SLT
SECURITIES**LENDING**TIMES

ISSUE079
25.06.2013 TUESDAY
securitieslendingtimes.com

J.P. Morgan puts collateral on the front line of the trading floor

LONDON 25.06.2013

J.P. Morgan has ramped up its collateral management business—including increased asset tracking—to help clients navigate new industry regulations.

The firm indicated that core to these enhancements is 'Collateral Central', which provides clients with advanced asset tracking, margin management, proprietary optimisation algorithms and analytics to support collateral activities across a wide range of derivatives, securities and cash transactions in real time.

These capabilities aim for collateral management to be moved to the front line of trading and portfolio management decision making. Significant market structure changes, such as the US Dodd-Frank Act and the European Market Infrastructure Regulation (EMIR), are radically changing the requirements for clearing and collateral, with firms jumping on the predicted demand for additional collateral.

J.P. Morgan announced in a February investor presentation that, judging from industry estimates on the need for additional collateral to be at $500 billion to $5 trillion, it expected new revenue opportunities in OTC clearing and collateral management to garner $300 to 500 billion.

It pointed to a strong existing product capability, as well as entrenched client relationships as reasoning for the expansion.

Collateral Central includes the introduction of a virtual global longbox for J.P. Morgan clients—providing a single view of their collateral assets and obligations—as well as access to experts with whom they can discuss their collateral situation.

read**more p2**

SLTINBRIEF

Nigeria takes control of margin lending

The Nigerian Securities and Exchange Commission (SEC) and the country's central bank have introduced a set of rules to regulate margin lending.

read**more p2**

EACH wants CCP exemption from bail-ins

The European Association of CCP Clearing Houses (EACH) is urging regulators to exempt CCPs from the bail-in provisions of the banking recovery and resolution framework proposal.

read**more p2**

J.P. Morgan puts collateral on the front line of the trading floor

Continued from page 1

Kelly Mathieson, J.P. Morgan's global head of collateral management, said: "Clients are faced with increased market complexity and a changing regulatory environment with regard to how they think about their collateral."

"Collateral Central can help them navigate this new landscape. For the first time, clients can manage and optimise their entire collateral portfolio, regardless of counterparty, custodian or clearing bank and across all supported geographies. J.P. Morgan is the only collateral agent able to offer this comprehensive global solution."

Ricky Maloney, co-head of service delivery for IGNIS Asset Management, said that under the new regulatory framework, collateral has become very valuable to his firm.

"Understanding all the assets we hold, and the margin and other obligations that need to be met, allows us to manage our collateral optimally. Ultimately, that affects our bottom line."

The service was created and will be managed by the J.P. Morgan's agency clearing, collateral management and execution (ACCE) business within the corporate and investment bank.

The firm's announcement comes on the heels of other rivals' offerings in the space. The US's Depository Trust and Clearing Corporation and Belgium's Euroclear announced plans to develop a joint collateral processing service last month, and a source also reported that Clearstream will soon announce a similar arrangement with DTCC.

Nigeria takes control of margin lending

Continued from page 1

The SEC in the country has released a statement that blames "excessive speculative activities and unsupervised use of margin loans to fund investment in listed equities"—among other activities—for causing the country's stock market decline in 2008.

As a result, the SEC, and the Central Bank of Nigeri, have introduced a set of rules to regulate margin lending founded on the principles of risk-based supervision.

"The margin lending rules and guidelines provide for a Margin List," said the release—adding that the list is not an investment recommendation but rather a guide to those who wish to engage in margin activities.

"The SEC cautions that only persons and entities who are knowledgeable about margin activities should engage in such transactions. Retail investors who do not have the requisite knowledge should consult a knowledgeable financial expert."

The guidelines cover the type of securities that qualify as marginable securities as well as the profile of investors that may participate in margin trading.

They provide the criteria for determining marginable securities and a list of excluded securities. The guidelines also forbid bank stocks from being used as collateral for margin trading transactions.

The approved list of marginable securities is available on the SEC website, and include Trans National Corporation, UNILEVER Nigeria, and Dangote Sugar Refinery, which posted a 32 percent increase in its Q1 pre-tax profit year-on-year in May of 5.44 billion naira ($34.5 million), compared with 4.12 billion naira last year.

EACH wants CCP exemption from bail-ins

Continued from page 1

In its regular monthly meeting on 7 June 2013, EACH discussed the recent plans to amend certain elements of the banking recovery and resolution framework. The association was fully supportive of a clause which stipulates the exclusion by resolution authorities of liabilities arising from derivatives cleared and settled through an authorised CCP.

Not carving out contracts cleared through CCPs from the scope of bail-in would result in obstacles to the proper operation of CCPs, said the firm, adding that it would substantially reduce the effectiveness of a CCP's default procedures, and increase the risk of contagion to other market participants.

"In the event of member default, CCPs have rigorous procedures for the closing out of clearing members' positions to re-establish a matched book. These arrangements crystalise losses at the earliest possible stage, and prevent contagion to other market participants."

The inclusion of centrally-cleared contracts in the bail-in provisions of the bank recovery and resolution framework would potentially prevent CCPs exercising such procedures, added the firm. A CCP would be unable to liquidate a position with a failed clearing member which is subject to bail-in provisions. This would place the CCP in a position where it holds an un-matched book, increasing systemic risks.

"This important exclusion prevents potential damage to the stability of CCPs and consequently to the financial system and is consistent with the default management procedures in EMIR," said chairman Marcus Zickwolff.

The members of the association also confirmed the replacement of Rory Cunningham, LCH.Clearnet, by his colleague Perrine Herrenschmidt, head of public affairs at LCH.Clearnet.

"I would like to thank [Cunningham] for his dedication and hard work over the last years," said Zickwolff. "Without his constant and earnest commitment, the professionalisation of our association would not have taken place."

SEC fines CBOE for short selling failures

The Chicago Board Options Exchange (CBOE) will pay a $6 million penalty and implement ma-

jor remedial measures for "[failing] to enforce or even fully comprehend rules to prevent abusive short selling".

The US SEC said the fine is the first to be levied against an exchange for violations relating to its regulatory oversight.

An SEC investigation found that CBOE failed to adequately police and control a conflict for one of its member firms, online brokerage and clearing agency optionsXpress, which the commission charged with engaging in an abusive naked short selling scheme in April 2012.

In doing so, CBOE "demonstrated an overall inability to enforce" its regulatory responsibilities "with an ineffective surveillance programme that failed to detect wrongdoing despite numerous red flags that its members were engaged in abusive short selling", according to the SEC.

"The proper regulation of the markets relies on SROs (self-regulatory organisations) to aggressively police their member firms and enforce their rules as well as the securities laws," said Andrew Ceresney, co-director of the SEC's enforcement division. "When SROs fail to regulate responsibly the conduct of their member firms as CBOE did here, we will not hesitate to bring an enforcement action."

The SEC did take into consideration CBOE's attempts to rectify the situation after the investigation began. The exchange reorganised its regulatory services division, hired compliance and regulatory officers, updated written policies and procedures, and hired a consultant to review its enforcement programme.

In a statement, CBOE said: "All actions either required or recommended by the SEC, as well as those resulting from our rigourous self-review, have been or are now being implemented."

"This settlement marks a significant step in putting the SEC matter behind us, but our commitment to maintaining the very highest standards in regulation and compliance will be carried forward throughout our organisation."

SGX to introduce circuit breakers

Singapore Exchange (SGX) is consulting the public on proposed circuit breakers for the securities market.

It is proposing the introduction of circuit breakers to "safeguard against disorderly trading", according to an SGX statement.

It pointed to circuit breakers in operation in Australian, UK and US exchanges that also "seek to address sharp price movements in a traded instrument within a short period and give the market time to take stock of the situation".

Under its proposal, SGX will operate a circuit breaker comprising a price band of +/-10 percent of the price of an instrument.

The price band will adjust to reflect the traded price of the instrument.

If a trade is attempted at a price that is outside of the price band, the circuit breaker will trip, activating a five-minute cooling-off period. Trading can continue during this period, as long as it's within the constant price band.

Once the cooling-off period ends, the price band will be adjusted to reflect changes in the price of the instrument.

SGX is seeking comments from the public on a number of matters, including: the proposed range of instruments and markets to which circuit breakers will apply; the operation of the price band; and the treatment of related instruments under SGX's proposed circuit breaker model.

The public has until 3 July to provide comments to the consultation paper, which is available through the exchange's website. SGX plans to introduce circuit breakers by the end of 2013 subject to regulatory approval and industry readiness.

BofE wards off 'private interest' CCPs

The Bank of England has released a new article on central counterparties (CCPs) in light of its new responsibilities for the supervision of securities settlement systems and CCPs in the UK.

The article, entitled Central Counterparties: What Are They, Why Do They Matter and How Does the Bank Supervise Them?, sets out in simple terms the role that CCPs play in the financial system.

The systemic importance of CCPs will increase further, said the central bank in its article, after G20 leaders mandated in September 2009—in response to the financial crisis—that standardised OTC derivatives should be cleared through CCPs.

"Compared to a world of bilateral trades, a key benefit of central clearing is that it simplifies the network of exposures across different trading parties … as supervisor of these infrastructures, the bank seeks to ensure that they are managed and operated effectively to support its financial stability objective," said the article.

The central bank added that, if CCPs are operated only in the private interests of their managers, owners, or even their members, they may underinvest in the mitigation of risks to the wider system.

"The bank's role as supervisor is to ensure that these infrastructures are managed in a way that is consistent with the public interest, which includes reducing systemic risk. The bank's aim is to establish a framework that creates incentives for the operators of CCPs and other financial market infrastructures (FMIs) to manage and mitigate systemic risk."

Italian fund manager names global custodian

RBC Investor & Treasury Services will provide securities lending, global custody, collateral management, fund accounting, transfer agency, cash management, and risk and investment compliance services to Polaris Investment after being named the fund manager's global custodian.

In operation since February 2004, Polaris is the largest Italian platform domiciled in Luxembourg. It manages in excess of €6 billion in assets belonging to institutional investors.

Professor Alessandro Penati, director of Polaris, noted RBC Investor & Treasury Services's expertise in fund servicing, securities lending and collateral management as a reason for the mandate.

Mauro Dognini, managing director in Italy at RBC Investor & Treasury Services, added: "This is an important mandate for us with the leading emerging actor in the Italian fund industry."

UBS appoints ICSD for its investment bank business

UBS has appointed Clearstream as its primary international central securities depository, in a move that will consolidate the majority of its securities custody, settlement, and financing business.

Following an intensive 18-month assessment, which included a review of the global securities business of UBS' investment bank and wealth management business, the bank decided to realise front to back synergies using Clearstream.

It cited a strategic fit, flow consolidation and global securities financing services including Clearstream's Global Liquidity Hub for integrated securities lending, borrowing and collateral management services, as key reasons for the decision.

UBS Group aims to transfer the majority of its global investment bank business to Clearstream, who already services its wealth management business.

The phased migration is planned for late 2013.

Ulrich Hoffmann, UBS's head of group operations, said: "Our decision to appoint Clearstream as UBS' primary ICSD helps create synergies across the UBS Group. This is consistent with our group operations' strategy to further simplify, align, and consolidate our network and post trade processing, across all business divisions where possible."

Jeffrey Tessler, CEO of Clearstream, said: "The entire market is under unprecedented regulatory and commercial pressure and we are working hard to offer our customers the right solutions so that they can position themselves well for the future, such as via improved collateral management services."

The top five trends in prime brokerage

Finadium and SunGard have identified five key trends in prime brokerage services and technology that they say are driving new approaches to client service to help firms achieve agile growth, win new business, and retain clients in this rapidly changing space.

The top five trends are:

- Prime brokers remain one of the most important service providers for hedge funds, although the nature of this relationship is evolving. Hedge funds remain loyal to their prime brokers but also see their banks as more potentially vulnerable counterparties than in the past.
- Prime brokers must be equipped to make smart choices about where to allocate technology and service resources to balance capturing client loyalty with supporting hedge fund independence.
- As funds turn towards more listed and centrally cleared products, prime brokers must provide strong operational support and access to tools and services without enforcing exclusive relationships.
- Operations remains a critical service that

prime brokers offer to their hedge fund clients, but consulting services including legal and technology advice is becoming an important differentiator.

- Increased transparency and reporting appear to be the next frontiers for prime brokers in communicating with their hedge fund clients. In particular, equity-focused hedge funds are seeking more access to real-time stock loan data.

"A key challenge for prime brokers today is to understand how best to interact with their hedge fund clients, particularly around technology and services," said Josh Galper, the managing principal at Finadium.

"The right technology can become a revenue driver while the wrong technology may result in client frustration and losses. Prime brokers must closely evaluate their financial, operational and technological resources to determine the best mix for deepening relationships and franchises with their target hedge fund clients."

€2 billion lost revenue if FTT comes into play, warns ISLA

ISLA has responded in full to the Financial Transaction Tax, with stern implications that the tax as proposed would "close down" the securities lending market.

The International Securities Lending Association pointed out typical positives of the market, such as it allowing long-term investors generating incremental returns on their securities portfolios, and providing important liquidity to the secondary markets for both bonds and equities.

But, it warned, at least 65 percent of the European securities lending market would disappear as a result of the FTT, adding that France and Germany would be the markets most impacted, and EU 11 government bonds the asset most impacted.

It noted that over €2 billion of revenues would be lost to long term investors, with close to €500 billion of Euro government bonds would be removed from the lending/ collateral markets.

Shorter dated transactions would be disproportionately impacted, increasing the risk of settlement fails by possibly as much as 100 percent, and securities lending fee levels would need to increase by over 400 percent just to maintain current revenue streams for long term institutional investors.

Citi scoops up prime brokerage mandate

Citigroup has been appointed by Altera Absolute Russia, the Cayman-based fund, to provide prime brokerage, fund accounting and transfer agency services.

Altera Capital is an event-driven, long/short equity fund advisor primarily focused on highly liquid Russia and CIS-related equities with some additional investments in fixed income, FX, commodity futures, international indices and derivatives.

Viatcheslav Pivovarov, the CEO of Altera Capital, said: "I am confident that partnering with Citi is an important step to build a world-class platform and help global institutions achieve their investment objectives with Altera Absolute Russia Fund."

Sanjiv Sawhney, EMEA head of securities and fund services at Citi, added: "We look forward to helping Altera achieve their growth plans and make efficiency gains while reducing operational complexity."

"This mandate is a testament to Citi's continued success in developing strong relationships with hedge fund managers in emerging markets and supporting multi-asset strategies. It also highlights our ability to leverage cross-selling opportunities through the solid partnership between Citi's prime finance and securities and fund services divisions."

Moscow to welcome single stock futures

Single stock futures of well-known German underlyings will be made available for trading on

At Societe Generale Corporate & Investment Banking, our clients are our business. The EquiLend platform is fully scalable and creates significant efficiencies in our operations by supporting the full trade life cycle, from pre- to post-trade.

This enables us to focus on our main priority: generating returns and optimization for our clients to build long-standing relationships. Our forward-thinking partnership with EquiLend will enable us to continue to bring value to our customers.

EQUILEND

OUR INNOVATION. YOUR ADVANTAGE.

EQUILEND.COM

NEW YORK
+1 212 901 2200

LONDON
+44 207 426 4426

TORONTO
+1 416 865 3395

HONG KONG
+852 3798 2652

the derivatives market of Moscow Exchange in September 2013.

Moscow Exchange and Eurex Exchange, the derivatives arm of Deutsche Börse, agreed to list futures contracts of Deutsche Bank, Siemens, BMW, Volkswagen and Daimler in Moscow today, with Alexander Afanasiev, CEO of Moscow Exchange, and Andreas Preuss, deputy CEO of Deutsche Börse and CEO of Eurex, signing the deal.

In a statement, Afanasiev said: "This is an important step in our strategic partnership with Deutsche Börse. Our relationship, which began with a letter of cooperation in 2012, is developing and already bringing tangible results to our customers."

"We are excited to be broadening our derivatives offering, and are confident that futures on these leading German names will provide interesting new trading opportunities to investors."

Preuss added: "We are very pleased to contribute to Moscow exchange offering Russian customers easy access to single stock futures of some of the well-known brand names of the German industry, and will continue working together with our partners at Moscow Exchange to further expand our partnership."

Securities lending CCP comes along

Eurex Clearing has extended the product and service scope of its central counterparty (CCP) solution for securities lending.

Equities from three additional European countries have been accepted and a solution for voluntary corporate actions has been in operation since early June.

Blue chip equities from Belgium, France and the Netherlands are now eligible for the CCP service that already covers equities from Germany and Switzerland and a range of international fixed income instruments and exchange-traded funds.

A full range of voluntary corporate actions is also now included in the service, based on bilateral agreements between lenders and borrowers.

Eurex Clearing's new CCP service for securities lending went live on 22 November 2012. It was launched in partnership with Pirum Systems and Clearstream Banking.

Since its introduction, market participants committing to the securities lending CCP include DekaBank, ING Bank, Maple Bank, Natixis, Nomura International, Société Générale and Santander Global Banking & Markets.

"The design of the CCP service by Eurex Clearing ensures that the bilateral trade negotiation aspect of the securities lending market is retained and enables us to continue to manage our counterparty relationships," said Walter Kraushaar, global head of securities finance at Maple Bank.

"Eurex Clearing has provided pioneering features such as a specific lender licence that benefits both agent lenders and their beneficial owners," added Michael Cyrus, head of short-term products at DekaBank.

Thomas Book, CEO of Eurex Clearing, said: "We are happy our close cooperation with leading market participants has helped us to build our innovative offering. Our lending CCP service preserves the special structure of the securities lending market and offers the capital efficiency and safety of a proven and recognised CCP model—making our offering unique."

Industrial Alliance sticks with RBC

Industrial Alliance Insurance and Financial services has named RBC Investor & Treasury Services, part of the Royal Bank of Canada, as its global custodian.

RBC Investor & Treasury Services will continue to provide custody, foreign exchange and securities lending services to Industrial Alliance.

Commenting on the mandate, John Lockbaum, managing director of RBC Investor & Treasury Services in Canada, said: "Our history with Industrial Alliance, as well as our proven track record and leading position supporting Canadian insurers means we are ideally positioned to work with such an established company."

Sylvain Côté, senior director administration, systems and investment risk monitoring at Industrial Alliance said: "RBC Investor & Treasury Services was a logical choice for us. We have successfully partnered in the past and they have proven that they fully understand how we work and are aligned with our business."

Traiana expands connectivity for NDF clearing

Traiana plans to launch direct connectivity between its Harmony CCP Connect and LCH.Clearnet's foreign exchange clearing service, ForexClear, for non-deliverable forwards (NDFs) clearing.

Traiana's Harmony CCP Connect provides a workflow solution via the harmony network for both inter-dealer and client clearing, including CCP connectivity, trade routing, affirmation, matching, allocation, and reporting for OTC foreign exchange options and NDFs.

Market participants looking to clear foreign exchange trades under the new US Dodd-Frank Act and European Market Infrastructure Regulation rules can leverage their existing foreign exchange prime broker connectivity together with Harmony CCP Connect's matching and affirmation capabilities to get direct access to CCPs.

Harmony CCP Connect also provides a gateway to other leading foreign exchange infrastructure operators, ensuring participants can use their preferred trading, allocation and confirmation venues with complete interoperability.

Andrew Coyne, CEO of Traiana, said: "LCH.Clearnet is a key partner for Traiana and our customers. This complete end-to-end-connectivity solution will reduce the implementation times for participants to connect to ForexClear."

euroclear

Post-trade made easy

Get on the Collateral Highway

Whatever your collateral destination

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

Gavin Wells, CEO of LCH.Clearnet's ForexClear, added: "One of our main objectives is to enable our members and their clients to achieve regulatory compliance. By working with Traiana, as the leading foreign exchange clearing service, we are facilitating access to our world class risk management expertise while reducing some of the complexities associated with trade processing."

Short selling in Japan on the up

Short selling in Japanese equities showed signs of increasing in the last week of May as they moved into bear market territory amid concerns the US Federal Reserve will begin to taper its bond buying programme and the Bank of Japan will hold monetary policy where it is, according to Karl Loomes, market analyst at SunGard Astec Analytics.

Astec Analytics statistics show that borrowing of Japanese equities has been on the increase "even as the benchmark Nikkei has been sliding lower".

Loomes said: "While the Nikkei has lost around 21 percent of its value since 23 May, our data shows equity borrowing has increased 10 percent, hinting that those on the short side may still be expecting further declines in the Japanese market."

"Despite this however, compared to borrowing levels over the past 12 months, the current volume still falls far short of previous peaks. Some hope that despite near-terms concerns, comparatively speaking the outlook may not be entirely gloomy."

HSBC broker-dealer outsourcing solution goes global

HSBC Securities Services has rolled out its broker-dealer outsourcing solution to cover Europe, Asia, the US, Latin America, the Middle East and North Africa.

The broker-dealer outsourcing solution was developed in response to demands from broker-dealers that are looking for ways to reduce their capital outlay on technology and move to a variable cost model for core processing of post-execution services.

Colin Brooks, global head of sub-custody and clearing at HSBC, said: "This is a key investment and represents HSBC's continued commitment to servicing the developing needs of our broker-dealer clients."

Clive Triance, head of broker-dealer outsourcing at HSBC, added: "The global launch of our broker-dealer outsourcing solution follows a successful launch of third-party clearing and account operator services across Asia."

"Our clients will not only benefit from the immediate cost savings of moving to a variable cost model by using a shared hub for post-trade processing but also from HSBC's established expertise across different markets. We will continue to add new capabilities to this service to meet the evolving needs of our strategic clients."

BCS launches UK brokerage arm with new hires

BCS Prime Brokerage has officially launched its international brokerage business, with the firm's announcement that it has been granted UK regulatory authorisation by the Financial Conduct Authority (FCA) to deal and advise on investments and hold client assets, thereby marking.

A recent spate of new hires aims to support this core business launch, and to build out the firm's institutional coverage across Europe.

Executive directors include Rizwan Kayani and Joseph Dayan, formerly of Renaissance Capital and Unicredit respectively.

They are supported by non-executive director John Barker, the former CEO of Liquidnet Europe, and chief regulatory officer Wendy Langridge.

The management team also includes Tim Bevan and Luis Saenz, formerly of Otkritie Capital.

Joseph Dayan, executive director and head of markets, said: "BCS is committed to building a robust and transparent European business which can provide clients with both cost effective and efficient execution, as well as insightful and quantitative research."

"All members of the team have been hand-picked to maximise our skill set and we are confident that we can deliver a premium service to our global clients."

Plenty to sweat over

ISLA’s 22nd Annual International Securities Lending Conference took place in a picturesque Prague. Attendees came out in force for the informative panel discussions despite sweltering heat

MARK DUGDALE REPORTS

‘Shadow banking’ was one of the worst terms that could have been coined to describe activities such as securities lending, according to Steven Maijoor of the European Securities and Markets Authority (ESMA).

Maijoor was addressing attendees of the International Securities Lending Association’s (ISLA’s) annual conference in Prague. He was the first of two keynote speakers to take to the stage.

The ESMA chief gave an overview of the authority’s objectives—to protect investors, ensure the stability of European financial markets, and create a single rulebook for the EU’s 27 member states—before focusing on securities lending and the effects of related regulation.

Of shadow banking, he said it is “one of the worst terms that could have been invented for these activities”, as most are already adequately regulated and supervised.

But concerns do remain, including the opacity of activities, interconnectedness with more mainstream sectors, the size of business—Maijoor said that shadow banking covers some 9 trillion assets—and how best to regulate it, with more transparency needed.

On transparency, Maijoor said that he had discussed the need for more securities lending data, which regulators cannot access, with ISLA representatives at the conference.

Maijoor said: “[The] industry is willing to be helpful and give [regulators] a better picture of the market.”

Moving on to ESMA’s own regulatory initiatives, Maijoor explained that the authority’s consolidated guidelines on exchange-traded funds and other UCITS issues and repo and reverse repo agreements were not the result of negative feeling, but a necessity.

Among the more controversial guidelines was a requirement that all fees arising from securities lending, net of costs, “should be returned to investors”.

Maijoor stated that this “high-level principle” is in the interests of the market, and that any attempt to circumvent it may need to be addressed through regulation.

In a panel on collateral use, a panellist reaffirmed the long-held view that securities lending and repo desks should move closer together to provide a better overview of collateral.

Prior to the panel, attendees were asked whether the desks should move closer together, with 92 percent of respondents to the e-survey saying that they should.

One panellist agreed, after pointing out that a ‘global collateral shortfall’, as some have described it, may be off the mark, with more than 70 trillion securities available worldwide.

The panellist suggested: “Securities lending and repo desks should move closer together, as a lot of collateral is wasted. Coming together is more efficient.”

Another panellist said that as central banks stop pumping liquidity into markets, the practice of collateral multiplication, in which counterparties re-use collateral to create new credit lines, may be affected.

This could “hurt the real economy” in turn, the panellist explained.

Trade repositories for securities lending data came under fire during another panel discussion.

Warehouses of securities lending transaction data—similar to those for OTC derivatives markets, whose creation was legislated in the US Dodd-Frank Act and the European Market Infrastructure Regulation—are not yet a reality, but are already being discredited.

More than half of attendees participating in ISLA’s e-survey doubted their ability to reduce the potential for systematic risk in securities lending, with panellist Richard Thompson of Northern Trust saying that regulators’ focus on data might be missing the point of transparency.

He said that more data does not mean better transparency: “[It’s] not just about data; it’s about context and intent.”

Rather than trying to create trade repositories for specific transaction types such as securities lending, regulators should focus on the system as a whole, he said.

"If you take a product-specific view of the world, you are missing the intent … regulators should think in joined up terms."

Attendees also heard a great deal about the EU Financial Transaction Tax (FTT).

The European Commission outlined the details of the FTT in February. If it is adopted by the 11 member states that have agreed to it as drafted, the tax could be levied on equity, bond and derivatives trades as early as January 2014. It is subject to a key vote in July.

A panellist at the ISLA conference warned that the tax could have a damaging effect on returns and prevent securities finance participants from making a profit.

Repo markets would be the hardest hit, said the panellist, with an estimated cost of €198 billion to Europe's largest banks. The short average duration of repo transactions make them particularly susceptible to the tax.

The panellist added that proposed exemptions to the tax, including collateralised loans, central bank funding and central counterparties, could become a focus for business.

Another panellist said the FTT "just doesn't make any sense", while a third said EU regulators need to look at alternatives to the tax, which is in effect "a tax on liquidity". **SLT**

Longboxes and dream pools

In April, Clearstream and Standard Chartered agreed to collaborate on a customised collateral management solution for their mutual clients. SLT talks to Richard Glen about the dawn of location-agnostic collateral services

GEORGINA LAVERS REPORTS

What is the aim behind Clearstream's recent partnerships?

The partnership with Standard Chartered is the third that we have announced—the other two in place are with BNP Paribas Securities Services and Citi. The objective of this model, Liquidity Hub Connect, is to allow mutual clients to access inventory that they hold at these custodian partners as part of a much wider international financing pool. In reality, this means that whereas clients wanting to finance assets would have had to do a market delivery to our local custodian, we can now open an account at their custodian and mobilise any assets for financing via a book-entry transfer.

Where the Liquidity Hub Connect model specifically adds value is that we have automated that operational stream, making it easier for clients to physically manage their day-to-day activities. But at the same time, we also monitor the eligibility of the assets held in the domestic markets. So if a client comes to us and says it has a trade with a specific counterparty and it is able to finance a wider range of assets, what our technology allows us to do is look across all of the inventory pools it has with any of the partners that we're connected to 'virtually', and we can simply instruct on the assets that are eligible and mobilise them via one central mechanism.

What about partners that you're not connected with?

We're talking to a number of custodians looking to increase the collateral management options they can offer to both sell-side and buy-side clients, and so we expect BNP Paribas Securities Services, Citi and Standard Chartered to be the first of many more to come. Strategically, our intention is to make collateral location-agnostic and to support optimisation irrespective of where the client chooses to hold their inventory. This complements our wider Global Liquidity Hub strategy of helping clients get access to new liquidity and collateral pools and to help the market resolve the issues of collateral fragmentation.

How does this compare to other triparty service providers?

Where we have a competitive advantage against other triparty service providers is the fact that we're already live with our product and the fact that our processes work in real-time. As and when eligible assets become available in the local market, and when they need be used as part of any financing transaction, we can mobilise assets held with any Liquidity Hub Connect partner, in any eligible market, on a 'just-in-time' basis.

In contrast, some of our peers still rely on batch processes. This means that in terms of reaction time, our clients benefit from a much faster, more optimal access to financing. But at the same time, assets need to not only move in to be financed but also moved back in order to cover bilateral transactions, outright sales, maybe domestic stock loans and here, our system also carries out all the substitution and optimisation processing in real-time.

More and more institutions are looking to their global inventory pools and our system can operate across time zones, in real-time, in local time, and so can react when each individual market opens and closes. For example, you might hold assets in Asia at the end of the local business day that you could finance with European or US counterparties. A client can mobilise these assets at the end of the local day as part of their 'virtual' inventory pool to support European or US activities and then, as the Asian markets begin to re-open, we can monitor the local inventory needs in Asia and then re-align assets back into the domestic market to cover any bilateral obligations there when needed. When the client prints a new ticket, they don't need to tell us what they want to move from each location because that is something that we already see and more importantly, can immediately act upon.

How does the notion of a 'longbox' fit into this vision?

'Longbox' is a term used by some triparty agents to denote a main account used to support clearing and settlement and even local credit line requirements. Our Liquidity Hub model 'connects' into a client's 'longbox', meaning that as purchases, sales and transfers are instructed or settle at the custodian, the position manager within our collateral engine is refreshed automatically to allow us to screen any changes in eligibility and availability. This enables us to react accordingly to any local needs and optimise the use of their inventory in real-time both across the Liquidity Hub and their custodian network. **SLT**

Richard Glen
Head of global securities finance sales for the UK, Ireland and the Americas
Clearstream

Going rogue

Late nights, no vacation time and cancelled trades aplenty—just three of the warning signs that a trader is up to no good. SLT discovers the reasoning behind the risky practice

GEORGINA LAVERS REPORTS

In 1993, Allfirst Bank in Maryland hired foreign currency trader John Rusnak to bring profits from proprietary foreign exchange trading.

Prior to his arrival, foreign exchange trading at the bank was limited to assisting bank customers in hedging against currency risk—but treasurer of the bank Dan Cronin envisioned a future in which Allfirst reaped the benefits of a foreign exchange trading centre.

Ultimately, his decision would prove fatal. Rusnak ploughed on under his core—and wrong—trading belief was that the yen was going to rise against the dollar, and used spot transactions, forward transactions and options to incur losses of $691 million. Using techniques such as entering bogus options in the banking system and manipulating the bank's VaR calculations, Rusnak completely disengaged from the back office, hiding losses to buy himself some time and see if he could win back the money he had lost.

But time ran out. On 17 January 17 2003, Rusnak was sentenced to almost eight years in prison. AIB Group sold Allfirst to M&T Bank of Buffalo, New York, five months later, with more than 1100 Allfirst employees losing their jobs in the sale.

"In the late 1990s, the investment banking industry grew massively and very rapidly," comments Shaun Mathieson, a consultant for global banking and markets at software solutions provider SAS.

"Markets were going up, and at the time, it was easier to make a lot of money. Any occurrence of errors and people actively trying to defraud the organisations didn't cause much pain back then, relatively speaking, in fact, it was almost accepted as a cost of doing business."

"But when the markets started to crash, if people had been stepping outside the boundaries of their role, the losses became very big and the problems that were endemic across the industry started to show up. The consequence being that the back office, the middle office, and the risk functions put in place to control the banks hadn't evolved at the same rate as the front office, meaning the control structures around it were simply not as mature."

Ten years on, and the media laps up scandals of the fallen traders. Tom Hayes is the latest in the public spotlight; appearing in court charged with rigging the inter-bank Libor rate.

An ex-trader at Citigroup and UBS, he is accused of conspiring with RBS, J.P. Morgan Chase, HSBC and others to manipulate the key rate. Adding to the pile are Chen Jiulin, former managing director of China Aviation Oil in Singapore; Jérôme Kerviel, who is pending appeal of his conviction in Société Générale's €4.9 billion trading loss in 2008; and Kweku Adoboli's $2 billion unauthorised trading loss at UBS's investment bank.

The public sentiment around these individuals never strays too far from condemnation of the entire banking system—as well as disbelief as to how practices can go on for so long unnoticed.

Aside from the bank's internal risk controls, there are a few firms seeking to capitalise on the scandals. Ernst & Young developed new software in January alongside FBI investigators that scans emails for the most common words and phrases used by rogue traders and fraudsters.

According to the firm's research, these include 'cover up', 'write off', 'failed investment', 'off the books', 'nobody will find out', and 'grey area'.

"Emails, sent in their thousands, between employees, officials and external parties form the major part of what is mostly positive daily interaction in companies," said Rashmi Joshi, director for fraud investigation and disputes services at Ernst & Young, at the time. "Despite being the prime means of all conversations, such unstructured data plays almost no role in the compliance efforts of firms."

"While most organisations only focus on the numbers when investigating discrepancies, what we are seeing are ways of analysing words—emails, SMS or instant messaging—to identify and isolate wrongdoing."

Software provider SAS, meanwhile, is trying to catch the data-led market, with a system that automatically ingests lots of data from across the investment bank. This is a combination of trading data, existing controls that the bank has in place, market data and behavioural data—such as when people are logging into their work stations.

"Flagging alerts—for example, long-dated settlement instructions on a particular trade to push back the settlement date—a trade cancellation, or an off-market trade, are all marked on the report," says Mathieson. "Looking at the graph below, we can see that these are the three riskiest traders. With this individual here we can see how much they have been trading—quite interesting, because this individual has a very high-risk score but hasn't been trading at very high amounts. We have three zones: green, yellow and red. Anyone in red or yellow, a case starts in case management and a workflow will have started, and that trader will be under investigation from a specialist team."

Some indications that an individual is cause for concern are an increasing volume of cancelled trades; both market and dummy counterparty.

"There are a number of legitimate reasons why people could use dummy counterparties in the front office, but as can be the case, often there are people who are trying to defraud the bank and cover up positions," comments Mathieson.

"They will book their fake trades against dummy counterparties because there is less of a process associated with it. Nobody in the back office is going to pick up the phone to anyone else in another bank and ask if it recognises this other trade, which means that the trader in question has a longer period to play with … it is the same as using long dated settlement instructions."

Just emotion

As well as specific market activities, a case for suspicion can be formed from the most routine goings-on.

Take attendance, for instance, whereby an alert from HR identifies a staff member who has gone 12 months without taking any annual leave, and login times are monitored. "These can be suspicious because if a person is covering something up, they have to be there full-time," says Mathieson.

"Once they step outside the office for a week then they can't manipulate their metrics any more, their VAR will spike and they will be caught immediately. What is often the case as well is that they work much longer hours than everyone else, because they have to do their day job too."

Long hours; no holiday; and the constant fear of being found out—a rogue trader's life does not inspire much envy. While there are some aspiring heros in line for a big bonus, there can be more empathetic characters amongst the bunch, says Mathieson.

"Some rogue traders in the past have had that gambling buzz, and think they will take a punt on the market that isn't risk-managed, that isn't on one of their client accounts in the belief that they will both make a lot of money and be a hero."

"Then again, I believe that the more common cases arise out of the highly-pressured and intensely competitive environment. Somebody will make a mistake and lose, for example, £300,000; be very scared about declaring that and decide to not tell anyone in an attempt to cover it up and try and trade their way out of it." **SLT**

SAS's trader profile

Asset management volatility

The shares of European-listed discretionary fund managers have held up in recent weeks despite pockets of short interest, says Alex Brog of Markit Securities Finance

Anthony Bolton's recent announcement that he plans to step down from the running of Fidelity's China Special Situations Fund, after mediocre returns, has highlighted the plight of assets managers worldwide.

Despite equities having performed strongly this year, we have questioned whether an asset rotation has really taken place and highlighted increased volatility, especially in emerging markets.

These trends have made life hard for fund managers attempting to allocate funds with a view to outperforming markets, which are increasingly driven by the actions of the US Federal Reserve.

Also looming on the horizon is an expected shift, by retail investors, to lower cost ways of investing as a result of the Retail Distribution Review that is now in force in the UK.

If Europe follows the experience of the US, more investors will turn to exchange-traded products and this means reduced fees for the firms that provide closed-end funds and discretionary investing such as those covered in this report.

Recent underperformance

Looking across the listed European fund management firms, it is evident that the relative outperformance against the wider Euro Stoxx index has reversed. These asset management firms are now tracking the performance of the wider index.

However, at a stock level, there has been a marked difference in performance, despite all 10 of the European asset management firms having posted losses over the past week. Brewin Dolphin Holdings is the notable exception.

Over the past month, traditional long-only specialist F&C Asset Management has bucked the declining trend, having posted share price returns of 7 percent, yet the stock is still down 5 percent this year.

At the other end of the scale, shares of Man Group are down 29 percent in the last month alone, although year-to-date returns are mildly positive at 7 percent.

The second biggest hedge fund globally, by AUM, has been hit by performance figures that showed steep losses for its flagship AHL fund.

The Financial Times highlighted the problems faced by CTAs (of which AHL is an example) arising from sudden market swings. Most recently, they have struggled to compute the implications of a sell-off in global bonds amid concerns about the US Federal Reserve tapering its quantitative easing programme, after years of rising prices, and the reversal of the Nikkei's Abenomics-fuelled rise.

According to hedge fund research cited in the Financial Times, the average CTA has made just 2.4 percent since the beginning of 2009, having lost money in three of the past four years.

Low short interest but exceptions

Despite macro uncertainty and concerns about emerging markets, short sellers have covered positions in the European-listed asset mangers from the year-to-date high of 1.6 percent to 0.9 percent. However, the overall trend shows rising negative sentiment.

This masks differing sentiment towards Man Group and F&C Asset Management, which have both seen short interest increase sharply in the last month.

Man Group

Demand to borrow Man Group has risen sharply over the past month as the shares have retreated from the year-to-date high, but stock on loan at 0.5 percent of the total shares is still far lower than the annual high of 3 percent seen at the end of March.

F&C

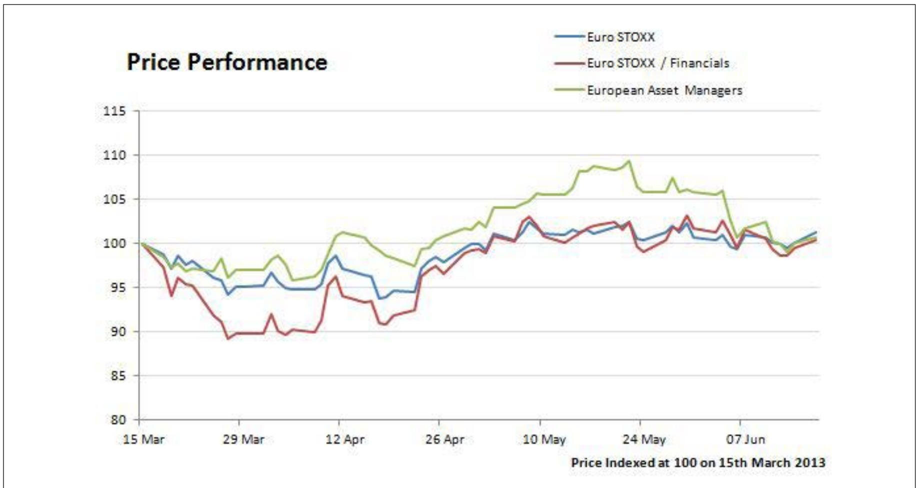
Demand to borrow F&C has almost doubled in the last month to 1 percent, but is still below the FTSE All Share average 1.3 percent of the total shares. Having said that, the company has the worst fund flow record of the six UK-listed asset managers, according to the Financial Times.

Aberdeen Asset Management

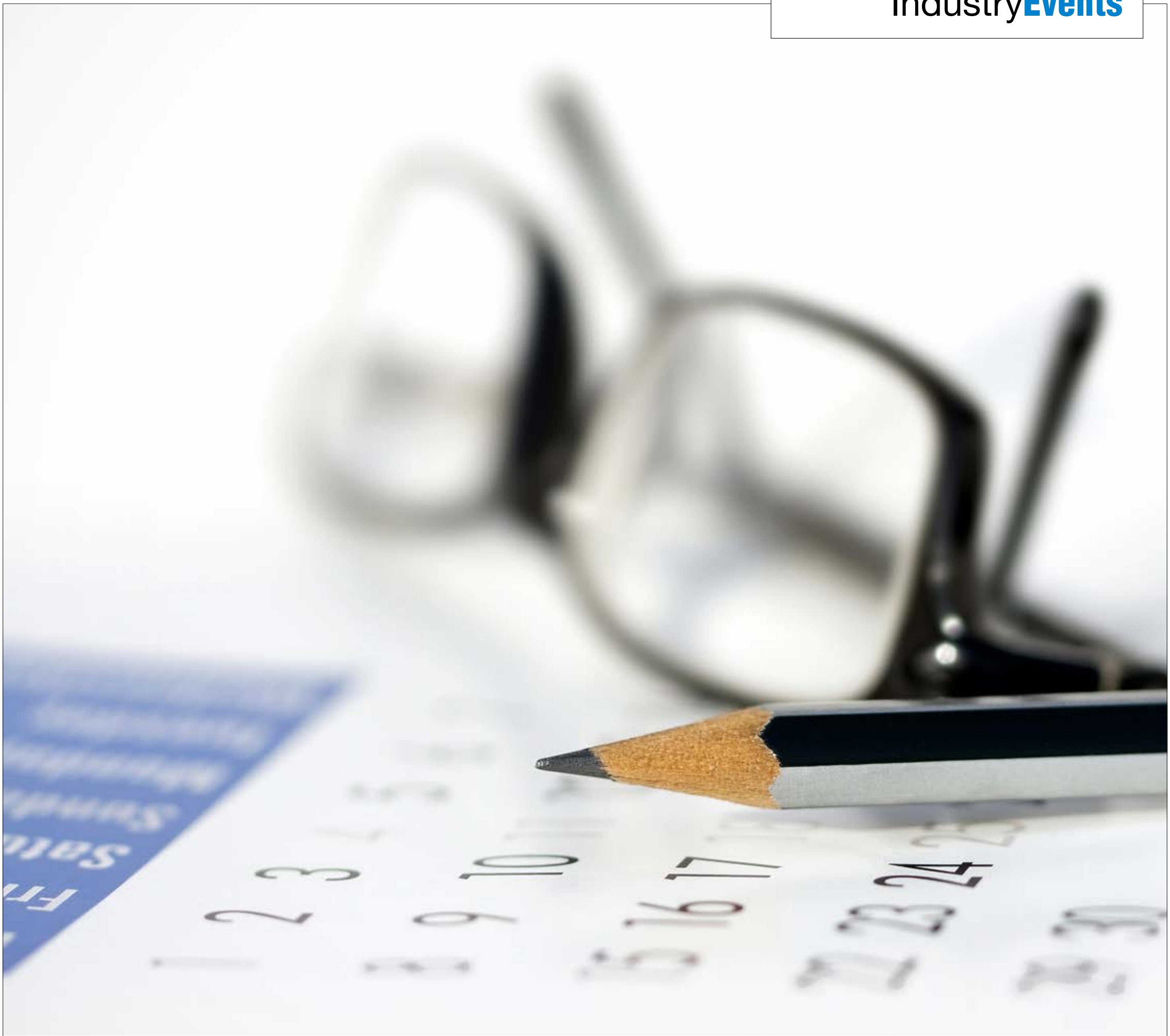
Prior to the recent sell off, Aberdeen Asset Management's share price was roaring higher on fund inflows. Being quite strong in fixed income and emerging markets, late May saw the price fall 20 percent. But it remains a strong performer (albeit never on a private equity multiple as high as that of Schroders) with falling short interest at under 2 percent. Historically, the borrow in Aberdeen was convertible bond-related in any case.

Azimut

Italian-listed Azimut Holdings is the only European-listed asset manager to see material short interest of 4 percent of its total shares on loan. **SLT**



Markit Securities Finance



18th Annual European Beneficial Owners' Securities Lending Conference

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

Dedicated to meeting the information and networking needs of the beneficial owner community for nearly 20 years, IMN's European beneficial owners' securities lending conference attracts over 250 attendees annually, including 65+ beneficial owners.

7th Annual Collateral Management

Date: October 9-10, 2013
Location: Amsterdam, the Netherlands
www.finance.flemingeurope.com

Europe's oldest, best known and most anticipated conference focused purely on collateral is back! The most prominent and the market leader, now more focused and innovative than ever.

Securities Lending: 2014 Outlook

Date: 21 Nov 2013
Location: Citi offices, Stirling Square, SW1Y 5AD, UK
www.securitieslendingtimes.com

SLT and Citi invite beneficial owners and consultants to a seminar looking at navigating securities lending in exceptional times.

Industry appointments

BNY Mellon has made two new senior appointments to push growth of its global collateral services (GCS) business.

Drew Demko has returned from London to New York to become head of GCS financial institutions and intermediaries, reporting to Jonathan Spirgel, head of GCS sales and relationship management.

He was previously head of broker-dealer services—and more recently GCS—for the Europe, Middle East and Africa region.

Jeannine Lehman has been appointed business head of GCS EMEA, reporting to Jim Malgieri, head of GCS service delivery and GCS regions.

She will also continue in her role as head of BNY Mellon's secured finance business in EMEA on an interim basis, and remains based in London.

Omgeo has hired **Jeannie Shanahan** as its new managing director of governance, risk management and compliance (GRC).

In this role, Shanahan will focus on developing and implementing risk-based compliance programmes that support Omgeo's ongoing commitment to providing services that reduce operational and counterparty risk and promote regulatory compliance.

Shanahan will lead Omgeo's legal and regulatory compliance initiatives to ensure all Omgeo services promote compliance with anti-money laundering/OFAC mandates, insider trading, records retention and anti-bribery/corruption laws and regulation.

She will additionally drive the organisation's SSAE 16 compliance through control testing and reporting, validating the strength and effectiveness of Omgeo's controls over the integrity of its solutions and the security and confidentiality of information processed through its systems.

Most recently, Shanahan served as a credit risk director with State Street Global Advisors, where she developed and executed global credit risk programmes. Prior to State Street Global Advisors, she held senior management positions at Fidelity Investments and Bank of Boston.

The board of directors for the International Swaps and Derivatives Association (ISDA) has appointed **Stephen O'Connor** as full-time chairman.

In this position, O'Connor will continue to take a leading role in derivatives industry reform while assuming a more active, hands-on involvement in driving ISDA's strategic initiatives.

"The pace and scope of those initiatives continues to increase given global regulatory reform and the continued evolution of the financial markets and the OTC derivatives business," said ISDA in a release.

"To address these needs, the decision was made to appoint a full-time chairman who could devote more time and energy to directing and leading the association."

O'Connor joins ISDA full-time after serving as a member of its board since 2008 and as the chairman of the board since April 2011. During this time, he was a managing director at Morgan Stanley, which he joined in 1988.

During his 25-year career with Morgan Stanley, O'Connor held a number of senior positions in regulatory reform strategy, clearing and counterparty risk management.

"ISDA's mission, leadership and activities have never been more important in building safe, efficient markets for all users of derivatives," said O'Connor.

"I look forward to a more active role in working with ISDA CEO Bob Pickel and the ISDA team to address the important issues facing our markets."

Raymond Vuyst is leaving Synechron just over a year after joining the IT company, a source has exclusively confirmed.

Vuyst joined Synechron from ABN AMRO on 1 May 2012 as managing director based in Amsterdam. He joined the IT company with Sander Baauw.

In his role at ABN AMRO, Vuyst was in charge of IT solutions for the securities financing and the equities derivative departments. **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