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Eurex CCP is new clearinghouse for SL-x

Eurex Clearing will act as the clearinghouse for securities borrowing and lending transactions executed via SL-x's (patents pending) electronic trading platform.

SL-x plans to launch the new platform in Q4 2013 in 17 European equity markets.

From the outset, Eurex Clearing will offer central clearing for SL-x's securities borrowing and lending transactions in Belgian, Dutch, French, German and Swiss stocks. In these initial five markets SL-x's platform aims to include approximately 2,000 stocks and exchange-traded funds that represent over 90 percent of these markets' stock on loan.

Eurex Clearing's lending central counterparty (CCP) started in November 2012 and covers equities, fixed income, and exchange-traded funds.

SL-x's platform offers social networking technology with negotiation and operational capabilities for hard-to-borrow, special, and general collateral stocks that preserve current market structure. SL-x and Eurex Clearing are working on the extension of the CCP service to other major European equity markets.

"We are very pleased to further expand distribution for the lending CCP by working with SL-x. Our lending CCP is widely recognised as industry leading and the first to preserve the special structure of the lending market."

"It helps banks to reduce the amount of capital they require to run their borrowing and lending businesses, enables them to improve operational efficiency, and reduces counterparty credit risk", said Thomas Book, CEO of Eurex Clearing.

SL-x's CEO, Peter Fenichel, said: "We are delighted that Eurex Clearing will be able to offer our clients central clearing from day one of our launch later this year. This agreement is an important step for both businesses on the way to providing CCP-backed SBL transactions."

Ten hottest stocks include BlackBerry and a snoring aid

SunGard recently released its top 10 hottest stocks from a securities lending perspective, which saw BlackBerry and Arena Pharmaceuticals again making the list.

But it was Sears that took the number one seat, after a blow to sentiment when both Fitch Ratings and S&P lowered their credit ratings on the company's debt.

"This came as the company set the terms for a $1 billion loan due 2018, which came in addition to its current £3.3 billion asset-based revolving credit facility due 2016," said SunGard Astec Analytics.

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BofA Merrill Lynch launches FX prime brokerage platform

Bank of America Merrill Lynch has launched its foreign exchange prime brokerage platform on Bank of America Merrill Lynch Mercury.

The platform offers access to position and trade rolling, trade matching, credit monitoring, live trade search and intraday valuation reporting.

"We have developed a platform that is dynamic and highly customisable to provide clients with the flexibility and control to manage their bespoke FXPB needs. The features available through our platform are a direct result of research and in-depth client feedback, and provide customers with direct access to the wide range of services we offer," says Peter Klein, global head of FX prime brokerage and clearing at Bank of America Merrill Lynch.

BlackBerry and a snoring aid are among ten hottest stocks

Continued from page 1

"With this, SHLD shares lost approximately 4 percent in the latter half of the week, although data from SunGard's Astec Analytics suggests those on the short side may be holding off from taking a negative view—borrowing volumes fell 7 percent in the week even as the share price slid."

Second on the list was gun-maker Strum, Ruger & Company, whose CEO Michael Fifer sold almost 15,000 shares in an open market transaction, "seemingly benefiting from a number of stock upgrades for the gun maker and helping to put pressure on the share price during the week", said SunGard.

On the borrowing front, it added, levels have continued to hover near the highest levels seen for the company on record, with only minimal retreat as the company's share price halted its rally.

Taking third place was Opko Health, which recently saw CEO Phillip Frost resume his purchasing of company shares, with an additional 20,000 share buy taking his holdings in OPK to $1.3 billion.

Having seen a significant fall in borrowed volume earlier this month, last week saw the number bounce higher once again, up 15 percent, hinting at some renewed interest from short sellers despite the implicit positivity of internal share purchases.

Fourth was BlackBerry, which once again shot into the top 10 after it offered a profit warning; said it will be cutting up to 40 percent of its workforce on the back of lower earnings; and announced it will open up its instant messaging service for use on other platforms.

"Although its share price plummeted, borrowing saw a more muted reaction, with volumes climbing steadily during the week, up 4 percent."

SunPower was fifth on the list. The firm received a stock upgrade from Zacks, which moved its shares from 'neutral' to 'outperform, "although a number of insider share sales helped pressure the stock in the latter half of the week", said SunGard.

On the borrowing front, the data showed a reduction in volumes, which fell around 4 percent, although SunGard added that overall levels are still near all-time highs, having tripled since the start of this year.

From sixth to tenth on the list were 3D printing company ExOne, French oil company Total SA, Arena Pharmaceuticals, Potash producer Intrepid Potash, and ResMed, which made its first appearance in the Astec Analytics top 10.

The firm, which sells snoring treatments, saw its shares climb as much as much as 15 percent in September as August finished with a number of stock upgrades. Approximately one quarter of these gains retraced, while Astec Analytic's data also showed borrowing volumes jumping 8 percent, "hinting that short sellers are moving with the long side of the market".

T2S will increase fees but help collateral management

Target2-Securities (T2S) may lead to increased costs, but will ultimately help collateral management, said a Sibos survey.

A survey conducted at the Sibos conference at Dubai by SIX Securities Services, found that 63 percent believe T2S will increase the costs of settlement services in Europe in the short term.

Only 38 percent believe the implementation of T2S will lower the costs of settlements services in Europe in the long term.

On T2S and central securities depository (CSD) consolidation, 88 percent believe T2S will lead to a consolidation among providers of settlement services.

Though just 38 percent of respondents are cer-

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tain their CSD is making adequate preparations for T2S, all respondents believed T2S would help their firm optimise collateral management.

Thomas Zeeb, CEO of SIX Securities Services, said: “The industry continues to be concerned that T2S will increase the costs of settlement services in Europe which is against one of the main aims of the project. Rather than insisting on a new settlement engine, it might have made more sense to tweak existing systems. As all CSDs will have to overhaul their systems, many will choose to pass costs on to their customers.”

“However, T2S will provide some tangible benefits, most notably in helping firms improve collateral management processes. With high-quality collateral becoming ever more scarce, this can only be a good thing. T2S also presents an opportunity for the providers of settlement services. Consolidation will inevitably occur as with a single standardised settlement engine, there will be little need for financial institutions to split their business across multiple providers.”

CSD.Austria and NSD launch Russian securities link

CSD.Austria, the Austrian Central Securities Depository (CSD) operated by OeKB, and National Settlement Depository (NSD), Russia’s central securities depository, have launched an international direct link to the Russian securities market.

Austrian and international custodians holding securities accounts with CSD.Austria will now be able to conduct direct settlement of Russian securities and safekeep them using CSD.Austria´s foreign nominee account opened with NSD.

The new link with NSD became possible after recent amendment of Russian legislation allowing foreign CSDs to open foreign nominee accounts with NSD.

CSDs with direct links with NSD will be able to provide their clients direct access to Russian on-exchange and OTC markets in respect to all types of Russian securities, as well as to information services and ruble settlements.

Georg Zinner, head of the OeKB Capital Market Services business unit, said: “We are proud to offer to our customers the direct settlement of all Russian securities. The original securities are held by the CSD.Austria directly with the Russian CSD. This effectively shortens the line of depositories involved and considerably increases custody quality.”

Eddie Astanin, chairman of the executive board of NSD, added: “CSD.Austria’s decision to open an account with NSD reflects the progress made in integrating Russia’s financial market into the global post trading infrastructure and contributes to a reduction in investors’ costs for access to the Russian stock market, particularly for investments in shares of the Russian companies.”

ICMA releases European repo survey

The European repo council of the International Capital Market Association (ICMA) has released its 25th semi-annual survey of the European repo market.

The survey, which calculates the amount of repo business outstanding on 12 June 2013, sets the baseline figure for market size at €6.076 billion.

This represents an increase of 8.6 percent in the size of the market since the last survey in December 2012.

According to the survey, the revival in repo activity in Europe appears to be driven by banks in the eurozone returning to the market for funding as they start to repay the exceptional assistance of over €1 trillion, provided to the market via the European Central Bank through the long term refinancing operations liquidity of December 2011 and February 2012.

The repayments have contributed to tighter

market conditions and a steepening money market yield curve. The higher rates and greater market confidence have attracted lenders away from the European Central Bank deposit facility and back into the market.

The survey also revealed that the market share of euro-denominated repo has recovered over the same six-month period since December 2012, now comprising 64.8 percent of the survey total.

Godfried De Vidts, chairman of ICMA's European repo council, said: "The long running ICMA-ERC semi-annual survey has proven to be highly valuable as arguments around the repo markets have flared up in regulatory discussions of late. The ERC will publish shortly a view on how a more comprehensive gathering of data may be accomplished."

"[The] survey shows a healthy market that provides cash/collateral liquidity between interbank market participants in a secured way as mandated by Basel. This in itself provides a much safer way of distributing liquidity, in contrast to unsecured lending where counterparties are 100 percent exposed to each other. I hope the value of the repo product continues to be recognised while we engage with policy makers on the new framework as highlighted in the recent FSB report."

LCH.Clearnet adds SWIFT MX on both sides of the pond

Both the UK and US based subsidiaries of LCH.Clearnet will implement SWIFT MX standard messaging for securities and cash collateral instructions provided to the clearinghouse members.

The move eliminates the need for manual intervention, improving the efficiency of the collateral management process by allowing clearing members to provide instructions from their own systems.

Clearing members will be able to exchange automated, standardised information securely and reliably. In addition, members will benefit from increased transparency and straight-through processing within their middle and back offices.

Martin Ryan, global head of operations at LCH.Clearnet, said: "Regulatory change, the mandatory clearing of OTC derivatives and the evolution of different asset protection and segregation models will soon require more collateral to move efficiently, from end users through the clearing members to CCPs."

"A cornerstone of LCH.Clearnet's collateral services strategy is to leverage market infrastructure providers to provide efficient, scalable and standardised solutions throughout the complete end-to-end collateral processing chain."

Arun Aggarwal, head of the UK, Ireland and Nordics at SWIFT, added: "The current emphasis on central clearing has changed the scope of the requirement for collateral messaging and created an opportunity for SWIFT to extend its solution to CCPs. We look forward to working with LCH.Clearnet to improve the speed, transparency and efficiency of collateral management activities for its customers."

SunGard adds reporting services notch to its belt

SunGard Astec Analytics has added reporting services to its solution suite, providing customers with the ability to generate reports with detailed information on their borrowing and lending programmes.

Astec Analytics Reporting Services offers clients the ability to create customised securities lending reports to help with independent analysis and accurate benchmarking of their programme's performance.

Clients will be able to see accurate reports about what is being borrowed and lent against what collateral and for what fees. The level of detail will help to improve operations as clients will be able to identify their most profitable counterparts.

Tim Smith, executive vice president of SunGard Astec Analytics, said: "Access to clear and concise reporting is essential in order to achieve transparency and mitigate risk in securities finance. SunGard's Astec Analytics Reporting Services enables users to customise their own reports, providing in-depth analysis and benchmarking to help ensure smarter trading operations going forward."

Rebecca Healey, senior analyst at TABB Group, said: "At a time when regulatory scrutiny and expectation of good practice are so high, having the ability to build and access relevant, tailored and current reports has taken on a new level of importance. Having a robust reporting service is no longer a 'nice to have' but a 'must have' for those with the responsibility of monitoring their firms' securities lending programmes."

One third surveyed believe in low quality collateral

SIX Securities Services has released a new study revealing current attitudes to collateral management.

Collateral Management: How Collateral Values Can Prevent The Next Crisis' highlights the views of senior figures responsible for collateral management as 60 leading financial firms in the UK, France and Germany.

According to the study 35 percent of respondents think that it is acceptable for collateral to be low quality, complex and opaque, so long as it is cheap.

Three-quarters of financial institutions also believe that collateral management has become, or is at risk of becoming, a commodity.

The study also highlights that 53 percent of firms see the main benefit of using an end-to-end collateral management provider is that they make internal operations simpler. Only 18 percent see the main benefit of collateral management providers as lowering total cost.

Thirty-eight percent of respondents believe that the most important requirement of a collateral management system is that it covers central counterparty acceptance, compared with just 2 percent who say cost.

Robert Almanas, managing director for international services at SIX Securities Services, said: "Collateral is now of critical importance to financial institutions. The collateral lockdown brought about by Dodd-Frank, EMIR and Basel III means collateral management—for so long consigned to the back office—is now an issue of board-level concern. Good collateral management is not just about keeping an institution's operations as efficient as possible but ensuring that they are also simpler and more secure than in the past."

"When deciding upon a collateral management provider, firms should look to a wide range of variables including knowledge of local markets, real-time counterparty risk exposure, quality of the on-boarding process and multi-geography, multi-currency, multi-asset class functionality. Tri-party collateral management systems are also becoming increasingly coveted for their ability to safely ring-fence an institution's assets."

eVestment survey marks strong AUA growth

The 13th edition of the eVestment hedge fund administrator survey has shown strong growth of assets under administration (AUA) in the first half of 2013.

Average growth for the period was 14.5 percent while median AUA growth was 12.74 percent. Total alternative investment AUA was $5.9 trillion at the end of Q2 2013.

"Administrators have grown to become an integral part of the alternatives industry. The rise of regulations globally, and subsequent reporting requirements, have forced hedge funds to lean on their administrative partners more and more each survey period," said Peter Laurelli, vice president and head of industry research, eVestment.

"eVestment is in a privileged position to provide intelligence on this evolving industry and we appreciate the additional transparency that the hedge fund administrator community has provided to us by way of this periodic survey."

The survey found that firms reported $3.41 trillion in single manager hedge fund assets under administration. State Street, Citco and BNY Mellon lead the industry with a combined $1.66 trillion in hedge fund AUA, while the top five firms reported $2.29 trillion in hedge fund AUA.

Fund of hedge funds totalled $812.5 billion across 33 participating administrations firms and 4036 funds. This compares to reported end-of-year 2012 AUA of $789.6 billion for the same 33 firms.

Although fund of hedge funds AUA growth was positive, underperformance relative to hedge fund AUA growth suggests continued weakness within the fund of hedge funds space.

"eVestment continued to see net investor redemptions for commingled funds of hedge funds. Six months into 2012, we estimated funds of hedge funds allocations accounted for 35.09 percent of single manager hedge fund assets. That figure dropped to 33.86 percent as of end of year 2012 and 32.67 percent after the first half of 2013," Laurelli added.

The survey showed that fund of hedge fund AUA in Europe declined 4.01 percent from $194.15 billion to $186.36 billion—following the trend in all regions except Asia where fund of hedge fund AUA increased.

Europe based hedge fund AUA was the quickest growing based on regional classifications, increasing from $537.19 billion to $606.95 billion, or 12.99 percent.

Omgeo CTM marks 17 percent growth

Omgeo Central Trade Manager (CTM) has grown more than 17 percent during 2013, with the addition of 220 investment management and broker dealer clients worldwide.

Omgeo CTM is the firm's strategic platform for the central matching of cross-border and domestic equity, fixed income, exchange-traded derivative and contract-for-difference transactions.

Omgeo CTM growth comes from an expansion across geographies and asset classes, including new exchange-traded derivative functionality and an increasing desire for firms to standardise all post-trade processes on a single platform.

Tim Keady, managing director of sales and solution delivery at Omgeo, said: "The migration project has been successfully completed due to the commitment and partnership Omgeo shares with our client community. We would like to thank our member community for their hard work in making this achievable. By rationalising our services onto one platform, Omgeo CTM, our clients are now able to benefit from the increased operational efficiency and risk mitigation that central matching provides."

"At the same time, we have seen significant interest in best practice post-trade processing across the globe, and in particular in Japan as well as emerging markets such as those in South East Asia and Latin America. We remain focused on building partnerships with market participants in these locations and around the world to streamline and standardise post-trade processes and reduce risk."

Calypso opens in Dubai

Capital markets platform provider Calypso Technology has opened an office in Dubai. This expansion is the result of a growing client base in the Middle East region.

The office is located in the Dubai International Financial Centre, and will serve as a sales and marketing base as well as a professional services hub for the region. The territory had previously been managed from Calypso's Paris office, but with the recent on-boarding and growth of new clients including Riyad Bank and Emirates NBD, a local presence was required.

Charles Marston, Calypso's CEO and chairman, said: "In our fifteen years of operation, we have always deemed it invaluable to be close to our clients, so establishing a Middle Eastern presence is a natural progression. We have been in the region since 2007 and through research and practical experience, we have a firm understanding of market trends and requirements, and have become more integrated with its financial community."

The Dubai office is Calypso's 20th office globally, and follows three prior office openings this year alone.

EU legal council berates FTT as over-reaching

The Financial Transaction Tax as proposed will be levied not only on risky activities, but also on activities with genuine economic substance, said a document from the EU Council Legal Service.

The EU's own counsel, which provides legal advice to EU finance ministers, took particular umbrage at the compatibility of one article in the proposal with another.

The council said that Article 4(1)(f) of the proposal did not match up with Article 327 TFEU, which concerned equal treatment, proportionality and the principles governing the internal market, in particular the free movement of capital.

The imposition of FTT on non-participating member states pursuant to the counterparty principle in Article 4(1) would "constitute the exercise of jurisdiction over entities located outside the geographical area concerned by the legislation adopted under the enhanced cooperation," said the report.

It added that where activities are covered that can indeed be considered to be liable to contribute to financial markets' risk, it has not been demonstrated that the interests of member states are endangered to a point that the Union should divert from its attitude in principle of restraint as to extraterritorial exercise of jurisdiction.

Swiss FATCA cooperation on its way

Swiss banks will cooperate with the US Internal Revenue Service under the Foreign Account Tax Compliance Act (FATCA).

The Swiss House of Representatives voted in favour of allowing the country's banks to cooperate with American tax authorities under FATCA.

The final hurdle will be the Swiss Senate, which is expected to vote on the matter later.

Colin Camp, managing director of products and strategy at Dion Global, said: "This decision by the Swiss parliament, Canada's announcement that they will shortly be signing an IGA and the growing indication that China will also sign is yet further evidence of the increasing global implementation of FATCA."

"While there are still certain issues to iron out, such as the reciprocal side of some of the IGAs waiting to be signed by some countries, there is no doubt that the battle against tax evasion is bringing countries together in agreement."

"With the G20 demanding mutual tax information exchange supported by the OECD, it is imperative that when financial institutions look to solve their FATCA problems, they focus not just on what is a requirement today, but what is likely to be a requirement tomorrow. A long term, strategic solution is required for the new world of cross border tax cooperation."

ISLA offers triparty collateral help

The International Securities Lending Association (ISLA) has published a guide to using triparty collateral services under the European Securities and Markets Authority (ESMA) guidelines for exchange-traded funds and other UCITS issues.

This guide is intended to help depositories in establishing their triparty collateral services under the new ESMA guidelines, which come in to full force in February 2014.

Part of ESMA's guidelines on ETFs and other UCITS issues concerns collateral management for OTC derivative instruments and efficient portfolio management (EPM) techniques, such as securities lending activities.

The new collateral requirements apply to all collateral received in the context of OTC derivative instruments and EPM techniques, including over-collateralisation.

The partner and head of investment management at Luxembourg law firm Arendt & Medernach, Claude Kremer, said that collateral received under arrangements involving a transfer of title may be held by a custodian that is not the depositary of the UCITS.

However, this action may only be done if the custodian is a delegate of the depositary and that the depositary remains liable if the collateral is lost, he said. Tripartite agreements remain possible subject to the new rules.

He added that the 20 percent limit per issuer for collateral received refers to the NAV of the UCITS, not the basket of collateral.

"Where government bonds are received as collateral, this limit applies to each government issuer, not each issue. Cash collateral received by UCITS cannot be used for clearing obligations under EMIR."

Global prime brokerage revenues sink

A report stated that global prime brokerage revenues in 2012 were estimated at $12 billion, down from $15 billion in 2008.

Because there are more active firms gathering market share today, revenues at individual firms may have decreased more than the aggregate figure suggests, the report added.

The 2012/2013 report from Ernst & Young also found that hedge funds are continuing to diversify their prime broker exposure in order to reduce their counterparty risk.

"The collapse of several firms during the financial crisis, which accounted for a large share of the prime brokerage business, demonstrated the need for funds to spread their risk."

In 2006, the top two prime brokers, Goldman Sachs and Morgan Stanley, accounted for 52 percent of hedge fund assets. In 2012, they accounted for less than 33 percent.

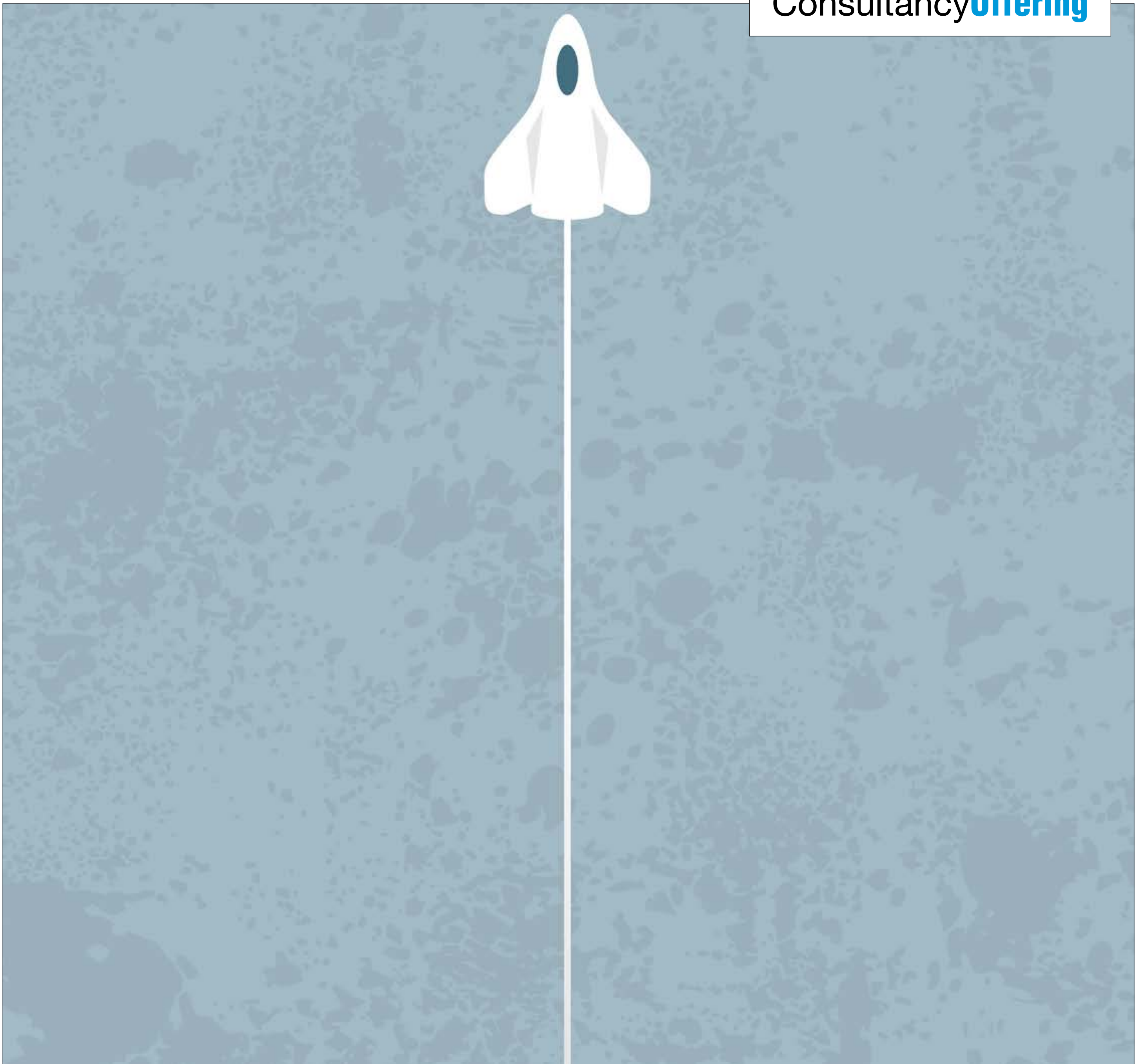
Key findings of the publication included client acceptance—it was found that most brokers have a formal acceptance process for new clients. Client onboarding and monitoring was also examined, with the survey shows that prime brokers can potentially gain advantages by introducing better technology into the onboarding process.

Less than half—44 percent—of firms use a semi-automated process for capturing data and tracking onboarding progress and completion.

Another discovery was around organisational structure. Only one prime broker surveyed separates itself as a standalone, separate and distinct business unit. The others work in the same silos that affect the business, such as securities lending, FX and OTC clearing. Securities lending desks usually report to prime brokerage, but serve other businesses as well. All the prime brokers have dedicated sales and account management teams.

"Cost cutting, tighter capital and leverage requirements, more demanding clients and the paucity of client profitability measures are all real challenges for prime brokers that want to respond effectively to changes in the hedge fund industry," concluded the report.

"To meet these challenges requires prime brokers to be able to ascertain each client relationship's profitability. For this, they need an understanding of the cost of the operational services that the broker provides the client. This understanding will allow a firm to tier its clients effectively, thereby choosing the most appropriate fee to charge."



Background scenery

Matthew Doran and Lou Lebedin talk to SLT about the launch of consultancy firm Doran Jones, as well as how a past at J.P. Morgan can help to grow the business

GEORGINA LAVERS REPORTS

Could you give a brief summary of your firm and its various offerings?

Matthew Doran: Doran Jones is a full service, end-to-end financial services consultancy. We launched the firm in July 2010, with an emphasis on technical execution, as I strongly believed a void existed for high value, but overall lower cost-consulting solutions.

Initially we offered everything from project management and business analysis to technical development and support; as this was the basis for growing the firm. Just recently both Lou Lebedin and Duncan Rawls have joined the firm to launch the strategic consulting end of the business.

Duncan Rawls, whom I have known for a long time, introduced me to Lou Lebedin. We quickly agreed that Lou would be the ideal person to lead the business consulting function as well as becoming the COO. We all recognised that the timing was right to focus on strategic consulting services.

Strategic doesn't imply a conceptual practice as we are primarily execution focused. That means we are not a firm that will walk in and just leave a whitepaper—most of which are obsolete once you walk in the door. Our ultimate goal is to produce strategic and tangible deliverables.

Regulatory changes such as Basel III and the liquidity coverage ratio (LCR) have resulted in increased work and overall focus in the risk space. Many of our top-tier clients have started allocating more work to us given our competency and expertise in risk. Since Lou and Duncan have joined the team, we have also started to see increased traction with prime brokerage firms—as well and within the hedge fund/asset management community overall. This has increased the number of new clients, as well as our footprint with existing clients.

How are regulations affecting your business?

Doran: Increased regulation is the primary driver for consultancy practitioners. We have noticed there is not a great deal of clarity—and in some cases transparency—around the interpretation of some of the new regulations. I believe this issue will be addressed within the next six to 12 months.

Lou Lebedin: The new regulations particularly pertain to finance activities or businesses that consume significant amounts of balance sheet, like prime brokerages. Effectively, the new regulation require more capital and longer term funding, therefore there is increased sensitivity about how much balance sheet and funding a client can consume. The leadership within prime brokers are in the process of evaluating the rule changes and ultimately defining the optimal size of their business—combined with the appropriate construct of their client base. Most prime brokers are likely meeting with their clients—the hedge funds—to assist them in understanding the implications of these changes and how they may ultimately affect how they conduct business. Clearly, there is a belief that pricing will adjust as a result of these new requirements.

How does your past experience at J.P. Morgan help with your role at Doran Jones?

Lebedin: I was the global head of J.P. Morgan's prime brokerage business for a total of six years—four years following the acquisition of Bear Stearns by J.P. Morgan, and two years before the acquisition. As the head of a global business, I had the opportunity to build and manage a world-class platform and reached top tier asset management—hedge funds and traditional long-only, as well as pensions, endowments, and family offices. I dedicated a great deal of time understanding the implications of the new regulations and developed tools that enabled the firm's clients to develop appropriate benchmarks. That experience afforded me to the opportunity to advise firms that were looking to expand their own offerings or simply to comprehend the new regulatory requirements, as well as defining a strategy to optimise their business in light of the new thresholds. In addition to Doran Jones being able to provide advisory services and market colour, we provide project management, business analysis, application development and support, as well as vendor integration to assist our clients in meeting their goals and objectives.

How are funds' increased interest in more listed and centrally cleared products affecting prime brokers?

Lebedin: The people I've spoken with recently have indicated that it is still the very preliminary days with regards to business growth. Right now many firms are setting up OTC clearing accounts and using futures as a means to gain exposure to those markets.The market has yet to really take off. There is every indication that it will, but it's just too early to tell at the moment.

How have you seen the relationship change between hedge funds and prime brokers? What are hedge funds asking for that they weren't in the past?

Lebedin: From 2008 and onwards, there was a great deal of movement as a result of counterparty risk. Many firms went from having one or two prime brokers, to having between five and eight and since that time there has been a little bit of consolidation, which has been the result of decreased concern about counter-party risk and financing balances not being as high as it was pre-2008. That being the principal currency by which they reward prime brokers, combined with funds' desire to be relevant to their prime broker, will need to revisit their relationship and consolidate to those who provide the most value. There have been three-five firms that have picked up market share following that consolidation.

What changes has there been to operational support and consultancy for prime brokers?

Lebedin: A few years back, prime brokerage consultants primarily worked with start-ups. The growth in start-ups has been moderate at best. It has been challenging for them: many are required to take seed money as they have not been able to get third-party investors. The consulting groups have dedicated much of their efforts to larger firms to create more efficiency in their infrastructure, as well as deal with the new hedge fund regulation introduced in the last two to three years.

There are many funds with multiple prime brokers that are also likely dealing with a custody bank to house their unencumbered assets, so they're still challenged with the ability to manage their collateral efficiently. This is where we see opportunity. We have both third-party solutions and we can help customise solutions by building them ourselves, and/or provide technology platforms to help augment their existing systems. We have had numerous conversations with funds and recognise there is a great need in this area.

Are you seeing more transformation/repackaging of collateral, or are clients shuffling their portfolios of assets to free up collateral?

Lebedin: We haven't heard of a lot of actual transformation happening yet, although it is still early. There are currently efforts underway, both on the sell- and buy side, to track their collateral more efficiently. As a result of new capital requirements, balance sheets are becoming more scrutinised and banks are trying to generate better returns on these balance sheets. Therefore, the construct of the client portfolio will define what's meaningful or not for that particular bank. As we survey these banks and get a sense of what they are focusing on—as well as what they are looking for—we can help define changes and also be able to manage relationships appropriately. Conversely, we can sit with hedge funds and allocate those assets accordingly, since we now understand what is important to the prime broker. Funds that typically don't have a robust infrastructure may not appreciate all these changes, so as a third party well versed in prime brokerage can help those clients appreciate those changes, and provide the necessary system development. **SLT**

Matthew Doran
Founder and CEO
Doran Jones

Lou Lebedin
COO
Doran Jones

Bringing up sparks

The wheel is turning for the Latin American lending market—but expect a few sparks of friction along the way. SLT takes a look

GEORGINA LAVERS REPORTS

Growth projections have been slower recently (the IMF cut its growth forecasts for Latin America in July to 3 percent from 3.4 percent), and unfortunately, lending is another cog that is struggling to turn smoothly in the region.

Aware of an uncertain 2013, the US decided to extend its hand out to the region for a little longer. After Federal Reserve chairman Ben Bernanke said the central bank may taper its bond buying programme later this year if the economy continues improving, the markets pushed up the dollar against emerging markets currencies and Latin American stock markets started falling.

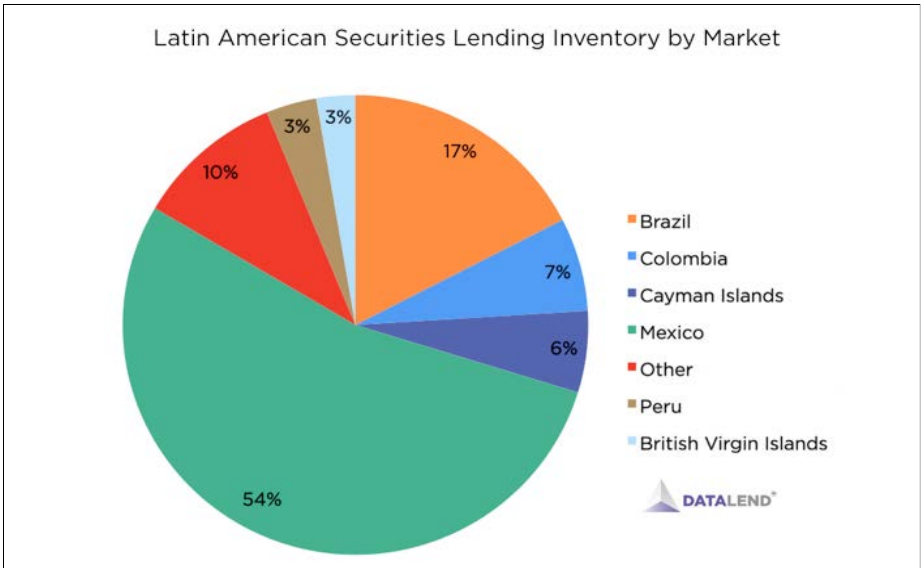
In June, the Mexican peso lost 8 percent and the Brazilian real shed 10 percent against the dollar.

The US Federal Reserve then decided to not scale back its bond-buying programme in September, leaving investors and policymakers in the region temporarily reassured.

But while Brazil struggles with interest rates that have been raised four times since April, soft consumer demand and dwindling investor appetite—lending and borrowing has not died out in the country just yet.

In his analysis of the difference between frontier and emerging markets, Paul Wilson, global head of agent lending product and portfolio analysis at J.P. Morgan, used Brazil as an example of an emerging market.

He illustrated that there is a significant revenue opportunity in an emerging market, which can demand fees that are “multiples” of those found in a more developed lending market. In addition to the commercial benefits, there is a positive perception to be gained not only from beneficial owners, but within the local market, Wilson said—citing fewer failed trades and supported risk hedging as consequences particularly welcomed by the local market.



However, there can be sizeable barriers to entry into an emerging market. Wilson included tax and regulation clarity, local market efficiency, foreign investor participation restrictions, central counterparty settlement structures, commercial risk, and economic stability as just some of the issues to consider.

In a 2012 interview, Judy Polzer, global head of securities lending product at J.P. Morgan, said that securities lending throughout Latin America has been developing at a relatively slow pace, in part due to the CBLC (Brazilian Clearing and Depository Corporation), which acts as a central counterparty from which securities lending transactions are executed through.

“This CCP model has historically limited participation to onshore institutions only,” said Polzer.

“Offshore lenders are slowly warming to the idea of accepting the CBLC model with certain modifications or concessions. Borrowers are generally averse to making such concessions, as their needs can often be satisfied locally through the CBLC.”

Key figures provided by DataLend show that Mexico has the lion’s share of securities lending inventory, at just over 54 percent. Brazil, which has been widely feted as a vibrant market, takes 17 percent. Mexico, which embraced securities lending years ago, is a specials market with few stocks that contribute significantly to revenue. The primary source of growth came from the international players who leveraged their experience and capabilities from other markets to lend and borrow major companies of Mexico, as well as telecoms, oil and mineral stocks.

Fixed income securities lending inventory by type revealed sovereign and corporate debt to compile most of the region’s stock hold, followed by other fixed income and agency debt. SLT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The space–time continuum

Executives at BNY Mellon and SLT discuss the launch of the ‘Collateral Universe’

GEORGINA LAVERS REPORTS

Firms will have to “sprint into 2014”, according to Kurt Woetzel, CEO of BNY Mellon’s global collateral services business.

It has been a year since global collateral services was formed at BNY Mellon, with Woetzel commenting that it was felt that future predictions around regulatory change (that, he pointed out, came true) meant that it was vital to bring all collateral capabilities together in one place.

He mentioned that this year was the fifth anniversary of Lehman Brothers’s default, but indicated that—while it was not cause for celebration—it does mark a long five years of regulatory change that has often been for good.

Two major changes in the five years that Woetzel alluded to were regulatory reform, and new capital rules.

“These are the drivers to everything that is happening in our marketplace,” he said.

This year has seen rapid acceleration of regulation, even though much of the US Dodd-Frank Act is still to be written (Woetzel gave the figure of 40 percent). But though Dodd-Frank and the Commodity Futures Trading Commission (CFTC) have established two pillars of reform, US markets, regulators and market participants are continuing to question whether it has all been effective enough, he added.

“New rulings may not be enough to mitigate risk”, warned Woetzel, who quoted William Dudley, president and CEO of the Federal Reserve Bank of New York, who said that forcing OTC clearing into a centrally cleared environment may not be enough to mitigate risk. The core market infrastructure may not be reliable or robust enough, and some central counterparties (CCPs) have allowed their commercial appetites to come into play, overshadowing risk concerns.

The Collateral Universe’s aim, he said was to offer capabilities to solve these issues; a thought echoed by Nadine Chakar, head of product development and strategy, global collateral services at BNY Mellon.

She officially announced the launch of the bank’s ‘Collateral Universe’, a suite of second-generation collateral management capabilities and solutions. Designed to help buy-side clients manage the impact of regulatory change on their investment processes, the universe combines the bank’s range of collateral management and related solutions with hoped-for benefits provided by both its central securities depositary and its new collateral aggregator.

“For market participants, the current and future regulatory reforms pertaining to derivatives and capital are expected to contribute to collateral and liquidity shortfalls, as well as increased funding costs and operational complexity. These challenges have prompted the buy-side to explore new ideas, tools and partners,” said Woetzel.

Chakar added that BNY Mellon has transformed its business model, investing in new capabilities specifically to address the new challenges facing market participants.

“Our universe provides the next generation of collateral solutions and demonstrates BNY Mellon’s leadership and innovation.”

BNY Mellon’s Collateral Universe encompasses collateral management solutions including segregation, optimisation, aggregation, securities financing, liquidity management, consulting, derivatives lifecycle management and reporting.

Established to help clients address new regulations including Basel III, European Market Infrastructure Regulation (EMIR), The Alternative Investment Fund Managers Directive (AIFMD) and Markets in Financial Instruments Directive (MiFID) as well as the advent of TARGET2-Securities (T2S), BNY Mellon’s Brussels-based central securities depository (CSD) has received a Belgian royal decree granting it securities settlement system (SSS) status.

As an SSS, BNY Mellon CSD is formally recognised to be an appropriate system under EMIR Article 47.3 for the holding of financial instruments as margins or as default fund contributions for CCPs, an important component in assisting clients to reduce their risk in line with the EU Settlement Finality Directive.

In May, the CSD signed a framework agreement with the eurosystem to allow it to outsource settlement to the T2S settlement platform. As a direct T2S participant, the CSD will have the opportunity to leverage the settlement system’s auto collateralisation programme for central bank money and its collateral pooling facilities, among other capabilities, to help speed up the velocity of collateral within global markets.

Another key feature of the universe will be the new collateral aggregator, a platform that aims to offer clients a consolidated and transparent view of all their available collateral, and all their collateral positions and related activities, held with BNY Mellon.

Through the aggregator, buy-side clients will be able to enhance their ability to manage their collateral and counterparty exposures via a single portal. Clients will be able to easily identify, manage, assess and forecast their global collateral holdings.

Chakar concluded that the conversation around collateral services has moved on. “It’s still important to be able to move collateral, handle margin calls, and do all your blocking and tackling within collateral management. But we felt that this new universe will be all-encompassing in a new world order where collateral and liquidity will be in short supply and new capital rules will limit the ability of business as usual.” **SLT**

Try before you dive

State Street's managing director Glenn Horner, and vice presidents Leslie Levine and Jeffrey Trencher, explain new approaches to liquidity risk management

Securities lending programmes, like most investment strategies, pose certain risks, many of which have been generally well-managed for decades by market participants. The global financial crisis, however, highlighted the arguably underestimated scale of liquidity risk in the industry. Since that time, industry participants have sought better ways to measure liquidity risk to improve how they structure and manage lending programmes to suit lenders' individual risk profiles.

Liquidity risk for lenders became a particular concern amid the volatile equity markets of the crisis period. Equity market declines exceeded 40 percent, borrowing demand dropped and the short-term fixed income market faltered. These developments exerted pressure on the liquidity of cash reinvestment pools by rapidly drawing down available cash from maturing assets and lowering the market prices of some of the pools' underlying assets.

Lenders historically have appreciated the standalone market risk of changing asset values in their investment portfolios, including their collateral reinvestment portfolios, and have sought to mitigate that risk through their choice of investment guidelines. However, the financial crisis emphasised the potential cascading impact of rapidly declining loan balances alongside changes in asset market values in their collateral investment portfolios. The experience showed the need for new ways to empirically measure loan balance volatility, just as lenders evaluate other types of risk. With this need in mind, analysts at State Street (including its research arm, State Street Associates) have introduced a tool to measure the 'loan portfolio balance-at-risk' to help lenders understand and measure liquidity risk.

This tool allows lenders to evaluate how potential fluctuations—in both the market value of securities on loan and in the overall demand to borrow—may affect their cash collateral reinvestment portfolios. Such metrics can help lenders make sounder decisions for how they structure their lending programmes.

Collateral reinvestment and liquidity risk

To better understand the significance of loan portfolio balance-at-risk for helping lenders assess liquidity risk, it helps to review the role that cash collateral reinvestment plays in securities lending. Ideally, an institutional investor's lending program makes the investor's securities portfolio more productive by enabling the investor to earn additional income. Risk is mitigated by the borrower securing loans with collateral that is at least equal to the value of the loans. The level of collateral required fluctuates daily according to the market value of securities lent.

In the case of cash collateral, a lender re-invests it in short-term fixed income assets and pays the borrower a rebate representing interest (negotiated specifically for each transaction) on the cash used as collateral. A lender earns income, typically shared with an agent, from the spread between the collateral portfolio's earnings and the rebate paid to the borrower. When a loan is terminated, the securities are returned to the lender, which then is obligated to return all of the cash collateral to the borrower.

As this basic review of a cash-collateralised securities lending transaction shows, the relationship between an investor's loan portfolio and its reinvestment portfolio plays an important part in liquidity risk management. At inception, the value of both portfolios will balance, aside from any collateral margin. However, as the loan portfolio rises or falls in value, the reinvestment portfolio manager will need to revise the invested collateral position accordingly.

Meeting liquidity needs

The financial crisis starkly highlighted the potential vulnerability of the interrelationship between the loan and collateral portfolios. During the crisis, rapidly declining equity markets and reduced borrower leverage lowered the market value of securities on loan. Their combined impact quickly used up reinvestment vehicle liquidity from maturing securities. As a result, some lenders faced lending additional securities on unfavorable rebate terms and/or selling, at a loss, reinvestment assets that had dropped in value because of widening credit spreads. What can we learn from this?

To meet liquidity needs over a given period of time, a reinvestment portfolio manager needs to consider the loan portfolio balance-at-risk, and collateral liquidity.

The loan portfolio balance-at-risk takes into account two factors that lie beyond a lender's control: market price changes for the securities on loan and shifts in the volume of securities on loan (also referred to as utilisation). How quickly, and to what extent, these changes may occur will vary depending on the make-up of the loan portfolio. Collateral liquidity refers to the portion of collateral that matures over a given period of time. When the reinvestment portfolio has insufficient cash from maturing assets, the manager may need to sell assets to cover collateral return needs. Volatility in interest rates and credit spreads may result in losses.

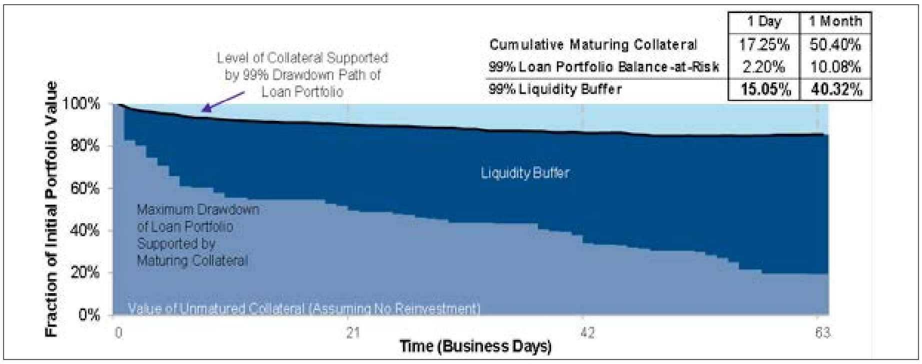


Figure 1
Source: State Street, January 2013

Composition of a Typical Loan Portfolio

Equities			Fixed Income		
US	*S&P 500*	32.1%	US Gov't.	*Treasury Bonds*	10.7%
	Russell 2000	10.7%		*Treasury Notes*	10.7%
Japan	*Nikkei 225*	8.7%	USD Corp.	*Inv't. Grade*	14.3%
France	*CAC 40*	3.5%			
Australia	*ASX 50*	3.4%			
Germany	*DAX*	3.1%			
Spain	*IBEX*	1.3%			
Hong Kong	*Hang Seng*	1.1%			
Norway	*OBX*	0.4%			
		64.3%			35.7%

Figure 2
Source: State Street, January 2013

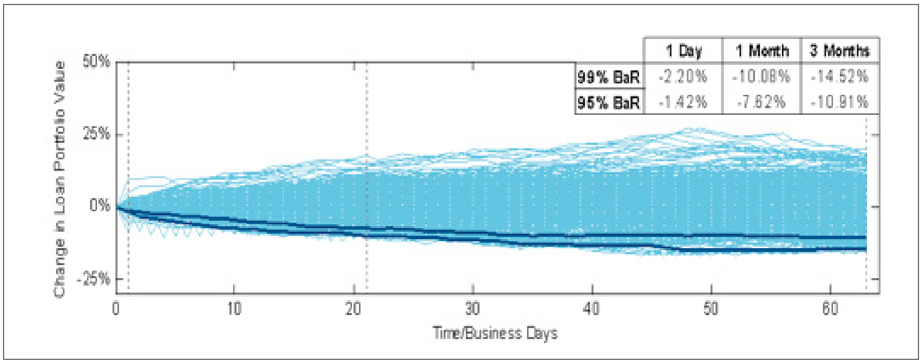


Figure 3
Source: State Street, January 2013

An analytical approach

Lenders can estimate their loan portfolio balance-at-risk over a given period by calculating a simulated 99 percent draw-down path of their loan portfolios. With that data, lenders can also estimate the expected liquidity buffer of their reinvestment portfolio, ie, they can estimate the expected need to sell assets in order to return collateral held against a shrinking loan portfolio. The 99th percentile drawdown path looks at the current composition of the loan portfolio and considers the underlying securities' price volatility and historical changes in the demand to borrow like securities (see Figure 1).

A sample analysis considers a typical loan portfolio (see Figure 2) and, using benchmark indices, estimates the potential change in value of the loan portfolio by using historical data of both price changes and borrower demand for the loaned securities.

Based on the empirical data, a lender can identify the expected percentage change in its loan portfolio at a desired confidence level, 99 percent in the example shown (see Figure 3).

This advanced analytical approach offers an important means to measure an estimated 99 percent drawdown path for loan balances. As a result, lenders may be better situated to assess whether their current cash collateral reinvestment guidelines are well-suited to their overall risk profile given the assets that they lend. **SLT**

A shared interest

The Liquidity Alliance is aiming to have its collateral management soluions in various countries running by the end of 2013, says Strate's Anthony Van Eden

The Liquidity Alliance was founded in January 2013 by five central securities depositories (CSDs)—ASX in Australia, CETIP in Brazil, Clearstream in Luxembourg, Iberclear in Spain and Strate in South Africa—to develop a common and global approach to collateral management, in line with upcoming regulations.

The financial industry is currently facing a series of regulatory challenges which have arisen in response to the infamous 'credit crunch' of 2007-2008.

These international rules, which include the Basel III capital adequacy regime, the US Dodd-Frank Act, the European Market Infrastructure Regulation (EMIR) and the Capital Requirements Directive (CRD IV) are putting pressure on financial institutions to improve their risk management and make transactions more secure. In particular, large market participants with worldwide operations are looking for truly international solutions to what has become a global concern: efficient collateral management.

As the implementation dates of the various regulatory measures draw closer, it is becoming urgent for financial institutions worldwide to optimise their collateral management systems and to pool their collateral in order to avoid the much-feared collateral shortage. CSDs can contribute to the relief they need, provided they have a sophisticated collateral management engine in place.

Some CSDs already played a vital role in guaranteeing stability during the financial crisis. They achieved this by providing liquidity to the market as confidence dropped and inter-bank lending almost ground to a halt. Triparty agent services in particular experienced a boom as they allowed banks to better manage and cover their exposures through a neutral infrastructure provider.

CSDs are therefore particularly well placed to help the market overcome the potential collat-

eral shortfall by optimising collateral pools.

It therefore comes as no surprise that banks and other financial institutions turn to their CSD for support in dealing with the current challenges. Developing a workable collateral management offering for their underlying clients to avert a shortage of collateral is therefore essential for CSDs to remain competitive.

However, while CSDs around the world are feeling the mounting pressure of the upcoming regulations through increased client expectations and demands, not all CSDs have the funding, resources or international experience to develop collateral management services of their own within the required timeframe. It is therefore vital for CSDs to collaborate and to adapt already existing services and technologies to their individual market requirements.

This was the backdrop to the creation of the Liquidity Alliance, and it seemed only natural to also use a partnership approach to develop a collateral management solution. The Liquidity Alliance members decided to partner with Clearstream as it has over 20 years of experience in providing collateral management and securities lending services via its Global Liquidity Hub. Clearstream leverages this knowledge to help other organisations overcome collateral fragmentation.

Instead of each CSD having to embark on costly and lengthy IT developments, the Liquidity Alliance members use the Liquidity Hub GO solution from Clearstream as their common collateral management platform. It is currently the only service which allows assets to remain in custody in a domestic market while the system is white-labelled by the local CSD to perform sophisticated collateral management tasks such as allocation, optimisation and substitution. The development of such a customised solution for domestic markets only takes about a year and requires limited investments.

It is vital that the service does not entail moving assets out of the domestic market, as local custody is a legal requirement in many jurisdictions. Staying in the domestic market also means that the assets are governed by local laws, and the contractual arrangements between the CSDs and their customers can remain unchanged.

The Liquidity Alliance also serves as a forum for sharing experiences, identifying common needs and promoting collateral research. In other words, the Liquidity Alliance aims to go beyond the purely technical aspects of the problem. It seeks, through collaboration, to create a pool of useful knowledge about how to cope with the global collateral sourcing and servicing challenge.

In addition to sharing collateral management technology, members of the Liquidity Alliance come together on a regular basis to discuss current market developments, partnership plans and business opportunities in collateral management, while also investing resources in studies and industry research.

Since the members of the Liquidity Alliance are drawn from all over the world, they form a valuable pool of local insight and expertise that can be used on a global scale. They also act as a trusted source of information. In this way, the Alliance adds value to what could easily remain a purely operational and technical subject.

The Liquidity Alliance is already in action. While the Brazilian CSD, CETIP, has already implemented the collateral management service in July 2011, Strate is expected to go live before the end of this year, along with ASX (Australia) and Iberclear (Spain). A closer look at Strate in South Africa shows how membership of the Liquidity Alliance can support the development of domestic markets.

South Africa boasts one of the most highly developed financial sectors of the continent. Strate, South Africa's CSD, lies at its heart, providing the local market with world-class post-trade services such as clearing and settlement.

Traditionally, banks in South Africa use cash as collateral but some financial institutions have also started using equities and bonds in the form of bilateral agreements. However, the bilateral nature of collateral arrangements in South Africa has certain limitations, such as an incomplete overview of placed and received collateral.

Market participants want services that reduce collateral fragmentation and lower inefficient collateral buffers, as well as improving the accessibility and mobility of assets useable as collateral. The ultimate goal is to improve the capital base and liquidity flow of the institution.

Strate believes that working and collaborating with market-leading partners is the best way to ensure that it remains at the forefront of international trends and local market demands and developments. In the past, strategic partnerships with global market experts such as Tata Consultancy Services (TCS) and SWIFT have played a critical role in Strate's and the South African financial market's success.

It was therefore in this spirit that Strate also adopted this partnership approach for collateral management; membership of the Liquidity Alliance was perfectly in line with Strate's overarching partnership philosophy.

The most valuable aspect of the Liquidity Alliance for Strate and the other members is that it enables them to develop collateral management services for their local markets much faster and more efficiently than on their own. It allows domestic markets to develop services to customers, while simultaneously enabling them to meet regulatory requirements within the tight timeframes set by both domestic and international regulators.

Strate is currently rolling out Clearstream's Liquidity Hub global outsourcing service for the South African market in a white-labelled manner. This means that Strate's customers will be able to benefit from Clearstream's market-leading Global Liquidity Hub without having to change the contract they have with Strate.

The South African market reacted very positively to Strate's new offering as it will help local financial institutions to better manage their collateral and liquidity exposures. In addition to the important fact that the assets will remain in South Africa, market participants welcomed the idea that they would now be much better able to track collateral movements to prevent unauthorised re-use.

Strate is now fielding requests from market participants to extend the offering to include the use of offshore assets to cover domestic exposures, in addition to mobilising domestic assets for the coverage of offshore exposures. Membership of the Liquidity Alliance thereby enables Strate and its partners to be at the forefront of innovative, market-driven solutions to global problems.

The domestic markets of the Alliance members will greatly benefit from such developments as it will enhance liquidity and provide market participants with a much bigger collateral pool. The Liquidity Alliance members believe that the necessary investments are worthwhile and that this type of partnership is the way for CSDs to stay in line with market and regulatory developments.

In times when the public eye is scrutinising the risk models of financial institutions and regulators are reacting by imposing stringent measures to make financial markets more resilient to shocks, CSDs must work together not only to stay abreast of the latest developments but also to ensure that regulations are implemented in a harmonised way.

Strate's success story is of course only one example of how the Liquidity Alliance supports CSDs. The Liquidity Alliance is open to new members and warmly welcomes other market infrastructures to join. The alliance members would be happy to support them in making their local markets more secure and in line with international standards. **SLT**

Anthony van Eden
Strategic products director
Strate

Crawling out of Davey Jones' locker

Chris Benedict, vice president of DataLend, analyses dry bulk shipping stocks

Dry bulk shippers have plunged to the bottom of the ocean in recent years. A highly cyclical business, dry bulk shippers enjoyed very healthy shipping rates in the early to mid-2000s as demand for commodities increased, new ships came online at a rapid clip and global economies (most notably China's) expanded. But the industry was annihilated in the wake of the 2008 financial crisis, causing demand to dry up and excess capacity to balloon enormously. The Baltic Dry Index (BDI) fell off a cliff in late 2008, and shipping stocks immediately followed. With the BDI crashing, shippers found that just covering their (substantial) operating costs was a real challenge. Many shipping company stocks went straight to Davey Jones' locker with the rest of the industry trading just a few fathoms above that level. Now that the global economy is finally showing signs of improvement, should we expect shipping stocks to resurface for a gasp of fresh air?

Dry bulk shippers specialise in the global transportation of iron ore, steel, wheat, grain, coal and other essential commodities. DryShips Inc is one of the most well-known companies in this space. Having reached an all-time high of around $120 per share in the summer of 2008, the stock now languishes at a mere $3 per share. In the securities lending market, fees to borrow the stock have eased from around 107 basis points (bps) in late April to around 60 bps today. Utilisation in the name has dropped from 95 to 63 percent after a recent uptick in stock price.

Trading patterns of Diana Shipping Inc mirror those of Dryships. In late June the stock saw fees of 152 bps to borrow the stock with an 80 percent utilisation. Those fees have decreased to around 14 bps more recently, with only 39 percent utilisation, a short interest of 2.54 percent and 1.6 days to cover (down from 6.32 and 6.89 percent, respectively). The stock price also improved this summer, up from around $8.50 per share in March to almost $13 per share in early September.

Navios Maritime is another dry shipper seeing some improvement. In the beginning of 2013, fees to borrow the stock were volatile, ranging from 500 to 1000 bps with utilisation in the 30 to 40 percent range during the same period. Since then, its stock price has climbed from $3.63 per share to just above $7.50 per share in early September. Fees to borrow the stock were only 11 bps, utilisation 23 percent, short interest 0.39 percent and days to cover 0.61. It seems as if short sellers have stepped away from this name.

Safe Bulkers Inc tells a similar story, although with much more volatility. Fees to borrow the stock reached a high of 2932 in May and remained in the 2000 bps range, then plummeted to 200 bps in late July. Interestingly, fees increased back up to the 1700 bps range in late July and remained in that range more recently—although, during the same timeframe, utilisation decreased from 84 down to 43 percent. Safe Bulkers's stock price also has seen a rise from less than $5 per share up to more than $7 per share recently.

Costamare is another name on the mend. Although the stock hasn't rebounded as well as some of its competitors, fees to borrow have remained fairly level in the 150-200 bps range. Utilisation, however, has dropped dramatically from its July highs of 95 percent down to 31 percent recently.

However, Genco Shipping and Trading seems to buck the supposed recovery trend. The company's stock price dropped from $3.70 in January down to a low of $1.36 in June. Fees to borrow the stock rose from 470 bps in June up to 4347 in July before dropping to 1750 bps more recently. Utilisation remained high during the timeframe and has reached a high of 98 percent, with short interest at 25 percent and seven days to cover. That increase in fees and utilisation correspond with a recent uptick in the stock price. It seems as if short sellers don't feel this company is on the mend and may be selling into the stock price appreciation.

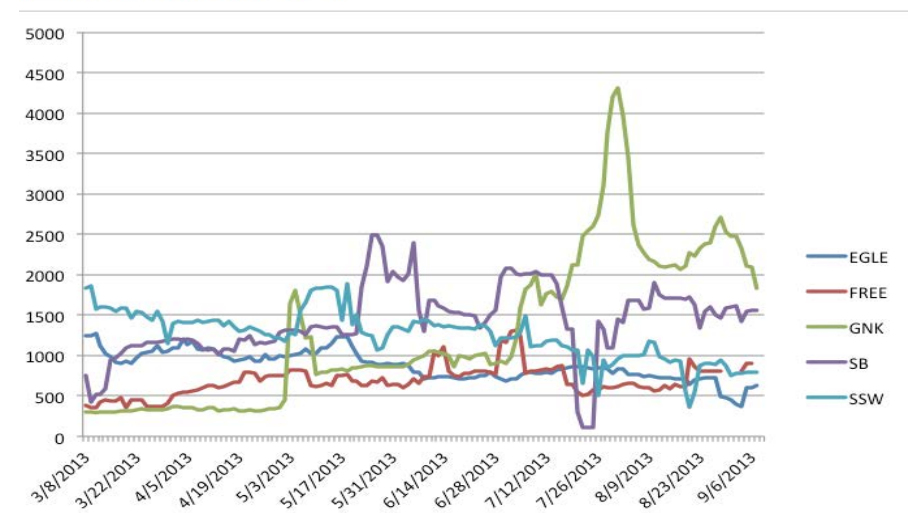
Seaspan Corporation is a dry shipper with potentially choppy seas ahead. Fees have dropped from the mid-2,000 bps range in February to around 800 bps recently. Utilisation decreased from 90 to 81 percent during the same timeframe. But with warm to hot fees and high utilisation figures, short sellers could drag the stock price back down below $20 per share on the hint of bad news.

Eagle Bulk Shipping appears to be a mixed bag. In early 2013, the stock was trading below $1 per share, and fees to borrow the name ranged between 1000 and 1600 bps, although utilisation was a low 30 percent. The stock more recently trades at more than $5 per share, with fees dropping to around 800 bps. But utilisation has increased to 94 percent, with short interest at 19 percent and four days to cover.

Micro-cap company Freeseas Inc looks like a sinking ship. The stock has been consistently down in the spring and summer from $1.95 to just $0.28 per share. Utilisation is at nearly 100 percent recently, and fees to borrow the security have been ranging from 600 to 800 bps. It looks as if the shorts are riding this one down to join the wrecks of Excel Maritime Carriers and Overseas Shipholding Group at the bottom of the ocean. Eventually the stock price may be the same as its ticker symbol: 'FREE'.

Although the dry bulk shipping industry has been shaping up, all is not looking bullish. Overcapacity is still a big problem, shipping rates remain moribund and a drop in commodities demand would throw cold seawater on any embers of recovery. Some of these companies may have hit bottom and appear to be poised for a turnaround. Others look as if they still have huge holes in their hulls. The worst of the storm may be over, but given the slow cyclical nature of the industry, we shouldn't expect really smooth sailing for dry bulk shipping companies anytime soon.

Dry bulk shippers: more volatile group



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A multi-layered, multi-speed Europe

It is too simplistic to look at the vast economic region that makes up the eurozone as if it is a single economy, says David Lewis of SunGard Astec Analytics

While many are reluctant to use the cursed phrase "green shoots" when referring to the emerging recovery across Europe, the word 'recovery' is indeed becoming more commonly used. A recent news article announced as part of a wider piece on improving sentiment is that short interest levels are at the lowest point in the last seven years. However, while good news is always good to hear, the information presented could be oversimplified.

The measure quoted was based on the Euro Stoxx 50 (SX5E) and the duration analysed was the last seven years, ie, the end of 2006, around two years ahead of the bust following the boom. By definition, the SX5E includes the biggest and best blue chips from 12 eurozone countries—"supersector leaders across the eurozone" is part of its description. Is this a realistic measure? Announcing that the biggest companies from the best countries are doing quite well—not perhaps as well as the S&P up 153 percent since March 2009 compared with 62 percent for the SX5E—isn't a significant revelation. Therefore, a deeper analysis of more granular data is required.

Separating the countries into 'high' and 'low' performers, we may compare Germany, the UK, the Netherlands and perhaps France (the 'high-performing' countries) with those that may qualify as 'lower-performing' countries: Portugal, Italy, Greece and Spain, which are unkindly grouped together by some as the 'PIGS'. From this, a number of questions arise: is there a two-speed Europe, where one part is gathering momentum, albeit slowly, while others have yet to turn around properly? What does the short interest in each of these countries look like individually and what can we surmise from that?

First, let's look at the Euro Stoxx 600 as a wider measure than the SX5E. Looking back to January 2008, an important point in time with regards to the looming financial crisis, we can see that the number and value of shares on loan has grown since then, dipping and rising during 2008, but remaining above par (100 as shown in the graph of indexed data shown in Figure 1) once into 2009. It is important to note, of course, that as Astec Analytics's customer base has grown significantly over the last couple of years, it does not account for 100 percent of the increase on the graph. Note that the Euro Stoxx 600 index (the green plot line on Figure 1) is only at 87 percent of its January 2008 levels, indicating that the rise in value on loan incorporates an index level decline in value. Note also the most recent uptick in balances on loan across the last couple of months—an indication of short positions being established as the market prices rise.

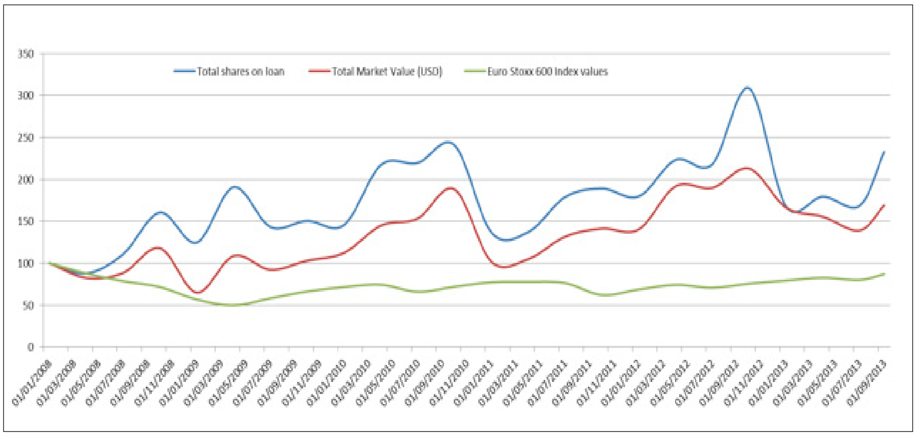


Figure 1: indexed results from 1 January 2008 to 26 September 2013. Source: Astec Analytics

Looking into the data at a country level, we can see that countries do diverge. Figure 2 shows six countries—the UK, Germany, France, Spain, Portugal and Italy—and illustrates the market value of equities on loan, indexed over the last 12 months. As shown, the balance on loan has fallen over the last 12 months, except for Portugal and France, despite all four countries reaching new peaks during the European dividend season. The net changes are as follows: Germany down 23 points, the UK down 15, Spain down 22, while Italy fell only 8 points. France and Portugal in contrast have risen 13 and 11 points, respectively.

However, all six countries have seen index hikes over the same period, indicating that the simple on loan value changes do not tell the whole story. The DAX has risen 18 percent over the period, the UK FTSE 100 has risen 13 percent, the CAC 40 21 percent, and Spain, Italy and Portugal grew by 18, 17 and 15 percent, respectively. Even accounting for the general price rises in these countries, including France and Portugal, we can infer that each have seen a net fall in equity balances on loan, though it is important to note that some have enjoyed bigger upticks in sentiment than others.

After careful analysis, it is too simplistic to look at the vast economic region that makes up the eurozone as if it were one economy. The pace of recovery, if indeed that is what it is, varies by nation and the changes in short interest would certainly support that. The challenge for those in power is to marshal all the economies along together, and that will be no mean feat. **SLT**

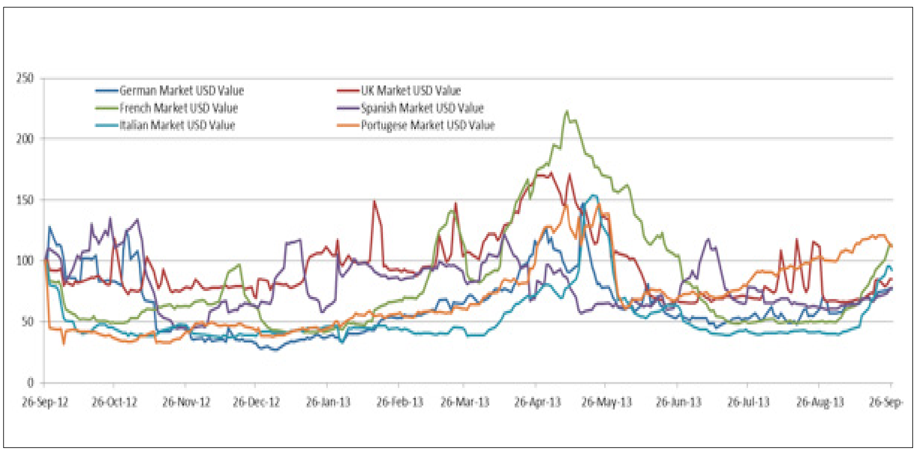
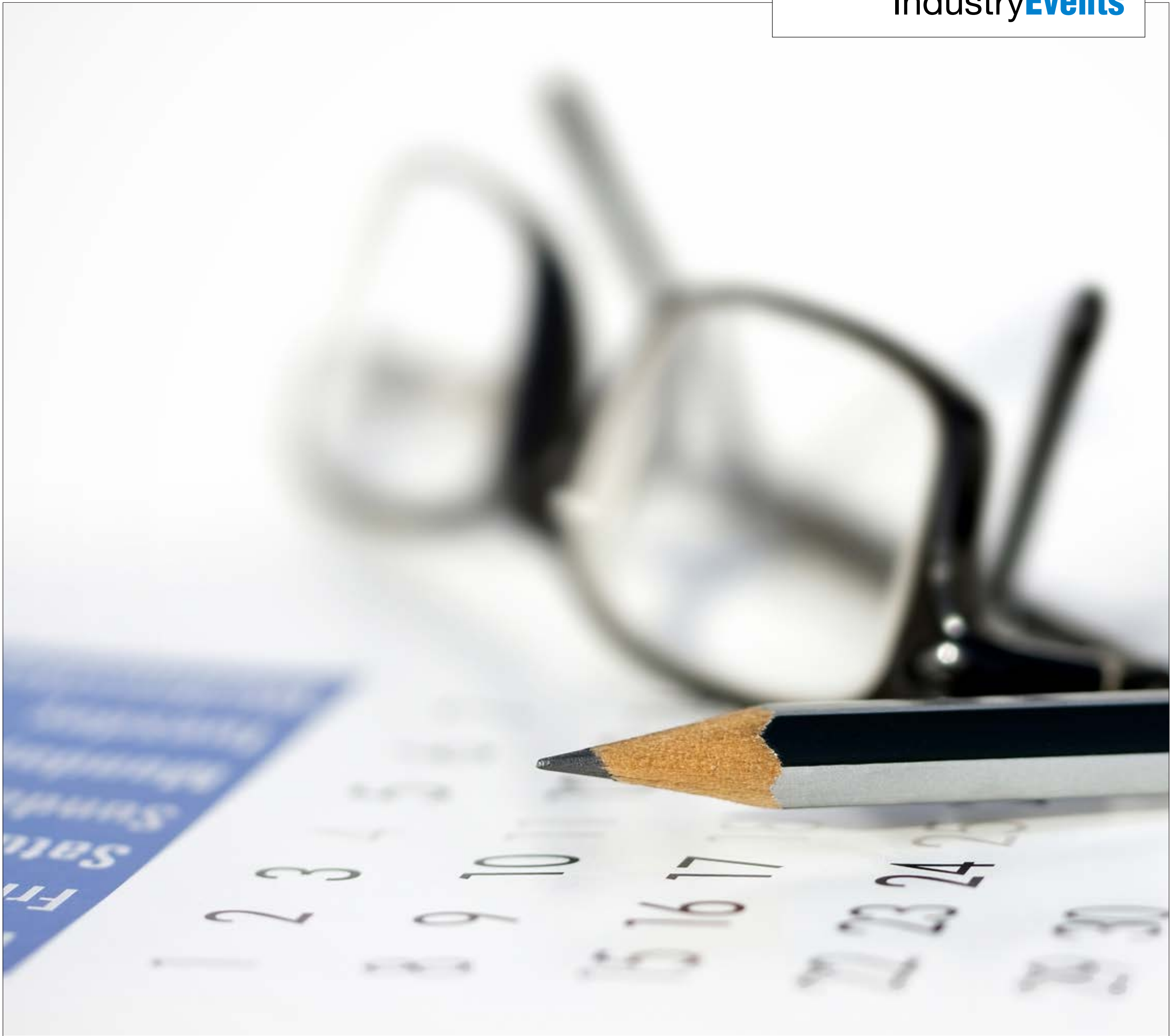


Figure 2: indexed USD value of equities on loan over the last 12 months. Source: Astec Analytics

David Lewis
Senior vice president
SunGard Astec Analytics



Fleming's 7th Annual Collateral Management Forum

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

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RMA's 30th Annual Conference on Securities Lending

Date: 14–17 October 2013
Location: Florida
rmahq.org/securities-lending

Come out and join other industry executives, managers and experts at the RMA Conference on Securities Lending in October. The conference commences on Monday, October 14 with the welcome to Boca networking reception.

GFMI's 2nd Annual Collateral Management Conference

Date: 4-6 November 2013
Location: New York
www.global-fmi.com/CM2013_SLTlisting

The GFMI 2nd Annual Collateral Management Conference is a two-and-a-half day, educational focused meeting.

Securities Lending: 2014 Outlook

Date: 21 November 2013
Location: London
www.securitieslendingtimes.com

We are pleased to announce Securities Lending Times' first event in conjunction with Citi. Securities Lending: 2014 Outlook will be a forward thinking seminar looking at navigating in exceptional times

Conference agenda

The RMA Conference on Securities Lending will be held in Boca Raton, Florida, between 14 and 17 October

Monday, 14 October 2013

8:00–10:00 pm Welcome to Boca Raton reception
Food, drinks, Monday Night Football and possible MLB play-offs

Tuesday, 15 October

1:00–2:30pm: Latin American markets update
Panellists will discuss securities lending in the major markets in the Latin American region, including Brazil, and the issues facing both borrowers and lenders. The panel will address common industry misperceptions in the region, the role of central counterparty and offshore models in Latin America. In addition, the future of the LATAM SBL market will be discussed as well.
3:00–3:30pm: RMA, SIFMA Association updates roundtable
The current RMA and SIFMA chairs and director, along with members of their executive committees, will update participants on the associations' activities.
3:30–5:00pm: Securities lending and borrowing legal and regulatory roundtable
Everyone is invited to participate in an open discussion addressing key regulatory and tax issues affecting the industry.
6:00–8:00pm Gala cocktail reception

Wednesday, 16 October

7:45–8:45am Breakfast and visit with the exhibitors
8:45–9:00am Welcoming remarks
Matthew Chasin, co-chair, The Royal Bank of Scotland and Bruce McDougal, co-chair of BlackRock
9:00–10:00am The future of securities finance
Senior business leaders' share their perspectives on how markets continue to change and how lenders and borrowers will adapt to the legislative and regulatory pressures.
10:00–11:00am Keynote address
Louis Crandall, chief economist at Wrightson ICAP and Michelle Girard, managing director and chief US economist at RBS
11:00–11:15am Coffee break with the exhibitors
11:15am–12:15pm Cash management panel
Discussion about the opportunities and challenges in the short term investment horizon including the impact on securities lending operations and returns of the SEC proposals and OCC STIF rules, along with less regulated alternatives. Money market reform including floating NAV and liquidity buffers. What about client comfort with less regulated alternatives? TMPG reform limits on late-day repo trades—will this impact or restrict late day loans/returns/settlements?
12:15–1:00pm Hedge fund/end-user panel
Representatives from hedge funds and market participants will discuss the current and future demand for securities in the marketplace, the availability of supply, and their view of securities lending. How are current market conditions and regulations impacting hedge funds and the broker/dealers providing supply and services? What obstacles are borrowers facing and how do they remedy these situations? How have their needs changed over the years and where do they see their needs in the future?
1:30–4:30pm Tennis tournament
5:30–7:30pm Cocktail reception

Thursday, 17 October

7:45–8:55am Breakfast and visit with the exhibitors
9:00–10:00am Collateral Panel (optimisation, scarcity, efficiency and eligibility)
The regulatory environment generates a lot of analysis on collateral availability and eligibility. Do market participants have sufficient, eligible collateral and if not, is there a better alternative? However, while a good number of re-investors consider the various, should efficient collateral management techniques not be at the top of their minds? In addition, issues surrounding Basel II collateral confidence will be discussed.
10:00–10:45am Outlook for fixed income lending and trading
The panel will discuss outlook and obstacles on fixed income lending including the impact of quantitative easing, flat yield curve environment and the low reinvestment rates. In addition, how are institutions preparing for rising rates?
10:45–11:00am Coffee break with the exhibitors
11:00–11:45am Outlook for global equity lending
Heads of equity trading will debate key issues driving market dynamics of equity trading such as GC pricing in a low-rate/zero-rate environment; non-cash collateral; evolving use of technology and differentiating

Industry appointments

James Day has left his position of global head of securities borrowing and lending sales and marketing at UBS.

Prior to joining UBS in 2011, Day was head of equity execution EMEA at Barclays Capital.

He has also held roles at Daiwa Securities and Nomura International.

Neil Barofsky, the former federal prosecutor who served as the chief watchdog of the $700 billion federal bailout in 2008, has joined Jenner & Block LLP's New York office as a partner in the firm's litigation department.

He will be a member of the firm's practice groups in white collar defense and investigations; securities litigation and enforcement; and government controversies and public policy litigation.

Confirmed by the Senate as the first special inspector general for the Troubled Asset Relief Programme (TARP) in late 2008, Barofsky oversaw the creation and expansion of a law enforcement agency within the US treasury department, which was charged by congress to conduct criminal and civil investigations of fraud and abuse linked to the bailouts.

Since leaving that post in 2011, Barofsky has been a commentator on a variety of issues at the intersection of economics, law, business and politics for Bloomberg TV and other media outlets.

He documented his experiences in overseeing TARP in his book, Bailout.

Prime brokerage boutique, Global Prime Partners (GPP), has expanded its European sales team with the appointment of **Colin Bridges**.

Bridges will work closely with Kevin LoPrimo, head of hedge fund services at GPP, to develop and support the firm's growing list of prime brokerage clients across Europe.

Prior to joining BPP, Bridges spent five years at BNP Paribas working on the equity-financing desk.

Jacques Aigrain, the current non-executive chairman at LCH.Clearnet, is to become interim executive chairman of LCH.Clearnet Group. Aigrain is also a non-executive director of London Stock Exchange Group, and will remain in that position.

Additionally, Michael Davie, CEO of SwapClear, who has been with the business since 2010 will become the permanent CEO of LCH.Clearnet Limited, the UK clearinghouse, in addition to his role at SwapClear.

This follows July's announcement that, following an orderly handover process, Ian Axe intended to step down as chief executive of LCH.Clearnet Group and LCH.Clearnet Limited.

BMO Global Asset Management expanded its securities lending and short duration fixed income groups with the addition of **Christopher Keenan** as a senior securities lender/trader and **Katherine DellaMaria** as portfolio manager. Both are based in Chicago.

With more than 10 years of industry experience, Keenan will be responsible for the control and coordination of the securities lending trading desk and trading/lending within client portfolios. His previous roles include senior international equities trader, fixed income trader and senior investment risk analyst at various firms, with a heavy focus on international portfolio management and strategies.

DellaMaria will provide analytical and liquidity support for mutual funds and separately managed strategies. In her most recent role, she was a fixed income product specialist for BMO Global Asset Management's long-term bond manager Taplin, Canida and Habacht.

Fran Garritt is taking over as director of securities lending and market risk at the Risk Management Association (RMA).

Garritt, who currently works as associate director, will replace **Christopher Kunkle** on 7 October. He has worked at the RMA since 2000, and has been instrumental in market risk as well as securities lending development over the past six years.

Kunkle is leaving the RMA after almost four years in the job. He is joining Wells Fargo as a managing director. He will be based in New York from 9 October.

He started out in securities lending at Bankers Trust Company in 1993. There, he worked as global head of securities lending product development.

It was while at Bankers Trust that Kunkle first began working at the RMA, joining its legal tax and regulatory sub-committee in 1994.

Kunkle has also worked in senior roles at Fleet Financial Corp, Mellon Financial, J.P. Morgan and Wachovia, which Wells Fargo acquired at the end of 2008.

The RMA is looking forward to its 30th Conference on Securities Lending, which will take place between 14 and 17 October in Boca Raton, Florida.

SLT would like to take this opportunity to thank Kunkle for his years of service at the RMA, and in helping to make securities lending stronger during what has been a difficult period since the financial crisis.

We wish him well in the future, and look forward to continuing to work with Garritt in his new capacity at the RMA. **SLT**

60 second resumé

Brian Turner...

Meet Brian Turner, a seasoned industry professional who respects the relationship game

Tell us a little about yourself

I have been in the securities lending industry for the past 28 years, and am looking to get back to work. Since my very first day, I have had a passion for the industry, as well as a burning desire to learn about new areas within the sector.

I have had the pleasure of working for and with some terrific pioneers in securities lending, including Norman Feckl, Joe South, Henry Gioia, Keith Kirsch and Keith Wright. These are great people as well as role models, from whom I learned a great deal.

I worked at Maple Securities from November 1997 until July 2013. I also worked at Fidelity Investments/National Financial Services from July 1985 until October 1997.

What industry qualifications or relevant certification do you hold?

The main quality I bring to this industry is experience. I have seen bull and bear markets, and they both have had strong effects on the business. I have helped Fidelity and Maple Securities to navigate through these times and come out strong. These markets have a direct impact on your company that extends to your clients, but my experience has given me the knowledge and confidence to recognise these turbulent conditions. My relevant certifications are Series 7, 24 and 63.

What was your last position in the industry and what did you enjoy most about it?

I was an assistant vice president at Maple Securities. I was in charge of approving all the firm's shorts, borrowing to cover these shorts on settlement date, helping our trading groups cover buy-ins and assisting traders with some possible exchange-traded fund scenarios that were being explored. I enjoyed the interaction with other trading groups at Maple, as well as the client relations I have forged over the years with banks and brokers.

What about some of your previous roles?

When I started at Maple, there was not a hard-to-borrow stock desk. I was able to get the hard stock desk up and running, along with a high-rate lending and matchbook desks. These were all profitable entities. At National Financial Services, I was involved with lending out Fidelity's mutual funds, match book deals, and lending hard stocks from the in-house positions.

What area are you looking to get back into?

I would like to put my 28 years of experience, as well as my licences, to good use. I really enjoy the energy and the rapid decision-making needed in being the virtual prime broker to various trading groups. I know my experience, hard work, and dedication would be an asset to any desk I join. Through my years in the business, I have managed many junior traders and worked on solo projects, and I find both aspects to be challenging.

What do you feel you could bring to a future role?

Experience. Having lived through so many market ups and downs, my experience is invaluable. As the saying goes: "Life experience is often the best teacher." My past has seen me build many stable relationships in this business: I can call any firm or bank on the street and there will be a trader with whom I have a relationship.

What do you feel the industry needs most?

Human interaction. When I started in the industry, it was a people industry. There was plenty of human interaction, and phone calls were the norm. There were many industry outings where you could meet and put a face to the name. With the downturn in the market, the industry has cut back on these outings. With social technology coming to the fore, the human interaction in the industry is sadly melting away. I understand the technology and use it in my everyday life, but still feel nothing beats a phone call. SLT

Brian Turner
Email: brianturner033@gmail.com
Tel: (516) 764-6754 | Cell: (516) 205-9242

SLT and Ed Marhefka, managing director and co-head of Markit Securities Finance, talk ambitions, role models and teaching high school economics

How did you get into the securities finance industry?

I joined the finance industry in the 1980s, working my way up through operations and client service on the securities custody and clearing businesses. I was fortunate to be hired at Lehman Brothers in the early 1990s to the prime brokerage business (and securities lending business) were beginning to take off. Using my client and product background, I was able to transition to the sales and client relationship side of the business. Over the next 20 or so years, I built my experience by adding on product development, client relationship management and secured financing (adding repo) to my job responsibilities.

To what extent has working in the industry met your expectations?

Working in the securities finance industry has more than met my expectations. Being at a relatively early stage of the business moving from the back office to the front end, I have been able to be a part of how the industry has developed, broadened and changed over the years. The challenges and opportunities have been many and there will be more to come going forward.

What do you see as the biggest challenge facing the industry right now, and why?

Regulation, especially capital requirements and the pending move from an OTC market to a more transparent market, is the biggest challenge to the industry. The reason for this is that the capital requirements are an additional expense to the underlying economics and the move to a more regulated, exchange based business will challenge what has been a more relationship-driven business. It will level the playing field in similar ways that the market crisis of 2008 and technology continue to do.

Do you have any role models in the industry who have helped or inspired you?

There have been many. Two who stand out are Gerry Tamburro of Pershing (formerly UBS and Lehman Brothers) and Rich Portogallo at Morgan Stanley. Tamburro was the first to look at the financing business (stock loan and repo) as a 'whole'. He was instrumental in looking at the business as a real funding business. Portogallo is a true client-focused person who drove Morgan Stanley to build products and services to enable alternative clients to transact without the need to worry about how their businesses would operate. He was tireless in his focus on making sure we did the right thing for the firm and the client.

If you were not in securities finance what would be your dream job?

I would probably teach basic economics classes to high school kids. I have found that many lack the underlying basics of how markets work practically and how to think about how to save and invest.

What are your ambitions?

I want to continue to do business the right way, ie, with integrity and continuing to remember that clients are the reason why we are here. Personally, while I am experienced, I like learning new things and push myself to stay on top of industry matters and technology.

What about regrets? If you could go back in time, what would you change or do differently in your career?

I don't have any regrets. Life is full of challenges and opportunities. You make decisions on the best information available at the time. I've made a few career foot faults, but basically I have put them behind me and continued to stay positive and focused on just doing a good job and being a good teammate.

What do you like to do in your spare time?

I enjoy spending time with my family and friends (especially outside of the industry) as much as possible. They provide perspective in life. Not everything is about what I want to do. **SLT**

> "Regulation, especially capital requirements and the pending move from an OTC market to a more transparent market, is the biggest challenge to the industry"

Ed Marhefka, Managing director and co-head of Markit Securities Finance


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