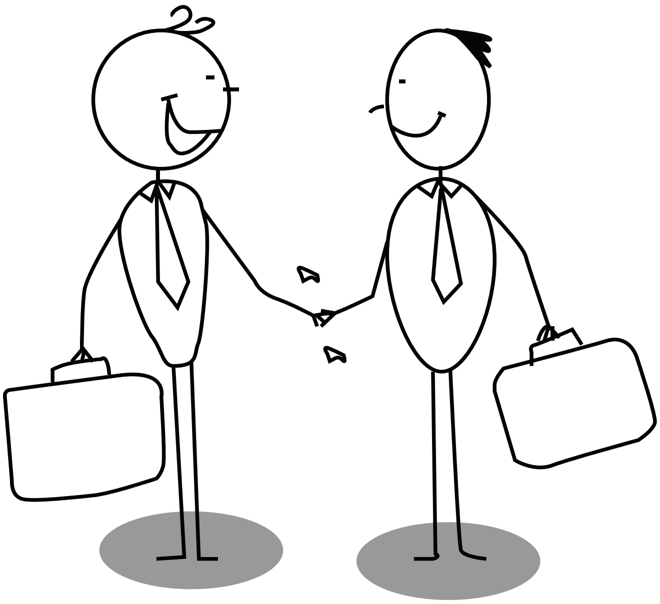
SLT
SECURITIESLENDINGTIMES

ISSUE088
29.10.2013 TUESDAY
securitieslendingtimes.com



BNY Mellon and CIBC Mellon grow closer through securities lending

BNY Mellon and CIBC Mellon have merged their securities lending desks, a move that will make BNY Mellon one of the largest providers of lending services in the world.

The merged group now has trading offices in New York, Pittsburgh, Toronto, London and Hong Kong. Eight traders previously under CIBC Mellon will now work for BNY Mellon.

BNY Mellon's global markets expertise will be available to CIBC Mellon clients, providing new opportunities for incremental revenue in markets around the world.

CIBC Mellon's niche expertise in the Canadian market will be available to BNY Mellon clients, providing the potential for improved returns on Canadian securities.

Rob Ferguson, senior vice president of capital markets at CIBC Mellon, said that the alignment of the trading desk teams represented the culmination of years of working together.

CIBC Mellon is BNY Mellon's Canadian joint venture with Canadian Imperial Bank of Commerce. The joint venture was established in 1996.

Ferguson explained the thinking behind the combination of the CIBC Mellon and BNY Mellon securities lending desks.

He said: "James Slater and I began talking a few years ago. We discussed the challenges and the market, and realised we had a unique opportunity here in that our programme, which has been very successful since the beginning, had one desk, in Toronto. We had people who would come in early in the day to cover the European time zone, but there was some limitation around servicing the world out of just Toronto."

readmore p2

Lending results at Northern Trust follow seasonal trend

Lending revenue in Q3 2013 for Northern Trust declined by 5 percent year-on-year, and 27 percent sequentially, due to the seasonally high second quarter.

Securities lending revenue was recorded at $22.7 million for the third quarter of 2013.

Trust, investment and other servicing fees were up 8 percent year-on-year due to favorable equity markets and new business but declined 1 percent versus the prior quarter due to higher money market fee waivers and lower securities lending revenues, said the bank.

Northern Trust's assets under custody have increased by 10 percent year-on-year, and 5 percent sequentially, for its third quarter results this year.

readmore p2

Don't short on high valuation alone, says new book

A new book aims to illustrate how successful short investment theories are not based on the premise of high valuations, but rather on the problems with a company's business model and its accounting practices.

Short Stories from the Stock Market uses case studies to illustrate the short selling framework in practice. It draws upon examples from past research by Artham Capital Partners as well as research contributed by Off Wall Street, a short-focused independent research firm.

readmore p2

BNY Mellon and CIBC Mellon create lending giant

Continued from page 1

"[Slater's] group is significantly bigger, and has desks in Hong Kong, London, New York and Pittsburgh, but BNY Mellon doesn't have a desk in Toronto. Canada is a very large and important market in securities lending and [Slater] saw an opportunity for BNY Mellon clients to be better served in the Canadian market."

James Slater, executive vice president and global head of securities finance at BNY Mellon, added: "This was our objective, to really pull the programmes together. This is about building what is a very strong partnership and terrific working relationship, in which CIBC Mellon and BNY Mellon have been working collaboratively around the securities lending/finance business."

"This business is requiring more investment as the need for investors grows. There is sophistication and complexity in markets. It makes a lot of sense to combine our resources."

Part of BNY Mellon's global collateral services division, the securities finance business encompasses more than $2.5 trillion in lendable assets and outstanding loan balances of approximately $250 billion.

CIBC Mellon's programme represents more than 120 clients with approximately CAD$500 billion in lendable assets and CAD$60 billion on loan, making it the largest securities lending programme in Canada.

Lending results at Northern Trust follow seasonal trend

Continued from page 1

AUC for Q3 2013 for the bank was recorded at $5.24 trillion. Global custody assets were $3.01 trillion, and AUM were $846 billion.

Custody and fund administration revenue was $239.4 million for the quarter, increasing by 12 percent year-on-year, and by 2 percent sequentially.

Lending revenue hits seasonal low for BNY Mellon

Securities lending revenue for BNY Mellon dropped $15 million from its last quarter, in the bank's results for Q3 2013.

Asset servicing fees for the custody bank, which include securities lending revenue, were $49 million in Q3 2012. They dropped to $41 million in Q4 2012, and again to $39 million in Q1 2013.

The second half of 2013 proved more fruitful for the custodian, with lending revenues of $50 million.

However, revenue dropped both year-on-year and sequentially for this quarter, to $35 million.

Investment services fees in general totalled $1.7 billion, an increase of 4 percent year-on-year, but unchanged sequentially.

The year-on-year increase primarily reflects higher clearing services fees resulting from, among others, higher mutual fund and asset-based fees and volumes, and higher asset servicing revenue.

Sequentially, higher issuer services revenue driven by seasonally higher depository receipts revenue was offset by a seasonal decrease in securities lending revenue, lower activity and lower expense reimbursements, said the bank.

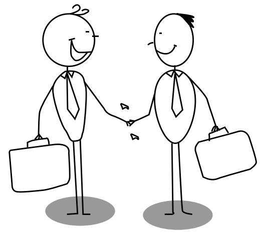
Additionally, higher money market fee waivers decreased investment services revenue, both year-on-year and sequentially.

Don't short on high valuation alone, says new book

Continued from page 1

Authored by Amit Kumar, who started Artham Capital Partners in 2009 after working as a buy-side analyst at Swiss Re, the book aims

SLTINBRIEF



Country profile

One large fine did not dissuade agent lenders from doing business in Ireland

page12

People moves

Rob Coxon joins Northern Trust, Denis Peters retires from Euroclear, and more

page17

Conference report

The RMA's 30th Conference on Securities Lending took place in Boca Raton

page16

One2One

Urs Sauer of SIX Securities Services talks about the Swiss mentality and the Alexander Technique

page20

to prove that while buying low and selling high usually works for long ideas, short selling expensive stocks based on high valuation alone usually does not work as well.

Marc Faber, author and publisher of The Gloom Bloom Doom Report, famous for his contrarian approach to investing, said of the book: "If there is value in buying undervalued stocks, there must be value in selling short over-priced stocks."

"As a short seller, I have to say that the problem with shorting stocks is that the most ludicrously overpriced stocks (like technology stocks in 1999) may become even more overpriced before they collapse. Still, Kumar's book is an excellent introduction into the controversial strategy of selling short stocks of companies whose fundamentals are likely to deteriorate."

CACEIS on the collateral express

Regulations prompting greater demands on quality and liquidity of collateral have led banks and providers to release collateral management solutions, with CACEIS being next in line with an offering.

'Collateral Express' is intended for buy-side players to comply with new regulations as part of their OTC derivative transactions. While processing its clients' OTC derivative transactions, CACEIS ensures that each stage of their lifecycle is compliant with the new regulations.

Its solution offers access to electronic affirmation platforms to reduce confirmation time frames; systematic, daily, independent valuation of all OTC instruments, from plain vanilla to complex products and regular reconciliation with counterparties according to frequencies defined by the regulators.

It also includes access to clearing houses via clearers; reporting of transactions to Trade Repositories from the following day; calculation and regular reconciliation of margin calls; management of collateral in the form of securities or cash and combined reporting of cleared and bilateral transactions.

CACEIS also offers optimisation solutions through its trading room. All clients may be offered the transformation, substitution, financing and reinvestment of collateral as well as the optimisation of securities collateral, depending on their situation and investment rules.

A statement from the firm pointed out that CACEIS ensures the secure custody of collateral against the counterparty in accordance with the recommendations of the Basel Committee on margin requirements for non-cleared derivatives (BCBS-IOSCO). This system facilitates the complete segregation of collateral and ensures its fluidity.

Laurent Durdilly, CACEIS products and solutions director, said: "With Collateral Express, CACEIS now offers its clients a global and consolidated view of their collateral by counterparty, irrespective of whether the underlying assets are OTC derivatives, forex, listed derivatives, securities lending or repo, etc."

"Collateral Express is the solution for optimising a resource that has become critical for the functioning of the financial system and for our clients".

STOXX and Eurex Repo grow the family indices

STOXX Limited and Eurex Repo have expanded the STOXX GC Pooling Index family by 14 new indices to cover the full money market yield curve up to 12 months.

An additional funding rate has also been introduced that measured secured interbank funding rate and volume in the eurozone at the short end of the money market curve.

The STOXX GC Pooling Indices provide a representation of the secured euro funding transactions taking place on the Eurex Repo GC Pooling Market, and are designed to provide transparent, rules-based alternatives to unsecured interbank benchmarks such as LIBOR and EURIBOR/EONIA.

The STOXX GC Pooling EUR Deposit and STOXX GC Pooling EUR Investable Deposit indices are also being launched. The new indices measure the total return of a hypothetical rolling deposit with an interest rate corresponding to the STOXX GC Pooling EUR Funding Rate. These indices are specifically designed to underlie exchange-traded products.

"As we are still seeing a growing demand for transparent, rules-based and reliable benchmarks for the interbank market from market participants and regulators globally, we are happy to introduce the second wave of our STOXX GC Pooling Indices," said Hartmut Graf, CEO of STOXX Limited.

"With the addition of the 14 new indices to the family, we now cover the full money market yield curve, and offer market participants a wide variety of yield terms to choose from."

"Liquidity has further increased in the course of 2013 across all terms and maturities in our secured, transparent and centrally cleared GC Pooling Market."

"The new indices together with the previously launched ones are a reliable and independent alternative to existing interbanking benchmarks," said Marcel Naas, managing director of Eurex Repo.

EquiLend and BondLend develop new system

EquiLend and BondLend have kicked off the development of a new securities finance trading system that will provide a venue for bilateral trading of general collateral, and warm and hot securities, while allowing clients to maintain control of execution decisions.

Brian Lamb, CEO of EquiLend, said: "EquiLend

has been at the forefront of automating securities finance trading for more than a decade. We were built by the industry for the industry, and we evolve as industry needs evolve. We expect this new platform to usher in the 'next generation' of securities finance trading, serving as a single portal for all of the industry's trading needs."

The new platform will integrate features clients are familiar with on existing EquiLend and BondLend platforms—including the real-time inventory postings of Availability, the low-touch borrowing and lending services offered by AutoBorrow, the warm and hot trading capabilities of Trade2O and the global securities finance market data of DataLend—all on a unified platform.

The platform also will include web services, trading screens, extended availability fields and additional AutoBorrow fields, as well as capturing the full "conversation" of a trade, including indications of interest, chat and counter-offers.

Dow Veeranarong, vice president of Product Strategy at EquiLend, said: "We are constantly in discussions with clients about how to bring new efficiencies to the securities finance trading process for both lenders and borrowers."

"The new EquiLend and BondLend trading platform will allow lenders to increase utilisation of their books and borrowers to improve their execution efficiency. It brings added transparency into the entire trading process by consolidating trading services into a single, comprehensive, integrated platform, from front to back."

The new platform is expected to be rolled out to clients beginning in 2014.

DataLend flies past $10 trillion in value

DataLend has surpassed $10 trillion in total inventory value covering nearly 40,000 securities worldwide.

The securities finance market data provider, launched in January, tracks securities with approximately $1.6 trillion of on-loan value globally.

Ben Glicher, managing director and chief information officer at DataLend, said passing the $10 trillion mark "is not just a symbolic milestone—it is quantitative evidence of the breadth and depth of our data".

"With our quality data and complete set of services for traders, quantitative analysts and relationship managers, DataLend is a truly comprehensive provider of securities finance market data."

Coin cashing pays off for shorters

An American company with a network of movie and game rental kiosks, as well as coin cashing machines, has shot to the top of SunGard's top 10 stocks from a securities lending perspective.

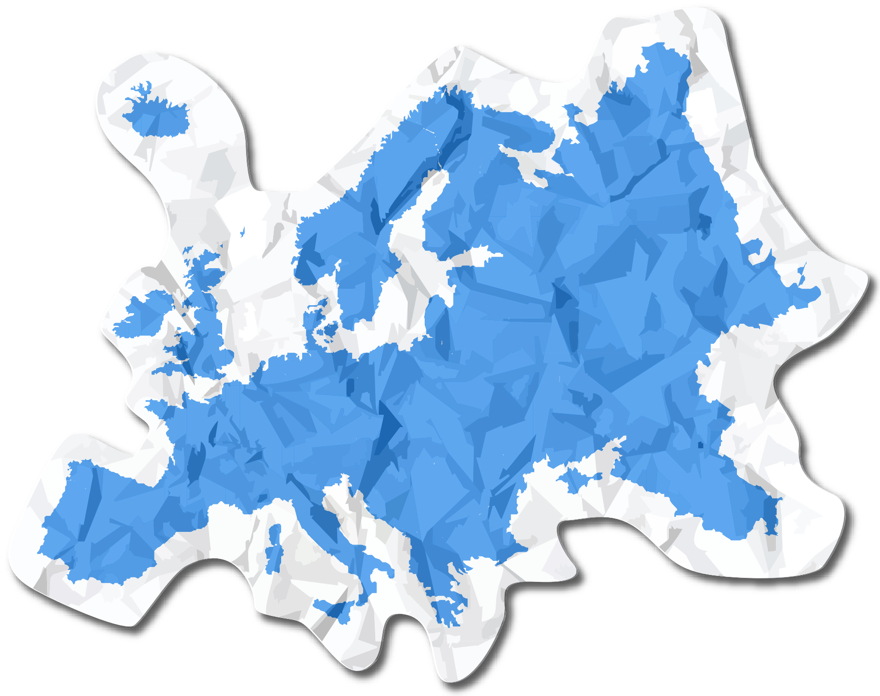
Outerwall, formally known as Coinstar, saw strong share moves on news that Jane Partners has taken a 13.5 percent stake in the company, with a view to strategic changes and potential sale, said SunGard Astec Analytics.

Investors took the news well, with the share price climbing 10 percent on the day, and an additional 12 percent later.

Despite this rapid rise, data from SunGard's Astec Analytics shows borrowing has seen only a relatively muted increase—up 7 percent in the same period—suggesting short sellers are at least cautious about betting against the share moves.

Second on the list was Opko Health, which lost almost 5 percent in its debut trading on the Tel Aviv exchange. News also emerged that the company had made an undisclosed investment in Zebra Biologics, a biotech company run by Dr Richard Lerner of the Scripps Research Institute.

“Meanwhile, its main listing managed to push slightly higher in the week, although borrowing of OKP also increased, up 15 percent, hinting that short sellers may be somewhat sceptical of recent share moves,” said SunGard.



Covering stock lending’s tracks will be costly for banks

The amount of capital that banking organisations will have to set aside to cover exposures in the stock lending market could increase significantly, said a report on the issue.

Promontory Financial Group, a regulatory consulting firm, has waded into the debate between regulators and the banking industry over what levels of capital banks should hold in future to guard against another financial crisis.

The firm prepared a whitepaper that summarises the statutory capital rules affecting agent lenders and prime brokers engaged in the stock lending business at the request of SL-x, an electronic trading marketplace for stock lending transactions.

The capital rules discussed include the proposals issued in July this year by the Federal Reserve and other US banking supervisors. The Federal Reserve’s vice chair, Janet Yellen, said at an international monetary conference that stock lending markets have potential to “create sizeable macroprudential risks”.

Promontory’s report said that the amount of capital that banking organisations will have to set aside to cover exposures in the stock lending market will generally increase, “in some cases significantly”; and stock loan transactions cleared by a qualified central counterparty (QCCP) will receive favourable capital treatment relative to those transactions that are bilaterally settled.

It also noted that one of the factors driving up capital requirements is the likely elimination of certain current practices, specifically the netting of internal transactions by prime brokers and the special treatment of agent lender guarantees as permitted under various regulatory interpretive letters.

More broadly, the report points out that rulemakers have significantly reduced the scope of banks to use internal VaR models to calculate the exposures against which capital requirements are calculated.

In addition, as reflected by the Dodd-Frank Act’s mandate to centrally clear swaps, Promontory states that regulators have identified central clearing as one of the few remaining vehicles for the significant reduction of capital charges.

A case study in the whitepaper showed the capital savings arising from central clearing to be in excess of 95 percent.

Prime of prime provider stretches into Europe

FX prime of prime and B2B liquidity provider, Divisa Capital, has completed the acquisition and rebranding of MBT Financial UK to launch Divisa UK.

The acquisition marks an expansion towards Europe with the opening of its Financial Conduct Authority-regulated London headquarters.

“Our matched principal FCA licence and non-retail focused business model will bring a new level of transparency to this segment of the in-euroclear

Post-trade made easy

Get on the Collateral Highway

Whatever your collateral destination

The right securities – at the right place – at the right time dustry," said Paul Dufresne, head of operations of Divisa UK.

"With Divisa's advanced ECN technology, our clients and partners can expect deep liquidity and best in class execution," stated Rachel Zhu, head of business development and marketing.

"We offer bespoke forex, bullion, and CFD liquidity to brokers, funds and institutions."

BCS partners with ARQA Technologies

BCS Prime Brokerage has partnered with ARQA Technologies to implement ARQA's automated back office software, backQORT.

BackQORT, which provides record keeping, trade settlement, regulatory reporting and partial management accounting, will provide BCS clients with access to new markets and a more efficient transaction clearing model.

The BCS platform will now perform accounting of spot instrument operations in various markets including the Moscow Exchange, the London Stock Exchange, and the MOEX Currency market.

The backQORT system makes calculations of various taxes applicable to companies operating in accordance with EU regulations. Improvements also include a function to directly clear transaction at exchanges and through international clearing organisations.

Tatiana Chepeleva, managing director and head of IB operational strategy at BCS, said: "The main challenge we faced was to implement a universal system that would incorporate different markets, instruments and currencies."

"While developing the system there have been wide consultations made and we have met the high standards and business requirements of the company. Implementation of the software has been a huge success."

Vladimir Kurlyadchik, director of business development at ARQA Technologies, added: "This project has demonstrated a combination of experience in development of complex software and the know-how of a leading financial market operator."

"The upgrade and implementation of the software has only taken six months thanks to efficient work of business analysts of the BCS group."

Omgeo links to TriOptima and AcadiaSoft to extend STP

Omgeo has partnered with TriOptima and AcadiaSoft to extend straight through processing (STP) for users of Omgeo ProtoColl, its automated collateral and margin management solution.

Omgeo ProtoColl will link with TriOptima's triResolve to help firms respond to regulations such as EMIR and Dodd-Frank that require them to reconcile OTC positions on a regular basis.

Rick Enfield, executive director of ProtoColl product management at Omgeo, said: "Reconciliation is a critical component in reducing margin call disputes, and increases the accuracy and automation of the daily collateral activity."

"ProtoColl users now have direct access to data pertaining to position variances with their counterparties in advance of the collateral process."

Raf Pritchard, CEO of triResolve, added: "Greater integration between collateral and reconciliation processes leads to faster and more efficient resolution of discrepancies. By linking TriOptima to ProtoColl, users benefit from lower risk of error and operating costs as well as improved credit risk mitigation."

Omgeo is also partnering with AcadiaSoft MarginSphere, a margin confirmation process.

The link with MarginSphere will enable ProtoColl clients to electronically communicate margin information between counterparties, and agree on margin call amounts via one service.

Chris Walsh, COO at AcadiaSoft, said: "We are pleased to be partnering with Omgeo to bring increased STP to the collateral management process. With MarginSphere, ProtoColl users can seamlessly confirm their margin details, accelerating the process and reducing risk."

Both partnerships are scheduled to go live in Q1 2014.

Securities services revenue drops at Goldman Sachs

Goldman Sachs announced $340 million in revenue for its securities services division in Q3 2013, a decline of $36 million from the previous quarter and $52 million year-on-year.

In percentages, Q3 results fell by 10 percent from the last quarter, and 13 percent year-on-year.

The firm attributed lower revenues to the sale of its hedge fund administration business in 2012. State Street agreed in July 2012 to pay $550 million for the hedge fund administration unit of Goldman Sachs, making State Street the biggest servicer of hedge funds in the world, overseeing nearly $900 billion in alternative assets.

The deal did not include the prime brokerage business at Goldman Sachs. However, the firm declined to break down 3Q results for that particular division.

Peaks and troughs

One large fine made an impression, but not enough to put off the creation of a new Citi desk in Dublin. SLT takes a look at securities lending in Ireland

GEORGINA LAVERS REPORTS

The Irish stock exchange describes on its website the usual benefits of securities lending to a country: increased liquidity in Irish securities; the facilitator of timely settlement; and an enhancement to the trading strategies and opportunities available in Irish securities.

And while the practice suffered a blow to its perception with the Aviva case, there has been some good news to come out of the country.

Citi decided to open a securities lending trading desk in Dublin in November 2012, as it expanded its OpenLend capabilities in key cities and regions around the world.

The new desk formed part of an expanded Europe, Middle-East and Africa (EMEA) securities lending trading team, covering global equity lending, global fixed income lending and multi-currency reinvestment.

Gareth Mitchell, EMEA head of securities finance trading, who ran the London EMEA trading desk, was drawn in to also manage the new Dublin venture.

David Martocci, global head of securities finance at Citi, said at the time: "By expanding our existing OpenLend capabilities to include a securities lending trading desk in Dublin, we are leveraging the importance of Ireland as a centre of excellence for financial services."

"We look forward to continuing to provide customised securities lending solutions to our clients that draw upon our global network and trading expertise across all asset classes. The addition of this new trading desk will add significant value to our already successful securities and fund services franchise in Ireland."

"We announced the opening of the desk in November 2012, but the first trader actually started eight months prior to that, in March 2012," says Gareth Mitchell.

"I moved over from the London trading desk in July of that same year, and now run both desks from Dublin. It is very much one trading desk in two locations—one dealer board, one phone system—so we can cover each-other from both locations."

Mitchell attributes existing operational teams in Dublin as reason for setting up a desk there.

"For many years we have had our operations team in Dublin, with expanding product relationship management and sales teams, and in 2011, also moved our middle office from London to Dublin. It made sense to have at least a few traders in Dublin, which allowed them to be much closer to our middle office, and it also allowed us to leverage some of the talent pool that was already here."

A well-rounded growth

"There are many different types of lenders in Ireland—probably not dissimilar to any other European country involved in the practice," says Mitchell.

"In Ireland, insurance companies and funds have been involved in lending for many years, and I have been coming over here and talking to clients since the late nineties."

"The rest of Europe, if not the world, took a downturn after the crisis—but is now almost back to where it was before in terms of volumes. I think Ireland in that way is not very different. Obviously regarding scale, some of the funds aren't as big as the European funds, but they are just as active and some of the insurance companies here are extremely active as well."

As to whether more players will come into the scene—Mitchell notes that the majority of the larger funds or insurance companies are already active in securities lending. "I don't know of that many out there that aren't, so I don't necessarily see any more firms joining the market right now."

There is one firm that has bowed out of its lending programme, however.

In December of 2012, the Irish central bank fined insurance firm Aviva €2.45 million because it failed to properly check and control its securities lending programme.

Two fines of €1.225 million each were handed down to separate Aviva subsidiaries—Aviva Insurance Europe and Aviva Life & Pensions Ireland—reportedly the fifth largest fine that the central bank has ever issued.

The central bank's insurance directorate discovered regulatory breaches in the Aviva subsidiaries' securities lending programmes when it conducted a survey into insurance companies' use of liquidity swaps.

Aviva Insurance Europe and Aviva Life & Pensions Ireland entered into an investment management agreement with Aviva Investors Ireland—another subsidiary—in November 2000. This agreement was amended in 2002, allowing Aviva Investors Ireland to outsource securities lending to a different subsidiary, Aviva Investors Global Services.

In June 2010, a novation occurred and the rights of Aviva Investors Ireland under the agreement transferred to Aviva Investors Global Services, and the subsidiary continued to perform securities lending on behalf of Aviva Insurance Europe and Aviva Life & Pensions Ireland.

Between 2004 and 2012, the central bank found evidence that the firms failed to properly monitor and control securities lending that was carried out on their behalf, and that they did not review the adequacy of their overall investment policies.

It also found that the firms did not set risk limits in their securities lending programmes, or receive regular information on asset exposures and the risks that are associated with the practice.

In a joint statement at the time, the central bank's director of credit institutions and insurance supervision, Fiona Muldoon, and director of enforcement, Peter Oakes, said: "Where a firm outsources investment activity, it must ensure that it has adequate investment policies, procedures and quantitative parameters to manage that investment activity in a way that is appropriate to the firm's balance sheet, and that it has sufficient information to allow it to properly monitor and control that activity.

"It is inadequate and unacceptable for firms to rely on group controls or group limits. The central bank reminds firms that they remain responsible for all regulatory obligations notwithstanding any reliance upon group controls or group limits."

In a statement, Aviva reportedly said that it accepted the central bank's findings and promptly rectified identified regulatory breaches, adding that none of the breaches affected its clients.

The Aviva subsidiaries shelved their securities lending programmes after the problems were identified.

However, despite the bad publicity that the case brought, Mitchell asserts that there was no slowdown or pull back due to the event. It seems that firms with the confidence and knowledge of their programmes are continuing on unabated—while those that didn't are licking their sore paws. **SLT**

Copper-bottomed investments

Don't rely on copper, says David Lewis of SunGard's Astec Analytics

The term 'copper-bottomed' refers to something trustworthy, strong and dependable—something with a firm foundation you can rely on. The phrase originated in the 18th century when it was discovered that a copper covering on the underside of a ship prevented rotting and prolonged the life of the ship, presumably boosting the returns to the ships' owners. It must have seemed a miracle cure in those times, but in more recent times, our fondness for copper has fluctuated.

Copper has certainly become a big business globally, with the metal appearing in a multitude of now everyday goods, from the coins in your pocket to the smartphone in your hand. Copper is even big on the black market, with the theft of cables causing havoc across our roads and railways. In turn, this demand has sent prices for copper—well—falling, actually. Compared with two years ago, when copper was fetching just shy of $7400 per tonne, it has fallen slightly to just less than $7200—a level 30 percent below its 2011 high points. That is not the full story, of course. During the last 24 months it has peaked at nearly $8500 (March 2012) and fallen as far as $6900 (July 2013), showing that it can be as volatile as many other commodities in the market. Goldman Sachs has already predicted a further price fall of $1000 a tonne by this time next year.

With any natural substance sourced from the ground, there is a finite supply, which in general almost guarantees that the price for it is set to rise as supply decreases and what natural resources are left become more difficult (and more expensive) to recover. Oil and gas conform to the same broad rules, but unlike energy, for which we have an insatiable and ever-growing demand, it seems that copper does not have a guaranteed—or copper-bottomed—future demand.

China has been an enormous producer of copper, as well as one of the world's biggest consumers, but China's demand has been dropping off, particularly in power generation and infrastructure developments, which are both big users of copper. As Rio Tinto (RIO.L) is expanding production (up 23 percent) with a massive new mine, its share price has advanced 4 percent, but with unpredictable demand and expectations of falling world market prices, how can that be? With Anglo American also boosting output at 25 percent, the market is expecting an excess supply of more than 800,000 tonnes this year. The short side of the market may have the answers for this anomaly, telling us more about the prospects of returns from this valuable metal.

Figure 1 shows the volume of shares on loan for Rio Tinto, Antofagasta (ANTO.L) and Freeport-McMoRan (FCX), using the shares borrowed as a proxy for short selling. The red plot illustrates a significant expectation through August and into September that RIO.L was undervalued compared to its peers, with short positions only beginning to grow again into September and October. By contrast, FCX was borrowed heavily over the same period rising to six times the volume on loan two years ago—with many of those bets being placed ahead of a 10 point gain in the price.

As the pink plot shows, appetite for those losses soon waned and many positions were closed as the shares rose another four index points. Antofagasta (the blue plot on Figure 1) has followed a similar trajectory to FCX price wise, but the short positions fell away by a third at the same time shorts were building against ANTO.L.

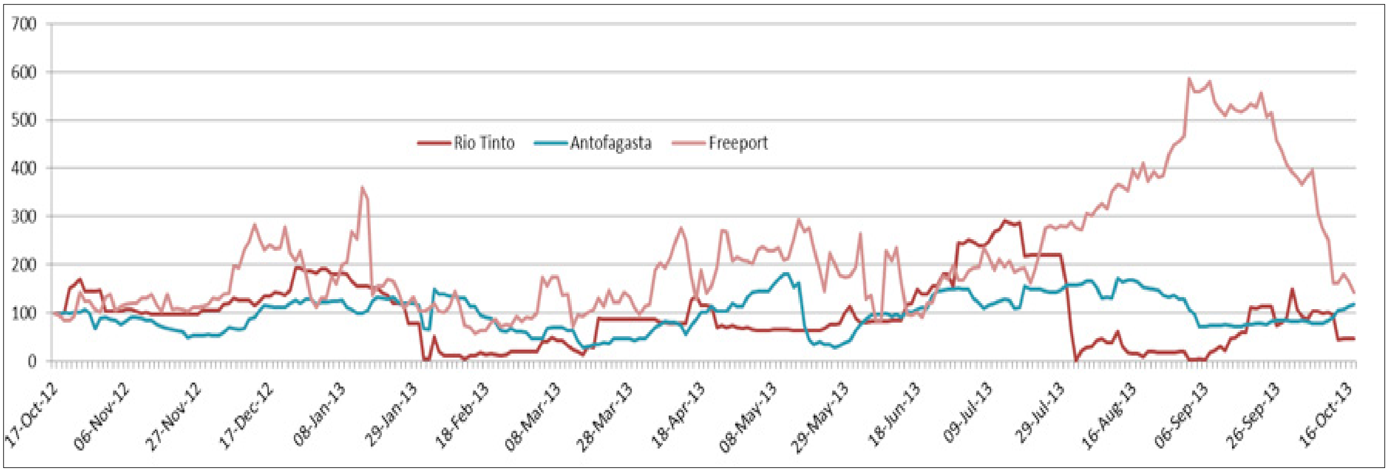
Comparing the three companies, one distinct difference is that RIO.L is more diversified, getting a great deal of its global income from iron ore (89 percent compared with 7 percent from copper), reducing its dependency on copper relative to the single line producers such as ANTO.L and FCX. But there is no clear pattern in the short interest—falling world demand and excess production would suggest falling prices from which you could expect falling returns.

Looking at the overall metals and mining sector data (from SunGard's Astec Analytics), it shows that more than 620 million borrowed shares have been returned in the last 30 days. Such a change would suggest an improving sentiment towards the markets and a future expectation of recovery, contrary to the production and demand data already highlighted.

It would certainly appear that the share prices of these few selected firms do not appear to be complying with a rational market. It could be said that a global recovery will bring cheer to commodity producers, but will that come soon enough to maintain these price levels?

When copper bottoms were first attached to ships, naturally, iron bolts were used to secure them, given the nature of shipbuilding at the time. However, what they didn't know was that iron and copper react in sea water and many of those protective plates quickly fell to the bottom, unbeknown to the newly confident sailors on the ships above. Let's hope there is no heavy iron mixed in with these copper-bottomed investments and the bottom drops out on them unexpectedly. **SLT**

Figure 1: volume of shares on loan indexed to 17/10/2012. Source: SunGard's Astec Analytics



RMASL30: happy anniversary

The RMA's 30th Conference on Securities Lending saw attendees converge on Boca Raton in Florida for four days of opinion and information about the business. SLT was there

MARK DUGDALE REPORTS

Clients need Brazil—largely accepted as Latin America's most important jurisdiction—to be developed into a free flowing liquid market, according to panellists speaking at the 30th Risk Management Association (RMA) Conference on Securities Lending in Boca Raton, Florida, which was held between 14 and 17 October.

Tony Kim of Morgan Stanley gave attendees a run-down of the size of the individual markets that make up Latin America, with Brazil having an approximate market capitalisation of $1 trillion, Mexico $500 billion and Colombia $250 billion.

Brazil "is certainly not a small market", said Kim, adding that it is similar in size to South Korea and Taiwan.

Jill Rathgeber of BNY Mellon noted a big difference between Brazil and South Korea and Taiwan, saying that in Brazil collateral cannot be held offshore, but can be in the Asian markets.

Mexico and Brazil are the only markets in Latin America to count for equity finance at the moment, added Carey Chamberlain of HSBC Securities.

James Gerspach of J.P. Morgan agreed, saying those were the Latin American markets in which J.P. Morgan currently lends, as demand in Colombia, Chile and Peru "is very small".

Despite the country's size and importance, prime brokers have to be creative when gaining access to supply in Brazil, according to Chamberlain, who added that the market "is not vanilla" and "not easy" to navigate.

He added: "Brazil's not a liquid market and [we need] a free flowing liquid market for all clients."

Brazil's first securities lending association was launched in August. It is charged with improving communication between international players, local participants and the exchange, which oversees transactions through a central counterparty model.

Chamberlain said that he hopes the association will help to answer market participants' questions and address their needs.

Meanwhile, the RMA is working on its first ever Latin American securities lending conference. The event will be held in Brazil in May 2014.

Gregory Lyons of the law firm Debevoise & Plimpton LLP is a regular speaker at the RMA Conference on Securities Lending and the association relies on him to give attendees an in-depth rundown of the current regulatory landscape.

At the 2012 conference, Lyons described US Dodd-Frank Act Rule 165(e) as "the ghost of Christmas future", posing a significant threat to agent lending indemnification. In his 2013 update, he extended the label to most of the international banking rules that are waiting to come into effect.

Indemnification is viewed as an exposure under international rules, he said, despite the industry viewing it as cheap and safe before the financial crisis took hold in 2008.

The complexity of international rules will cause the most stress to securities lending because they all overlap, he explained. Furthermore, they represent the minimum of what will be implemented in the US.

"There is a slim chance that the US rules will be less restrictive than what will be implemented internationally", he said, adding that the next year is "high noon" for securities lending, because a lot of legislation will come out at the end of 2013 and the beginning of 2014.

A panel on cash management commented on interest rates, with one panellist predicting that they "are going to remain flatlined".

The panel agreed that the Federal Reserve is unlikely to raise interest rates. One panellist said that the low interest rate environment has caused "a lot of pain" to securities lending clients over the years, resulting in them taking a more conservative approach to lending.

Secondary markets are critical to securities lending clients, which are holding more cash in reserve than they previously did, he added.

Manmohan Singh, senior economist at the International Monetary Fund, spoke as part of a panel discussion on the optimisation, scarcity, efficiency and eligibility of collateral.

"Hedge funds are the single largest suppliers of collateral," he said, followed by large banks, which act as custodians of large supplies, and then entities such as pension funds and insurers.

Hedge funds, he explained, had $1.8 trillion in pledged collateral at the end of 2012, up slightly from $1.7 trillion in 2007, while others, including US and European banks, had $1 trillion last year compared to $3.4 trillion in 2007.

In 2007, those entities held a combined volume of $10 trillion, but this dropped to $6 trillion in 2012. The velocity of that collateral fell from 3 units to 2.2 units over the five-year period.

"There is a slim chance that the US rules will be less restrictive than what will be implemented internationally"

"Collateral moves—it finds the maximum price in the chain," said Singh, adding: "Siloing is not good for financial lubrication."

Unfortunately, "collateral velocity—or re-use—is coming down", he said. Central banks point to institutions' excess reserves as useful sources, but "good collateral in the market has velocity" and cannot be left to stagnate on balance sheets, like it did after the Lehman Brothers crisis.

Concluding, Singh said that the collateral space has changed since the Lehman Brothers crisis, largely due to quantitative easing.

When quantitative easing programmes wind down, and new rules from Basel III and the US Dodd-Frank Act take effect, particularly leverage and liquidity coverage ratios, the collateral space will change again, added Singh. **SLT**

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

Advanced Risk Management Programme

Date: 09-13 February 2014
Location: London
www.cass.city.ac.uk

On behalf of RMA and Cass Business School, we want to bring to your attention our Advanced Risk Management Programme offering. The 2014 Programme is scheduled to take place on 9-13 February. As the process to identify an appropriate participant and budget for their attendance can be fairly long, we wanted to raise your awareness as soon as possible.

SECURITIESLENDINGTIMES

citi

Securities Lending: 2014 Outlook

SLT and Citi invite beneficial owners and consultants to a breakfast seminar on 21 November 2013 looking at navigating securities lending in exceptional times

8.00am – 8.30am	Registration and networking breakfast
8.30am – 8.35am	Welcome address: Justin Lawson, Publisher, Securities Lending Times
8.35am – 9.00am	Introduction and market summary: David Lewis, Senior Vice President, Astec Analytics, SunGard's capital markets business
9.00am – 10.00am	2014 Outlook: panel discussion
	The panel will cover areas of interest for the beneficial owner, from regulation to trading, product development to hedge funds, and more.
	The panel will be moderated by Gavin Callan, Director, Securities Finance, Citi. He will be joined by: Kevin McNulty, CEO, ISLA David Martocci, Global Head of Securities Finance, Citi David Brand, Head of Short Term Product Sales, Europe, Morgan Stanley Roger Fishwick, Chief Risk Officer, Thomas Murray Additional panellists should be confirmed in the coming weeks.
10.00am – 10.30am	Coffee and networking

Venue: Citi offices, Stirling Square, 5-7 Carlton Gardens, London, SW1Y 5AD, UK

For more information on the event contact justinlawson@securitieslendingtimes.com

Alternatively, register your interest at www.securitieslendingtimes.com

Industry appointments

Following the announcement that DTCC acquired full ownership of Omgeo, **Michael Bodson**, the president and CEO of The Depository Trust & Clearing Corporation, is joining Omgeo's board of managers as chairman.

Bodson assumes the role from Andrew Gray, managing director of core business management at DTCC, who will remain a member of the board.

In addition, **Joan Binstock**, chief financial and operations officer at Lord Abbett & Co, joins as a member of the board.

Board members are responsible for representing the interests of the firm's 6500 clients globally as decisions about strategy, governance and operations are made.

As president and CEO of DTCC, Bodson is responsible for leading the development and execution of DTCC's strategy as well as its principal operating subsidiaries, Depository Trust Company, Fixed Income Clearing Corporation and National Securities Clearing Corporation. He is also a member of DTCC's board.

At Lord Abbett, Binstock is responsible for financial and operational support, as well as oversight of the firm's financial reporting, operations processing and account administration functions. In this role, she oversees the support of the investment team sales and marketing initiatives, client-related activities, and the financial resources of the firm.

Yves Baguet, member of the executive board of Clearstream International SA, Clearstream's chief information officer and, since February 2013, the chief technology officer of Deutsche Börse Group, has decided to leave the company "on amicable terms", according to a statement from Clearstream.

Richard Green, currently running one of the application development departments for Clearstream's core business, will succeed Baguet as chief information officer of Clearstream, and as interim chief technology officer of Deutsche Börse Group.

Hauke Stars, Deutsche Börse Group chief information officer and member of the executive board of Deutsche Börse AG, said: "Baguet decided to leave the company upon reaching another milestone in his career—the first phase of the design of the future IT landscape of Deutsche Börse Group."

"I would like to thank him for two decades of outstanding contribution to Clearstream and Deutsche Börse Group IT. His excellent work will be continued by IT personalities like Green who I warmly welcome in his new roles."

Baguet joined Clearstream in 1994 where he held various management positions in the IT area. He contributed to and managed major IT projects across Deutsche Börse Group such as the technical integration of Deutsche Börse Clearing (today Clearstream Banking AG) with Clearstream (at the time Cedel) and the integration of Clearstream into Deutsche Börse Group. Green joined Clearstream in March 1999 from NatWest Investments. He currently leads the IT teams for collateral management and investment funds.

Rob Coxon has joined Northern Trust as a senior consultant for the bank's change management consultancy team.

Coxon took the permanent position in London on 23 November, after a stint as a consultant for Euroclear.

Prior to that, he was head of international securities lending for four years at BNY Mellon, and also held positions at ABN AMRO Mellon, and Mellon Bank.

The change management group is part of the chief operating office within Northern Trust. It supports both strategic and tactical initiatives of a wide range of business units within the bank, and includes the global securities lending business.

"He has significant experience within securities lending and we're pleased to have him on board," said a spokesperson for Northern Trust.

Denis Peters has taken early retirement from his role as the director of marketing and communications at Euroclear.

Peters, who has been working at the firm for 18 years, stressed in an email that he would be taking an early retirement to pursue other personal interests.

He will be officially leaving the firm in November. **SLT**

SECURITIESLENDINGTIMES

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

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

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

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

Marketing director: Steven Lafferty
design@securitieslendingtimes.com

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

Company reg: 0719464

......Urs Sauer

SLT and Urs Sauer, head of product management at SIX Securities Services, discuss Swiss mentality, the Alexander technique, and skiing

How did you get into the securities finance industry?

By accident! I started my career with UBS back in the early 1980s. The only thing you needed to know about securities finance at that time was how to convince clients to buy securities with a loan based on the securities value in their safekeeping accounts. Once I moved to the US, I was confronted with repo transactions, the use of it and the settlement side. Running the money desk at UBS in New York put me in touch with overnight positioning and gave me a first glimpse at liquidity management at a bank.

After the crisis of 2008/09, the disappearance of unsecured credit lines and the ever-increasing demand for collateral made this a natural space to expand into and excel at.

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

I started back in the early 1980s full of high expectations and plans. In the 1990s, I needed to take a break and direct my energy elsewhere, so I became a certified teacher of the Alexander Technique (re-education of movement, un-doing of bad muscular habits). This education served and still serves me well as we are obviously dealing with lots of bad habits in the financial industry that need to be undone. I moved back into the industry at the turn of the century. I fully enjoy my present work but I am still bothered by the slow change in the industry and the persistent resistance to change.

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

There are similarities across the financial centere but also big differences. The Swiss marketplace is undergoing a painful shift from an industry that has historically profited from its name as a political stable tax haven to one based on being a fully disclosed and successful wealth management centre. The political stability remains, but not the tax haven.

Generally, the industry is going through unprecedented changes. Regulators are imposing large, high-cost changes on the industry and are, at the same time, cutting important revenue streams.

Collateralisation, scarcity of collateral, and fluidity of collateral are all buzzwords that need to be transformed into mandates and projects. Working at the Swiss central securities depository (CSD) with a sizeable collateral and international custody business is highly challenging and very rewarding. Our challenge is to provide our customers (banks, brokers and the buy side) with products that they need, and at the same time, we have to implement all of the rules and regulations coming from our regulators—be it in Switzerland or abroad. The CSD business is changing fast because the regulators want us to develop a low risk/cost business model, our customers want us to provide services and products that enable them to outsource certain tasks, and at the same time, we have to implement large, high-cost projects such as the Foreign Account Tax Compliance Act and T2S (TARGET2-Securities).

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

My first boss at UBS immediately comes to mind. Urs Stähli has been an inspiration and a continuous source of knowledge for me. His dedication to UBS, his willingness to share knowledge and his work habits continue to inspire and challenge me.

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

A teacher of the Alexander technique. I enjoy working one-on-one with people and to provide them with tools to help themselves. The Alexander technique is a unique approach to do that.

What are your ambitions?

I'd like to continue to use my skills and knowledge at SIX Securities Services to move us successfully into the future.

Building our collateral services and helping the industry to implement all the regulatory changes are high on our agenda, and I'd like to be on the forefront of this change and adaptation.

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

Looking back, I'd be less Swiss and more entrepreneurial in my early years working in New York. I worked for UBS Private Banking and we were inundated with requests from US banks for global custody services. Instead of saying, 'yes we can', the careful Swiss answer was, 'no we are not ready yet, we'll get back to you'. By the time we did back to them the business was gone. Otherwise, I'm thankful for the opportunities my business life has offered me, I am happy in my current job and I am looking forward to continuing to contribute to the industry.

What are your hobbies and interests?

Family is certainly my first interest. I met the love of my life relatively late in life and we are thankful that we have healthy children. Having grown up in the mountains of Switzerland (outside of St Moritz), skiing is a passion that I'm hopefully passing on to my children. Apart from that, history is fascinating to me but there is never enough time to do all the reading and studying that I'd like to do. **SLT**

Urs Sauer
Head of product management
SIX Securities Services