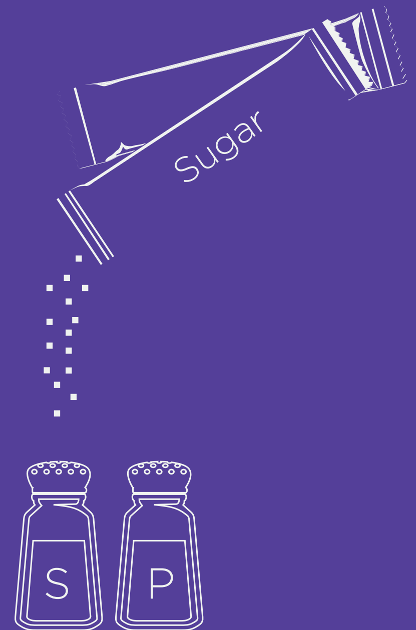
Marketing director: Steven Lafferty
design@securitieslendingtimes.com

Published by Black Knight Media Ltd
Provident House, 6-20 Burrell Row,
Beckenham, BR3 1AT, UK

Company reg: 0719464
Copyright © 2012 Black Knight Media Ltd.
All rights reserved.

DATALEND.COM

Have you ever felt duped?



Let's talk.

OUR INNOVATION. YOUR ADVANTAGE.

NEW YORK
+1 212 901 2200

LONDON
+44 207 426 4426

TORONTO
+1 416 865 3395

HONG KONG
+852 3798 2652

EquiLend LLC, EquiLend Europe Limited, and EquiLend Canada Corp. Corp. are subsidiaries of EquiLend Holdings LLC (collectively, "EquiLend"). EquiLend LLC is a member of the FINRA and SIPC. EquiLend Europe Limited is authorized and regulated by the Financial Services Authority. EquiLend Canada is authorized and regulated by IIROC. All services offered by EquiLend are offered through EquiLend LLC, EquiLend Europe Limited, and EquiLend Canada Corp. EquiLend and the EquiLend mark are protected in the United States and in countries throughout the world. © 2001-2013 EquiLend Holdings LLC. All Rights Reserved.

Predictability in an unpredictable world.

Depend on us for market insight, flexibility and unwavering commitment to service.

Expertise in securities lending. You face unpredictable markets and must respond to the evolving strategies of your clients and competitors. CIBC Mellon offers you flexibility through innovative thinking, market knowledge and open dialogue. You can depend on us for solid execution, professionalism, and a stable growing supply of lendable assets.

For more information on Securities Lending, please contact:

Rob Ferguson
+1 416 643 5260

Phil Zywot
+1 416 643 5400

cibcmellon.com

CIBC MELLON

©2011. A BNY Mellon and CIBC joint venture company. CIBC Mellon is a licensed user of the CIBC trade-mark and certain BNY Mellon trade-marks.