SLT
SECURITIESLENDINGTIMES

ISSUE082
06.08.2013 TUESDAY
securitieslendingtimes.com

New Texas report argues in favour of naked shorting

Accounting fundamentals, rather than manipulation, may be more significant in explaining naked short sales, according to a recent study.

The report, authored by Harrison Liu of the University of Texas San Antonio, and Sean McGuire and Edward Swanson of Texas A&M University, showed that—contrary to accepted belief—accounting fundamentals are highly significant in explaining naked short sales.

Liu, McGuire and Swanson looked at 2700 firm's fail-to-deliver data from 2005 to 2008, collected by the stock exchanges and provided by the US SEC under the Freedom of Information Act, to decompose total short interest into naked and covered components.

"Citing a widely held belief that naked short selling is not based on company fundamentals, the SEC (2008) has substantially tightened Reg. SHO close-out regulations in an effort to eliminate naked short selling," said the report's foreword.

It added that naked short sales contain incremental information about future stock prices.

"Abnormal returns from a long/short trading strategy that buys (sells short) shares with low (high) short interest are more than seven times larger using naked and covered short interest, compared to returns using only covered short interest (15.2 percent vs. 2.1 percent annualised)."

The study showed that recent regulatory actions to eliminate naked short sales are likely to impede informed arbitrage and reduce market efficiency.

The authors stated that their results should be of considerable interest to both regulators and defendants in ongoing litigation.

readmore p2

SunGard helps Scottrade grow securities finance

SunGard's Loanet solution is supporting Scottrade, an online investing firm, with its expanding securities finance automation requirements.

Scottrade implemented Loanet's trading and inventory management and finance allocation capabilities to help automate the firm's securities finance trading, order and inventory management functions.

It will also automatically calculate and allocate revenue and expenses associated with borrowing activities for the firm's clients. Scottrade has been using SunGard's Loanet solutions since 1999.

readmore p2

Singapore and Japan cross collateral borders

The Bank of Japan and the Monetary Authority of Singapore have set up a cross-border collateral arrangement that lets foreign banks get their hands on Singapore dollars by using Japanese government bonds as collateral.

"Eligible financial institutions in Singapore can now obtain Singapore dollar liquidity from the monetary authority by pledging Japanese government securities with the firm," said a statement from the bank, adding that the agreement will hopefully increase financial stability in Singapore.

The move will broaden the range of eligible collateral in the authority's liquidity facility, and permits greater flexibility in the liquidity management of eligible financial institutions, including Japanese banks, which are operating in Singapore.

readmore p2

New report argues in favour of naked shorting
Continued from page 1

In June, Life Partners Holdings' CEO Brian Pardo announced that evidence was found of coordinated market manipulation and naked short selling of his life insurance company's stock, describing the activity as: "a form of terrorism."

Less reactionary, but more conclusive, was the SEC's fining of The Chicago Board Options Exchange (CBOE) for "[failing] to enforce or even fully comprehend rules to prevent abusive short selling".

The US SEC said the fine of $6 million was the first to be levied against an exchange for violations relating to its regulatory oversight.

Its 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.

Though the authors of the study said that they would not attempt to refute the claim that naked short selling can be manipulative, in some instances, they found consistent evidence that naked short selling is a type of information-based trading.

"This evidence stands in stark contrast to the stated SEC (2008) belief that naked short selling is not based on fundamentals. Hedge fund managers, prime brokers, and other defendants in ongoing litigation will also be interested in our evidence that naked short selling is a type of informed trading."

"The key issue in ongoing litigation is whether naked short selling constitutes market manipulation. The evidence in this study can help defendants establish that naked short selling is not inherently manipulative, as alleged in some lawsuits."

SunGard helps Scottrade grow securities finance
Continued from page 1

"Firms across the financial industry are looking to increase transparency and efficiency across their operations. SunGard's Loanet provides a highly integrated suite of solutions for the US securities finance industry to help firms achieve these goals," said John Grimaldi, executive vice president of SunGard's North American securities operations and securities finance business.

Singapore and Japan cross collateral borders
Continued from page 1

"This collaboration reinforces [our] commitment to support the long-standing economic and financial relationship between Japan and Singapore," said a statement from the bank.

Japan created a similar agreement with Thailand in 2011 that allowed the use of Japanese government bonds as collateral.

Canadian equities lose ground within pension plans

Pension assets remained unchanged during Q2 2013, as a spike in interest rates in June negated advances in April and May.

According to the $460 billion RBC Investor & Treasury Services All Plan universe, which encompasses Canadian pension plans, defined benefit (DB) pensions returned 0 percent for the quarter ending 30 June 2013, keeping year-to-date results at 4.5 percent.

"Market volatility returned in June following the Fed's statements regarding its commitment to quantitative easing," said Scott MacDonald, head of pension segment development for RBC Investor & Treasury Services.

SLTINBRIEF

"While all DB plans benefit from rising long term bond yields as pension liabilities are reduced, those with risk mitigating liability-driven investment strategies were the hardest hit during the quarter."

Bonds had their largest three month decline since 1994, losing 2.5 percent in the quarter and 1.7 percent over six months.

"Weakness was across the market, but longer duration bonds were the most affected, as the DEX Long Term Index declined 4.6 per cent in the quarter and DEX Real Return Bonds are down 11 percent year-to-date," said MacDonald.

Canadian equities also lost ground within pension plans, declining 1.2 percent compared to the S&P/TSX Composite, which was down 4.1 percent in the quarter.

"The decline in the materials sector and mining stocks in particular continued to be the key factor affecting performance this quarter. Looking at the year-to-date figures, most pensions stayed in positive territory despite the market's loss by remaining underexposed to the sector and have subsequently outperformed the index by 4.2 percent," said MacDonald.

Foreign stocks provided the needed support this quarter, gaining 4.7 percent, mostly due to continued positive performance in the US equities market. This compares to the MSCI World Index, which advanced 4.5 percent in the quarter.

"Unhedged pension plans benefitted from the Canadian dollar's weakness against most major currencies, with FX returns accounting for over half of the gains," said MacDonald.

"Foreign equities continue to lead year-to-date—up 15.4 percent in Canadian dollar terms."

Low lending revenue offsets good quarter for BNY Mellon

Investment services fees for BNY Mellon's Q2 of this year totalled $1.7 billion, an increase of 4 percent year-over-year and 6 percent sequentially, but the year-on-year results were offset by low lending revenue.

Both increases primarily reflect higher asset servicing revenue, driven by organic growth and higher market values; higher issuer services revenue driven by higher corporate actions and expense reimbursements related to customer technology expenditures; and higher clearing services revenue driven by higher mutual fund fees and volumes.

The year-over-year increase was partially offset by lower securities lending revenue while the sequential increase reflects seasonally higher securities lending revenue, said the bank.

Assets under custody and/or administration for BNY Mellon's Q2 amounted to $26.2 trillion at 30 June 2013, an increase of 4 percent compared with the prior year and a slight decrease sequentially.

The year-over-year increase was driven by higher equity market values and net new business, and the slight sequential decrease primarily reflects lower fixed income market values, said the bank.

Foreign exchange and other trading revenue totalled $207 million compared with $180 million in Q2 2012 and $161 million in the Q1 2013. In Q2 2013, foreign exchange revenue totalled $179 million, an increase of 14 percent year-over-year and 20 percent sequentially.

Both increases primarily reflect higher volatility and increased volumes. Other trading revenue was $28 million in Q2 2013 compared with $23 million in Q2 2012 and $12 million in Q1 2013.

One in three financial institutions will accept cheap collateral

Over a third of financial institutions believe that it is acceptable for collateral to be low quality, complex and opaque, so long as it is cheap.

A survey from post-trade services provider SIX Securities Services found that 43 percent of those surveyed believe that collateral should be simple, high quality, liquid and easy to value; 57 percent think that price of collateral is more important than quality; and 35 percent think that it is acceptable for collateral to be low quality, complex and opaque, so long as it is cheap.

SIX Securities Services's research also found that 53 percent of financial institutions estimate that high grade collateral will increase in cost by about 9 percent before 2015.

But, in the race to find collateral, 48 percent of respondents agreed that securitising and repackaging existing portfolios to create new collateral pools will result in additional risk and could contribute to the next financial crisis.

Robert Almanas, managing director for international services at SIX Securities Services, said: "It is a frightening prospect that in today's market, over a third of financial institutions are willing to accept collateral simply because it is cheap."

"When our competition begins to compete on the quality of collateral they are prepared to take, the 'race to the bottom' becomes a very real outcome. Fair competition should revolve around responsive, real-time platforms and excellent client service supported by appropriate regulation—not reliance on a dilution in what is considered to be high quality collateral."

"We believe that collateral should be simple, of high quality, liquid, and easily-valued—these collateral values are fundamental to the future success of the financial markets."

Traiana packs and parcels first inter-dealer trade

The first inter-dealer non-deliverable forward (NDF) trade has been delivered to LCH.Clearnet's ForexClear service through the recently established link with Traiana's Harmony CCP Connect.

The trade was a US dollar/South Korean won NDF, and HSBC was one of the trading parties.

Andrew Coyne, CEO of Traiana, said: "Traiana built direct connectivity to LCH.Clearnet's ForexClear at the specific request of our client base, so we're very excited at how quickly the service has been adopted."

Jacqueline Liau, global head of product and service for FX prime at HSBC, said: "This direct connectivity gives HSBC, and the industry, an efficient and flexible way to quickly adapt to changing regulations."

Traiana's Harmony CCP Connect provides central counterparty 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 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.

Prosecutor going after SAC hints at more to come

A federal grand jury has indicted SAC Capital, a US hedge fund, over alleged insider trading.

After six years of investigation, it was charged with four counts of securities fraud and one count of wire fraud. But a statement from the firm said: "The handful of men who admit they broke the law does not reflect the honesty, integrity and character of the thousands of men and women who have worked at SAC over the past 21 years."

New York district attorney Preet Bharara filed the case against SAC Capital. It also contains civil money-laundering charges that may force the hedge fund to give up a significant amount of its assets.

The district attorney held a press conference on the matter on 25 July. He said that eight individuals have been charged so far, with six pleading guilty.

It has also been reported that both Deutsche Bank and Goldman Sachs, which currently provide lending and prime brokerage services to SAC Capital, are rethinking their relationship with the fund given its legal situation.

In the conference, Bharara seemed to indicate that this would not be the first and last criminal case filed against a financial firm.

"To all those who run companies, but only pay attention to the money the employees make, and not how they make it, hopefully [the] indictment gets your attention."

DTCC takes full control of Omgeo

The Depository Trust & Clearing Corporation (DTCC) is taking full control of post-trade services provider Omgeo after agreeing to acquire Thomson Reuters's 50 percent stake in the company.

Equal partners DTCC and Thomson Reuters launched Omgeo in 2001.

Since its inception, the now fully owned DTCC subsidiary has introduced a straight-through-processing solution for institutional post-trade processing, which integrated an electronic allocation engine, a central matching solution and an account and standing settlement instruction database.

Marianne Brown will continue to serve as president and CEO of Omgeo. The terms of the deal were not disclosed and the transaction will close once regulatory filings are made.

"Full industry ownership enables market participants to play a larger role in shaping decisions related to Omgeo's technology platforms and processes, that in turn help support their own firms' strategies," said DTCC's Andrew Gray, who is also chairman of the board of managers at Omgeo.

"This transaction is aligned with our strategy to build and grow our core businesses globally as Omgeo's international community and multi-asset class capabilities will open the door to new opportunities for DTCC as we look to expand more broadly in the global post-trade processing sector."

European CSDs to settle down early

Euroclear's central securities depositories (CSDs) in Belgium, France and the Netherlands will settle all transactions on a T+2 basis from October 2014, ahead of the implementation of the CSD Regulation in Europe.

The aim of the EU's CSD Regulation is to bring more safety and efficiency to securities settlement in Europe.

The European Commission adopted a proposed regulation in March 2012. MEPs and the EU Council are currently scrutinising.

The regulation has a planned implementation date of 2015.

If it is implemented in its current form, the CSD Regulation would harmonise the settlement period in Europe for securities traded on stock exchanges and other regulated markets at T+2, taking it from the current two to three days.

Euroclear Belgium, France and Nederland plan to implement T+2 settlement in October 2014 for all securities transactions conducted on all trading venues (stock exchanges, multi-lateral trading facilities and organised trading facilities).

OTC transactions will be exempt from the T+2 regime.

Valérie Urbain, CEO of Euroclear Belgium, France and Nederland, said: "The concept of a shorter settlement cycle across Europe has its roots in the work of the Giovannini Group in 2001–2003."

"We concur with the Association for Financial Markets in Europe's recent findings that a move towards a shorter settlement cycle will increase operational efficiency, as well as drive down counterparty risks."

"After extensive consultation with clients and stakeholders in our markets, we took the decision to commit to T+2 settlement now, and to make the transition earlier than required."

Urbain added: "Technically and functionally, Euroclear CSDs are ready today to settle on a T+2 basis. The shorter settlement cycle will require some changes in market practice disciplines such as pre-settlement matching, confirmation and affirmation of client transactions as early as possible, ideally on trade date."

Euroclear Finland, Sweden and UK & Ireland are in various stages of discussions about a move towards a T+2 cycle, while international central securities depository Euroclear Bank already settles trades as early as T+0 provided that both counterparties to the trade agree to the same settlement period.

SimCorp teams up with AcadiaSoft for collateral management

Investment management solutions company SimCorp and AcadiaSoft, a provider of margin automation for counterparties engaged in collateral management, have entered into a product partnership.

The agreement will see AcadiaSoft integrate its MarginSphere product with the SimCorp Dimension collateral management solution.

AcadiaSoft's MarginSphere service automates the margin process through dispute-based processing and instant management reporting.

"As a result of the agreement, SimCorp's clients will be able to use MarginSphere to quickly identify collateral disputes, and improve issue and exception handling, as well as to enable efficiencies, greater STP and faster end-to-end processing," according to a statement from SimCorp.

"In addition, it allows SimCorp's clients to communicate vital information on exposures, commitments and adjustments between counterparties in a complete, verifiable and secure manner."

Collateral has become "increasingly important" to managing credit risk and complying with global central clearing regulations, according to Marc Schröter, senior vice president and head of strategic research at SimCorp.

"This is driving a virtual explosion in the amount of traffic related to collateral management, which can no longer be managed manually. An automated solution is required, and we expect this agreement will create increased value for our clients, enabling them to further minimise operational risk, improve efficiency and enhance transparency."

Craig Welch, CEO of AcadiaSoft, added: "The partnership delivers the best of both worlds, allowing SimCorp clients to benefit from SimCorp Dimension's strong position-keeping, exposure calculation and collateral management functionality while getting access to the market-leading margin call messaging functionality."

Copenhagen-based SimCorp released a new version of SimCorp Dimension in February and plans to release the next version in August.

Version 5.3 of SimCorp Dimension includes reverse stress testing for increased risk management; collateral substitution, which enables better forecasting and improved control; and separation of compliance information.

Broker-dealer TradeStation adjusts pricing options

TradeStation, a Monex Group company that acts as a broker-dealer and futures commission merchant, has announced new pricing policies designed to give equities and options traders flexibility and better value.

TradeStation is introducing two new, lower-priced 'flat-ticket' equity commission tiers, with the lowest end of pricing being $4.99 per trade. "This new equities pricing should greatly benefit frequent traders," said a release from the company.

The firm also introduced 'flat-ticket-plus' tiered options pricing, allowing customers to take advantage of the company's lower flat-ticket equities pricing.

"Customers can trade options for as low as $4.99 per trade plus a 20¢ per-contract fee. Moreover, TradeStation will combine customers' equities and options trades for the purpose of meeting the new commission pricing thresholds."

"TradeStation will continue to offer per-share equities and per-contract options pricing to customers who prefer that pricing alternative."

"Our new pricing structure is all about flexibility and value," said Salomon Sredni, CEO of TradeStation Group and COO of Monex Group.

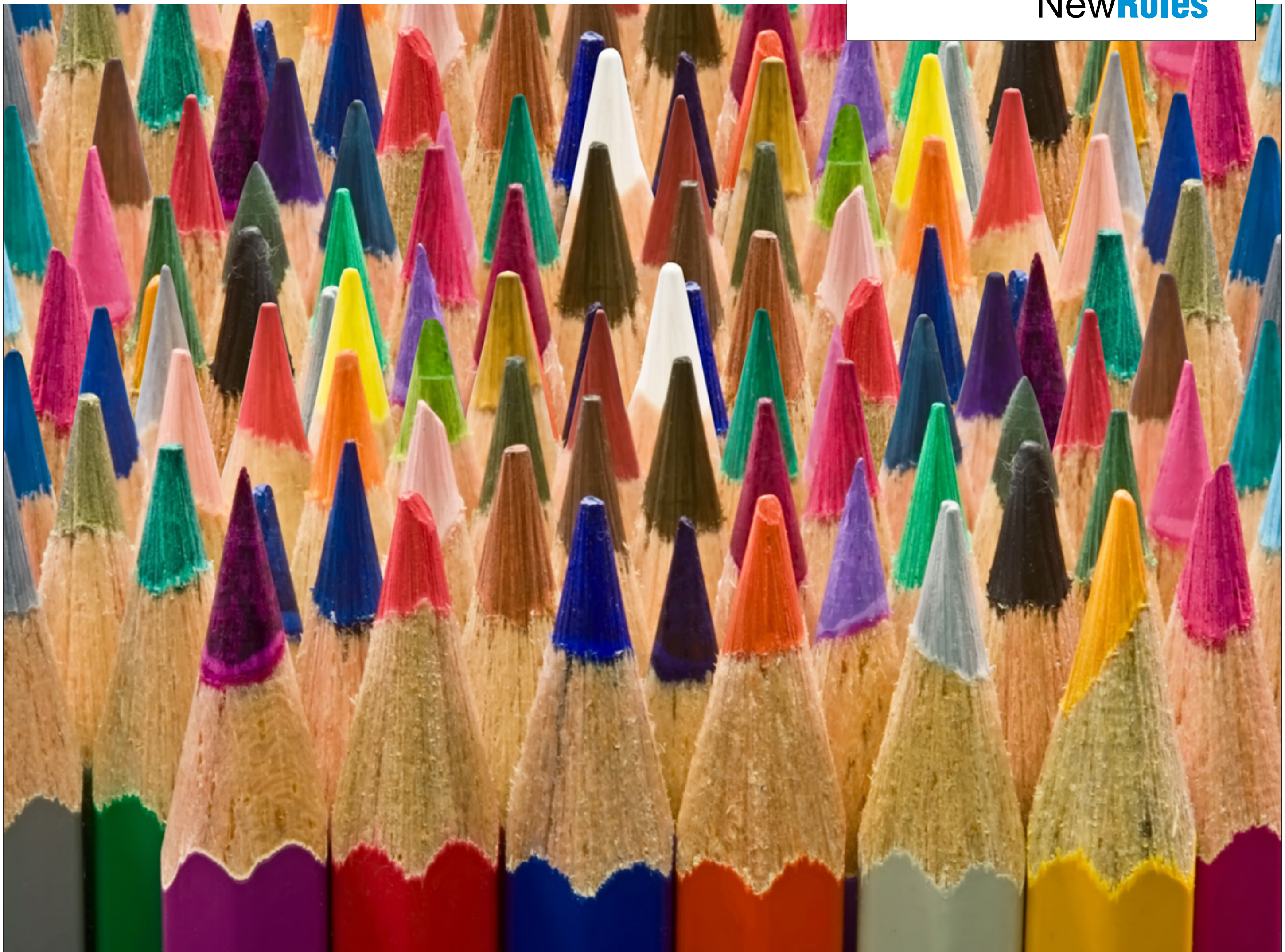
"Giving traders a menu of pricing options to choose from makes it easier for them to select the plan that best meets their needs. Offering flexible, value-added commission pricing is just one of the ways in which we're working to better serve our customers."

OCC lending activity jumps more than 50 percent

The Options Clearing Corporation (OCC) recorded total cleared contract volume in July reaching 328.9 million contracts, representing a 6 percent increase from the July 2012 volume of 309.6 million.

OCC's year-to-date total contract volume is up 3 percent with 2.47 billion contracts in 2013.

OCC's securities lending central counterparty activities saw a 53 percent increase in new loans from July 2012 with 123,108 transactions last month. Year-to-date stock loan activity is up 31 percent from 2012 with 761,628 new loan transactions in 2013. The average daily loan value at OCC in July was $56.1 billion.



In with the bold

Wells Fargo Securities formed a new client trade services group within its markets division, specialising in prime services and OTC clearing. SLT talks to the new head of the group, Dan Thomas, about its creation

GEORGINA LAVERS REPORTS

Could you explain a little bit about the new team and how things have been going since you were promoted in June?

We recently created the client trade services group within the markets division of Wells Fargo Securities to bring together two client-facing services—Wells Fargo Prime Services and Markets Clearing and Futures Execution. While the regulations and market structure for cleared products continue to evolve, we wanted to organise ourselves to service our clients in a product agnostic and coordinated fashion.

We also recognised the need created by market structure changes to take a more coordinated approach to our own and our clients' technology, funding and collateral management needs, by aligning these customer-facing businesses with the funding and liquidity management team within Wells Fargo Securities.

We can offer Wells Fargo clients a broader suite of capabilities including futures and OTC clearing, multi-prime custody, securities lending/margin financing, capital introduction, and comprehensive multi-asset trade execution, and middle- and back-office support alongside our proprietary real-time performance analytics and risk and attribution technology that allows prime clients to aggregate portfolio information across multiple accounts, strategies and prime brokers or custodians. As we continue to build relationships, we will continue to invest in our firm's capabilities.

How have you seen the market structure for fixed income and equity products evolve?

In equities, Regulation National Market System (Reg NMS) has caused fragmentation that still exists today in the equities marketplace. This fragmentation has created some benefits by intensifying competition, resulting in significant innovation that has been a continued to benefit clients in terms of their explicit cost to trade.

We saw this innovation in the sell and buy side's development and use of algorithms. Concurrently, with this change in trading behaviour, we also saw the incubation and enormous growth in electronic trading and the advent of high frequency trading (HFT).

In fixed income, regulatory changes—the US Dodd-Frank Act, the Volker Rule and the EU's Basel III—are altering the market structure of certain fixed income products. With respect to Dodd-Frank, there are two key ingredients that will influence electronic trading: (i) mandated centralised clearing and derivative product standardisation, which is encouraging product innovation and will lead to an increase in 'on exchange' trading; and (ii) increased transparency to come from the incubation of swap execution facilities (SEFs), which are expected to be launched in the third quarter as well as from the already implemented mandatory swaps data repository (SDR) reporting. Both of these recent and ongoing developments, combined with real-time trade acceptance will reinforce the trading of listed- and futures-like products.

In terms of Basel III and the Volcker Rule, we think that more stringent trading rules and capital and liquidity requirements could lead to a decline in inventories held by dealers. We also expect to see sizeable increases in margin requirements across the spectrum of clients, which will likely fuel new businesses around centralised funding and collateral optimisation, including significant new developments in collateral management technology.

Do you think that the relationship between prime brokers and hedge funds is changing?

The core relationship between the hedge fund and prime broker has stayed the same: centralised custody and clearing, access to balance sheet, securities lending, operational support, and trading. However, the financial crisis and the associated global securities firm failures shifted the way that managers select and work with their prime brokers. Counterparty credit risk rose to the forefront for hedge fund investors. Hedge fund managers have responded, and today multi-prime and multi-custodian relationships are considered best practice in the industry. The practice of multi-prime, once reserved for the elite, is now standard for all but the smallest managers.

We are also seeing the traditional role of the prime broker expand to becoming a 'concierge' to all of the products and services the bank offers. Access to OTC products, specialty financing, investment banking, research and corporate access are a few of the products and services that are standard at the largest prime brokers. These changes (along with others) have created major alterations in how loyalty is earned, and has turned a historically operational relationship into a front-line partnership.

As funds turn towards more listed and centrally cleared products, what will this mean for the hedge fund industry?

Centralised clearing (a new phenomenon in many OTC markets) will accelerate 'on exchange trading', which we believe will result in continued product innovation and the central counterparties (CCPs) ending up with a broader suite of products that can be cross collateralised on their platforms.

The CCPs will get the benefit of more straightforward offsets (for example, rate futures and rate swaps), potentially driving prime brokers to adapt with new approaches to help their clients gain collateral efficiencies.

Additionally, the industry will still need well capitalised firms with strong risk management practices that can provide counterparties with stable access to these centralised clearing platforms. Also, centralised clearing has the potential to broaden the pool of market participants that can act as liquidity providers for OTC products as centralised clearing limits the value of counterparty strength for trade execution. However, large users of OTC products may have to adapt how they access that liquidity.

What trends are you seeing in terms of increased transparency and reporting for prime brokers?

Recent market events and the general scarcity of investors have shifted the power from the hedge fund to the investor. The overall investment process has become very data driven and time intensive, requiring more transparency and granularity than ever before. Prime brokers have been one of the hedge fund service providers tasked with providing that increased transparency. Prime brokers are also being asked to conform to new regulations such as Basel III, and the Alternative Investment Funds Directive.

These regulations will require more investment in technology and systems infrastructure. We continue to see that our large institutional investor and pension fund clients are exercising greater influence over decisions that have to do with asset safety issues, including requiring high quality service providers and separately managed accounts for their investment dollars. **SLT**

Dan Thomas
Head of client trade services
Wells Fargo Securities

Cleaning up

Taiwan is experiencing solid lending volumes and its neighbours are taking note

GEORGINA LAVERS REPORTS

Research from Data Explorers (now Markit Securities Finance) in 2011 on Gintech, MediaTek, and Macronix showed that these were the three most borrowed names in Taiwan at that time, and their activities were undeniably similar.

Gintech is a solar cell manufacturer; MediaTek specialises in semiconductor design and sales; and Macronix is a semiconductor manufacturer.

Fast forward to 2013 and the situation is remarkably similar. Looking at Markit Securities Finance's data showing average short interest in the top 10 Taiwanese firms by market capitalisation, it is clear where interest lies. Technology hardware and equipment, followed by semiconductors and diversified financials are the most shorted sectors, followed by insurance, capital goods and real estate.

In terms of short interest in specific equities, nine out of 10 equities lie within the technology sector—proving that negative investor sentiment in this area still abounds.

Short-lived

To develop Taiwan's market, the Taiwan stock exchange launched a centralised securities lending and borrowing system in June 2003 to meet the needs of qualified institutional investors. The system provided three kinds of transactions: fixed-rate, competitive bid, and negotiated transaction.

Securities lending and borrowing trading volume for 2011, said the exchange, saw competitive bid transactions account for 32 percent and negotiated transactions account for 68 percent.

But though the exchange saw this development as the time to really cement the country's market, Taiwanese regulators—much like all regulators—had an uneasy attitude. In November 2011, the Financial Supervisory Commission warned insurance companies that they must stop lending securities to short sellers—a decision which was taken in order to ramp up equities after the benchmark Taiex Index fell.

In a statement, the FSC also said that Taiwan had amended rules to cap the daily maximum short selling of borrowed stocks to 20 percent of the average transaction volume of the past 30 trading days, from a 3 percent limit of outstanding shares per stock.

A spokesperson said at the time that since Taiwan was a retail-dominated market, it was unfair for foreigners to take advantage over local investors. They added that insurers were told that while fees may be gained from lending, it would "reduce the overall value of shares".

However, the country's regulations are far more lenient than some of its neighbours. Peter Martin, chairman of the Australian Securities Lending Association (ASLA), said in interview earlier this year that markets such Hong Kong and Taiwan are seeing good growth in lending volumes compared to their more westernised counterpart.

"Unfortunately when it comes to the regulations around what is required prior to executing a short sale Australia is still more onerous than peer markets and that is reflected in the market not seeing the growth witnessed in other Asian markets like Hong Kong and Taiwan."

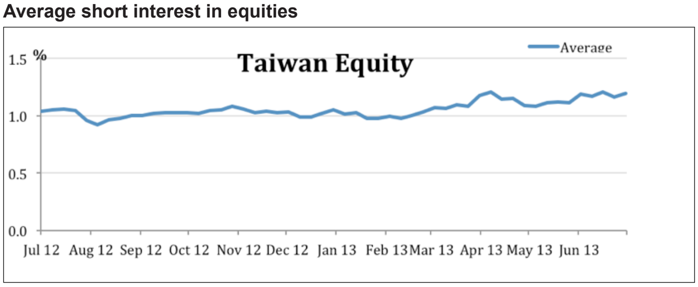
A number of foreign institutions have spotted this trend in the market in the last five years. J.P. Morgan Worldwide Securities Services launched securities lending capabilities in Taiwan in 2009, saying that its aim was to help asset managers and institutional investors increase the performance of their securities portfolios with Taiwanese assets while providing them with risk-adjusted returns.

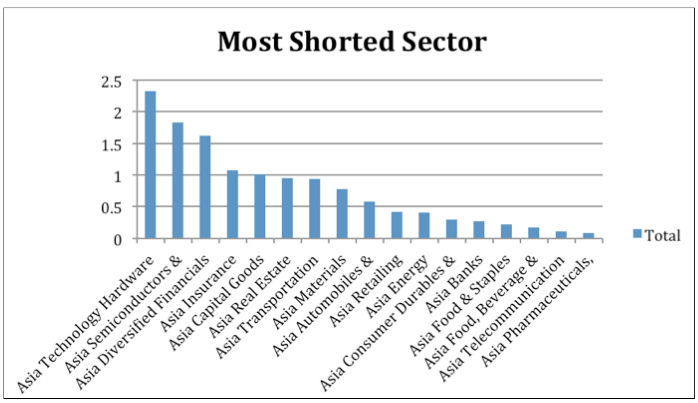
Phil Zywot, of CIBC Mellon, said in an interview at the PASLA conference this year that some of CIBC Mellon's main focuses are on 'vanilla' markets such as Hong Kong, Singapore, South Korea, and Taiwan.

Several others have expressed confidence in Taiwan. Valerie Rossi and Jagdish Hirani of ABN AMRO said in a recent interview that the renminbi qualified foreign institutional investor scheme (RQFII) is going to expand to Taiwan, and further opportunities would be created—including the potential creation of RQFII exchange-traded funds.

The more liberalised a market is, and the more cross-state relationships are developed, the more its securities lending market tends to expand. Taiwan's only task, it seems, is to keep growing. **SLT**

Average short interest in equities





Short interest in Taiwanese equities

Sector	Equity Name	Short Interest	Change over Month
Asia Technology Hardware & Equipment	Acer Incorporated	7.06	13%
Asia Technology Hardware & Equipment	Htc Corp	5.84	-4%
Asia Technology Hardware & Equipment	Catcher Technology Co Ltd	5.45	23%
Asia Semiconductors & Semiconductor Equipment	Mediatek Inc	4.59	5%
Asia Technology Hardware & Equipment	Largan Precision Co Ltd	4.37	109%
Asia Technology Hardware & Equipment	Tpk Holding Co Ltd	4.21	-10%
Asia Technology Hardware & Equipment	Asustek Computer Inc	4.06	5%
Asia Materials	China Steel Corp	3.82	1%
Asia Semiconductors & Semiconductor Equipment	United Microelectronics Corp	3.80	-8%
Asia Semiconductors & Semiconductor Equipment	Epistar Corp	3.71	124%

And now a message from our sponsors

The Publicis/Omnicon merger may be going ahead, but the data suggests that a clear market viewpoint, from the short side at least, is yet to emerge, says David Lewis of SunGard Astec Analytics

There are a handful of pieces of accepted wisdom in the trading world—maxims people trade and invest by, such as "sell in May and go away", advising investors to sell up before the cyclical decline in prices as summer kicks in. Another common principle dictates the behaviour you undertake when a merger or acquisition is announced—you go long on the target and short the purchaser. But what happens when an acquisition is a merger of equals?

Take two companies, similar in size and market capitalisation, comparable market performances and outlooks and even very similar price earnings ratios, and you may well have the best-matched marriage of partners. However, nothing is ever plain sailing, and the two companies concerned are arguably very different despite being major players in the same industry, and not least because one is French and the other American.

Publicis founder Maurice Levy took 40 years to build the company into the media powerhouse it is today, recording revenues of €3.35 billion for the first half of 2013 up 8.7 percent year-on-year and profits up 15 percent on the same measure. As you can see by the volumes on loan (see graph) for Publicis, many appeared to bet against such a positive outcome, placing short positions ahead of the 29 May AGM. But with little to shake confidence in the company, those positions melted away again in June. A €0.90 dividend was paid in July, a 29 percent improvement on 2012.

Both Publicis and The Omnicon Group have grown through merger and acquisition activity, both learning to manage multiple brand identities under the same group banner, so they should be well placed to manage the joining of these two leviathans. The soon-to-be joint CEOs talk a good game of the new company not being too American or French, and are even building the new corporate headquarters in the Netherlands to prove their point. Assuming there is no intervention from regulators over antitrust or market monopoly issues—the new group will account for 40 percent of the US advertising market—there will still be the challenge of merging the two business cultures and managing a dual-listed stock.

Mergers and acquisitions don't always deliver what they promise at the outset—from Daimler Chrysler back in the 1990s to the current tangle of Alcatel Lucent and the expensive disentanglement of Activision Blizzard and Vivendi. Publicis and Omnicon are expecting to make around $500 million in cost savings, which could be achievable given it represents only 4 percent of their combined costs, but with 60 percent of those costs being employee-related and an integration plan lasting two years, only time will tell whether the joint CEOs can make it work as advertised.

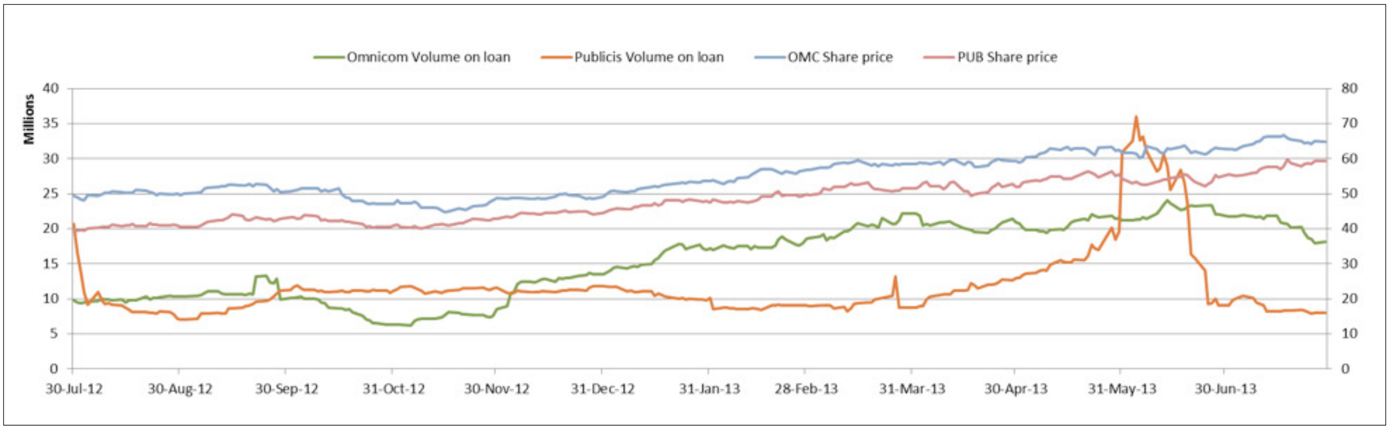
So what of the traders' view of this merger? Does it adhere to the principle of shorting one and going long on the other, or is the current lack of spread between the two companies too close to call?

The graph shows the balance on loan for both securities over the last 12 months along with their price performance. Outside of the jump in loan balances for Publicis in May, loan volumes are relatively high for both shares, but the trading patterns give little away as far as impending strategies go. Until there is a clear outcome as to the net benefits of the merger, and whether any spread emerges between the French and American listings of shares in the combined group, it seems that there will be few clear short positions taken.

A number of analysts are suggesting that the American culture will become the dominant flavour at the new company, particularly once the CEO position passes to the new American holder, and as one observer identified "Publicis has realised that it no longer needs or wants to be French", something which the French CGT Union is readying to do battle over, citing French laws designed to protect domestic brands and jobs.

There is no doubt that this is an enormous project, reflected in the long integration plan being mooted by the parties. There is much to play for and much to be gained or lost; the data suggests that a clear market viewpoint, from the short side at least, has yet to emerge. To make a decision as to which way to play this particular trade, of course, rests on whether the benefits and advantages claimed can truly be achieved—claims that are being presented by two companies that make fortunes by persuading their viewers, readers and listeners what to think and where to spend their money. **SLT**

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



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 more than 65 beneficial owners.

7th Annual Collateral Management

Date: 9-10 October 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 November 2013
Location: Citi offices, Stirling Square, London
www.securitieslendingtimes.com

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

Industry appointments

Hannah Goodwin has retired as head of Citigroup's Asia Pacific prime brokerage business, according to reports.

Goodwin joined Citigroup in 2005 from Deutsche Bank and built the firm into one of the top prime brokers in the Asia Pacific region.

In July, Matthew Clark, a 20-year veteran of Goldman Sachs, joined Citi's prime brokerage business as a managing director and global head of client solutions.

The firm announced that Clark will be based in London initially and report to Alan Pace, global head of prime brokerage and client experience.

Citi did not respond to a request for comment.

The bank's director of equity lending in Hong Kong has also left the bank, a source has confirmed. **Henry Lee** reportedly quit the role. A Citi spokesperson declined to comment.

Citi has appointed **Yuri Aldakimov** as Moscow equity trading head of Citigroup Global Markets.

He will be based in Moscow and oversee Russian equities trading locally, reporting to Gil Peleg, head of Citi's equity trading desk for Europe, the Middle-East and Africa, and Alexei Bolshakov, head of Russian equities.

He joins Citi from Sberbank CIB, where he was head of equity trading, and recently held leadership positions at Otkrytie Financial Corporation and NIKoil.

He had previously worked at Citi as a senior trader and co-head of the Russian equities trading team from 2005 to 2010.

This appointment further strengthens Citi's equity trading capabilities in Russia. In April 2013, Bolshakov was appointed to the head of Russian equities role.

Citi also recently hired Alexander Fonarkov from Renaissance Capital to join the bank's London-based Russian desk as a senior equity trader.

Paul Tucker, who left his role at the Bank of England for a career as a fellow of Harvard, has been replaced by **Sir Jon Cuncliffe**.

As deputy governor of the Bank of England ,Cuncliffe will play a crucial role in ensuring the safety and stability of the UK's financial sector and will sit on the bank's court of directors, the financial policy committee, the monetary policy committee, the board of the prudential regulation authority, and will represent the bank on a number of national and international bodies.

Most recently, Cuncliffe was the British permanent representative to the EU. In 2007, following Gordon Brown's appointment as prime minister, he was appointed head of the European and global issues secretariat. This role included being the prime minister's advisor on international and EU economic affairs.

He was the senior official involved in 2010 talks over the first Greek bailout, which ultimately led to the creation of emergency funding programme, the European Financial Stability Mechanism.

Paul Tucker has been recently been appointed as a senior fellow at both the Mossavar-Rahmani Center for Business and Government at Harvard Kennedy School in Cambridge and at the Harvard Business School in Boston, where he will serve as a member of the school's finance unit.

Deutsche Bank has appointed **Andrew Cheng** to the role of regional product head for agency securities lending in Asia Pacific.

Based in Hong Kong, Cheng will be responsible for steering the bank's agency securities lending products and expanding its franchise in Asia Pacific.

The bank has recruited three agency securities lending specialists in the last 12 months—Nigel Brill for the Middle East, Stuart Thompson for Scandinavia and Guy Moritz for the Americas.

Traiana, a provider of pre-trade risk and post-trade processing solutions, has appointed **Guy Eden** as head of product management.

Eden will have cross asset responsibility and will report to Igor Teleshevsky, a member of Traiana's executive committee.

He previously held the same job title at the London Stock Exchange, and also worked at SunGard, where he was most recently solutions director. **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