SLT
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Mitsubishi adds securities lending to Butterfield Fulcrum

Mitsubishi UFJ Trust and Banking Corporation (MUTB) will acquire Butterfield Fulcrum, promising that the fund administrator will offer securities lending.

Glenn Henderson, CEO of Butterfield Fulcrum Group, said: "This acquisition will reinforce our ability to deliver the highest quality fund services to our clients, while significantly increasing our breadth of products and services, our geographic reach and our financial strength."

Butterfield Fulcrum will become the global alternative asset administration platform of MUTB. The senior management team, as well as all management and staff in all Butterfield Fulcrum offices, will remain with the company.

"We expect to add numerous additional client services in the near future, including banking, custody, trust, foreign exchange and securities lending," explained Tim Calveley, deputy CEO of Butterfield Fulcrum.

"We will be leveraging its global brand and presence along with Butterfield Fulcrum's industry leading technology and talent to expand into new geographies and client opportunities."

He added: "Importantly, for existing clients, it is business as usual. Our valued clients will have the same client team, same technology and the same high quality of service they expect and deserve. That is our highest priority."

Financial terms of the acquisition were not disclosed.

The transaction is subject to normal regulatory approvals. Evercore Partners served as exclusive financial advisor on the transaction and Ropes & Gray provided legal counsel.

Olivetree extends branch to SunGard

Olivetree Financial Group has selected SunGard's Astec Analytics to provide the users of its OTAS platform with faster, more comprehensive securities lending data, intended to align the short interest indicator with other key market metrics that OTAS monitors.

"The speed of delivery and the breadth and depth of the data provided by SunGard's Astec Analytics, as well as their understanding of our business, were key decision factors when selecting them as a securities lending data provider," said Olivetree Financial Group's managing director, Charlotte Wall.

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BNP Paribas Securities Services accesses collateral

BNP Paribas Securities Services has launched its integrated collateral management solution, Collateral Access, for both the buy- and sell-side.

Patrick Colle, CEO at BNP Paribas Securities Services, said: "Providing a solution to mitigate counterparty risk remains at the heart of customers' requirements. But our clients expect even more than that from their custodian."

"Optimisation and protection of collateral are becoming critical decision factors; whether long or short, clients want to be able to maximise the use of their assets. Those in need of collateral must best allocate their limited resources or effectively source eligible assets."

He added: "Protection of the collateral portfolio is also a key concern."

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Olivetree extends branch to SunGard

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"Data from Astec Analytics has allowed us to offer our clients a competitive trading advantage by providing an early, data-driven indication of market sentiment, helping them to make smarter trading decisions,"

Users of Olivetree's OTAS service will benefit from Astec Analytics's current and historical lending data for more than 33,000 equity and fixed income securities on global markets.

BNP Paribas Securities Services accesses collateral

Continued from page 1

"As a custodian with Global SIFI status and a unique combination of buy- and sell-side clients in our books, we are naturally best placed to safe keep, optimise and transform clients' collateral."

Hélène Virello, head of collateral management at BNP Paribas Securities Services, said: "We are seeing increasing demand from clients to support them with a solution through the entire transaction process—from trade capture to reporting, including liquidity solutions.

"Collateral access allows our clients to be fully compliant with new regulations through limited investments and within a short timeframe. We work with an open model, interfaced with multiple counterparties, clearers, custodians and market infrastructures. It has been carefully designed to address the challenges facing the industry in the years to come."

Three custodian banks face ratings review

BNY Mellon, State Street and Northern Trust are facing reviews of their long-term ratings because of narrow margins in core custody services and an over reliance on ancillary services such as securities lending, according to Moody's.

The rating agency placed the long-term ratings of the banks, including their bank financial strength ratings, all long-term senior debt, subordinated debt, and preferred stock ratings, on review for downgrade on 2 July.

The ratings review will focus on the long-term profitability challenges facing BNY Mellon, State Street and Northern Trust.

"These profitability challenges are driven by the aggressive pricing of all three banks' core custody products and services, such that their overall fee revenue is roughly similar to their total expenses. The review will also examine the banks' ability to generate more revenue from custody-related services and cut costs," said Moody's in a statement.

All three banks have "a strong, sustainable franchise in that their core custody businesses benefit from significant barriers to entry as well as favourable secular trends", said Moody's.

On top of this, they have significant asset management franchises. "These durable businesses, as well as the banks' liquid balance sheets and good capitalisation, underpin their very high ratings."

As a result, any downgrades "are likely to be limited to one notch".

Despite each bank's significant market share, "pricing in the core custody business is very competitive, resulting in narrow margins", said Moody's.

"This makes the banks reliant on revenue from ancillary services to add to profitability, but these revenue sources have come under pressure. Specifically, net interest income has been constrained by low interest rates, foreign exchange revenue has been hurt by lower volatility and increased scrutiny of pricing, and securities lending revenue has declined due to lower demand."

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"The review will consider if the banks are overly dependent on ancillary services to generate a healthy level of profitability."

Moody's added that as interest rates rise, the banks' earnings pressures will recede, but "the demonstrated vulnerability of their business models to protracted low interest rates constitutes a concentration risk".

"This concentration risk may not be consistent with the business model resilience expected for a very high 'aa3' standalone credit assessment."

The changing asset mixes of BNY Mellon, State Street and Northern Trust will also be a factor in the review, because each has large securities holdings that could be affected by Basel III capital requirements.

BNY Mellon and State Street declined to comment. Northern Trust is yet to respond to a request.

Greece may be back in the short selling game

Greece's capital markets regulator will lift a short selling ban in August now that the country's major banks have been recapitalised, according to reports.

It was in May that the the Hellenic Capital Markets Commission (HCMC) decided to extend its ban on short selling until the end of July, stating that the decision was due to the country's recapitalisation plan.

In a statement, HCMC said that its board considered "the process of recapitalising the lenders" in its decision—referring to the €50 billion set aside to inject capital into the country's four big banks, and to scrap some smaller lenders.

The European Securities and Markets Authority (ESMA) published its opinion on the emergency measure, stating that it was appropriate and proportionate in relation to the country's current situation.

"ESMA considers that the measure which is targeted at credit institutions admitted to trading on the Athens Stock Exchange remains appropriate and proportionate to address the ... threats that persist in Greece."

"[The authority] considers that the duration of the measure is justified and appreciates the HCMC's statement in its notification of intent whereby the measure may be lifted during the period of enforcement of the measure, if appropriate."

Stock up your collateral larder, says SunGard

Establishing a global inventory is a vital first step down the road to collateral optimisation, said SunGard in a recent whitepaper.

Authored by Ted Allen and Ed Hellaby, the paper admits that while inventory management is important, it's rare to find information about a pragmatic approach to how to make the next step and institutionalise a collateral optimisation programme.

"One of the reasons we have had such little industry press activity focus on the 'how' is because optimisation is an unknown domain for many collateral practitioners," said the paper.

The approach undertaken by many in the past has been manually intensive and usually involved ranking assets based on a firm's preference and a waterfall allocation to requirements.

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"However, in a world of increasing collateral requirements and a larger number of collateral pools, the process of optimisation becomes one that increases in complexity as volumes grow."

The paper explains different optimisation cost models, and collateral allocation methods.

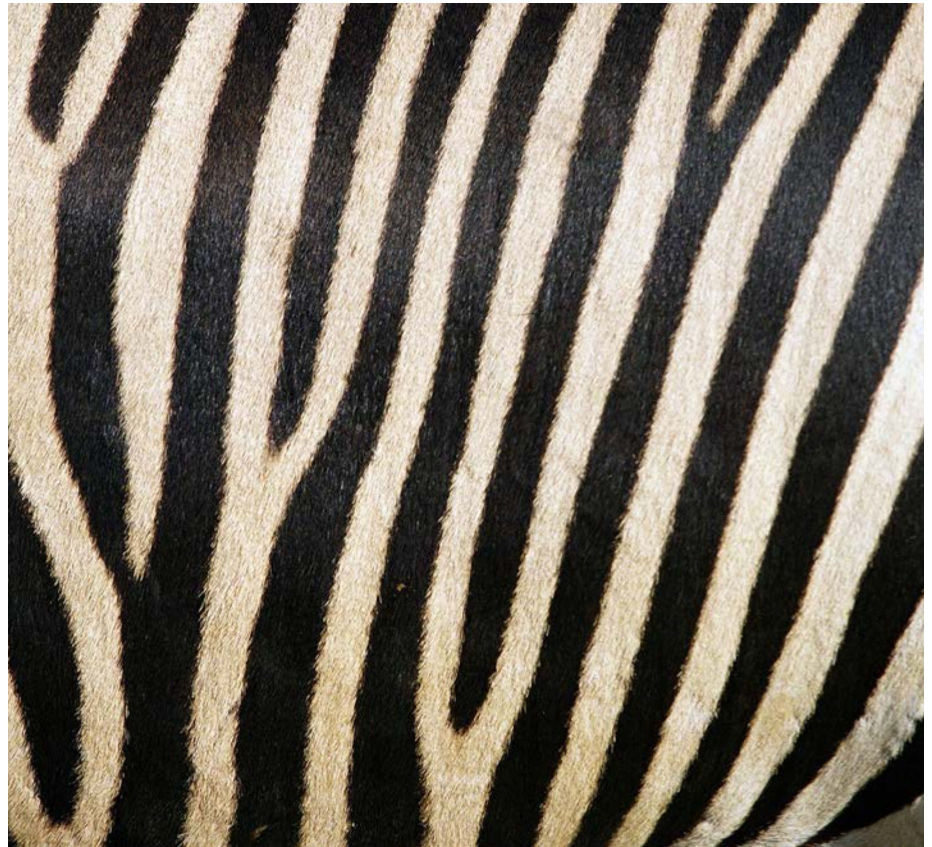
UK bans short selling in Portuguese bank shares

The shares of three Portuguese banks were banned from short selling in the UK on 4 July.

The Financial Conduct Authority imposed the ban, which was in force between 8am and 11.59pm, because of the volatility of recent trading in the UK. The ban applied to the shares of Banco Comercial Portugues, Banco Espirito Santo and Sonae Industria SGPS.

The ban followed a similar move in Portugal. The country's financial markets regulator prohibited short selling in the shares of the banks there.

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



SGSS gets Trifecta mandate

Societe Generale Securities Services (SGSS) in South Africa has been mandated by Trifecta Capital Services to provide custody services.

These services will initially be provided in South Africa, with further implementation planned in other jurisdictions where Trifecta Capital Services is present.

SGSS was retained by Trifecta Capital Services for its expertise in providing securities services in South Africa and its expanding presence in sub-Saharan Africa. It also recently extended services in Mauritius, Ghana and Tunisia.

Trifecta Capital Services provides outsourced services for private and public sector clients, with offices in South Africa, Kenya and Europe.

It delivers outsourced services in revenue management, asset return, transfer secretarial services, corporate actions and shareholder administration to private and public sector clients, which include banks, telecommunication companies, insurance and assurance companies, as well as fund administrators and governments.

Naked short selling complaint lands on SEC's desk

An illegal short-selling complaint has been made to the US Securities and Exchange Commission (SEC) by Life Partners Holdings's CEO Brian Pardo.

Following an independent investigation by former SEC senior counsel Gary Aguirre, Pardo announced that evidence was found of "coor-

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dinated market manipulation" and naked short selling of Life Partners's stock in and around 26 September 2012.

Life Partners Holdings's primary operating subsidiary Life Partners Inc operates in the secondary market for life insurance. As a financial services company, it earns fees from providing life settlement purchasing agent services to both individual and institutional clients.

It also acts as a policy provider to funds purchasing life settlement policies and buys policies for its own investment.

As a result of this investigation, Pardo has filed a whistleblower complaint on Life Partners's behalf with the SEC against a number of persons and entities suspected of illegal short-selling activities.

Gary Aguirre has had extensive history with the SEC. Previously an enforcement lawyer for the agency, he was paid a $755,000 settlement in 2010 in a wrongful-termination suit.

Aguirre was fired for "insubordination" after he accused the firm of botching a probe into the prominent hedge fund Pequot Capital Management, stating that it had refused to interview Morgan Stanley's then chief executive John Mack as part of the Pequot probe due to his "political clout".

In his complaint, Pardo describes Life Partners as a microcap stock with 18.4 million issued shares. Pardo holds more of than half of these shares, which are unavailable for trading.

Accordingly, Life Partners has less than 9.2 million shares available for trading and usually less than one million shares are available for borrowing. In the 12-month period before September 2012, Life Partners's stock had an average daily trading volume of 112,000 shares.

The complaint attempts to demonstrate that market participants, identifiable through blue sheets, manipulated the price of Life Partners' stock on 26 to 27 September 2012, through massive naked short selling in violation of the SEC's Regulation SHO.

"A public announcement of highly favourable news after the market close on September 25, 2012—Life Partners success in a legal action—generated strong upward pressure on the stock price when the market opened on 26 September," said a statement on the firm's website.

"Over the next two days, approximately 15.2 million shares traded. The upside pressure was resisted by aggressive short selling at the bid from the market's opening on 26 September and continued unabated until a price reversal on 27 September."

"Over these two days, at least 2.16 million shares were shorted at the bid, a type of trade that fits within no exception to the legal borrow requirements. Altogether, a staggering 6.96 million shares were sold short over the two days. At the time, there were at most 1 million shares available for borrowing and perhaps none. Major violations of Reg SHO were a virtual certainty."

Financial Industry Regulatory Authority settlements with UBS and Credit Suisse speak to the enormous magnitude of naked short selling, said Pardo in his complaint. He also pointed to the recent SEC settlement with the Chicago Board Options Exchange as showing: "How an self-regulatory organisation was compromised by those who engage in naked short selling."

The exchange recently agreed to pay a $6 million penalty and implement major remedial measures to settle the SEC's charges, which were that the firm suffered systemic breakdowns in its regulatory and compliance functions, including a failure to enforce

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or even fully comprehend rules to prevent abusive short selling.

Pardo's complaint contained accusations of other violations, such as the requirement that short sellers must deliver by the settlement date. If 6.96 million shares were properly borrowed, they would have resulted in an increase of shares on loan.

But by 3 October 2012, the day after the settlement date for the trades on 27 September, the shares on loan had only increased by 27,600 shares, said the statement. "If the shorts were not covered by the settlement date, they were naked and in violation of Reg SHO."

Pardo said: "It is a tragedy to realise that there are well-known financial entities that intentionally try to destroy companies with these abusive tactics, without any regard for the lives of the workers and the investors they ruin."

"The original purpose of our financial markets was to bring capital to companies so they could grow and, in turn, contribute to the growth of our whole economy. This small group has hijacked our financial markets for their own gain. I just hope that the SEC will use the clear evidence we have provided to them to bring those who are working against our economy to justice. In my view, naked short selling is a form of financial terrorism."

BNY Mellon receives patent key collateral patent

BNY Mellon has been awarded a US patent for a process enabling the secure management of collateral between counterparties via its Margin DIRECT service.

The US Patent and Trademark Office granted the patent covering the Margin DIRECT product, which provides custody and liquidity services for posted margin collateral in counterparty transactions.

It offers "a strong element of risk mitigation between counterparty relationships" and helps "to facilitate marketplace liquidity through the use of a third party custodian", according to BNY Mellon.

"One of the most important lessons learned from the financial crisis is that institutions require capabilities that help maximise liquidity and access to collateral," said Kurt Woetzel, CEO of BNY Mellon's global collateral services business. "With today's new regulatory requirements, there is an increased emphasis on collateral—clients need to know where to find it, how to protect it and how to unlock additional investment potential, while also working to reduce counterparty exposure."

The patent's named inventor, Jonathan Spirgel, who is head of liquidity services and sales and relationship management in the global collateral services business at BNY Mellon, added: "The Margin DIRECT process helps our clients achieve their investment goals, while also helping to minimise counterparty exposure. This patent demonstrates both innovation and the powerful combination of BNY Mellon's expertise and its market-leading practices."

June highs and lows at Eurex

As a group, Eurex international derivatives exchanges averaged a daily volume of 10.8 million contracts in June. This was down slightly from 11 million in 2012.

Of those, Eurex Repo, which operates Swiss franc and euro repo and general collateral pool-

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ing markets, reported an average outstanding volume of €248.3 billion in June.

In the same month in 2012, average outstanding volume was €245.4 billion.

On its own, the general collateral pooling secured money market recorded an average outstanding volume of €174.1 billion, an increase of 11 percent year-on-year.

The euro repo market reached an average outstanding volume of €39 billion, which was down from the June 2012 high of €45.1 billion.

The Swiss franc repo market also saw a dip from the previous year, achieving €35.2 billion. The market enjoyed a €43.8 billion June in 2012.

OneChicago Q2 trading volume soars

One Chicago's trading volume for Q2 2013 has increased 80 percent year-on-year with volume of 780,133 in June 2013.

Open interest stood at 586,014 contracts on the equity finance exchange at the end of June 2013.

Exchange futures for physicals (EFPs) and blocks traded hit 747,870. June 2013 EFPs and blocks activity represented $3 billion in notional value.

Fifty-eight percent of June 2013 month-end open interest was in OCX.NoDivRisk products.

"Our volumes are continuing to increase year over year, demonstrating the industry's steady adoption of single stock futures," said David Downey, CEO at OneChicago.

"We anticipate that this trend will continue to grow as investors seek to diversify their strategies and leverage the benefits our products have to offer."

OCC stock loan activity up 28 percent

OCC's year-to-date stock loan activity is up 28 percent from 2012 with 638,520 new loan transactions in 2013. The average daily loan value at OCC in June was $56,188,067,455.

Securities lending central counterparty activities saw a five percent decline in new loans from June 2012 with 114,816 transactions last month.

Cleared contract volume in June reached 367,660,030 contracts, an 11 percent increase year-on-year. OCC ended the first half of the year with total cleared contract volume reaching 2,142,294,926 contracts, two percent higher than the first half volume of 2012.

Exchange-listed options trading volume reached 361,180,257 contracts in June, an 11 percent increase from June 2012.

Average daily options trading volume for the month was 18,059,013 contracts, 16 percent higher than June 2012. Year-to-date total options volume is up 1 percent with 2,112,336,178 contracts in 2013.

Futures cleared by OCC reached 6,479,773 contracts in June, up 59 percent from June 2012. OCC cleared an average of 323,989 futures contracts per day last month, a 67 percent increase year-on-year.

Year-to-date cleared futures volume is up 77 percent with 29,958,748 contracts in 2013.

Rule Financial expands in Poland and New York

Rule Financial has announced year-on-year growth in revenues of 25 percent, global expansion, and the recruitment of further banking domain specialists and technical experts.

The firm stated that market demand for nearshore development has seen revenues generated from development in Poland trebling between 2012 and 2013, and is driving the requirement for a second development centre in the city of Poznań.

In Q1 2013, Rule Financial expanded its New York office and opened a second US office in Boston, to cater for the growing demand from buy-side firms. With the opening of these two new offices and further jobs created across its five other locations, the company has seen its global headcount rise to nearly 600.

The firm also expanded the team with several new hires based in its London headquarters. Derek Perry and Emily Cates joined as specialists in operational processing and design, Neil Hookway joined as a specialist in treasury markets and change management, with Graham Wood completing the list of new hires, joining as a specialist in operational risk.

Chris Potts, CEO of Rule Financial, said: "To ensure our people continue to deliver only the highest levels of service, we have rolled out our 'talent opportunity programme', as part of which our junior employees receive coaching and advice from our highly experienced practice heads and senior management."

"The expansion in North America also provides a platform for us to begin working more closely with buyside firms, who (as our research into preparation for Dodd-Frank reforms in 2012 discovered), are also in need of support in order to be ready for the impending deadlines. Rule Financial is ideally placed to meet these regulatory demands by providing specialist services which are now in great demand."

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IOSCO's eye on ETFs

The association of securities regulators took a keen look at ETFs recently and suggested that its members implement a set of principles. Ronald Landry of CIBC Mellon tells SLT how they could affect securities lending

MARK DUGDALE REPORTS

Why did IOSCO release these principles? What was the aim?

The growth in exchange-traded funds (ETFs) globally has drawn the attention of regulators around the world. Various market participants have expressed concern about the potential impact of ETFs on investors and the marketplace. The International Organization of Securities Commissions (IOSCO) is aiming to provide both the industry and regulators with a set of principles to assess the quality of the regulations and industry practices concerning ETFs. The focus of these principles is to provide a common framework to help regulators assess and govern ETF activities within accepted boundaries, which in turn will provide confidence to investors and other stakeholders.

One principle encourages the disclosure of related fees and expenses, including the eventual impact of securities lending on these—how might regulators interpret this?

Regulators might interpret IOSCO's guidance as supporting disclosure of securities lending splits, which would result in lending agents' fees being disclosed to the street. Arm's length lending agents might take some issue with this section, as they will likely see it as being in response not to their own practices, but to the small number of ETF providers lending their own books of business—in turn creating concern among ETF investors regarding fee splits.

While investors and funds on first brush might be keen to see disclosure of lending fees and splits, there are also potential issues that run counter to their interests. There are good reasons for lending agents to have different fees for different clients, for example, the amount or type of lendable assets affect the value of the lending portfolio. If disclosure of splits becomes a requirement, lending agents could be forced to standardise. If regulators do choose to go down this road, it will be important to ensure that ETFs and other funds face a level playing field with consistent standards.

What have ETF providers and their lending agents done in this regard already?

From a Canadian perspective, there are strong regulations governing securities lending for ETFs and other mutual funds, which provide funds and their investors with significant assurances regarding what is permitted in terms of fund activities, including securities lending. Of course, regulators do grant exemptions to various rules on a case-by-case basis, for example, allowing ETF providers or their affiliates to act as their own lending agents or allow third-party lending. These situations could potentially affect some of the protections for funds and investors. It is up to ETF providers to fully disclose their activities, and to ETF investors to inform themselves regarding any exceptions a given fund may have received.

There seems to be a focus on retail investors in the report—how do ETF providers market their ETFs to retail investors, and what do they tend to tell them about securities lending activity? Is informed consent possible, and why?

In Canada, ETF providers cannot sell directly to retail investors, so they market to retail investors through registered advisors. Securities lending activities are not new tools; mutual funds have been lending for years. The status quo will likely continue in terms of disclosure requirements. In terms of expanding awareness, the securities lending industry has taken some good steps towards expanding public awareness that securities lending provides various market benefits related to liquidity, price discovery and so forth. The Canadian Securities Lending Association has been particularly effective in this regard.

Specific disclosures related to lending—and the informed consent associated with them—are generally contained in offering documents and other financial reports, which disclose to investors whether or not an ETF or mutual fund is allowed to engage in securities lending, as well as the fees earned by the funds through lending. Securities lending revenue is paid to funds net of agent fees for providing the lending service. These service fees cover a number of activities depending on the type of lending arrangement, for example: ensuring the funds seeking to lend are compliant with relevant regulations; performing due diligence on borrowers; managing collateral; and, providing indemnities against certain risks associated with the lending programme.

How does IOSCO address counterparty exposure and collateral management in its report?

IOSCO's guidance speaks to a various concerns, such as overexposure to a single counterparty or transacting with related parties. There is also a focus on the quality of the collateral provided, and an intent to ensure it is of the same nature or quality as the securities making up the reference index or benchmark. The guidance will likely encourage regulators in markets around the world to ensure that strong rules are in place around such activities. Here in Canada, strong rules are already in place regulating counterparty exposure and collateral quality under NI 81-102, the regulations governing Canada's ETFs and mutual funds. **SLT**

> "Securities lending activities are not new tools; mutual funds have been lending for years. The status quo will likely continue in terms of disclosure requirements"

Ronald Landry
Executive director, ETFs and alternative investments
CIBC Mellon

A possible exodus

Did Swisscanto's bowing out of securities lending sound a death knell for the sector in Switzerland? SLT investigates

GEORGINA LAVERS REPORTS

It was not a good day for the Swiss securities lending sector when Swisscanto announced that it was abandoning the practice.

As a joint venture of the 24 Swiss Cantonal Banks, the large asset manager and fund provider has been offering pension solutions for more than half a century, and it was an important part of the securities lending business in the country.

But this changed with its September 2012 announcement, which cited conflict of interest, investor right restrictions and a lack of transparency as just a few of the reasons for bowing out of securities lending.

Peculiarly, the asset manager then brought out survey results in May, which seemed to show that securities lending is on the wane in Switzerland.

The dramatic events that took place in the capital markets in 2008 led pension institutions to rethink their approaches to lending and borrowing, said the firm, adding: "Many funds are aware that the supposedly risk-free and temporary lending of securities contained dangers hitherto barely considered, such as counterparty risks, for which it may not be possible to compensate due to relatively low earnings."

One of the results of the survey was a particularly damming graph showing that the majority of pension funds holding less than five billion withdrew from securities lending and borrowing between 2008 and the end of 2012.

The survey also showed that pension funds were acting in a far more cost-effective fashion, apprently being careful to keep expenses under control, and

using any opportunities to make cost savings, both in general administration and capital investments.

"In fact, the costs identified and their development in the last few years are quite impressive," stated Swisscanto.

"Since 2007, the total expenses for capital investments and administration of insured persons have been reduced by the smallest funds with less than 250 beneficiaries by almost 40 percent per head on average, from around 1170 to 720 Swiss francs, whilst the largest funds with over 10,000 beneficiaries have reduced their expenses per head by 20 percent from 430 to 345 Swiss francs, a similarly impressive amount in view of their significantly lower cost base."

But those still in the industry are less than pleased with the survey. A source familiar with the matter says that he was surprised at both the timing and content of the report.

In terms of the contents, he contends that counterparty risk is not an adequate reason for abandoning securities lending and borrowing.

"The report stated that one of the major reasons for stopping was counterparty risk. Counterparty risk for pension funds is mitigated by adequate collateral, which is also postulated by the regulator. If you effectively collateralise the programmes, why is counterparty risk a problem? If you deal with a very solid well-capitalised bank that is able to monitor various types of concentration limits and restrictions in order to optimally diversify collateral risk … the problem shifts from a counterparty to a collateral risk."

He concedes that lack of transparency is, however, an issue that the securities lending and borrow industry faces. Swisscanto, in justifying its exit from the business, said that it is not normally apparent to the lender to whom and at what cost a security is loaned. "Nowadays securities are loaned in part via several stages, with corresponding systemic risks in the event of just one failure in the chain."

But, the source counters, there are efforts to make the whole business more transparent—with a number of tools available to compare performance of programmes relative to certain benchmarks.

The timing, he adds, was also a little off—with a large percentage of clients that abandoned lending post-2008 having returned to the business.

It is certainly true that a reshaping of the securities lending landscape in Switzerland took place long before 2013.

In an interview in May 2012, Oliver Madden of RBC Investor Services (formally RBC Dexia Investor Services) said that, following the credit crisis in 2008, a measured consultation and review took place of the market through 2009—ultimately leading to the implementation of FINMA (the Swiss Financial Market Supervisory Authority) Circular 10/2 in 2010.

"The circular details the rules pertaining to securities lending transactions with clients," he said.

"Whilst conservative they also provide a transparent, consistent and robust framework for market participants, which are very much positives and all one can ask for—from a regulation and a regulator."

No saving grace

Swisscanto ultimately decided that, even with FINMA's guidance, the advantages of securities lending were not worth the disadvantages.

"Obviously it hurts to use a big player in the market like Swisscanto, which was one of the top three fund management companies in Switzerland," said the source.

"This is giving a certain signal to some of the skeptics in our industry who are using Swisscanto as reason to exit their programmes. But we haven't seen the kind of exodus that the survey portrays, and we actually hope to grow our asset pool in years to come."

"All we need is to be creative in the solutions we offer, be transparent, make clients comfortable with the risks and give them the tools that they need to manage that risk." **SLT**

What do the numbers say?

Longs outnumber shorts by almost 20 times in Switzerland

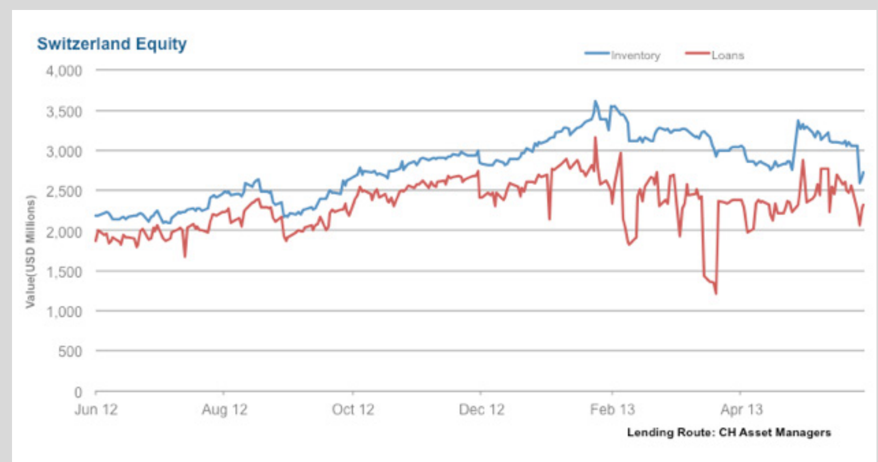


Figure 1: long/short ratio for Swiss equities

"Figure 1 shows how many times longs outnumber shorts and a higher number denotes increased positive sentiment as the market becomes relatively longer," explains Shan Gao, who is an assistant vice president and quantitative analyst at Markit Securities Finance.

"There are $13.4 billion of Swiss equities on loan out of a lendable supply of $261.7 billion. This gives rise to a long/short ratio of 19.5, which means longs outnumber shorts by almost 20 times. The ratio is at an annual high as the loan value has collapsed in recent months."

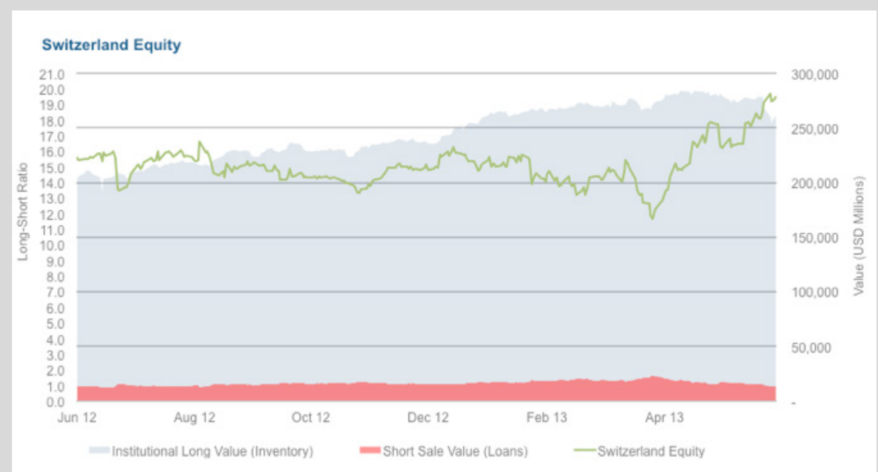
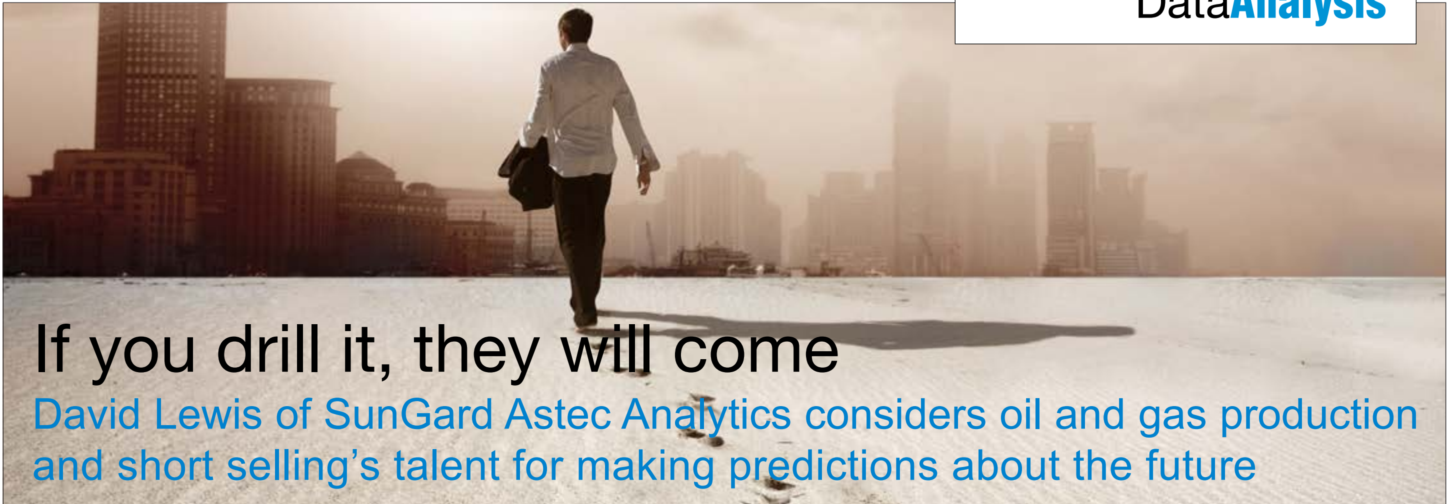


Figure 2: loan and lendable value for Switzerland-based asset managers

Gao says: "Figure 2 shows loan and lendable value that is lending out through the programmes of Switzerland-based asset managers. From this you can see that $2.3 billion is on loan out of a lending pool of $2.8 billion."

Source: Markit Securities Finance



If you drill it, they will come

David Lewis of SunGard Astec Analytics considers oil and gas production and short selling's talent for making predictions about the future

Andrew Neil, a well-known publisher, writer and broadcaster, gave the closing keynote speech at this year's annual International Securities Lending Association (ISLA) conference. Listening to a lecture on the changing global geo-political landscape sounded like it would be rather dry, but in fact Neil raised some fascinating and indeed worrying observations. One of the subjects covered was the future changes expected in oil and gas production across the world and how it may adversely affect the UK and Europe. None of it was good news. It was said that energy supplies in Europe may not be a case of last one out, turn off the lights; they might all have gone out anyway.

It has always been known that energy is a finite resource, particularly when talking about the hydrocarbons (oil and gas) buried beneath our fields, oceans and ice caps. From an investment point of view, you might expect any investment in oil or gas producing-related stocks to be a sure fire bet, as dwindling stocks and ever-increasing demand can only raise unit prices, and therefore returns. But it is not that simple—while there is a clearly finite amount of hydrocarbons available, no one knows how much that actually represents and this is where some of the risks lie.

Neil's observations make the issue even more complicated—in a grossly over simplified version of his analysis, he pointed out that the US, Canada and Mexico will be self-sufficient in hydrocarbons within the next 10 years as a result of the shale gas boom over there. This is aiding a significant onshoring programme of heavy industries (steel, etc) due to the falling energy costs, but more important to other oil consuming countries, it is reducing the political interest of the US in the Middle East, where Europe and the UK get so much of their oil. Add to this fact that much of our gas is imported from Russia, which controls supply for reasons that are more often political than economic, and there may be a very large problem looming on our horizon.

Looking at this from a short selling point of view, can we take any signals from the lending activity in this sector to substantiate the fears raised by Neil? Perhaps we should not expect the markets to be moved by one journalist observer's commentary, but I spoke to a number of cash equity brokers and their views on this were startlingly similar. Looking at the oil and gas consumables sector, we can see that as a global group (some 762 securities according to Astec Analytics data), short interest rose more than 270 percent on average over the last month, but US-only shares on loan only increased 121 percent. Both levels suggest some negative sentiment, but with non-US shares coming under much greater scrutiny than perhaps our US peers are, at least at a macro level.

As ever, there are always exceptions and Linn Energy seems to have identified itself firmly as an outlier by voluntarily announcing (on 2 July) a US SEC enquiry into its hedging strategies and accounting practices. An admirable and honest move, of course, but had the hedge funds already smelt a rat? Figure 1 shows the volume of shares on loan almost trebling from 1 January this year to over nine million as of the time of writing. Linn's share price rose from $36.73 to peak at $38.89 by the end of January and averaged $37.77 until the end of April. The proposed all stock acquisition of Berry Petroleum Co promised to secure additional oil reserves and boost much needed cash flows, and as the green plot shows, some short positions were closed, no doubt crystallising a loss.

However, this offer may well come up dry as the SEC "informal" investigation gets under way and the acquisition remains as yet incomplete. As is just visible on the graph, the shares on loan have jumped again recently, suggesting that some funds are certainly expecting further bad news from this company.

If Neil's analysis is proved to be correct, perhaps we will continue to see the divergence in performance of hydrocarbon producers in the US from those outside, notwithstanding the outliers to the trend such as Linn, whose issues it appears relate more to their accounting practices than the value of the assets they dig from the ground. As the US economy recovers and it regains industries that were previously leaving in volume to cheaper shores, we may indeed see energy-related economic woes in Europe as the costs of our own energy soars by comparison. Given the early warning signals that short interest can give us, as shown in Figure 1, it is certain that we need to keep a close eye on the individual companies as well as the macro trends blowing potentially ill winds across the continent. **SLT**

Figure 1: volume of shares on loan and market price close for Linn Energy. Source: Astec Analytics

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

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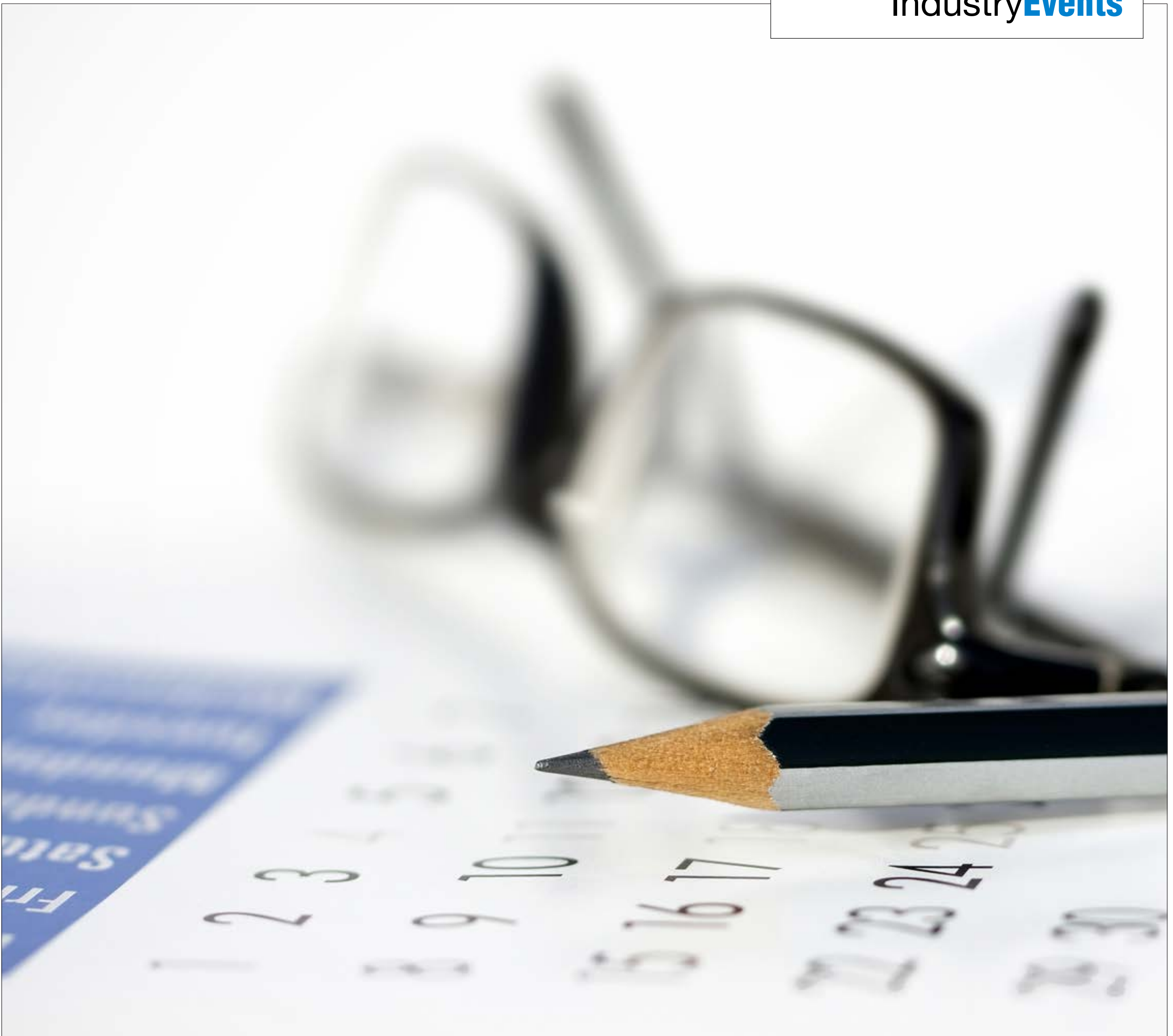

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Industry appointments

PrimeOne Solutions has recruited **Chris Chanod** as global head of sales and business development.

He was previously director of prime finance sales in the global markets business at Citi. Before that, he worked as vice president of prime finance client service and relationship management at Deutsche Bank.

In his new role, Chanod will report to **EJ Liotta**, who is head of PrimeOne Solutions. He will be based in New York.

As global head of sales and business development, Chanod will be responsible for developing and executing PrimeOne sales, and new business plans.

He will supervise the US sales team in identifying market opportunities and fulfilling market needs, ensuring delivery of solutions, and meeting short- and long-term business goals. He will also maintain working relationships with current customers and prospects.

In a statement, Liotta said that Chanod "brings a unique blend of experience spanning the entire breadth of prime finance".

"I'm excited to play a key sales role in a company that's bringing hugely innovative solutions to a market with extraordinary post-crisis demands," added Chanod.

BMO Global Asset Management has expanded its securities lending group with the addition of **LJ Jhangiani** as a director and senior securities lender/trader.

Jhangiani was previously a portfolio manager on the short term/government desk at Allstate Investments LLC. He had been in that role since 2005.

Based in Chicago, Jhangiani will be responsible for the control and coordination of the securities lending trading desk and trading/lending within client portfolios.

"Our institutional clients are looking for expertise and personalised strategies, and that is exactly what Jhangiani brings to our team," said Peter Arts, managing director and head of taxable short fixed income at BMO Global Asset Management.

BMO's securities lending programme involves taking full advantage of the lendable assets in client portfolios. This includes the use of intrinsic value and general collateral lending.

The majority of BMO's securities lending clients have lendable assets in excess of $100 million. As of 31 May 2013, the programme had a lendable asset base of $13.3 billion, with more than $4.3 billion in securities on loan and an average utilisation rate of 32 percent.

The European Securities and Markets Authority's (ESMA's) board of supervisors has re-elected **Carlos Tavares** as its vice chair.

Tavares, who is chairman of the Portuguese Comissão Do Mercado De Valores Mobiliários, has completed an initial two-and-a-half year term and will now serve a further term in the position.

The terms of three members of ESMA's management board have also expired.

Kostas Botopoulos of Greece's Hellenic Capital Markets Commission (HCMC) is newly elected to the management board, as is **Klaus Kumpfmüller** of Austria's Finanzmarktaufsicht.

Martin Wheatley of the UK's Financial Conduct Authority has been re-elected for a second term on the management board.

ESMA's management board, which is chaired by Steven Maijoor, is responsible for ensuring that the authority carries out its mission and performs the tasks assigned to it.

Each member will serve a two-and-a-half year term.

CACEIS has appointed **Roberto Colapinto** as head of regional coverage, in charge of Southern European and Latin American clients.

He reports to Joseph Saliba, CACEIS deputy CEO, in charge of business development.

Colapinto will be responsible for further developing CACEIS's sales activity with Southern European and Latin American asset managers, institutional investors, banks and brokers; promoting CACEIS's global asset servicing offering to Southern European and Latin American clients in all markets where they operate; and building up client loyalty based on the quality of services provided by CACEIS.

Colapinto worked for State Street for nine years in London, Zurich and Milan, where he managed the acquisition of Deutsche Bank Securities Services in Italy.

He then became director general of the Italian branch of Banque Privee Edmond de Rothschild Europe that he established in 2007.

The California Public Employees' Retirement System (CalPERS) has promoted **Eric Baggesen** to the role of the pension fund's senior investment officer (SIO) for asset allocation and risk management.

Baggesen has been serving as acting SIO since 2012, and currently serves in the same role for global equity.

He will cede those duties to Dan Bienvenue, who currently serves as a senior portfolio manager in the asset class.

Baggesen has been serving as the acting SIO for asset allocation and risk management after the departure of Farouki Majeed, who previously held the title until last year.

Baggesen joined CalPERS in 2004, having previously worked at State Street Global Advisors for eight years as the unit head of emerging markets in the global structured products group. He was named SIO for CalPERS global equity programme in 2008.

As SIO for asset allocation and risk management, Baggesen is responsible for asset allocation implementation, and the monitoring and managing of CalPERS total investment portfolio.

Maxim Group has hired **Frank Magnani** as managing director of the firm's global prime brokerage sales.

Magnani has founded three prime brokerage services divisions within established broker-dealers.

His prior experience included directing correspondent clearing sales, corporate marketing, advertising, and public relations for the Investec Group USA, as well as managing the American Stock Exchange's European office in Amsterdam.

His focus at Maxim is to expand the prime brokerage client base of hedge funds, trading groups, advisors, and family offices. **SLT**

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